

Electricity Industry Participation Code Amendment
(Hedge Market Arrangements) 2021

Under section 38 of the Electricity Industry Act 2010, and having complied with section 39 of that Act, I make the following amendment to the Electricity Industry Participation Code 2010.

At Wellington on the 16 day of March 2021




Dr Nicola Lane Crauford
Chair
Electricity Authority

Certified in order for signature:



Voon Shan Kong
Senior Legal Counsel
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10 March 2021



Simon Watt
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8 March 2021

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Amendment

- 1 **Title**
This is the Electricity Industry Participation Code Amendment (Hedge Market Arrangements) 2021.
- 2 **Commencement**
This amendment comes into force on 27 April 2021.
- 3 **Code amended**
This amendment amends the Electricity Industry Participation Code 2010.
- 4 **Clause 1.1 amended**
(1) In clause 1.1(1), insert in their appropriate alphabetical order:
“**exchange** means an exchange included in a list **published** by the **Authority** on which New Zealand electricity base load futures contracts are available for trade

"NZ electricity future means a New Zealand electricity base load futures contract in respect of the Otahuhu reference **node** or the Benmore reference **node** available for trade on an **exchange**".

- (2) In clause 1.1(1), replace the definition of **bid-ask spread** with:

"bid-ask spread means—

- (a) if expressed as a dollar value, the dollar value that represents the difference in price between a **quote** to buy a **NZ electricity future** and a **quote** to sell a **NZ electricity future** of the same type on the same **exchange**; or
- (b) if expressed as a percentage, the percentage calculated by dividing the difference between the price of a **quote** to buy a **NZ electricity future** and the price of a **quote** to sell a **NZ electricity future** of the same type on the same **exchange** by the price of the **quote** to sell a **NZ electricity future**".

- (3) In clause 1.1(1), replace the definition of **NZEF market-making agreement** with:

"NZEF market-making agreement means an agreement between a **participant** and an **exchange** that imposes obligations on the **participant** in relation to the **exchange's** daily settlement market-making scheme for **NZ electricity futures**, in the form of agreement used on the **exchange** for this purpose that is satisfactory to the **Authority**, having regard to its inclusion of the requirements set out in clause 13.236L and of the permitted exemptions from the performance of market-making services".

- (4) In clause 1.1(1), replace the definition of **NZEF market-making period** with:

"NZEF market-making period means from 1530 to 1600 New Zealand time on each **business day** on which **NZ electricity futures** are traded".

- (5) In clause 1.1(1), replace the definition of **quote** with:

"quote means an offer to buy or sell a **NZ electricity future** on an **exchange**".

5 **Heading above clause 13.236J replaced**

Replace the heading above clause 13.236J with:

"Subpart 5B—Hedge market arrangements"

6 **Clause 13.236J replaced (Contents of this subpart)**

Replace clause 13.236J with:

"13.236J Contents of this subpart

This subpart provides for an active market for trading financial hedge contracts for **electricity** by specifying requirements for certain **participants**."

7 **Clause 13.236K replaced (Application of subpart)**

Replace clause 13.236K with:

"13.236K Application of subpart

- (1) Subject to subclause (2), this subpart applies to the following **participants**:
 - (a) Contact Energy Limited;
 - (b) Genesis Energy Limited;
 - (c) Mercury NZ Limited;
 - (d) Meridian Energy Limited.
- (2) This subpart applies to a **participant** specified in subclause (1) if that **participant**—
 - (a) is not a party to a **NZEF market-making agreement** that includes the requirements set out in clause 13.236L; or
 - (b) does not perform market-making services in accordance with the **NZEF market-making agreement** on three or more separate occasions in a period of 90 days, and that non-performance is not permitted by an exemption or otherwise under the **NZEF market-making agreement**.
- (3) A **participant** to whom subclause (2) applies is relieved of its obligations under this subpart when the **Authority**—
 - (a) is satisfied that the **participant** has complied with its obligations under this subpart for a period of 90 days; and
 - (b) has given written notice to that effect to the **participant**, which the **Authority** must do within 5 **business days** of being satisfied as to compliance."

8 **Clause 13.236L replaced (Requirement to quote)**

Replace clause 13.236L with:

“13.236L Requirement to quote

- (1) Subject to subclause (3), the **participant** must, for a minimum of 25 minutes in every **NZEF market-making period**, provide **quotes** to buy and sell a minimum of—
 - (a) 30 monthly base load futures contracts for each of the Otahuhu reference **node** and the Benmore reference **node** (being 30 buy and 30 sell for each reference **node**) for the current month and each of the five months following the current month; and
 - (b) 30 quarterly base load futures contracts for each of the Otahuhu reference **node** and the Benmore reference **node** (being 30 buy and 30 sell for each reference **node**) for each quarter that is available for trade on an **exchange**.
- (2) The **participant** must not provide a **quote** under subclause (1) with a **bid-ask spread** that exceeds the greater of 3% or NZ\$2.
- (3) The quantity of buy or sell **quotes** the **participant** must provide under subclause (1) for each **NZEF market-making period** is reduced by the number of contracts of the same type bought or sold by the **participant** during that **NZEF market-making period**.”

9 **Clause 13.236N replaced (Exemptions from requirement to quote)**

Replace clause 13.236N with:

“13.236N Exemptions from requirement to quote

- (1) The **participant** is exempt from the requirements in clause 13.236L in the following circumstances:
 - (a) for a **NZEF market-making period** if—
 - (i) the **participant** cannot comply with a requirement in clause 13.236L in that **NZEF market-making period** because an **exchange** trading platform is disrupted or unavailable; or
 - (ii) in the reasonable opinion of the **participant**, entering into a contract for a **NZ electricity future** in that **NZEF market-making period** may cause the **participant** to breach an applicable law;
 - (b) in addition to the exemptions in paragraph (a), for up to two **NZEF market-making periods** each month at the **participant’s** discretion.
- (2) To avoid doubt, if the **participant** meets the criteria for exemption in subclause (1)(a)(i) or (1)(a)(ii) in relation to a **NZEF market-making period**, that **NZEF market-making period** will not count towards the **participant’s** two exemptions in subclause (1)(b).
- (3) If the **participant** relies on an exemption under this clause 13.236N from the requirement to **quote**, the **participant** must immediately notify the **Authority** of the exemption it has relied on and the basis for the exemption.”

Explanatory Note

This note is not part of the amendment, but is intended to indicate its general effect.

This amendment to the Electricity Industry Participation Code 2010 (Code) comes into force on 27 April 2021.

The amendment inserts a new subpart 5B of Part 13 into the Electricity Industry Participation Code 2010 (“Code”) and new definitions into Part 1 of the Code. The new subpart describes a scheme that, if triggered into effect for one or more specified participants by the occurrence of specified events, will facilitate an active market for trading financial hedge contracts for electricity. The scheme will do so by imposing certain market-making obligations on one or more of Contact Energy Limited, Genesis Energy Limited, Mercury NZ Limited and Meridian Energy Limited if their respective actions or inactions trigger the application of the scheme to them.