

18 January 2021

Electricity Authority
ASB Bank Tower
2 Hunter Street
Wellington 6143

Email: HME.feedback@ea.govt.nz

NZX submission on Hedge Market Enhancements: Permanent Market Making Backstop

NZX Limited (**NZX**) is pleased to submit this response to the Electricity Authority (**Authority**) consultation on 'Hedge Market Enhancements: Permanent Market Making Backstop', dated 24 November 2020.

NZX thanks the Authority for the opportunity to make this submission. Nothing in this submission is confidential.

About NZX

NZX is a licenced exchange that operates the public equity, debt and derivatives markets. Our public capital markets play a critical role in the productivity and prosperity of New Zealand's economy – they provide investment opportunities for savers and are a vital source of capital for New Zealand enterprise to innovate, grow and create jobs.

As a participant in the electricity market, NZX has for over 20 years supplied services to support the efficient buying, selling and transfer of electricity on the wholesale spot market. Our market operator infrastructure provides a range of specialist trading, clearing, billing, pricing, reconciliation, and data platforms to the market. These regulated activities are contracted by the Authority to enable participants to transact in the electricity market.

Q1 and Q2: Cost Benefit Analysis and Regulatory Statement

NZX remains guided by the Authority in relation to the cost-benefit analysis and regulatory statement dealt with in Questions 1 and 2 of the consultation document.

Q3: Proposed Code Amendment

Given the Code is part of New Zealand's legislative framework, NZX contends that the proposed Code amendment is very prescriptive to the incumbent exchange where NZ electricity futures are currently traded. If the Authority enacts the proposed Code in the current form as seen in Appendix C, NZX believes that this will pose as a barrier for alternative venues that may consider offering NZ electricity futures contracts.

As the Authority will be aware, it is common in both the North American and European electricity markets to have multiple exchanges offering a range of competing futures contracts tailored to the specific needs of its participants. Most recently, Japan has seen the entry of a futures exchange that is competing with the incumbent provider and is rapidly gaining market share. Given the varied products and competing entities that operate in international electricity markets, NZX wishes to highlight the potentially adverse effects that prescribing venues and products in the Code may have on future innovation and competition within this market.

NZX considers that the Code should be agnostic to both the venue and product for NZ electricity futures. This approach would be consistent with the Authority's statutory objective to promote competition in the markets it regulates. We propose that the Authority prescribe the applicable venue and product via Notices through its existing channels. This will enable greater flexibility for the Authority to amend venues and products should the needs of participants and consumers change; or if the exchange is not performing to the standard expected of the Authority (given the Authority is mandating market making, which creates a direct commercial benefit for the exchange). We believe that this approach will be synonymous for example with the Authority's due diligence, approval and appointment of metering auditors.

Suggested drafting to the proposed Code Amendment

NZX recommends the following changes to the proposed Code amendment draft as presented in Appendix C of the consultation document:

4 Clause 1.1 amended

(1) In clause 1.1(1), replace the definition of **ASX** with the definition of an Exchange:

"**ASX Exchange** means the Australian Securities Exchange Limited a licenced market operator or exchange offering a "**NZ electricity future**"

(2) In clause 1.1(1), replace the definition of **ASX NZ electricity future** with:

"**ASX NZ electricity future** means an ASX a New Zealand Electricity Base Load Futures Contract available for trade on the ASX an Exchange prescribed by notice given by the Authority"

NZX thanks the Authority for the opportunity to submit on this consultation. NZX is happy to discuss further with the Authority on any matter contained in this submission.

Yours sincerely



Shane Dinnan
Head of Energy Markets