



Expiry of urgent Code change which weakened market making obligations welcomed

2degrees supports the expiry of the urgent Code change adopted for market making last year (option 1).

Our reasons for supporting the expiry of the Code change include the reasons for opposing the Code change in the first place, outlined in the independent electricity retailer – 2degrees, Electric Kiwi, Flick Electric, Octopus Energy and Pulse Energy – joint submission, “Weakened market-making obligations not supported”, 19 August 2024.

We also agree with the reasons provided against the Code change in other submissions the Authority has released under the Official Information Act, and with the Authority’s assessment that making the Code change permanent (option 2) or developing a modified version of the Code change (option 3) is not justified and would not be to the long-term benefit of consumers.

For example, we agree with the Authority’s assessment that “An increase in spreads favours market makers over other participants in the futures market and makes trading more costly and less efficient, particularly during periods of high prices” and that “... the urgent Code amendment ... transfer[ed] risks to parties less well placed to manage the risk ...”

We consider that the weakening of the market making obligations has been a contributing factor to the ongoing retail competition problems, including the Authority’s recognition that competition has “stalled” from small and independent retailers.

Regrettably the Authority’s decision to adopt the urgent Code change which weakened market making obligations during a time of market stress – when independent electricity retailers needed hedging the most – has created an additional regulatory risk for retailers trying to manage risk and build up a customer book. The opportunity exists for the Authority to address vested commercial interests and how these could impact subsequent periods of market stress etc.

Question 4

2degrees considers that the scope of the review of market making and market making settings, should include development of shaped hedge products (beyond the limited voluntary version launched earlier this year), and the efficacy of relying on voluntary arrangements.

The independent electricity retailer – Electric Kiwi, Flick Electric, Haast Energy Trading, Pulse and Vocus – joint submission “Hedge market improvements are vital for the health and development of competition”, 25 March 2022, also provides relevant commentary on potential hedge market enhancements which should be considered as part of the review.