

Electricity Authority
By email: WholesaleConsultation@ea.govt.nz

22 June 2021

RE: Consultation Paper – Levy Consultation: Commercial Market Making Scheme

Mercury welcomes the opportunity to provide feedback to the Electricity Authority on its consultation paper for a levy for commercial market making.

Mercury is a strong supporter of the commercial market making scheme and welcomes the establishment and funding of the first commercial market maker as outlined in the paper. We look forward to further iterations towards a full commercial scheme to replace the existing mandatory arrangement and alignment as far as possible between the commercial and mandatory market making schemes in the meantime. We support a 12 MW volume service for this reason.

As we have consistently suggested in the past 18 months, there is a clear benefit to widening the spread to 5%. For the commercial scheme this will reduce cost to all participants by at least \$1.4m.¹ Aligning a 5% spread with the mandatory scheme would also reduce costs to incumbent market makers and likely increase liquidity available to the market. Our submission on the Request for Information paper noted that with a narrow 3% spread "...traders will often cross the spread to fulfil their market making obligations as this is deemed cheaper than getting picked off owning unwanted positions...".

As an alternative option we request the Authority considers our prior suggestion of widening the near term spread to 5% in the front contracts with a reload obligation. There would be no need to widen the spread from 3% for the contracts beyond six months. In Mercury's view this would provide the twin benefits of lowering the costs of the overall scheme and enhancing liquidity in all periods. If there is a desire for a single spread to apply Mercury would support this being 5%.

Our only other comment is to ensure that the selection of a market maker is not only done based on cost/price. It will be equally important the selected market maker has a strong balance sheet and is able to absorb risk, with proven experience in managing electricity derivatives or similar products. The withdrawal or failure of a market maker would damage trust and confidence in the market.

If you have any comments on this submission please contact me at john.bright@mercury.co.nz

Yours Sincerely,

A handwritten signature in black ink, appearing to read "John Bright".

John Bright
Regulatory Strategist

¹ Per the Electricity Authority's Levy Calculator website:
https://public.tableau.com/app/profile/electricity_authority/viz/Marketmakinglevycalculator/Marketmakinglevycalculator