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29 Mar 2022

Submissions
Electricity Authority

Via WholesaleConsultation@ea.govt.nz

To whom it may concern,

Consultation paper –Commercial Market-Making Scheme Code Amendment

We appreciate the opportunity to provide feedback on the Commercial Market-Making Scheme. Octopus Energy Group is a successful entrant retailer and energy technology innovator in the UK and other markets internationally. Our perspective is given as a potential entrant to the New Zealand retail market.

Octopus reiterates the importance of ensuring a strong and thriving competitive market where independent retailers, independent generators, and large users operate on a level playing field with vertically integrated firms. The ASX Futures market has been operational for over 10 years but it still has liquidity issues, market-making performance gaps and has too much price variance creating margin pressure especially on smaller traders.

We are broadly supportive of your proposed changes to improve the number and diversity of market makers in the ASX. This will support liquidity and active participation in the market. Broadening the mix of market makers should lead to improvements in spreads, availability and make the forward curve more reliable but it alone will not be sufficient to ensure all participants compete on a similar price basis. Further action is also required to level the playing field between participants, we have discussed this in our submission on the Wholesale Market Review.

We look forward to the Electricity Authority taking the necessary steps to sure up retail competition and ensure an ongoing role for independent retailers in the NZ market.

Regards,

Alex Macmillan
Energy Manager

Q1	Do you have any feedback on the Authority's proposal to align regulated market-making obligations with commercial market-making obligations?	Obligations should be aligned across all market making providers ensuring a level playing field with a diversity of views and therefore risks priced appropriately. Outside of the hedging markets, a commercial market maker would also need to have confidence that there is also a level playing field in spot market trading, conduct and information disclosures due to its impact on the forward market.
Q2	Do you agree that the total volume should remain at 12 MW per contract, if not why?	This would appear to be a reasonable level at this point in time based on the consultation paper analysis and allows for a hedge book build overtime. Largely, we would suggest this consultation is focussed on the supply side. On the non-market maker demand side, ASX initial margins are at an extremely high level especially in the front end due to what has been an extremely volatile period. This acts as a massive disincentive to use the ASX as large initial margin and margin calls become a drag on limited resources. To assist independent traders, and likely offset some costs of market making, the Authority should look again at how futures might be utilised in Prudential calculations.
Q3	Do you agree that the spread between bid and offer prices should remain at a maximum of 3% if not why?	We would always like to see tighter spreads as it reflects

		an efficient market. However, the maximum of 3% or $2/MWh reflects a fair middle ground. Also important and noted in the consultation are spreads at the close of trading. These are key to the calculation of margin requirements as well they are utilised in the pricing of OTC contracts.
Q4	Do you agree that changing to a rolling 20 trading days exemption scheme will benefit the New Zealand electricity futures market if not why?	5 exemption days per rolling 20 trading days is still a reduction in liquidity 25% of the time. Behaviour has shown that the exemption days utilisation are not reflective of market stress but because they are there. Would no portfolio stress or opt outs (and the benefits of such) be a better development in the market? That aside, the rolling trading day should have the effect of spreading exemption days so not all liquidity is lost on the same days. This should help with ensuring the forward curve is more reliable and margin dont jump around.
Q5	Do you propose an alternative solution to maintaining market-making services through a calendar month?	No portfolio stress or opt outs.
Q6	Do you agree that introducing a refresh obligation will benefit the New Zealand electricity futures market if not why?	The refresh obligation would appear to resolve a number of issues as highlighted in the paper. What is not clear from the consultation is at what price the top up volumes can be offered. Does this actually mean that there is potentially less volume at the initially offered price as

		any demand can be taken advantage of and priced up? Spreads do tend to be narrower within the trading window so if this change can ensure that there are valid closing prices then this may help with margin volatility and OTC pricing which reflects a smaller premium (or discount) to ASX.
Q7	Do you have any feedback on the Authority's cost-benefit analysis set out in Appendix A?	No
Q8	Do you have any feedback on the Regulatory statement in Appendix B?	No
Q9	Do you have any feedback on the Code amendment set out in Appendix C?	No