

## Levy consultation: Commercial market-making scheme

The Authority is consulting on proposed changes to the Electricity Industry Levy to support the implementation of a commercial market-making scheme on the New Zealand electricity futures market.

Implementing fully commercial market-making arrangements will occur over several years. The Authority's approach will:

- transition, over a period of years, to an incentivised market-making arrangement where market-making services are performed by providers compensated on commercial terms; and
- ensure the integrity of market-making services is maintained in the transition period through a combination of mandated market-makers and commercial providers.

At each stage of the transition the Authority will take a deliberate decision whether to proceed, informed by what is in the long-term benefit of consumers. The transition period will likely take several years, and it is also possible that the Authority decides it is appropriate physical participants provide market-making services indefinitely

The New Zealand electricity futures market provides an avenue for wholesale market participants to help manage their risk of being exposed to large price fluctuations on the electricity spot market. This benefits consumers as it allows retailers to offer consumers deals on their electricity, helping to protect them from volatile spot prices. It also allows retailers to manage their price risk, reducing barriers to entry and helping to increase competition in the retail market.

### **A commercial market-making scheme will help strengthen and better support the operation of the hedge market**

- Market-makers will be **incentivised to provide services**, even during times of market stress such as dry years and low gas availability.
- Stronger incentives for market-makers will lead to **greater access to risk management products** for participants.
- Potentially an **increased diversity of market-makers** with different views will help to create a more **robust understanding of future prices**.

The current cost of market-making services to consumers is not visible, and the level of services provided may not be efficient (ie, they may be either too expensive or may be at an insufficient level). The Authority wants the costs of market-making to be more transparent and for those who benefit from the services to pay for them. This will help ensure the appropriate level of service is provided to the electricity markets.

The Authority is proposing to recover the cost of the commercial market-making scheme from electricity purchasers and generators, including existing market-makers, in proportion to their market share. To do this we will need to increase the Electricity Industry Levy.



## We are seeking feedback on the preferred level of service from a commercial market-making scheme and the impact this has on the levy on industry participants

We need feedback from the industry on what levels of service market participants and stakeholders are interested in having, in terms of the volume of contracts provided daily and the spread.

The spread is the difference between the price a market-maker will buy at compared to sell at. By having a spread requirement, a market-maker is incentivised to price with as much accuracy as possible.

To deliver the scheme, the Authority proposes a maximum funding increase of \$14.4m in the Electricity Industry Governance and Market Operations appropriation from 2021/22 onwards.

This increase is made up of the Authority's estimate of the highest likely bid for a commercial market-maker providing 2.4 MW of contracts at a base spread of 3%, a cost for administering the scheme and a contingency factor.

A levy calculator is available [here](#) to help participants understand what changes to volume and bid-ask spread mean for the cost of the scheme, and subsequently, the levy. Any changes made to the levy to deliver the commercial scheme will not come into effect until the scheme is established, likely early-mid 2022.



\*Note this specific levy consultation is out-of-cycle

For more information about the commercial market-making scheme see the [Authority's website](#) or contact [commercialmarketmaking@ea.govt.nz](mailto:commercialmarketmaking@ea.govt.nz).

**Consultation closes 22 June 2021**

