



15 January 2021

Submissions
Electricity Authority
Level 7, ASB Bank Tower
2 Hunter Street
PO Box 10041
WELLINGTON

By email: hme.feedback@ea.govt.nz

Trustpower Limited
Head Office
108 Durham Street
Tauranga
Postal Address:
Private Bag 12023
Tauranga Mail Centre
Tauranga 3143
F 0800 32 93 02
Offices in
Auckland
Wellington
Christchurch
Oamaru
Freephone
0800 87 87 87
trustpower.co.nz

TRUSTPOWER SUBMISSION: HEDGE MARKET ENHANCEMENTS – PERMANENT MARKET MAKING BACKSTOP

- 1.1.1 Trustpower Limited (**Trustpower**) appreciates the opportunity to comment on the Electricity Authority's (**the Authority's**) *Hedge market enhancements – permanent market making backstop* consultation paper (**the Consultation Paper**).
- 1.1.2 While we understand the imperatives facing the Authority under the Electricity Price Review, we do not consider that the Consultation Paper makes a strong enough case to introduce a permanent market making backstop into the Electricity Industry Participation Code at this stage.
- 1.1.3 As we have previously submitted¹, any changes to the current non-codified, voluntary market making regime² should be:
- a) underpinned by a suitable objective metric defining the fitness-for-purpose of the futures market; and
 - b) justified by clear evidence that such a metric is not being achieved.
- In our view, neither of these conditions have been met.
- 1.1.4 To reiterate our previous conclusions, unless there is broad-based agreement on a solution for the fitness-for-purpose and willingness-to-pay issues, the Authority is likely to be drawn into regulatory action that will prove unnecessary and/or inefficient, and at a net cost to consumers.
- 1.1.5 Accordingly, with specific reference to the current Consultation Paper, Trustpower considers that:
- a) The cost-benefit analysis completed by Sapere Research Group, on behalf of the Authority, does not provide a convincing basis for introducing a codified backstop arrangement³; and

¹ Refer our recent submission of 12 June 2020 in response to EA Consultation Paper 'Ensuring Market Making Arrangements are Fit-for-Purpose Over Time', available at <https://www.ea.govt.nz/assets/dms-assets/26/26963Trustpower-HME-Consultation-Submission-12-06-2020.pdf>

² As was in place prior to 3 February 2020, and has since recommenced on 3 November 2020.

³ We acknowledge that limitations in data availability have meant Sapere Research Group was unable to undertake an appropriate quantitative CBA.

- b) The long-term benefit of consumers will not, necessarily, be best promoted by the introduction of a codified backstop arrangement (or any other mandated scheme) at this time.

Without a proven market deficiency to address, such measures may, in fact, introduce additional costs that exceed the benefits, and which are ultimately borne by consumers (one example being the cost recovery distinction between mandated and non-mandated market providers).

- 1.1.6 Notwithstanding our comments above, we recognise the implications of the Electricity Price Review final report, in particular recommendation D2.⁴ We also acknowledge the Minister's response to these recommendations, and her expectations of the Authority.
- 1.1.7 If the Authority does wish to make changes to the market making scheme, including through introducing an incentivised commercial arrangement (as is outlined in the Consultation Paper), we believe that it is important that the most equitable and efficient outcome for all relevant participants is achieved. Trustpower recognises that the market making services performed by the existing market makers (and the resultant forward price curve) are of benefit to the whole electricity industry.
- 1.1.8 We appreciate the Authority's engagement with industry on its hedge market enhancements project to date and look forward to continuing to contribute to the evolution of thinking associated with this workstream.
- 1.1.9 For any questions relating to the material in this submission, please contact me on 021 751 971, or Fiona Wiseman, Senior Advisor Strategy & Regulation, on 027 549 9330.

Regards,



SHANE ADAMS
ENERGY TRADING

⁴ Recommendation D2: Introduce mandatory market-making obligations unless the sector develops an effective incentive-based scheme.