

22 February 2021

Genesis

Attention: Shaun Goldsbury

By email:
Shaun.Goldsbury@genesisenergy.co.nz

Dear Shaun

Genesis' market making in February 2021

I am writing in relation to Genesis' poor market making performance this month on the NZ electricity futures market. Poor performance of market making services at any time can threaten the benefit consumers gain from an effective contracts market. In particular, the futures market plays an important role in managing security of supply. The futures market provides decision-makers with price signals that indicate the future supply and demand balance. While there are no immediate security of supply concerns, there are early indications that the margin between supply and demand will be reduced later in the year when demand is forecast to increase.

Genesis currently provides market making services to the Australian Securities Exchange (ASX) NZ electricity futures market under the terms of an agreement it has with ASX. That agreement allows Genesis (and each other market maker) to use up to five exemptions per month from providing services (in full or in part) at its sole discretion.

The Authority actively monitors market maker performance on the ASX and notes that midway through February Genesis had already used all five of its exemptions for the month under its agreement with the ASX. I appreciate that Genesis informed the ASX ahead of time that it would also likely not meet its obligations under its ASX agreement for a sixth day in February. Your proactive engagement is appreciated.

Although there is currently no permanent mandatory market making backstop in the Electricity Industry Participation Code (Code), the Authority's performance expectations on market makers remain the same. Other market makers faced similar circumstances this month and have been able to meet expectations or have used exemptions. The Authority expects all market makers to effectively manage their service providers and staff to ensure market making services are provided in line with the Authority's performance expectations.

Genesis' poor performance this February further strengthens the case for amending the Code to include a permanent mandatory market making backstop. Poor performance threatens the work the Authority is undertaking to implement a commercial market making scheme. It is critical that the market and market makers perform well to ensure the success and future direction of the Authority's enduring approach to market making. Should the commercial scheme not be viable, the Authority will need to consider other options to ensure the futures market best provides for the long-term benefit of consumers.

I appreciate Genesis' reassurance that it will provide market making services for the rest of the month. The Authority will continue to closely monitor the market and market making performance, with particular regard to Genesis' performance.

This letter will be published on our website.

Yours sincerely

A handwritten signature in blue ink, appearing to be 'Joey Au', with a stylized, cursive script.

Joey Au
Acting General Manager Market Design