

13 September 2022

James Stevenson-Wallace
Chief Executive
Electricity Authority
Level 7, Harbour Tower
WELLINGTON

Cc: Andy Doube, Tom Georg

Dear James,

OPEN LETTER: ASX CLEARER ISSUE

You will be aware of the volatility in the energy derivatives markets impacting Europe¹ and Australia this year. The purpose of this letter is to confirm these global issues are now having a material impact on the NZ electricity futures market.

A significant number of participants, who participate on the ASX New Zealand Future market via Jarden, have received notice from Jarden advising that they arrange a transition of their clearing arrangements or face a combination of penalties and a requirement to close positions only.²

This issue appears to mostly impact independent retailers, independent generators and large customers who are dependent on access to and performance of the ASX for managing their risk exposure in a particularly volatile spot market.

The reason for Jarden's letter is because Jarden's clearing provider is no longer able to continue to provide clearing services to this market and consequently Jarden is no longer able to provide access to the market.

To meet the requirements of the notice from Jarden, impacted participants are likely to have begun to reduce their exposure to the extent possible to avoid the penalties outlined in the letter, however there are liquidity challenges that limit some participants ability to do this and financial penalties maybe unavoidable despite best endeavours.

Impacted participants have been looking for alternative providers in earnest. Unfortunately, there are very limited alternative clearing options³. This has serious implications on the ability of affected market participants to manage risk. This will have adverse flow on consequences for liquidity, forward price discovery and the process of competition in the wholesale and retail markets.

The ASX is aware of the serious nature of the issue for our market and is taking steps as matter of priority to grant ASX clearing access to a new clearing provider. However, this is a time-consuming process, accrediting a new clearer typically takes a year and an expedited scenario would likely take months. Additionally transferring provider if a new or existing one is prepared to take on a client's business typically takes between 3-6 months. As a result, there is unlikely to be an immediate resolution to the problem.

¹ <https://www.bloomberg.com/news/articles/2022-09-06/energy-trade-risks-collapsing-over-margin-calls-of-1-5-trillion>

² We understand that Jarden will provide a summary of the facts separately to this open letter.

³ A number of participants have approached all alternatives and they are not prepared to price doing business.

Given the seriousness of this issue we consider that developing an interim solution would be prudent and hope to work closely with you on what that solution might look like. This will help to ensure that the competition and efficiency limbs of the Authority's statutory objective continue to be promoted for the long-term benefit of consumers.

As this is a pressing priority, we request that a workshop with impacted parties, officials and Authority staff is scheduled to explore an interim solution within the next week.

Regards



Margaret Cooney
Chief Customer Officer
Octopus Energy



Phillip Anderson
Managing Director
Haast Energy Trading



Chris Fincham
General Manager
King Country Energy



David Prentice
Chief Executive
Manawa Energy



Craig Parker
Head of Wholesale Energy
2degrees



Duncan Erasmus
Director
CBS Limited



James Leslie
COO/CFO
Flick



Bryn Little
Our Power



Warren McNabb
Director
Weld Cone Windfarm



David Inch
Managing Director
NZ Energy



Luke Blincoe
Chief Executive
Electric Kiwi



Steven Follows
GM Energy Solutions
Eastland Group



Jonathan West
CFO
Pioneer Energy



Ben Tan
GM Wholesale
Pulse Energy



John Finigan
Manager
Kawatiri Energy Ltd