

Electricity Industry Participation Code Amendment (Changed requirements for regulated market-makers) 2024

Under sections 38 and 40 of the Electricity Industry Act 2010, I make the following amendment to the Electricity Industry Participation Code 2010.

At Wellington on the 10th day of September 2024



Anna Kominik
Chair
Electricity Authority

Certified in order for signature:



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4 September 2024

4 September 2024

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Amendment

1 Title

This is the Electricity Industry Participation Code Amendment (Changed requirements for regulated market-makers) 2024.

2 Commencement

- (1) This amendment comes into force on 12 September 2024.
- (2) This amendment expires on the date that is 9 months after the date on which it comes into force.

3 Code amended

This amendment amends the Electricity Industry Participation Code 2010.

4 Clause 13.236K amended (Application of subpart)

- (1) In clause 13.236K(2)(a), replace “clause 13.236L” with “clauses 13.236L and 13.236LA”.

5 Clause 13.236L amended (Requirement to quote)

- (1) In clause 13.236L(2), replace “The participant” with “Subject to clause 13.236LA(3), the participant”.

6 New clause 13.236LA inserted (Modified requirements where settlement price threshold exceeded)

- (1) After clause 13.236L, insert:

“3.236LA Modified requirements where settlement price threshold exceeded

- (1) The **Authority** must **publish** a notice before the commencement of a **NZEF market-making period** if the most recent daily settlement price published by the **exchange** for a quarter or month of **NZ electricity futures** for either of the Benmore or Otahuhu reference **nodes** exceeds \$500/MWh.
- (2) The notice **published** under subclause (1) must identify the quarter or month for which the threshold in subclause (1) has been exceeded.
- (3) Where the **Authority** issues a notice under subclause (1), during the next **NZEF market-making period**, a **participant** must not provide a **quote** under clause 13.236L(1) with a **bid-ask spread** that exceeds the greater of 5% or NZ\$2 for any **NZ electricity futures** for the quarter or month identified in the notice.
- (4) For the avoidance of doubt:
 - (a) subclause (3) applies only to the next **NZEF market-making period** after the notice in subclause (1) is issued; but
 - (b) nothing in this clause prevents subclause (3) from applying to consecutive **NZEF market-making periods** if the **Authority publishes** a notice under subclause (1) before each of those **NZEF market-making periods**.”

Explanatory Note

This note is not part of the amendment, but is intended to indicate its general effect.

This amendment to the Electricity Industry Participation Code 2010 (“Code”) comes into force on 12 September 2024 and expires on the date that is 9 months after the date on which it comes into force.

The amendment amends Subpart 5B of Part 13 of the Code (relating to market-making arrangements in the hedge market) to introduce a new threshold daily settlement price. Where that threshold daily settlement price is exceeded, the amendment provides for changes to the bid-ask spread which participants subject to this Subpart must comply with when providing quotes during a market-making period.

Pursuant to section 40 of the Electricity Industry Act 2010 (“Act”), the Authority considers that it is necessary or desirable in the public interest that the amendment be made urgently because:

- (i) The presence of a reliable and robust electricity futures market is critical to the performance of the electricity market, including as it provides indications to participants as to future prices and provides an avenue for wholesale market participants to manage price risk. Market-making services provide essential liquidity in the futures market – if this is not available, then participants may not be able to appropriately hedge against spot price volatility, causing material financial stress and potentially preventing them from operating in such conditions.
- (ii) There were significant increases in price and volatility in the futures market in August 2024, as a result of extremely high spot prices caused by gas scarcity, low hydro lake storage and unfavourable conditions for wind generation. The Authority considers there to be a real risk that such conditions may recur, with little warning, in the short to medium term.
- (iii) Such circumstances place significant stress on the regulated market-makers and the commercial market-maker, to the point that some market-makers may be at risk of failing to perform their required functions.
- (iv) The amendment will protect the functioning of the futures market through stressed market conditions, as well as providing regulatory certainty. It will therefore promote competition in, reliable supply by, and the efficient operation of, the electricity industry for the long-term benefit of consumers.

More information about the amendment is available on the Electricity Authority’s [website](#).
