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Competition Taskforce
Electricity Authority Te Mana Hiko
PO Box 10041,
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Via email: TaskForce@ea.govt.nz

14 April, 2025

To whom it may concern,

Octopus Energy NZ appreciates the opportunity to provide feedback on the Electricity Authority's consultation regarding the expiry of the urgent Code amendment for market making under high stress conditions.

As a smaller energy retailer in the New Zealand electricity market, we rely on the futures market to manage our price risk and provide competitive offerings to our customers. Access to a liquid and efficient futures market with reliable market making services is therefore fundamental to our business operations and our ability to serve customers effectively.

We support the Authority's preference to let the urgent Code amendment expire in June 2025, as the amendment creates a reduction in market liquidity, which is the opposite outcome to what was intended.

Q1. The Authority notes that the Urgent Code amendment provisions have not been activated yet. What is your feedback on the costs and benefits to consumers of the urgent Code amendment?

As a smaller retailer, we rely on a liquid and accessible futures market to manage price risk effectively. A functioning hedge market allows independent parties to manage risk which leads to better consumer outcomes in price, innovation, and service. Ensuring liquidity is maintained during stress periods are essential to protect consumers from price volatility.

We believe increasing the bid-ask spread reduces liquidity precisely when the market needs it most and reduces effectiveness.

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Q2. Please provide feedback about your view between reliability and cost of market making with and without the urgent Code amendment?

We recognise the importance of reliable market making services, especially during periods of market stress. The purpose of market making obligations is to ensure market makers participate in trading as other participants are dependent on the liquidity this provides. The urgent code change provided temporary relief which undermines the purpose of the obligations, it primarily benefits market makers and creates a perverse incentive to increase prices and profits. It will also increase volatility in the forward price curve. While the amendment may appear to lower immediate market-making costs, it allows greater spreads and more profits to be extracted from the rest of the market. It risks increasing long-term risk costs by weakening liquidity and confidence in the futures market. These costs will manifest as higher retail prices, less competitive contract offerings, and reduced stability during stressful periods.

Market makers already have flexibility through the exemption system to manage exposure during market stress. The Authority's data shows that market makers have become more strategic with these exemptions following the high-stress period in 2024, preserving them for genuinely challenging periods. This more conservative approach provides an adequate buffer against market stress conditions.

Q3. Please provide feedback on your preferred option for the market making urgent code amendment, and how your option is consistent with the Authority's statutory objective (section 15 of the Electricity Industry Act 2010).

We support Option 1: letting the urgent Code amendment expire. As previously stated, widening spreads does not maintain liquidity when it is most needed and reduces effectiveness of the forward curve/price transparency. It’s important to ensure a functioning hedge market where new and smaller retailers are able to manage risk. This will ultimately leads to better consumer outcomes in price, innovation, and service. Ensuring liquidity is maintained during stress periods are essential to protect consumers from price volatility.

We believe it is important to address the underlying causes of sustained high prices in the spot and futures markets, which is a more effective approach to improving market functioning than providing relief to market makers.

Q4. The Authority is scoping a further review of market making and market making settings. Please provide your feedback on the costs and benefits of the

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volume, bid-ask spread, exemption levels, how volumes are offered and the role of commercial market makers.

We support the EA's planned review of market making frameworks and recommend they expand its scope to examine a broader range of products beyond the current market making offerings.

We believe that enhanced market volume supports better liquidity and price discovery, while tighter spreads decrease transaction costs and improve market efficiency. Exemptions tend to reduce liquidity and introduce additional complexity. We support the role of commercial market makers who have the potential to strengthen competition, boost liquidity, and distribute gentailer risk more effectively.

A well-functioning hedge market enables new and smaller retailers to manage their risk exposure, which translates to consumer benefits through competitive pricing, innovative offerings, and improved service. From our experience, maintaining consistent liquidity during market stress periods is crucial for protecting customers from price volatility. We caution that any reduction in market liquidity would contradict the intended market objectives and could potentially harm smaller retailers, ultimately limiting consumer choice and innovation in the energy sector.

Please get in touch if you would like to discuss further.

Kind regards,

Alex Macmillan

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Pearl Little

Communications Manager