14 April 2025

Expiry of Urgent Code reducing market-making obligations

Pulse Energy supports the Authority's proposal to let the urgent Code amendment expire and revert to the status quo (option 1).

Our reasons for opposing the urgent Code amendment are relevant

Pulse supports letting the urgent Code amendment expire for the reasons we opposed the introduction of the Code amendment, including that the Authority's decision "hurt the ability of market participants to access hedges in the forward market and will increase costs and financials risks for participants which is detrimental to competition, efficient operation of the electricity market and the long-term interests of consumers."[1]

The unintended consequences of the intervention are relevant

One of the adverse flow-on effects of the unprecedent urgent Code amendment for Traders is that they now have to consider the risk the same urgent relief could be activated when the market is stressed. The outcome is that Traders may execute trades earlier than optimal in order to avoid the risk of sudden reduction in ASX market liquidity. This has the potential to bring in more volatility to the ASX market at certain times.

It should be no surprise that the intervention received a lot of public criticism from Traders and other affected parties, including that the intervention in the futures market move drove up volatility, lacked transparency and damaged their confidence in the regulator's understanding of the market.[2]

Pulse agrees with the Authority's reasons for let the urgent Code amendment expire

Pulse agrees with the Authority's reasons for letting the urgent Code amendment expire, including that:

[1] 2degrees, Electric Kiwi, Flick Electric, Octopus Energy and Pulse Energy, Weakened market-making obligations not supported, 19 August 2024.
[2] e.g. https://www.energynews.co.nz/news/electricity-markets/812617/august-market-intervention-created-volatility-harmed-confidence. These concerns were also reflected in trader submissions in response to the Authority consultation on the urgent Code amendment.

- "An increase in spreads favours market makers over other participants in the futures market and makes trading more costly and less efficient, particularly during periods of high prices."

- "… the urgent Code amendment … transfers risks to parties less well placed to manage the risk …"

- "… regulatory certainty has clear and transparent settings that are robust and are enforced …"

- "The introduction of relief provisions may create risks that undermine the integrity of policy settings, such as increasing the changes of participant lobbying …"

- Market trading is still required under periods of stress: "Having the Code amendment expire ensures parties can knowingly trade under the same conditions, even when prices are elevated."

- "The provision of relief to market making entities could come at the expense of other future market participants …"

Question 4

Pulse considers that any review of market-making settings should include development of a range of shaped/super-peak hedge products – in accordance with MDAG recommendations – and whether provision of these should be mandated.

Yours sincerely,

Sharnie Warren
Chief Executive