Submitter	Vivienne Court Trading Pty Ltd ACN 153 821 571 (VivCourt)

Response to Electricity Authority Consultation Paper '*Expiry of urgent code regarding market making under high stress conditions,* dated 17 March 2025 (consultation paper).

Questions	Comments
Question 1: 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?	1. VivCourt agrees an orderly and functioning futures market with accurate pricing and depth of volume is ideal. 2. On balance, the Authority's urgent code amendment is beneficial to the market and consumers as it encourages continued quoting in stressed conditions, however, there may be scope for the Authority to improve the market by making some minor amendments to recognise periods of prolonged high prices and volatility. *Proposed minor amendment to Code* 3. **VivCourt agrees with the ideal of volume and spread obligations for market makers remaining the same in all market conditions. It does not consider this is feasible, absent some codified relief.** It provides one minor suggestion to allow **increased refreshes for market makers at certain price levels.** VivCourt's response to question 3 below provides greater detail on a workable solution. VivCourt also encourages the Authority to consider a volatility-based trigger, rather than solely a price-based trigger for changing market making obligations. This could better serve consumers by incentivising market makers to continue quoting during volatile times and reduce instances of trading day exemption use. *VivCourt's feedback on the urgent Code amendment* 4. The form of the Code amendment was a product of necessity. An exhaustive analysis of all its consequences could not occur when it was enacted, due to the urgency of market conditions during winter 2024. The Authority recognised the importance of providing relief to market makers to return confidence and stability to the market. In that respect, the amendment has been successful and beneficial to consumers, despite the fact the conditions envisaged by the amendment are yet to be triggered as at writing. 5. Confidence in the market benefits consumers. The amendment is a straightforward and clear measure, based on an objective price-based trigger.

	It improves confidence and enhances stability in the market by encouraging market makers to maintain quotes when the market shows sign of stress, instead of taking exemptions. Continued quoting creates a more accurately priced and efficient futures market. Maintaining quotes during uncertainty reduces the risk of cascading market failure and the withdrawal of multiple market makers, matters which have proven costly to consumers in the past. 6. The compromise of the benefit is wider bid/offer spreads for discrete periods of stressed market conditions. This results in a higher notional cost to participants (and consumers) for market making services, but the higher cost is preferable to a lack of liquidity and failed market, which would cause greater long-term cost to consumers. 7. Ideally the Code should not require market makers to weigh the possible costs of legal ramifications and fines against the possibility that continued trading incurs unsustainable losses. As such, VivCourt believes that some relief for market makers in stressed and failed market situations (further explored below) is better than none. VivCourt agrees that ideally consumers will not bear the cost of greater spreads and less volume to facilitate such relief. *Minor amendment is necessary* 8. VivCourt doubts that a scheme with no relief for market makers during stressed or failed market states is fit for purpose as it will not mitigate the effects of the known risk that volatile and prolonged high prices brings. VivCourt accepts that a Code amendment with some relief for market makers while also maintaining spreads and volumes is ideal. **VivCourt suggests a minor amendment to volume refresh mechanisms could provide relief to market makers while maintaining volume and spread requirements.**
Q2. Please provide feedback about your view on the trade-off between the reliability and cost of market making, with	9. The market is improved by the Code amendment. A more reliable market justifies the increased cost during discrete periods. However, through more detailed alternative relief absent higher cost. 10. It is important to note that the futures market does not control the spot price or the reliable supply of electricity. So, it is sensible to provide market makers with relief during periods when the spot market behaves erratically due to forces outside of market makers' control. 11. Maintaining a futures market which requires market makers to take on significant positional risk to fulfil quoting obligations is not ideal. Taking on positional risk is not the role of a market maker. Doing so increases the risk of cascading failure (multiple market makers exiting) and a breakdown in the

and without the Urgent Code amendment.	market structure. This conflicts with the Authority's purpose and ultimately pushes greater cost to consumers. VivCourt appreciates that regulated market makers have natural asset-backed risk mitigation, this does not mean they are immune to unforeseen spot price movements and unpredictable generation and supply issues. During abnormally high-priced periods, regulated market makers should be afforded relief, particularly where actions to avoid the high prices through management of supply and other initiatives have not worked. Ideally, such relief would remain untested because the spot price can remain reasonable and stable through sustainable management of supply and generation of electricity. However, in the rare event of high prices and volatile movements, a minor change to increase refresh options would allow market makers to react with dynamic pricing to the benefit of consumers. This would increase liquidity and price accuracy, with consistent market volume and spreads. 12. The Authority's current amendment allows market makers to manage or mitigate risk during extreme market conditions. Removing it and providing no substitute reduces the market's adaptability. There is still a risk that conditions faced in August 2024 reoccur. If that happens, market makers will likely feel the need to withdraw quotes, thereby reducing liquidity and reliability of the market. 13. The current urgent Code amendment provides market makers with confidence and encourages continued quoting. The mere knowledge of availability of relief during periods of extreme stress helps ensure continued market participation, reducing the risk of sudden liquidity loss or price instability. It is a flexible and practical safeguard that enables a more sustainable and resilient hedge market for the long-term benefit of consumers. It could be improved by maintaining spread and volumes but giving more leniency on refreshes for market makers (see below).
Q3. Please provide feedback on your preferred option for the market making Urgent Code amendment,	14. The Authority's purpose is to promote competition in, reliable supply by and efficient operation of the electricity industry for the long-term benefit of consumers. The futures market represents only one tool with which the Authority achieves its purpose. It is a tool which impacts competition and efficient operation of the electricity industry. The futures market, and market makers within it (to the extent of their market making activities) cannot create or reduce the supply of electricity through market making. Prices in the futures market are a symptom of the supply of electricity, rather than a cause. This is a relevant consideration in how the Authority might approach specific governance of the market making regime.

and how your option is consistent with the Authority's statutory objective (section 15 of the Electricity Industry Act 2010).	15. VivCourt recommends proceeding with option 3 outlined in paragraph 8.1 of the Authority's consultation paper, being an **alternative modification to the Code**. The Authority is aware that sustained stressed market conditions, including prolonged high prices, high volatility or ongoing one-way price moves will discourage market-makers from trading and negatively affect the market, which will detriment consumers, market participants and the electricity industry. 16. August 2024 conditions may feasibly happen again, despite the Authority's efforts to address spot price volatility through other means (identified in the consultation paper) and the best efforts of regulated market makers in generating, storing, managing, and supplying electricity in the primary market. The Authority now knows that a stressed or failed futures market creates a negative impact and exacerbates poor market outcomes. It makes sense to encourage market makers to continue trading and reduce their risk in doing so during such periods. **This would take the form of minor amendments to optional refreshes for market makers set out under paragraph 13.236L(3) of Part 13 of the Code, outlined below.** <u>*Proposed amendment 1 – stressed conditions: increased quote refreshes*</u> 17. VivCourt recommends that during *stressed* market conditions (using the same price-based trigger of $500/MWh as used in the current urgent Code amendment) market makers may for Relevant Contracts[1] **split volume obligations into *four parts*, rather than two**. That is, in this circumstance, market makers may offer quotes of 6 lots (rather than 12) on each side and refresh quotes 3 times, or trade 2.4MW of volume to fulfil market making obligations in respect of each Relevant Contract. 18. This would allow market makers to react to price movements and volatility. It would encourage and incentivize market makers to keep trading, rather than take exemptions, and allow swifter reaction to rapid price fluctuations, reducing the positional risk market makers may need to take with each refresh. This is a straightforward and clear change to **promote more accurate pricing without changing volume or spread obligations.** 19. The change to '*refreshes'* would only need to be enacted with respect to Relevant Contracts (defined in footnote 1). Should any of the Relevant Contracts settle above the trigger price of $500/MWh, then all Relevant Contracts would attract the optional additional refresh relief. 20. The capacity to fulfill the same volume and spread obligations through multiple '*refreshes*' would discourage market participants from sweeping the

[1] ***Relevant Contracts*** means the current quarter, following quarter, or 6 nearest dated actively traded monthly contracts across both the Otahuhu or Benmore nodes

	order book to fulfil quoting obligations or capture profits during prolonged one-sided price movements. This is because market makers would be able to provide more dynamic pricing with each refresh, making sweeping behaviour too risky and costly. The Authority observed sweeping behaviour during the winter 2024. Sweeping behaviour exacerbated price movements and impedes price discovery, which is costly to consumers. *<u>Proposed amendment 2 – failed market: increased quote refreshes</u>* 21. There may be rare circumstances where both the spot price and the futures market are no longer functioning in an orderly and competitive manner and are in a state of failure. The Code could provide for such a circumstance by introducing a price-triggered '*failed*' market state code amendment, triggered when any Relevant Contract settles at or above a price of $750/MWh.[2] 22. VivCourt proposes that the Authority amend the Code to provide during '*failed'* states, market makers could have the option to **split volume refreshes for all market making contracts into *24 parts*, rather than two, four parts or 12 parts**. That is, when the price-based trigger of $750/MWh occurs, market makers may **quote 1 lot on each side for all actively traded market making contracts with 23 refreshes, or trade 2.4MW of volume to fulfil market making obligations in respect of each contract**. This increases capacity to deliver dynamic pricing and reduce market makers' positional risk. The amendment would encourage continued quoting and increased liquidity. **This would require no change to volume and spread obligations.** *Volatility-based trigger* 23. **VivCourt recommends a volatility-based trigger** be considered for each of the above suggestions (rather than solely a price-based one), as swift and large price movements cause difficulties for market makers and create uncertainty, which incentivizes exemption use and lower liquidity. If enacted, VivCourt's suggestions would give consumers more liquidity and greater chances to transact. They would also require market makers to continue to manage their exemptions, and take less exemptions, which provides a more reliable market.
Q4. The Authority is	*24. <u>Volume</u>*

[2] High range marginal dispatch prices ranged between $700/MWh and $750/MWh at baseload thermal stations and upwards of $800/MWh across hydro stations. Based on these observations, a strike price of $750/MWh is recommended for the failure state. $750/MWh pricing outcomes provide a justifiable trigger point and are indicative of extreme stress or failure in the spot market.

scoping a further review of market making and market making settings. Please provide your feedback on the costs and benefits of the volume, bid/ask spread, exemption levels, how volumes are offered and the role of commercial market makers.	VivCourt appreciates the need for depth of volume and supports maintaining the current codified volume levels. VivCourt's only suggestion is to give more optional refreshes to regulated market makers when the price-based triggers are hit as outlined in response to question 3. *25. <u>Bid-Ask Spread</u>* Under the current regime, spreads naturally widen with increasing price levels and the fixed-percentage approach allows for risk to be transparently priced in without the introduction of unnecessary operational complexity. **VivCourt considers that without relief that entails wider spreads or reduced volume, some relief is still necessary**. A consistent spread requirement promotes market confidence and simplifies quoting behaviour between market makers, supporting price discovery. Provided multiple market makers remain quoting in the market to their obligation levels, the current structure maintains competition and supports a robust forward curve. Reliability is compromised when multiple market makers opt-out or take exemptions. VivCourt's proposed minor change would assist to promote competition and presence of multiple market makers in all market making sessions. *26. <u>Exemption Levels</u>* In the Authority's wider review of the market making regime, VivCourt encourages it to consider the interaction between the exemption days and market outcomes. During volatile market conditions, market makers may feel the need to withdraw services (assuming they have accrued exemption days). The Authority could explore whether this withdrawal increases price reactions. For example, on 28 March 2025, unplanned thermal outages caused significant volatility in the spot market price of electricity. On that day, 3 of the 4 regulated market makers took an exemption. Despite this, the market experienced a monthly high in traded volume. The Authority's review could consider if the opportunity to take exemptions due to uncertainty inadvertently increases volatility and creates adverse outcomes by reducing liquidity and impairing price discovery. *27. <u>How volumes are offered</u>* **VivCourt thinks current volumes and spreads are only achievable in certain conditions if some codified relief is enacted.** VivCourt's response to question 3 recommends some flexibility in refresh obligations during high price periods will promote continued quoting and dynamic pricing. This would reduce the risk of cascading failure and provides more confidence and stability in the market. As the Authority has noted, a more certain and confident market structure leads to better outcomes for consumers.

	28. <u>Role of commercial market makers</u> Commercial market makers play a critical role in enhancing market liquidity and competition, both of which are hallmarks of a strong and resilient market. Unlike regulated market makers, commercial market makers are not vertically integrated and do not have the benefit of asset-backed risk mitigation. Their sole role is to provide a service to the market by accurately pricing products and facilitating depth and confidence in the order book. Commercial market makers are also better placed to facilitate trading of more complex products and combinations of products by warehousing risk across the curve. Regulated market makers may not be as inclined to provide this service, as trading motivations may mostly relate to hedging activity, rather than a commercial market, which looks to provide liquidity and is not exposed directly to the underlying. A market making scheme that reflects the commercial realities faced by commercial market makers will encourage them to maintain market presence and continue quoting during stressed periods. Regulated entities are better informed as to live demand and supply conditions and better placed to predict spot price movements. This information informs their spot and futures trading and affects their decision-making in terms of taking exemptions or pulling quotes. External factors may not necessarily affect the ability to quote but might simply increase the desire to withdraw due to uncertainty, even when the market is liquid. For example, on 28 March 2025 (the example mentioned in paragraph 21 above) VivCourt as commercial market maker was one of the two market makers not to exercise exemption rights. Its trading volume accounted for ~30% of volume traded in the futures market on the relevant day and that was the highest volume traded that month. The Code should support a diverse set of market makers, including commercial and regulated participants. Doing so will strengthen the resilience and competitiveness of the market, promotes more effective and accurately priced contracts, and make it more attractive to trade, to the long-term benefit of consumers.