

Electricity Industry Participation Code Amendment
(Hedge Market Arrangements) 2020

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 27th day of January 2020



Thomas Brent Layton
Chairperson
Electricity Authority

Certified in order for signature:



Voon Kong
Senior Legal Counsel
Electricity Authority

24 January 2020



Simon Watt
Partner
Bell Gully

24 January 2020

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Amendment

- 1 Title**
This is the Electricity Industry Participation Code Amendment (Hedge Market Arrangements) 2020.
- 2 Commencement**
This amendment comes into force on 3 February 2020.
- 3 Code amended**
This amendment amends the Electricity Industry Participation Code 2010.
- 4 Clause 1.1 amended**
In clause 1.1(1), insert in the appropriate alphabetical order:
“ASX means the Australian Securities Exchange Limited”
“ASX NZ electricity future means an ASX New Zealand Electricity Base Load Futures Contract available for trade on the ASX”

“**bid-ask spread** means—

- (a) if expressed as a dollar value, the dollar value that represents the difference in price between a **quote** to buy an **ASX NZ electricity future** and a **quote** to sell an **ASX NZ electricity future** of the same type; or
- (b) if expressed as a percentage, the percentage calculated by dividing the difference between the price of a **quote** to buy an **ASX NZ electricity future** and the price of a **quote** to sell an **ASX NZ electricity future** of the same type by the price of the **quote** to sell an **ASX NZ electricity future**”

“**NZEF market-making agreement** means an agreement between a **participant** and **ASX** that imposes obligations on the **participant** in relation to **ASX**'s daily settlement market-making scheme for **ASX NZ electricity futures**”

“**NZEF market-making period** means from 1530 to 1600 New Zealand time on each **business day** on which **ASX NZ electricity futures** are traded”

“**quote** means an offer to buy or sell an **ASX NZ electricity future** on the **ASX**”

5 Part 13, subpart 5B inserted

After clause 13.236I, insert:

“Subpart 5B—Hedge market arrangements

13.236J Contents of this subpart

This subpart provides for an active market for trading financial hedge contracts for **electricity** by specifying requirements for certain **participants**.

13.236K Application of subpart

- (1) Subject to subclause (2), this subpart applies to the following **participants**:
 - (a) Contact Energy Limited;
 - (b) Genesis Energy Limited;
 - (c) Mercury NZ Limited;
 - (d) Meridian Energy Limited.
- (2) This subpart applies to a **participant** specified in subclause (1) if that **participant** from 3 February 2020—
 - (a) has not entered into a **NZEF market-making agreement** that includes the requirements set out in clause 13.236L; or
 - (b) fails to give, or withdraws, its consent to **ASX** to provide the information set out in clause 13.236M to the **Authority**; or
 - (c) does not perform market-making services in accordance with the **NZEF market-making agreement** on three or more separate occasions in a period of 90 days, and that non-performance is not permitted by an exemption or otherwise under the **NZEF market-making agreement**.

13.236L Requirement to quote

- (1) Subject to subclause (3), the **participant** must, for a minimum of 25 minutes in every **NZEF market-making period**, provide **quotes** to buy and sell a minimum of—
 - (a) 30 monthly base load futures (**ASX** designated codes ED and EH) contracts (being 30 buy and 30 sell) for the current month and each of the five months following the current month; and
 - (b) 30 quarterly base load futures (**ASX** designated codes EA and EE) contracts (being 30 buy and 30 sell) for each quarter that is available for trade on the **ASX**.
- (2) The **participant** must not provide a **quote** under subclause (1) with a **bid-ask spread** that exceeds the greater of 3% or NZ\$2.
- (3) The quantity of buy or sell **quotes** the **participant** must provide under subclause (1) for each **NZEF market-making period** is reduced by the number of contracts of the same type bought or sold by the **participant** during that **NZEF market-making period**.

13.236M Requirement to provide information

The **participant** must consent to **ASX** providing the **Authority**, on a daily basis, with the following de-anonymised information in relation to the **participant's** performance of its obligations under its **NZEF market-making agreement**: any information, documents or data in relation to bids and offers placed by, or on behalf of, the **participant** (including in relation to buy and sell prices, trading periods, volumes and quantities) in respect of any **ASX NZ electricity future**, and any resulting trades in the relevant **ASX NZ electricity future**, to the extent that the information, documents or data relate to any and all orders throughout the trading day.

13.236N Exemptions from requirement to quote

- (1) The **participant** is exempt from the requirements in clause 13.236L in the following circumstances:
 - (a) for a **NZEF market-making period** if—
 - (i) the **participant** cannot comply with a requirement in clause 13.236L in that **NZEF market-making period** because the ASX trading platform is disrupted or unavailable; or
 - (ii) in the reasonable opinion of the **participant**, entering into a contract for an **ASX NZ electricity future** in that **NZEF market-making period** may cause the **participant** to breach an applicable law;
 - (b) in addition to the exemptions in paragraph (a), for up to two **NZEF market-making periods** each month at the **participant's** discretion.
- (2) To avoid doubt, if the **participant** meets the criteria for exemption in subclause (1)(a)(i) or (1)(a)(ii) in relation to a **NZEF market-making period**, that **NZEF market-making period** will not count towards the **participant's** two exemptions in subclause (1)(b).
- (3) If the **participant** relies on an exemption under this clause 13.236N from the requirement to **quote**, the **participant** must immediately notify the **Authority** of the exemption it has relied on and the basis for the exemption.”

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 3 February 2020.

The amendment inserts a new subpart 5B of Part 13 into the Code and new definitions into Part 1 of the Code. The new subpart describes a scheme that, if triggered into effect by the occurrence of specified events, will facilitate an active market for trading financial hedge contracts for electricity. The scheme will do so by imposing certain market-making obligations on Contact Energy Limited, Genesis Energy Limited, Mercury NZ Limited and / or Meridian Energy Limited if their respective actions trigger the application of the scheme to them.

Date of notification in the *Gazette*: 30 January 2020.