

11 April 2025

Sarah Gillies
Chief Executive
Electricity Authority
PO Box 10041
WELLINGTON 6143

Sent via email: market.making@ea.govt.nz

Dear Sarah

Expiry of Urgent Code regarding market making

1. This is a brief submission from the Major Electricity Users' Group (MEUG) on the Electricity Authority's (Authority) consultation paper "*Expiry of Urgent Code regarding market making under high stress conditions*"¹ published on 17 March 2025.
2. MEUG members have been consulted on the approach to this submission. This submission does not contain any confidential information and can be published on the Authority's website unaltered. Members may lodge separate submissions.

Support review of SOSFIP ahead of winter 2025

3. MEUG support's the Authority's proposed decision to let the urgent Code amendment expire.
4. We did not support the original decision taken by the Authority in August 2024 to first exercise its discretionary powers to not undertake enforcement action against market makers, then to proceed to introduce an urgent Code amendment to assist with the continuity of market making services during future periods of high stress. As noted by the Authority, the futures market, and commercial market-makers, play an important role in New Zealand's electricity system by enabling buyers and sellers to fix their future price of electricity. Many of MEUG's members rely on the ASX to help secure electricity supply for their operations.
5. In retrospect, high stress conditions are when market-making is needed the most. The Authority's own analysis shows that reduced obligations on market makers is correlated with poorer market outcomes.² The Authority specifically identifies that "*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. A wider spread means participants face higher transaction costs and reduced liquidity, making it harder to trade at the desired price when timely transaction is critical.*"³

¹ https://www.ea.govt.nz/documents/6733/Consultation_paper_-_Expiry_of_MM_stress_relief_urgent_Code.pdf

² Paragraph 9.2 of the consultation paper.

³ Page 3 of the consultation paper.

6. The urgent Code amendments were also criticised by several players across the sector at the time, including those involved with market making. As summarised in Energy News⁴ in February 2025:
- Former [Mercury] chief executive Vince Hawksworth said the urgent changes "*were not signalled, nor were we consulted on them beforehand*". He also said the Authority's rationale for intervention was "*not entirely clear*" and the authority's stated purpose was not being achieved. "*In fact, we are observing a reduction in market liquidity, which is the exact opposite outcome to what was intended.*"
 - An anonymous trader said the authority's decision to inform the gentailers about its decision to change market maker obligations on 12 August, but not other participants, was "*particularly galling*". Another unidentified trader said several of their clients were "*likely to review*" their New Zealand market participation following the sudden intervention.
7. MEUG also felt that the urgent Code change providing temporary relief to the market-makers seemed in stark contrast to the limited action taken by the Authority during July – August 2024 to address concerns raised by consumers about the increasing wholesale prices.

Next steps

8. MEUG has welcomed the work underway by the Energy Competition Task Force, the Authority's continued implementation of the MDAG recommendations and the Government's review of electricity market performance. This focused work should help address the affordability and security concerns many parties such as MEUG have with the electricity market, and we welcome ongoing engagement on regulatory improvements. If you have any questions regarding our submission, please contact MEUG on 027 472 7798 or via email at karen@meug.co.nz.

Yours sincerely



Karen Boyes
Major Electricity Users' Group

⁴ [August market intervention created volatility, harmed confidence – traders](#), 11 February 2025, Energy News.