

Hedge Market Enhancements: Commercial market-making scheme

NZ Wind Energy Association Submission

March 2022



Submissions
Electricity Authority

By email: WholesaleConsultation@ea.govt.nz

Introduction

1. The New Zealand Wind Energy Association (NZWEA) appreciates the opportunity to provide a submission on the Hedge Market Enhancements: Commercial market-making scheme.
2. The Association also submitted on wholesale market competition in response to the Electricity Price Review (EPR) First Report (October 2018), Options Paper (March 2019) and the Electricity Authority's (EA) November 2019 Hedge Market Enhancements (market making) and Hedge Market Enhancements Market Making 2020.
3. In its 2020 submission the Association supported the introduction of a commercial market-making scheme with the key points being:
 - that the most efficient hedge market arrangement is one driven by commercial incentives which would include payment to market makers for services that reflects the cost and benefits of market making.
 - a preference for a mandatory backstop arrangement also being defined to incentivise the achievement of a commercial arrangement.
 - that a key requirement of an effective scheme is to encourage wide participation by having a model which recognises the value of market making and fairly allocates costs to beneficiaries.
4. The Association also noted that, with an increasing level of renewable generation and new market entrants, the importance of an effective hedge market will increase over time. An increasing level of renewables, while the lowest cost source of new generation, may give rise greater price volatility highlighting the importance of continuing to enhance the hedge market by extending the duration and introducing new products such as a cap offering.

Executive Summary

5. The Association supports the EA's goal of ensuring market-making services are sustainable and fit-for-purpose.
6. NZWEA considers progressing development of market making arrangements on commercial terms will best identify the cost and value of providing services with the aim being that the beneficiaries of the service are charged with the cost of providing the service.

7. The EA's strategy of progressively transitioning to a commercial and incentivised market-making approach with the introduction of new market makers who are appropriately compensated is supported.
8. The Association has limited exposure to the hedge market at an operational level and has therefore not responded to most of the consultation questions.
9. The key points the Association would like to make are the importance of:
 - ensuring the alignment of regulated and commercial market-making obligations given the intention to transition to a fully incentivised arrangement.
 - continuing to enhance the hedge market by extending the duration and introducing new products such as a cap offering.
10. While promoting the continued enhancement of the hedge market the Association does acknowledge that under a beneficiaries pay approach any future development does need to be tested to ensure the benefits outweigh any costs incurred in providing the enhanced level of service.

Response to Specific Questions

1. Do you have any feedback on the Authority's proposal to align regulated market-making obligations with commercial market-making obligations?

The Association supports the alignment of regulated and commercial market-making obligations.

2. Do you agree that the total volume should remain at 12 MW per contract, if not why?

The Association would not wish to see the contract total volume reduce below 12 MW.

3. Do you agree that the spread between bid and offer prices should remain at a maximum of 3% if not why?

The Association see no reason to change the spread.

4. Do you agree that changing to a rolling 20 trading days exemption scheme will benefit the New Zealand electricity futures market if not why?

The Association supports changing to a rolling 20 trading days exemption to stop the clustering of days at the end of every month where no market maker is in the market.

About the NZ Wind Energy Association (NZWEA)

- The NZWEA is an industry association that promotes the development of wind as a reliable, sustainable, clean and commercially viable energy source
- We aim to fairly represent wind energy to the public, Government and energy sector
- Our members are involved in the wind energy sector and include electricity generators, wind farm developers, lines companies, turbine manufacturers, consulting organisations and other providers of services to the wind sector
- By being a member of NZWEA you are assisting the development of wind energy in New Zealand and helping to reduce our greenhouse gas emissions to meet climate change targets.

The Association's strategy focuses on three key areas:

- Leveraging NZ's emission reduction imperative to enable the energy transition to renewables, particularly wind energy.
- Optimising wind energy's position and ensure the regulatory environment supports wind farm development.
- Expanding the opportunity for wind energy development to enable community and industrial projects including wind's integration with other technologies.

Contact details in relation to this submission:

Grenville Gaskell
Chief Executive
New Zealand Wind Energy Association
PO Box 553, Wellington 6140
grenville@nzwea.org.nz