



23 December 2025

Submissions
Electricity Authority

By email: market.making@ea.govt.nz

**Market making review: strengthening price discovery
in the forward electricity markets**

Meridian appreciates the opportunity to provide feedback on the Authority's consultation paper reviewing market making settings. Meridian agrees that liquid and competitive contract markets are important to meet the needs of buyers and sellers, provide access to risk management contracts at competitive prices, and for forward price discovery.

Meridian is open to the market making changes proposed by the Authority, provided that the proposed "level playing field" measures are reconsidered in light of these market making enhancements. Meridian is concerned that the expansion of market making delivers on the same objectives as the Authority's proposed "level playing field" measures. In Meridian's opinion, there is a significant risk of regulatory duplication that will increase costs and risks of unintended consequences without any incremental benefit to consumers.

This submission first addresses the overlaps between the proposed market making changes and the proposed "level playing field" measures. Meridian then addresses the substance of the market making proposals themselves, identifying several options the Authority should consider to reduce market making costs and expected costs to consumers.

Overlaps between market making and “level playing field” measures proposals

The proposed market making enhancements would provide market participants with confidence regarding the liquidity, availability, and competitive pricing of both baseload and super-peak contracts, which are enablers of retail competition. The proposed market making enhancements on their own would ensure that a margin squeeze is not occurring via the raising of hedging costs for non-integrated retailers. In that environment, it is not clear what more the proposed “level playing field” measures would achieve. In Meridian’s opinion the only effect, if anything, will be to introduce additional upward pressure on retail prices.

The Authority must consider what the incremental benefit of the “level playing field” proposal would be in this context and whether any benefits would outweigh the regulatory costs and risk of higher retail prices.

In our May 2025 submission on the Authority’s Level Playing Field Measures options paper, Meridian supported consideration of enhanced market-making as an alternative to the proposed non-discrimination principles.¹ In the more recent December 2025 consultation paper on the level playing field measures, Meridian again noted that market making enhancements could provide market participants with confidence regarding the liquidity, availability, and competitive pricing of contracts. Meridian suggested an alternative to the proposed Retail Price Consistency Assessment whereby the Authority relies on enhanced market making obligations, and monitoring and reporting on OTC offer prices and availability (based on data already collected by the Authority).² If needed, a view of generator-retailer “uncommitted capacity” could also be reported by generator-retailers to help the Authority identify when prices reflect scarcity rather than any attempt to exercise market power.

Meridian still sees such a market making based approach as a preferable option that will deliver consumer benefits with lower costs and risks of unintended consequences, relative to the current “level playing field” proposal. Meridian’s tentative support for the proposed market making enhancements should be seen in this context.

¹ https://www.ea.govt.nz/documents/7363/Meridian_OMUwmVO.pdf

² See details of this alternative approach in section 3.5 of the submission available here: [https://www.ea.govt.nz/documents/8954/Meridian -
Level playing field Code amendment submission1.pdf](https://www.ea.govt.nz/documents/8954/Meridian_-_Level_playing_field_Code_amendment_submission1.pdf)

Super-peak market making on an OTC platform

Meridian supports the standardised super peak market and is an active participant in fortnightly trading events, consistently posting a significant volume of bids and offers for all products.

Volumes

As noted in Meridian's September 2025 submission on regulating the standardised super peak contract, the volumes of standardised super peak contract *currently* available and transacted are more than sufficient for non-integrated retailers to build a hedge portfolio and enable retail competition.³ The amount the Authority calculated is required per trading event over a year of trading events to meet the requirements of non-integrated retailers is 3.6MW for winter quarters and 2.2MW for summer quarters. An obligation on market makers collectively to post 6MW of super peaks in every session far exceeds these levels. The proposed 6MW of volume should therefore be considered the maximum starting point. The Authority should resist any advocacy for higher volumes, which would increase market making costs with no identifiable benefit to consumers. Speculators would likely be the only beneficiaries of higher volumes.

Spreads

The maximum bid-offer spread of 5% proposed for the market making of super peak contracts is narrow, especially considering the inherent volatility of the products and the proposed absence of any days out to help manage volatility and market stress. The standardised super peak contract is inherently volatile due to the combination of:

- volatility in underlying baseload and spot prices (for example due to hydro storage and inflows, fuel prices and availability, generation build and retirement, load build and retirement, and transmission build); and
- capacity constraints, which result in non-linear effects on super peak prices, especially given New Zealand capacity margins are forecast to be tight in the near term.

³ [https://www.ea.govt.nz/documents/8445/Meridian - Standardised super-peak hedge contract submission 2025.pdf](https://www.ea.govt.nz/documents/8445/Meridian_-_Standardised_super-peak_hedge_contract_submission_2025.pdf) from page 5

Widening of spreads would reduce market making costs. The optimal balance of costs and level of market making service could be most readily identified through a commercial procurement process (discussed further below).

As an alternative to generally wider spreads, the Authority could also consider spreads locationally based on the physical assets of the regulated market makers. For example, Meridian is better placed to maintain tighter spreads for contract at the Benmore node but has relatively little ability to manage exposure to super peaks contracts at the Otahuhu node, given the vast majority of Meridian's flexible generation is located in the South Island.

The OTC platform

A suitable OTC platform should be considered a prerequisite ahead of any imposition of market making obligations. Meridian will continue to support the Authority's process to identify a platform provider; however, it is not yet clear that the process will deliver a fit for purpose platform that enables the market making service. In Meridian's opinion, any market making compliance obligations should not take effect until the suitability of the platform has been confirmed through rigorous testing. The Authority could also consider fine tuning the scope of the "permitted circumstances" exemption in the Code to provide that market makers need not provide the service if the platform is not meeting required standards for access, availability, functionality, responsiveness, and data availability.

The scope of products

Meridian does not consider there to be a case for market making of any further new products outside of the standardised super peak contract. The consultation paper asks whether products such as separate morning and evening peaks should also be market made. However, there does not appear to be any demand for such products currently. The supporting analysis the Authority commissioned from Concept Consulting indicates there may be demand for such products in future from 2032 if the market develops consistent with Concept's modelling. Such products would therefore be best considered at that time rather than now, ahead of any demand for the product and at high cost to market makers and ultimately consumers.

It should go without saying that not all contracts need to be market made. Bilateral contracting enables participants to transact novel or emerging contracts, and the existing and proposed market made contracts may help to inform pricing for such bilateral contracts.

The role of exemption days

The Authority has proposed allowing market makers to not be present for 5 minutes out of any 30-minute session but otherwise does not propose any flexibility to help manage market stress or trading errors. In Meridian's opinion, the Authority should consider allowing a limited number of exempt sessions per rolling 12-month period. The purpose of such an approach would be to reduce market making costs by providing relief from occasions of market stress and accidental failures, for example if a single contract is somehow missed, despite a market maker's best intentions. The Authority acknowledges the role of the five exemptions per 20 rolling days in the ASX market to provide a reasonable degree of flexibility to manage operational risks and market stress. The rationale should be no different in respect of super peak market making, albeit with fewer exemptions over a longer period given the fortnightly market making sessions rather than daily. It would be onerous and expensive for both market makers and the Authority to go through a Code breach process every time a minor operational error occurs.

The value of at least one commercial market maker

As noted in Meridian's September 2025 submission on regulating the standardised super peak contract⁴, the Authority should consider tendering for one or more commercial providers to market make the super peak contract. A commercial tender would identify the relative costs of market making in respect of different volumes, spreads, products and compliance settings.

In the absence of a more beneficiaries pay approach via levy funding of a commercial provider, free rider issues will prevail and the beneficiaries of market making will continue to advocate for an increasing level of service, irrespective of costs.

With a commercial tender to identify the costs of different settings, the Authority will be far better placed to understand the trade-offs between service levels and cost and determine an efficient and cost-effective level of market making services to maximise consumer benefits. In the absence of that transparency regarding costs, the Authority risks hiding market making costs in the balance sheets of large generator-retailers and therefore seeking increasingly higher service levels over time, irrespective of costs.

⁴ [https://www.ea.govt.nz/documents/8445/Meridian - Standardised super-peak hedge contract submission 2025.pdf](https://www.ea.govt.nz/documents/8445/Meridian_-_Standardised_super-peak_hedge_contract_submission_2025.pdf) from page 14

ASX baseload market making

Longer forward window

Meridian considers a commercial tender should be used to reveal the additional costs of the longer forward window before any decision on the relative costs and benefits is made. Decisions on market making settings should be deferred until the process to renew the commercial market making contract commences and that process reveals the likely costs of different options.

It is not reasonable for the Authority to assume low costs and the methodology for doing so in the consultation paper is, by the Authority's own admission, "not comprehensive" and does not reflect the full profit or loss from market making. In Meridian's opinion, it would be more accurate to say the estimates are fundamentally flawed and are not useful or credible. Trades are not always closed out on the same day and costs of trades that cannot be quickly closed out are likely to be much higher. The Authority's analysis is therefore strongly biased downwards and is likely a significant under-estimate. The consultation paper indicates a collective market making loss of approximately \$5 million across all market makers since 2017. However, market making costs for Meridian alone have previously exceeded \$5 million *in a single year*. The estimate in the consultation paper also conflicts with the procurement costs for the commercial market maker, which we understand are around \$10 million *per annum* for one fifth of the total service. Discovery of market making costs is a key benefit of a commercial provider, and it would be far more reasonable for the Authority to extrapolate total market making costs based on the costs of the commercial provider.

Lower volume per contract

Meridian agrees with the Authority's analysis showing that current market making volumes exceed demand and are far greater than market making volumes in comparable electricity markets such as Singapore. We agree that requiring market makers to consistently offer more volume than the market demands leads to unnecessary cost and risk for market makers and ultimately consumers.

Refinements to binary pass / fail settings

Meridian supports the proposed rounding compliance relaxation as it will not impact the quality of the market making service but may reduce costs by limiting the unintended use of exempt days.

However, in Meridian's opinion the proposed rounding change is not a complete solution for minor compliance errors. Market makers will still be deemed to have failed in a session if a single bid or offer does not meet the requirements (out of the current 24 contracts for every monthly and quarterly product on both the buy and sell side, i.e. several hundred bids and offers posted in any session). The consultation paper notes that since 2022, around 14% of exemptions occurred due to marginal failures, totalling 47 marginal exemptions. It would be useful to understand how many of those would have been avoided if the rounding change was in effect. Meridian suspects it may have had little difference with most marginal failures being attributable to missing a single bid or offer entirely or by more than 0.49 seconds.

Meridian acknowledges that accepting a lower standard of compliance such as allowing a single bid or offer to not meet the requirements could risk market makers targeting that level of compliance. The Authority could instead consider an approach that continues to penalise marginal failures but less so. For example, an exemption day could be foregone every second time a single contract is missed (a single missed contract in a session would not result in the immediate loss of an exemption day, but the next time there is a session with a single contract again missed then an exemption day would be lost). Such an approach could materially reduce market making costs with negligible downside in terms of the quality of the service.

Meridian looks forward to further engagement with the Authority as it develops these proposals.

Please contact me if you have any queries regarding this submission.

Nāku noa, nā

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