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Submissions
Electricity Authority

By email: taskforce@ea.govt.nz

Regulating the standardised super-peak hedge contract

Meridian appreciates the opportunity to provide feedback on the Authority's consultation paper on the issues and options for regulation of the standardised super-peak hedge contract.

In our submission on the Authority's Level Playing Field Measures options paper, Meridian supported consideration of market-making as an alternative to the proposed non-discrimination principles. However, without seeing the next steps for the Level Playing Field Measures work, the current consultation appears to risk duplicative regulatory responses to the same perceived problems around the availability and pricing of super peak hedges.

In Meridian's opinion:

- There are benefits in a well-functioning standardised super-peak contract market and Meridian is an active participant that supports the market.
- Meridian supports the Authority's expectations that participants do more to develop the market for the standardised super-peak hedge contract.
- However, regulation to require market making of the standardised super-peak contract would be premature since the market is nascent and there is limited evidence of any market failure with observed volumes and prices that efficiently support price discovery and retail competition.

- The framework for assessment of voluntary trading should not predetermine a regulatory pathway in the absence of:
 - reasonable timeframes to assess market maturity; and
 - rigorous cost-benefit analysis that indicates net consumer benefits are likely to result.
- The Authority should also consider the costs and benefits of regulatory interventions that are more targeted at participants that are currently or at the point of assessment) playing a relatively small role in the standardised super-peak market.
- If regulation to mandate market making of the standardised super-peak contract is progressed:
 - there would be significant costs and risks associated; and
 - there are a several options the Authority should consider to reduce market making costs and expected costs to consumers in the long term.
- In the absence of a transparent and market-like mechanism to procure any market-making services and allocate costs to beneficiaries of those services, there will be free-rider issues and inevitably further demands to increase the level of service provided, regardless of the costs.
- It is difficult to assess the impacts of a package of linked regulatory proposals when information is only available in respect of a part of the whole. The Authority must ensure that regulatory layering does not create conflicting obligations or added and unnecessary regulatory costs. Any changes resulting from the upcoming consultations on non-discrimination and ASX market making settings should be aligned with the outcomes of this super-peak consultation.

These points are addressed further below.

Meridian sees a benefit in the market for standardised super-peaks and is an active participant

Meridian agrees that the standardised super-peak contract and fortnightly trading events play a useful role in facilitating forward price discovery and informing risk management and investment decisions.

Meridian supports trading of the standardised super-peak contract by consistently posting a significant volume of bids and offers for all products in each fortnightly trading event. Meridian alone ensures a significant volume is available to transact every fortnight. The consultation paper state that two participants are on the sell side of 87 percent of contracts

– Meridian is one of those participants. By our own estimate, Meridian is the counterparty on the sell side for more than half of the trades in the standardised super-peak market.

Meridian supports the Authority’s expectations that participants do more to develop the market for the standardised super-peak hedge contract

Given the extent of Meridian’s existing participation in the standardised super-peak market, we welcome efforts to encourage increased voluntary participation by all parties. We agree that a clear assessment framework will enable participants and other stakeholders to understand how the Authority is evaluating the success of voluntary trading arrangements.

The Authority’s expectations seem focused on the four largest generator retailers, given control of flexible hydro and thermal generation resources. However, it is worth noting that some generator-retailers have locational limitations in their generation portfolios. For example, while Meridian is a natural seller of super-peak contracts in the South Island, it is a net buyer of super-peak products in the North Island due to having limited North Island flexible generation and a significant North Island retail contract position. It would also not be unreasonable to expect increased participation from a wider range of participants. For example, Nova owns gas peaking generation that is well suited to derisking of super-peak contracts. Ownership of flexible generation is also not a prerequisite for trading of super-peak contracts; parties can and do engage in speculative activity to the extent they consider there to be any mispricing of contracts and see potential value on offer. Such activity can increase liquidity, help to close bid ask spreads, and improve price discovery.

Meridian therefore supports an assessment framework for voluntary trading that considers:

- the trend in the sum of volumes traded;
- the sum of bids and offers; and
- the bid offer spread in the market at each trading event.

This is an appropriate framework for an assessment of the market as a whole and recognises that a wide range of parties can support the success of the voluntary market.

The framework for assessment of voluntary trading should not predetermine a regulatory pathway and should consider long-term trends

The Authority says that if its expectations of voluntary trading are not achieved for two consecutive quarterly assessment periods (commencing Q1 2026), the Authority will investigate the reasons for this, and whether it has materially affected price discovery and

liquidity and then, if that is determine to be the case, that the Authority will take steps towards implementing an enduring regulatory option.

In Meridian's opinion the proposed two-quarter assessment window is too short to assess genuine market development and long-term trends.

Meridian also cautions against treating the assessment framework as a default trigger for regulation. Any decision to impose new (and potentially high-cost) regulatory obligations should not be made lightly, must be consistent with the Authority's statutory objective, and must comply with the statutory obligations under section 39 of the Electricity Industry Act to prepare and publicise a regulatory statement for consultation, including an evaluation of the costs and benefits and alternatives. Ultimately, the Authority should only regulate if it is convinced that the benefits of regulation will outweigh the costs and result in net benefits to consumers in the long term. That assessment cannot be collapsed into a simple assessment of a few metrics in respect of trading of super-peak contracts. Deciding now that a regulatory pathway will be followed under certain circumstances would amount to predetermination in the absence of an assessment of the costs and benefits of that regulatory pathway and the alternatives.

Regulation to require market making of the standardised super-peak contract would be premature and would not be supported by the evidence

Meridian agrees that it is too soon since the introduction of the standardised super-peak product to draw firm conclusions about how successful it has been in providing additional liquidity and price discovery. The Market Development Advisory Group recommended at least 12 months for the development of voluntary trading before any evaluation of the success of the standardised product. That timeframe is consistent with the Authority putting in place a monitoring framework from 1 January 2026.

The Authority's data shows that volumes and spreads in the super-peak market are trending in the right direction. Meridian would expect to see further improvements in the volumes (both bids and offers and transactions) and liquidity of the fortnightly super-peak trading events as time goes on because:

- There are no barriers to increased and more diverse participation.
- Many potential buyers and sellers would already have established hedge portfolios from prior to the commencement of the standardised super-peak product in January 2025, including reasonable volumes of long-dated contracts in a hedge portfolio.

This means supply and demand for the standardised super-peak could be expected to increase further over time as historic hedges roll off.

- The Authority's consultation paper is now proposing regulation if expectations are not met for increased traded volumes, increased bid and offer volumes, and spreads.

Voluntary trading of the standardised super-peak product appears to be a success. Depth and liquidity are inherent challenges in a market the size of New Zealand and in such a specific product. However, the evidence does not suggest there is a market failure – in fact volumes are available to hedge physical risks and those hedges appear to be competitively priced. Critically, in terms of outcomes, small retailers have been able to successfully hedge their spot exposure at competitive prices, suggesting any supposed challenges have been immaterial to outcomes.

Volumes

The volumes available to transact via the fortnightly super-peak trading events are sufficient for any retailer to build a strong hedge portfolio over time. The consultation paper claims that: "The volume available is less than independent retailers' super-peak exposure."¹ That is incorrect. Appendix A of the consultation paper sets out that:²

"The current share of the market covered by independent retailers requires up to ~90MW in winter quarters and ~60MW in summer quarters. When looking at the total volume available to buy in a session, if retailers purchased everything offered for around 5 sessions (across 2-3 months), they may accumulate enough super-peak volume to cover their customer demand."

This means non-integrated retailers could acquire four times their volume requirement of super-peak products if buying a year in advance or twelve times their volume requirement if purchasing across the full curve given the standardised super-peak contract trades up to three years into the future.³ Accumulating hedges over time and continuing to trade in increments is part of any sensible hedging strategy. It would not be prudent for any retailer to fully hedge a position in 2-3 months; good practice is to incrementally layer on hedges as

¹ Consultation paper, page 2.

² Consultation paper, page 41.

³ The estimated aggregate super-peak requirement of non-integrated retailers also seems to be over-estimated. Meridian's analysis indicates that to fully hedge super-peaks, non-integrated retailers would require around 70 MW in winter quarters and 50 MW in summer quarters. We query whether the Authority's analysis predates Ampol's sale of Flick customers.

the exposure to spot prices also incrementally grows; that is, hedge the exposure created by the retail sales book as more retail customers are acquired the retailer. Such an approach averages in a portfolio position over time and minimise the risk of buying a peak in forward prices. Super-peak contracts were trading in the OTC market prior to the implementation of the standardised super-peak contract so it is not realistic to think any existing small retailer would start from a position of no super-peak hedge portfolio and need to purchase for its entire portfolio in a short period of time.

We agree that volumes available should exceed demand to enable buyers to be selective about prices at which they transact over time. It appears this is already the case.

The amount the Authority calculates is required per trading event over a year of trading events is 3.6MW for winter quarters and 2.2MW for summer quarters, while the current average volume traded per trading session per effective year is 3.3MW for winter quarters and 3.0MW for summer quarters. This means traded volumes slightly exceed estimated requirements of non-integrated retailers in summer quarters and are slightly less than estimated requirements of non-integrated retailers in winter quarters. However, that assumes purchases only occur a year ahead when the reality is the market trades up to three years ahead and long-dated trading would be part of any sensible hedging strategy. If the full three year forward curve in the super-peak market is considered there is clearly ample opportunity to acquire sufficient volumes and at prices that parties have been willing to transact.

The fortnightly super-peak trading events are also only one channel through which parties can acquire super-peak hedges. Requests are also made regularly for super-peak hedges outside of the fortnightly trading events in the wider OTC market.

Prices

The Authority's Risk Management Review found that baseload and peak hedge contracts were competitively priced but could not reach the same conclusion in respect of super-peak contracts.

Meridian previously commissioned NERA to examine this conclusion. NERA noted that, in comparing offered prices for super peak hedges with a calculated 'competitive' super-peak price, the Authority was only able to quantify two of the six potential risk premium adjustments they had identified. As pointed out by NERA, the Authority has repeatedly noted

that the result of this is that the ‘competitive’ OTC prices (against which they compare offered super-peak prices) will likely be underestimated.⁴

The Authority also notes that these unquantified risk premia “could have a big impact on super-peak contract prices” with this impact likely to be increasing over time.⁵ As a result, the Authority’s analysis is simply incomplete and does not support any firm conclusion regarding super-peak pricing.

Carl Hansen has also previously argued that if any party firmly believed super-peak hedges to be materially over-priced, there would be nothing to stop them from selling those products and reaping the benefits when spot prices during super-peak periods turn out lower than their hedge price. Mr Hansen did not consider it credible for the Authority to believe it had identified opportunities for excess profits, publicised them, and yet speculative activity did not reduce the gap. As a result, he goes on to conclude that, “...the concerns about super peak prices are neither material nor credible”.⁶

Meridian has also since engaged with the Authority to better understand the analysis of super-peak pricing carried out for the Risk Management Review. Following exchange of data, Meridian was able to replicate the Authority’s analysis and identified several significant errors which explain much of the “unquantified premium” in the pricing of super-peaks over baseload contracts. The difference between Meridian’s analysis and the Authority’s analysis can be seen between the two charts below. Meridian’s analysis, after correcting for the Authority’s errors, shows a close correlation between Meridian’s offered super-peak prices and the Authority’s hypothetical competitive prices. In our view, this means there is no evidence to support a conclusion that super peak hedge contracts “trade at a substantial unquantified premium over ASX baseload prices adjusted for shape” – at least in terms of Meridian’s super-peak offers.

⁴ Risk Management Review issues paper, paras 4.11, 4.16, 4.18 and 4.21.

⁵ Risk Management Review issues paper, para 2.7.

⁶ CSA Report (appended to Meridian’s Level Playing Field submission), section 2.2.

Figure 1: Electricity Authority comparison of Meridian super-peak offer prices and the Authority's "competitive" benchmark⁷

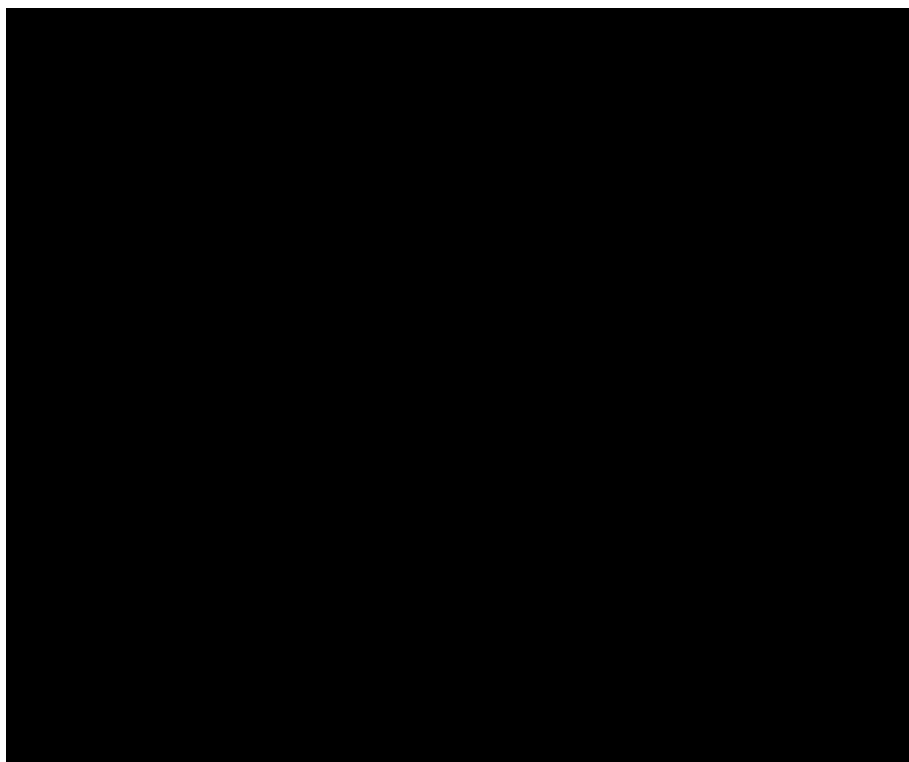
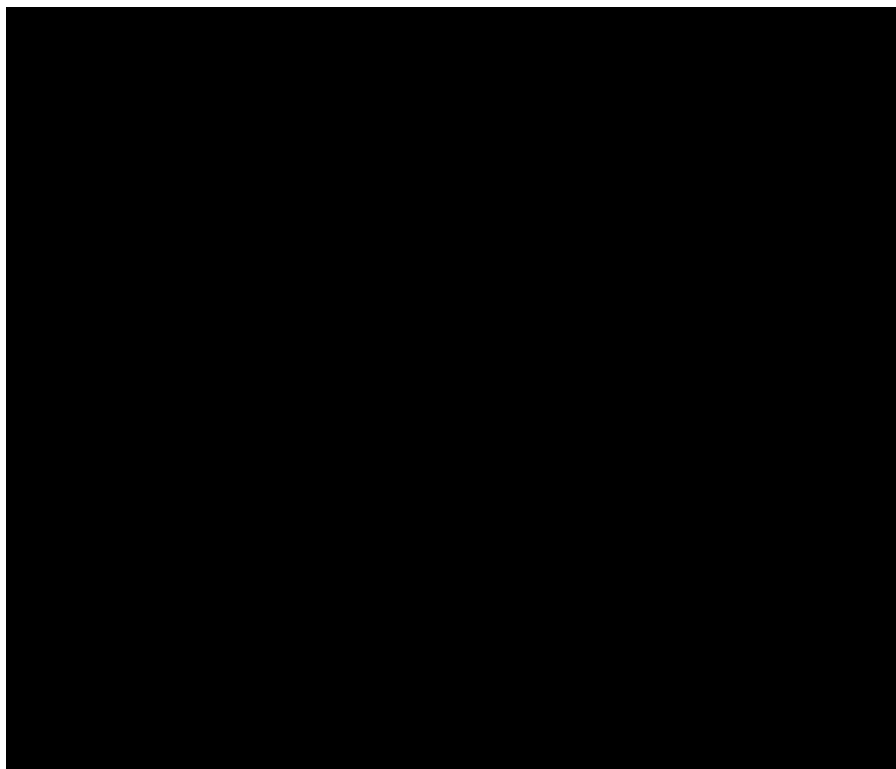


Figure 2: Comparison of Meridian super-peak offer prices and the Authority's "competitive" benchmark (after correcting for errors made by the Authority)



⁷ Provided by the Authority.

The Authority has since said that it has applied these same adjustments to the analysis for super-peak offer prices for all generator retailers. However, the Authority has not discussed this with any other participants, nor has the analysis been addressed in the current consultation (to which it is directly relevant). Instead, the Authority intends to present the super-peak pricing analysis through the upcoming consultation document on the Level Playing Field Measures. It is disappointing that the Authority has not included that analysis as part of the current consultation since pricing of super-peak contracts is directly relevant to the question of whether regulation should be considered in the super-peak market. This also highlights the strong linkages between the Authority's workstreams and the issues with engaging on only a part of a package of reforms that must work coherently as a whole (we discuss this point further below).

Regardless, since the time of the Risk Management Review, the Authority's current consultation paper observes that super-peak contracts have been trending closer to baseload prices. In summary, this means:

- the Authority did not have evidence during the risk management review to support the assertion that pricing of super-peak contracts was not competitive; and
- the decrease in relative pricing since the introduction of the standardised super-peak contract suggests that there is now even more reason to conclude that super-peak offers are competitively priced.

Real-world outcomes

Stepping back to look at hedge portfolios generally, rather than any shaped product specifically, the gross retail margin data disclosed to and published by the Authority for the 2024 financial year shows that smaller retailers have been able to achieve wholesale electricity input costs at around the same level as, or in many cases lower than, the four large generator retailers' internal transfer prices.⁸ Given that generator retailers' internal transfer prices are based on some form of rolling average of ASX *baseload* prices, the fact that many small retailers have been able to undercut that through their hedge portfolios (including shaped products) is a clear indicator that they are able to secure sufficient hedges and at competitive prices.

⁸ <https://www.ea.govt.nz/data-and-insights/datasets/retail/retail-gross-margin/>

Table 1: Retail gross margin reporting 2024

Participant name	Electricity input costs (internal transfer price in the case of generator retailers) \$/MWh
Contact Energy	158.00
Genesis Energy	149.94
Mercury NZ	138.00
Meridian Energy	137.35
Retailer A	132.55
Retailer B	161.58
Retailer C	114.04
Retailer D	118.86
Retailer E	144.37

The Authority acknowledged in the Risk Management Review that, “retailers to date have been able to secure substantial shaped hedge cover through OTC contracts”.⁹ Meridian’s own experiences validate this:

- a key motivation for Meridian’s May 2025 transaction with Z Energy¹⁰ (100% owned by Ampol Limited) was to acquire the existing hedge portfolio of Flick, which was more than fully hedged with both baseload and shaped products; and
- Electric Kiwi commonly issues requests to sell hedges, indicating it has been able to acquire volumes of baseload and shaped hedges that exceed its physical position.

These real-world outcomes do not support a conclusion that there are issues with access to competitively priced hedges. Specifically for this consultation paper, the evidence does not indicate any immediate need to regulate market making of the standardised super-peak contract.

The Authority should consider better targeting any intervention at participants that play a relatively small role in the standardised super-peak market

Meridian agrees that monitoring should look at metrics across the whole market to evaluate the success of voluntary trading arrangements. However, to the extent the Authority ever proposes to implement regulation to mandate market making from specific participants, the Authority should consider targeting those requirements based on the level of voluntary participation of each party. This would avoid placing a regulatory burden on participants that are already doing a lot to support the development and success of the standardised super-peak market.

⁹ Risk Management Review issues paper, pages 2-3.

¹⁰ <https://www.nzx.com/announcements/451500>

Targeted regulation of this kind would not be without precedent. It would be similar to the existing mandatory backstop for ASX market making, whereby individual market makers can face more stringent market making obligations if certain expectations are not met.

In the absence of a targeted regulatory response, the behaviour (i.e. lack of market participation) of a single party could drag down the market as a whole and result in other participants being penalised despite their best efforts to support the development of the super-peak market. There may also be perverse incentives to undermine the success of the voluntary market if any individual generator-retailer believes it may have an advantage over competitors in a regulated market with market making.

Costs and risks associated with mandatory market making of the standardised super-peak contract

Market making of the ASX New Zealand electricity futures market has shown that there are significant costs involved in providing a market making service. Meridian understands that commercial market making costs are around \$10m p.a. for the fifth of the total market making service procured commercially for baseload contracts. This implies the minimum price for the full service may be around \$50m p.a. It would not be unreasonable to estimate market making costs in the same order of magnitude for daily market making on the ASX of a super-peak product. For OTC market making, the super-peak trading events occur once every ten business days rather than every business day so it would not be unreasonable to estimate market making costs of approximately \$5m p.a. assuming the same volumes (noting the proposal in the consultation paper is for 10MW minimum volume of super peak contracts offered and bid, whereas the total volumes for baseload market making on the ASX sum to 12MW per product). However, the increased volatility and unpredictability of super-peak prices would likely increase market making costs relative to baseload products.

While the likely costs are difficult to estimate at this stage, any imposition of a market making obligation on selected participants will impose significant costs on those participants and it would not be unreasonable to expect that those costs will flow through to consumers in the long term. The fact that costs are relatively hidden when market making obligations are imposed on certain participants does not make those costs any less real or less likely to flow to consumers in the long term. The imposition of costs on specific participants (large generator-retailers) would also:

- amount to a cross-subsidy from generator-retailers to all beneficiaries of a market making service for the super-peak contract (noting that offshore speculators may well be a significant beneficiary); and
- result in free-rider challenges as parties that benefit from the market making service will not see any of the cost and will continually demand increased service provision.

Given volumes traded in the standardised super-peak market are already sufficient to cover the physical risk positions of small retailers, forcing further volumes to be offered in excess of any physical risk, would be likely to primarily benefit speculators. The proposed volume and spread obligations (in the event market making is mandated) would also not likely reflect real-time constraints in generation portfolios and could force market makers to be more risk exposed. Generator-retailers are small relative to some of the financial institutions that trade energy derivatives. As is the case in the ASX market, any market making of super-peaks would expose generator-retailers to speculative activity since the hand they are playing with is known to all, i.e. market making obligations are known in advance, and it is known that market makers are primarily in the business of generating and retailing electricity rather than running derivative trading desks, therefore they have limited appetite for holding positions where considerable value is at risk.

If regulation to mandate market making is ever contemplated, the Authority would need to balance the likely costs of market making and extraction of value from New Zealand consumers to offshore speculators against any perceived benefits due to improved price discovery and liquidity. As we discuss further below, this assessment may be challenging in the absence of a commercial basis for procuring a market making service and allocating costs to beneficiaries of that service.

Options to reduce the costs of market making

Meridian agrees that market making OTC would be preferable to market making on the ASX as it would be far lower cost, would be more accessible (particularly to smaller participants), and would be more flexible to changes in future.

As it currently stands, the existing platform with Aotearoa Energy is not fit for purpose if a market making obligation were to be introduced. Significant improvements would be required to enable real-time trading decisions to be easily executed. In the absence of such improvements, market making costs would be much higher. Meridian recommends the

Authority work with industry to define and deliver minimum platform requirements. This will have benefits regardless of whether or not regulation is implemented.

The design of any market making obligations would also need to consider the unique nature of the OTC market and credit requirements to support any transactions. Compared to the ASX where prudential obligations are an inherent part of participating in the platform, managing counterparty risks on an OTC platform is a more involved process. Under no circumstances should market making obligations compel a market maker to transact with a party that does not meet credit requirements. The absence of such safeguards would significantly increase costs and risks associated with the market making service.

Maintaining 5% spreads in the super-peak market will result in high market making costs. The Authority may prefer this level of spreads given that is what is provided for ASX baseload futures. However, the standardised super-peak contract is inherently more 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
- super-peak capacity constraints, which result in non-linear effects on prices, especially given New Zealand capacity margins are forecast to be tight in the near term.

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.

As recommended by the Principal Economics report, variable bid-ask spreads could also help to reduce costs at times of market volatility. Market stress provisions are the norm in many formal exchanges (currencies, bonds, money market, equities, futures and derivatives) to reduce costs, protect participants from undue volatility, and maintain continuity of price discovery. In Meridian's opinion, it would be in the long-term interests of New Zealand consumers for the ASX electricity futures market making regime to include similar provisions. The consultation paper rejects this feature and references consistency with "our decision to use a single bid-ask spread for baseload market making". However, the only decisions to date have been to introduce volatility relief mechanisms under urgency and then allow them to expire. Meridian expected market stress provisions to be considered further as part of the upcoming consultation signalled for November 2025 on market making settings more broadly. It would be disappointing if this was not the case. The consultation

paper also asserts that relief mechanisms can be correlated with poorer market outcomes, without also considering the higher costs that are driven by the absence of relief provisions. There is a balance to be struck and, as with other settings, it will be difficult for the Authority to determine an efficient service level in the absence of a commercial basis for procuring a market making service and allocating costs to beneficiaries of that service.

Procurement of market making services on a commercial basis would help to determine an efficient service level and avoid free-rider issues

In Meridian's opinion, any decision to regulate market making of the standardised super-peak contract should be consistent with the Authority's 2020 decision to transition to commercial market making. This would enable the Authority (and beneficiaries of the market making service) to properly balance the costs and benefits of different levels of market making obligations. In the absence of a more beneficiaries pay approach, free rider issues will prevail and the beneficiaries of market making will continue to advocate for an increasing level of service, irrespective of costs.

In 2020 the Authority decided on enduring ASX market making arrangements that:

- transition, over a period of years, to an incentivised market making arrangement where market making services are performed by providers compensated on commercial terms; and
- ensure the integrity of market making services is maintained in the transition period through a combination of mandated market makers and commercial providers.

The Authority stated that the transition period will likely take several years. However, since the introduction of the first commercial market maker there has been no further update on progress from the Authority.

Recovering the full costs of market making services through the levy (or ideally ASX fees) would identify least-cost providers and allow the beneficiaries of market making to influence the level of service through the annual levy consultation process. Beneficiaries and the Authority would therefore be far better placed to determine what is an efficient and cost-effective level of market making services (including what level of market stress relief to provide). The Authority would gain information on the trade-offs between service levels, reliability, and cost during the procurement process for commercial providers.

In Meridian's opinion, it is likely that the commercial incentives of speculators and small retailers will drive submissions in response to the current consultation paper that seek

immediate and increased regulation. This is at least in part because the proposal is that all costs of such regulation be allocated to large generator-retailers in the first instance resulting in a cross subsidy in favour of small retailers and speculators.

It is undoubtedly convenient for beneficiaries to demand increased market making services at no cost; it may also be convenient for the Authority to hide market making costs in the balance sheets of large generator retailers. By contrast, commercial procurement and levy recovery of costs drives transparency and efficiency in the design of the service. The Authority should not be under any illusion that consumers somehow win because of allocation of costs to generator-retailers exclusively in the first instance. It should still be expected that costs will be borne by consumers in the long term. The cross subsidy in favour of small retailers and speculators is the only real difference between the commercial and mandatory market making models. In Meridian's opinion, the Authority should consider whether it would be consistent with its statutory objective to regulate for such a wealth transfer, in the absence of evidence that generator-retailers would be the lowest-cost providers of any market making service.

Meridian is open to market making of the standardised super-peak contract should there be evidence of consumer benefits. In our opinion, procurement of any service on a commercial basis would help to identify least-cost providers and ensure an efficient service level that best balances costs and benefits for consumers.

The relationship between this consultation and upcoming consultation on non-discrimination obligations

As the consultation paper notes, strengthening trade in the super-peak product is part of a package of measures the Authority is exploring to support effective risk management and increased competition. Meridian noted in response to the Level Playing Field paper that market making of the standardised super-peak contract would be an alternative worth considering and could address the Authority's concerns regarding availability and pricing of super-peaks with less risk of unintended consequences and costs to consumers.¹¹ Rather than an alternative, the Authority now appears to be proposing two potential regulatory solutions that are targeted at the same (or a very similar) supposed problem. Without full visibility of the package of options, Meridian cannot help but wonder to what extent these obligations may be duplicative and therefore lead to increased regulatory costs that will

¹¹ See section 5.1: <https://www.meridianenergy.co.nz/public/Investors/Submissions/2025/Level-playing-field-measures-May-2025.pdf>

ultimately harm consumers in the long term. If one regulatory solution addresses the problem the other may not be required.

As a general observation, it is difficult for stakeholders to meaningfully engage with, and understand the combined effect of, a package of proposals when the package is cut into pieces and details are only available in respect of parts of the whole package.

Next steps

Meridian looks forward to better understanding the relationships between the current consultation and upcoming consultations on:

- Code changes to introduce non-discrimination obligations (October 2025); and
- the wider review of market making (November 2025).

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

Nāku noa, nā

Sam Fleming
Manager Regulatory and Government Relations

Appendix: Response to consultation questions

Questions	Comments
Q1. Do you agree that access to shaped hedge contracts such as the standardised super-peak hedge contract is an important enabler of competition in the electricity market?	Yes.
Q2. Do you agree with our objectives for and intended outcomes of trade in the super-peak product?	<p>Yes. However, liquidity expectations need to be realistic given:</p> <ul style="list-style-type: none"> • the size of the market in New Zealand; and • the challenges inherent in forecasting super-peak prices. <p>Potential purchasers like small retailers have relatively small volumes of super-peak exposure to spot prices. Expecting or forcing a high degree of liquidity may come at a high cost and not be commensurate to the needs of potential purchasers. Similarly, variations in order prices for the same contracts should be to some extent expected given the challenges in forecasting super peak prices, the risks involved, and variability in the ability of physical assets to help sellers manage those risks.</p>
Q3. Do you agree with our framework and metrics for assessing liquidity in the standardised super-peak market?	Broadly, yes.
Q4. Do you agree with our proposed quarterly assessment period for voluntary trading from 2026 onwards?	<p>Yes, however, a longer period of assessment would enable better evaluation of longer-term trends and market maturity. As noted in the body of this submission, the Authority must also avoid predetermining a regulatory pathway without fulfilling its statutory obligations to assess the costs and benefits to consumers and alternatives in the context at the time any regulatory decision is contemplated.</p>

Q5. Do you think we should allow trading to develop further voluntarily and assess whether to regulate according to the framework set out above, or do you see a need to move more quickly now to regulate? Please provide reasons.	Yes, trading should be allowed to develop further on a voluntary basis. There is no evidence to support immediate regulation. Voluntary trading is proving successful, and several metrics have been improving over time. That trend should be expected to continue without any regulatory cost or risk.
Q6. Do you have views on whether barriers exist to wider or more diverse participation in the super-peak trading events?	There are no barriers to participation.
Q7. Do you see a need for additional or better information on price discovery or trading of standardised super-peak contracts? If so, do you have any specific suggestions?	No.
Q8. Do you agree with our options for enduring regulation? Are there other options you think we should consider?	The Authority has set out the broad options. A full assessment of the costs and benefits relative to the continuation of voluntary trading would be necessary if the Authority ever contemplates progressing a regulatory option.
Q9. Do you have feedback on the settings for the options (eg, bid-ask spread, volumes)?	<p>While 5% spreads may be a reasonable starting point, wider spreads would reduce costs. Spreads could be widened at all times or at times of market volatility as discussed in the body of this submission.</p> <p>Volumes appear on the high end relative to the super peak exposures of potential purchasers in the electricity market. Volumes would be far too high for any option involving daily trading. To the extent volume obligations are too high, additional costs will be incurred by New Zealand consumers and offshore speculators will be the likely beneficiaries.</p>
Q10. Do you agree with our rationale for who the regulation should apply to, and	No. A wider set of parties may be able to provide a market making service at lower cost. Commercial procurement would

that it should be evenly spread across the obligated participants?	<p>identify this. As noted in the body of this submission, the imposition of costs on large participants may be convenient but would result in an inefficient cross subsidy and ongoing free rider issues whereby the beneficiaries of marketing making would always seek a higher standard of service irrespective of costs.</p> <p>If, despite Meridian's comments on the benefits of commercial procurement of market makers, the Authority proceeds with mandating certain participants provide market making then we agree the burden should be spread equally to avoid lobbying around alternative allocation methods and potential perverse incentives in respect of flexible generation investment.</p>
Q11. Do you agree with our criteria for assessing options for regulation? Do you think we should include anything else?	The criteria presuppose an existing issue with voluntary trading in the standardised super-peak product. It is critical that the costs and benefits of regulatory options are considered alongside the benefits and (far lower) costs associated with continuation of voluntary trading.
Q12. Do you agree with our assessment of option 1: Market making ASX?	Broadly. However, the assessment of costs is weak, and cost should be quantified and attributed. Wealth transfers and any resulting negative impacts on competition should also be quantified. Any supposed improvements e.g. in access, liquidity, or price discovery must be assessed relative to the extent to which voluntary trading delivers those same benefits to determine whether in fact there is any market failure, and whether regulation would deliver net benefits to consumers.
Q13. How important do you think it is to retain flexibility for the product to evolve?	Flexibility is reasonably important, not just for evolution of the existing product but also in the event that any new standardised shaped hedge products are developed in future.
Q14. Is access to the ASX a problem for your organisation? If so, please explain why.	No.

Q15. Do you agree with our assessment of option 2: market making OTC?	See answer to question 12 above.
Q16. How much of a problem is the administration burden and/or lack of total anonymity in option 2?	Not a significant problem. However, Meridian supports platform improvements to reduce the administrative burden.
Q17. Do you have any feedback on our preferred option for regulating the standardised super-peak hedge contract?	<p>Meridian agrees that OTC market making is preferable in the event that regulation is ever contemplated. Platform improvements would be a necessary precondition.</p> <p>The costs of ASX market making would be far higher, it would be less flexible, and many participants struggle to access the platform and/or cover the daily margining requirements.</p>
Q18. Do you agree with our description of option A as a possible urgent and short-term response to a material reduction in liquidity of shaped hedge contracts?	It is an option but the costs and benefits of any regulation to consumers would need to be thoroughly considered in the context of any urgent situation.
Q19. Do you agree option B might be appropriate as an urgent and short-term response to a material reduction in liquidity of shaped hedge contracts?	<p>No. This option would risk giving buyers unreasonable power to influence or determine prices. Arbitrage risks would be significant with significant potential cost implications for mandated sellers. Forward price discovery could also be suppressed and compromised as a result. Meridian does not have confidence that minimum sale volumes would be sufficiently limited to avoid these risks.</p> <p>Floating this option also strongly incentivises potential buyers to lobby the Authority and suggest at any opportunity that there is a stressed market that requires an urgent response.</p>
Q20. What are your views on the frequency of monitoring for this option?	Any monitoring over and above the existing hedge disclosure obligations and transparency of fortnightly super-peak trading events would need to be considered at the time given the specifics of the situation.

<p>Q21. Do you agree the Authority needs to be prepared for urgent action if necessary?</p>	<p>Meridian considers a prudent participant should not wait for a crisis before seeking to access hedges and that clarity regarding the Authority's expectations for the standardised super-peak market and the threat of regulation will be sufficient to ensure ongoing bids and offers, even in a stressed market.</p> <p>In general, the use of urgency should be minimised given the limited regulatory rigour and consultation that urgency entails.</p>
<p>Q22. Do you agree with option B as the preferred option for urgent regulation while more enduring regulation is being considered?</p>	<p>No.</p>
<p>Q23. Are there any other ways to correct a sudden and material reduction in the offer and/or trade of shaped hedges, including the standardised super-peak contract?</p>	<p>The Authority could also consider the application of Option A or B but limited to longer-dated contracts and with limited volumes. Parties that have waited until a crisis to attempt to hedge spot exposure should not have a regulatory lever to extract value from mandated sellers.</p>