

Market making under high stress conditions

Decision paper

27 May 2025

Executive summary

The Authority has decided to let the urgent Code amendment expire

The Electricity Authority Te Mana Hiko (Authority) has decided to let the market making urgent Code amendment (the amendment) expire on 12 June 2025.

The amendment was introduced to the Electricity Industry Participation Code (Code) in September 2024 following extremely high prices and volatility in August. At the time, the Authority considered that the amendment was in the public interest to address a risk that extremely high prices in the futures market could reoccur with little warning and potentially result in market makers withdrawal due to the actual and perceived risk of continuing to market make.

The amendment has not been triggered since it was put in the Code. It was intended to provide relief to market makers by increasing the bid-ask spread from 3% to 5% on contracts where the prices exceed \$500/MWh. The increase in spreads slows trading which helps to limit market makers' financial exposure and reduce the costs of market making.

The Authority undertook further analysis on the amendment which did not support making the amendment permanent. Our analysis shows that widening spreads in response to high prices, even if limited to specific contracts, is likely to erode market depth and weaken the price signals that underpin risk management and investment decisions.

We sought feedback on whether relief is necessary to support the ongoing operation of market making

In March 2025 we published a consultation paper seeking feedback on letting the amendment expire. That paper also noted that we would remain open to alternatives should submissions present new information and evidence.

We received 12 submissions on the future of the amendment. The submissions and consultation paper are available on the Authority's website. We thank submitters for taking the time to share their views on the amendment.

Submitters' views diverged widely. Some submitters were firmly in favour of letting the amendment expire, and some argued it should be retained.

The Authority considered all submissions and has decided to let the amendment expire because:

- we did not receive new information that the amendment produces better long-term outcomes for consumers,
- there was no consensus on an alternative to letting the amendment expire, ie, keeping the current or modifying the amendment, and
- the Authority is progressing work that more directly targets the source of high prices. This includes measures that increase transparency, strengthen competition in the supply of new generation to the market, and improve risk management tools.

We will commence a wider review of market making later this year

The Authority intends to undertake a wider review of market making later this year to ensure that the current Code obligations remain fit for purpose. The goal is to have the necessary changes ahead of the next round of commercial market making procurement.

We appreciated submitters' suggestions on issues to address as part of this review. We have provided a summary of this feedback in Appendix A of this paper.

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1. The Authority has decided to let the amendment expire

- 1.1. This paper informs stakeholders of the Authority's decision to let the market making urgent Code amendment expire on 12 June 2025.
- 1.2. This paper:
 - (a) summarises feedback received on the consultation paper, *'Expiry of Urgent Code regarding market making under high stress conditions'*
 - (b) sets out the reasons for Authority's decision to let the urgent Code amendment expire, and
 - (c) outlines the next steps for the Authority's wider review of market making.

2. The amendment sought to maintain reliable market making in times of market stress

- 2.1. A well-functioning futures market plays an important role in New Zealand's electricity system by enabling buyers and sellers to fix their future price of electricity. It is one of the ways that participants can manage financial risk by reducing their exposure to spot prices; it is a key enabler for retailers in offering fixed prices to consumers. The futures market also provides price signals that provide valuable information to participants and others to make efficient decisions about their operations and investment.
- 2.2. Market makers support the effective functioning of the futures market by improving access to hedge contracts. Their participation in the market supports liquidity and price discovery. The Authority needs market makers to reliably provide these services. This is especially important in times of market stress when prices in the spot and futures market are increasing rapidly.
- 2.3. In July and August 2024, spot prices increased to extremely high levels due to a combination of gas scarcity, low hydro lake storage, and calm conditions that reduced wind generation. The high spot prices were reflected in the electricity futures market, leading to increased prices and volatility – particularly for shorter expiry products. Some market makers had periods where they reached (or exceeded) their allowed exemption levels. The Authority responded to this situation by exercising its discretion to not enforce the Code provisions. That intervention is separate to the subsequent urgent Code amendment which is the subject of this decision paper.
- 2.4. On 12 September 2024, the Authority implemented an urgent Code amendment. At the time, the Authority considered that the amendment was in the public interest to address a risk that increases in prices and volatility in the futures market could reoccur with little warning, driven by renewed fuel scarcity or an unplanned outage. At the time, the Authority considered there would be a risk that the market stress would cause market makers to cease providing services.
- 2.5. The relief mechanism had three key components:

- (a) **A price-based trigger:** A price threshold of \$500/MWh, based on ASX futures settlement prices in each product, was selected as a simple, transparent, and objective measure.
 - (b) **Increased bid-ask spread:** when the previous day's settlement price on contracts met or exceeded \$500/MWh, the bid-ask spread for these contracts widened from 3% to 5%.
 - (c) **Unchanged volume requirements.** Reducing market makers' volume obligations was not considered appropriate, as it could have prolonged futures market price shifts, increased volatility, and weakened market confidence.
- 2.6. As stated in Section 40A of the Act, urgent Code amendments will remain in place for 9 months, unless revoked or the Authority in the interim makes those permanent.

3. Our analysis does not support making the amendment permanent

- 3.1. The Authority published a consultation paper to seek feedback on the urgent Code amendment with three options:
- a) Option 1- Let the urgent Code amendment expire
 - b) Option 2- Make the urgent Code amendment permanent
 - c) Option 3- Modify the urgent Code amendment
- 3.2. The Authority evaluated the options in terms of how each would maintain market making that is reliable, sustainable and fit for purpose (ie, that improves efficiency and promotes competition). We also evaluated observed market behaviour since August 2024, and broader initiatives for winter 2025 and 2026. Further detail can be found in the consultation paper¹.
- 3.3. Our analysis did not support making the urgent Code permanent. Specifically:
- (a) An increase in spreads favoured market makers over other participants in the futures market and made trading more costly and less efficient, particularly during periods of high prices. A wider spread meant participants faced higher transaction costs and reduced liquidity, making it harder to trade at the desired price when timely transaction is critical.
 - (b) The data indicated that market conditions did not impact trading behaviour as much as previously thought. Trade volumes remained stable (excluding the impact of the commercial market maker's absence from trading), even during the period in which prices and market stress peaked. (This occurred in the week prior to the Authority's decision to exercise its discretion to not enforce market making obligations).
 - (c) The Authority is progressing initiatives that will strengthen security of supply in the coming winters. These initiatives address the underlying causes of sustained high prices in the spot and futures market including a review of

¹ [Expiry of Urgent Code regarding market making under high stress conditions](#)

generator contingency arrangements, improving the level of thermal fuel disclosure, and improvements to hedge market arrangements.

- 3.4. Our analysis also showed a more conservative approach to the use of exemptions. In the period November 2024 to the end of April 2025, market makers collectively used an average of 7 exemptions per month down from 11 in the period from January to June 2024.
- 3.5. With the lessons learned from winter 2024, we noted that we would expect market makers to continue to manage their exemptions carefully, thereby providing a stronger buffer against periods of market stress. We also expected that market makers will continue to focus on compliance with market making requirements. Minimising inadvertent errors in complying with market making obligations is important to preserve exemptions for the most stressful periods.
- 3.6. The consultation paper concluded that, on balance, the Authority did not consider that market making settings required additional permanent relief provisions and that the pre-existing provisions in the Code are sufficient to ensure compliance².

4. We sought stakeholder feedback

- 4.1. The Authority received 12 submissions on the consultation paper from participants listed in Table 1. Submissions are available on the Authority's website³.

Table 1: List of submitters

Submitters	
Market makers	Contact Energy (Contact) Genesis Energy (Genesis) Mercury Merdian Energy (Meridian) Vivienne Court Trading Pty Ltd (Vivcourt)
Independent retailers	Flick Electric (Flick) Pulse Energy (Pulse) Octopus Energy (Octopus) 2degrees
Consumer representative	Major Electricity Users' Group (MEUG)
Financial intermediaries	Haast Energy (Haast) Bold Trading and emhTrade (Bold)

- 4.2. We note that some submissions appeared to conflate the Authority's exercise of discretion on 12 August 2024 with the subsequent urgent Code amendment introduced on 12 September 2024. As a result, some participants attributed outcomes to the urgent Code amendment, despite it never being triggered.

³ [Expiry of Urgent Code for market making under high stress conditions](#) | [Our consultations](#) | [Our projects](#) | [Electricity Authority](#)

- 4.3. Regardless of this, the Authority has endeavoured to accurately summarise views expressed in the submissions in the following section. However, the summaries are not exhaustive and necessarily compress the information provided in submissions. The individual submissions should be read to obtain a full account of submitters' views.
- 4.4. Responses diverged. Some submitters favoured allowing the urgent Code amendment to expire (Option 1), while others favoured either retaining the urgent Code amendment or modifying it.

Table 2 - Overview of feedback on proposed options

Overview		Agree
Option 1 - Let the amendment expire	Supported by Flick, MEUG, 2degrees, Pulse, Haast Energy, Octopus, and Mercury, consistent with their previously expressed concerns. They argued that the amendment weakens market discipline and should be allowed to expire.	7
Option 2- Make the amendment permanent	Contact, Genesis and Bold preferred to retain the urgent Code amendment permanently. They expressed a preference for a better-designed relief mechanism but considered Option 2 a practical interim solution	3
Option 3- Modify the amendment	Merdian and Vivcourt supported modifying the amendment Proposals under Option 3 included periodically reviewing triggers (for example, the \$500/MWh threshold), a volatility-based trigger mechanism, and enhancing refresh obligations during stress (3 refresh when price is higher than \$500/MWh, 23 refreshes when price is higher than \$750/MWh). These suggested proposals are narrowly applied only to affected contracts.	2

- 4.5. Submitters who supported allowing the urgent Code amendment to expire noted that this approach is most consistent with the Authority's market making objectives which are providing services that are reliable, sustainable and fit for purpose. These outcomes contribute to the Authority's statutory objectives of promoting competition, efficient market operation, and long-term benefit of consumers, as required under section 15 of the Electricity Industry Act 2010.

Table 3 - Summary of submitters' feedback on how each option aligns with the Authority's objectives

	Promoting competition	Reliable operation	Efficient operation
Option 1 - Let the amendment expire	<ul style="list-style-type: none"> - Restores narrower spreads and more competitive pricing, - Improves the ability for risk transfer at the highest priced period to those most able to manage risk 	<ul style="list-style-type: none"> - Reinforces the integrity of market making obligations - Reduces reliance on temporary relief provisions - Protects liquidity when it is most needed 	<ul style="list-style-type: none"> - Encourages disciplined behaviour and price discovery - Reduces market makers' incentives to widen spreads and prioritise profit over market participation

	Promoting competition	Reliable operation	Efficient operation
	- Reduces hedge costs for participants that may be passed on to consumers		
Option 2- Make the amendment permanent	- Supports continued hedge market participation, helping protect consumers from price volatility	<ul style="list-style-type: none"> - Reduces risk of disorderly market maker withdrawal during stress periods - Reduces risk of reactive or uncertain interventions - Supports continuous liquidity, long-term market stability 	<ul style="list-style-type: none"> - Provides efficient price signals, which benefits consumers in the long term. - Returning to the current settings lead to higher costs for future commercial market making contracts, costs that would eventually be passed on to consumers
Option 3- Modify the amendment	- Suggestions to balance orderly quoting and competitive access under stress	<ul style="list-style-type: none"> - Reduces risk of disorderly market maker withdrawal during stress periods - Reduces risk of reactive or uncertain interventions - Supports continuous liquidity, long-term market stability 	<ul style="list-style-type: none"> - Provides efficient price signals, which benefits consumers in the long term. - Returning to the current settings lead to higher costs for future commercial market making contracts, costs that would eventually be passed on to consumers

Option 1- Allow the amendment expire

- 4.6. Submitters who supported letting the amendment expire are mainly independent retailers and financial intermediaries. These stakeholders do not directly bear the cost of market making, however they do contribute to the levy for market making. Mercury, a market maker, also supports letting the amendment expire.
- 4.7. This group of submitters generally agreed with the Authority's assessment of the amendment that it does not support the long-term benefits of consumers. For example, Flick supported
- "the importance the Authority is now placing on maintaining the liquidity required by market participants".*
- 4.8. These submitters also argued that relief provisions undermine access to hedges at the very time liquidity is most critical – during periods of stress. This has a disproportionate impact on smaller or independent retailers, who rely on access to the hedge market to offer competitive pricing, innovate and deliver service choice.
- 4.9. By transferring risk from market makers to participants less equipped to manage it, relief provisions weaken competition and increase long-term costs for these retailers.

- 4.10. They noted that these effects are likely to flow through to consumers in the form of higher retail prices, less diverse product offerings, and diminished market resilience. Octopus mentioned

“It [the amendment] risks increasing long-term risk costs by weakening liquidity and confidence in the futures market”

- 4.11. In addition to negative effects on smaller participants, they believe that the amendment undermines the integrity of and is in contrast to the objectives of the market making scheme. Octopus said that

“the urgent code change provided temporary relief which undermines the purpose of [market making] obligations” which is “to ensure market makers participate in trading”. “It primarily benefits market makers and creates perverse incentive to increase prices and profits”.

Option 2 – Make the amendment permanent

- 4.12. Contact and Genesis both favoured retaining the amendment, viewing it as a practical and timely mechanism to preserve market function during periods of market stress. They emphasised that unpredictable events would continue to cause price volatility in the electricity market and cautioned that removing the amendment could leave a gap in the market’s ability to manage future market stress.

- 4.13. In their view, the exemption framework alone may not be fast or robust enough to respond to real-time market volatility without disruption. They supported a stable, targeted mechanism that is well known in advance. Contact argued that:

“this type of mechanism would allow participants to plan their trading activities and prepare for relief mechanisms to be enacted, while not impacting liquidity in parts of the futures curve that were not relevant to the underlying issue.”

- 4.14. They noted that allowing wider spreads during volatility provides market makers with necessary relief - preventing abrupt withdrawal, supporting orderly conditions, and maintaining price discovery. Genesis said:

“the consequences of market making withdrawal are material and far reaching. These include the impact on risk management and investment decisions, and integrity and confidence in the wholesale electricity market”

- 4.15. They warned that without a relief mechanism like the amendment, there may be higher costs associated with future commercial market making contracts. These costs, they noted, may ultimately be passed on to consumers through an increased levy appropriation by the Authority. As such, Contact noted that:

“the design of the regime should more accurately balance the benefits and costs to end consumers and market participants”.

- 4.16. As many OTC contracts reference ASX futures prices, they warned that disruptions to trading in the futures market could spill over and reduce the availability of OTC contracts.

- 4.17. These submitters raised concerns about the Authority relying on its analysis of events during and after winter 2024. Genesis noted that this analysis:

“relates to a period of temporary discretionary relief where spreads were much wider”, and “relies on assumptions about behavioural adaptation rather than structural safeguards”.

- 4.18. They considered the cost of “*structured safeguards*”, during limited high-price periods, is far lower than the potential costs of market maker withdrawal. They pointed to international precedents, where markets commonly provide relief mechanisms during stress to preserve core market functioning.
- 4.19. This option was also supported by Bold, a former commercial market maker to the Authority, and current futures market participant. However, while Bold agreed “that market makers continuing to provide liquidity without widening spreads is in the best interests of consumers and the wider economy”, they noted:
- “revoking the Code change at this point is likely to provide further uncertainty to the market”.*
- 4.20. Bold also stated their view the Code with or without the circuit breaker will provide reliability but only if the Authority chooses to enforce it.
- 4.21. Information about the Authority’s compliance strategy with respect to market making is set out in paragraphs 5.26 to 5.30 of this decision paper.

Option 3 - Modify the amendment

- 4.22. Meridian and Vivcourt supported option 3. They noted that structured relief settings could help preserve hedge market access for all participants during volatility, supporting better risk management and mitigating the disproportionate impact on smaller retailers. However, they argued that a modified version of the amendment could offer more benefits to market makers and consumers.
- 4.23. Meridian argued that “*the widening of spreads allowed under the urgent Code amendment would provide some limited benefits in terms of reliability and reduced costs of market making*”. They advocated for a spread around 10% during periods of high price volatility. They noted that “*10% spread would balance the objectives of the market making scheme with the incentives of market makers to continue to provide the service*”.
- 4.24. Meridian also suggested a volatility-based trigger rather than the price-based trigger introduced by the urgent Code amendment. They argued that volatility is the real driver of market making costs.
- 4.25. Vivcourt agrees “*with the idea of volume and spread obligations for market makers remaining the same in all market conditions*”. But, they believe this is “*not feasible absent some codified relief*”, suggesting flexibility in refresh obligations. They recommended that “*during stressed market conditions, market makers may for relevant contracts split volume obligations into four parts, rather than two*”. That means “*market makers may offer quotes of 6 lots (rather than 12) on each side and refresh quotes 3 times, or trade 2.4 MW of volume to fulfil market making obligations in respect of each relevant contract*”. They claimed this would allow market makers to react to price movements and volatility, while maintaining liquidity.

Additional issues raised by submitters

- 4.26. Haast commented on the consultation process and requested that *“if the Authority receives submissions opposing option 1, it should provide for cross submissions to allow other stakeholders to respond”*.
- 4.27. Sapere noted that in the August and September 2024 *“the assessment of the link between the intervention and the desired effects was weak. No link was made to the economic benefits”*. They suggested that *“the Authority should assess the full costs and economic benefits of options for evolving the market making regime using the CBA framework applied to previous interventions”*.

5. The Authority’s response and final decision

The Authority thanks all submitters for their detailed and considered feedback. We have reviewed the information and views provided and have reached our final decision to let the urgent Code amendment expire.

Submissions did not provide new information that the benefits of the amendment outweigh the costs

- 5.1. While some submitters expressed support for the amendment, the Authority did not receive new information or evidence that the amendment delivers clear, long-term benefits that outweigh its costs.
- 5.2. Our analysis showed that futures market liquidity declined during periods of high prices in August 2024 when spreads were widened. While the amendment could have provided short-term relief for market makers during periods of market stress, the Authority considers that retaining it on an enduring basis could impair long-term competition and market function. Spread widening as a response to high price risks, even if limited to specific contracts, is likely to erode market depth and weaken the price signals that underpin risk management and investment decisions.
- 5.3. By allowing market makers to widen spreads, the amendment reduces hedge accessibility – especially for smaller or independent retailers less equipped to absorb additional risk. This not only undermines competitive retail offerings and innovation but also risks weakening the accuracy of futures price signals that underpin both the hedge market and broader investment decisions. Over time, reduced liquidity and less reliable pricing could diminish confidence in the futures market, erode its effectiveness in supporting competition, and ultimately impact outcomes for consumer.
- 5.4. We agree with submitters that a full assessment of hedge market conditions must include both exchange-traded, OTC contracts, and the FTR market. Many OTC contracts reference ASX futures prices, meaning that distortions in the futures market – such as spread widening – can affect a broader set of market outcomes. This underscores the importance of maintaining reliable, transparent future price signals.

There was no clear consensus on an alternative to letting the amendment expire

- 5.5. Some submitters suggested changes to the amendment. However, in the absence of a strong consensus amongst submitters on a preferred alternative, and an absence of evidence supporting alternatives, the Authority considers it appropriate to let the amendment lapse.
- 5.6. Two submitters proposed using volatility trigger. The Authority considers that a volatility-based trigger would add significant complexity to the design and is likely to result in relief being triggered more frequently ie. when prices are falling as well as when they are rising. This would reduce liquidity more often and undermine confidence in the market making settings.
- 5.7. In our view, letting the amendment expire and reverting to the previous settings best supports our statutory objectives.

Current settings provide some tools for market makers to help manage rapid price movements

- 5.8. Unpredictable events cause price volatility in energy markets. Volatility is a normal feature of efficient market, not a failure. It reflects the incorporation of new information into prices. While unpredictable events will often drive sharp price movements, this does not imply a failure of the market or the need for ongoing regulatory intervention. Instead, market settings should be capable of processing such events without undermining transparency or integrity.
- 5.9. Existing market making settings provide some protections against high and volatile prices. These include:
 - (a) exemptions to manage their exposure (more detail is provided in paragraph 5.28).
- 5.10. Market makers can also use the refresh option⁴, and
 - (a) the five-minute quote pauses to reassess their position and update pricing during periods of market stress. These features provide targeted relief without disrupting price discovery or creating reliance on regulatory relief.

ASX has extreme trading cancelation ranges for New Zealand electricity contracts

- 5.11. Some submitters proposed that we consider adopting international volatility control measures, such as circuit breakers or volatility controls, to manage short-term volatility. These mechanisms are to interrupt continuous trading to allow participants to reassess their positions.
- 5.12. We note that there are mechanisms in the ASX 24 Operating Rules⁵ to address extreme trading conditions for futures contracts including New Zealand electricity derivatives. If a participant observes extreme price volatility for a futures contract in a trading session, it could request ASX to cancel the trade. Cancellation requests

⁴ There is a voluntary 'refresh' option for market makers. Market makers can split their volume obligations into two parts, with the second part contingent on whether the first part is traded.

⁵ [ASX 24 Operating Rules Section 03 - Trading Rules](#)

are assessed in accordance with ASX 24 Operating Rules 3200-3210 and are subject to the conditions set out therein.

- 5.13. In summary, on receipt of the email request from the ASX participant, ASX determines a reference price (DP) for the contract at that time of the request. The DP is determined using a range of factors, individually or in combination, including valid last trade price, valid bid or ask available in the market, market conditions immediately before and after the transaction(s) and physical markets. Based on the price distance from the DP, ASX takes the following actions:
- (a) Lower than 1.5% of the DP, the trade will not be cancelled
 - (b) Within 1.5-15% of the DP, the trade will only be cancelled if the counterparty consents within 10 minutes of the request
 - (c) Greater than 15% of the DP, the trade will be cancelled subject to some exceptions under the ASX 24 Rules (including the time limits specified in the Rules)
- 5.14. The ASX 24 Rules also state that the Market Operator may take any actions it considers necessary to ensure that a market for one or more products is fair, orderly and transparent including suspending trading for a period of time or cancelling or amending any transaction.
- 5.15. Although ASIC have Anomalous Order Threshold (AOT) and Regulatory Halt controls under ASIC's Market Integrity Rules (Futures), these do not currently apply to electricity futures contracts.

The Authority is progressing measures that target the source of high prices

- 5.16. The Authority has undertaken a number of initiatives that will further strengthen security of supply in the coming winters. These initiatives address the underlying causes of sustained high prices in the spot and futures market.
- 5.17. This includes a review of generator contingency arrangements, improving the level of thermal fuel disclosure, and the introduction of standardised flexibility contracts in the OTC market.
- 5.18. These measures seek to target the root causes of high prices by strengthening competition in the supply of new generation to the market and improving access to risk management products. Early evidence suggests these initiatives are helping participants to make better risk management decisions heading into Winter 25 and beyond.
- 5.19. Such measures are also likely to provide greater long run benefits to consumers, than market making relief provisions that reduce liquidity and transparency and reallocate costs to other participants.
- 5.20. Even if lower liquidity helps reduce market making costs during periods of market stress, these savings must be weighed against the longer-term costs of diminished market function. In particular, reduced transparency, poorer hedge availability, and weaker reference pricing all impose real costs on the market.

We will undertake a wider review of market making

- 5.21. We acknowledge that market making becomes more costly during periods of market stress. However, we do not believe that the appropriate solution is to codify a stress relief mechanism like the amendment.
- 5.22. Instead, our focus in the upcoming review of market making is to ensure our market making obligations deliver reliable, sustainable and fit for purpose market making services.

Additional issues raised by submitters

Request that the Authority provide for cross-submissions

- 5.23. One submitter requested that the Authority provide for cross-submissions if the Authority receives submissions opposing option 1 to let the amendment expire. While we recognise that some submitters requested this step, the Authority is committed to following the consultation requirements under the Act or the Code (where applicable), and to applying principles in our Consultation Charter⁶. This includes using multi-stage consultations in cases where the topic is particularly complex, has potential for large financial implications for the industry, or the issue is likely to be contentious.
- 5.24. In the case of the amendment, the Authority considers that a single-stage consultation was appropriate as submissions did not raise strong arguments to warrant cross submission. Our analysis shows that the amendment reduced liquidity in the futures market and does not support the long-term benefit of consumers. While some submitters expressed support for the amendment, the Authority did not receive compelling evidence that the amendment delivers clear, long-term benefit that outweigh its costs.

The Authority will assess the costs and benefits of a permanent Code change

- 5.25. The Authority acknowledges that a detailed cost-benefit analysis was not undertaken for the August discretionary action or the September 2024 urgent Code amendment. These decisions were made under time sensitive conditions in response to emerging market risks. Under section 40 of the Electricity Industry Act 2010⁷ (Act), the Authority is not required to provide costs benefits when introducing urgent Code amendments.
- 5.26. However, the Authority is committed to ensuring that any future Code changes to the market making settings will be supported by robust cost and benefit analysis in accordance with section 39 of the Act. This will be consistent with previous reviews and aligned with our statutory objectives.

Compliance with market making obligations

- 5.27. Compliance with market making obligations is addressed through the Code obligations for the regulated market makers or contractual provisions for the commercial market maker

⁶ [Consultation Charter](#)

⁷ [Electricity Industry Act 2010 No 116 \(as at 30 March 2025\), Public Act – New Zealand Legislation](#)

- 5.28. In the case of regulated market makers, non-compliance with obligations in the Code would initially see regulated market makers face the mandatory Code provisions. Further non-compliance with those mandatory provisions would result in the Authority alleging a Code breach which would be tested with the Rulings Panel. At that point, it would be the decision of the Rulings Panel for any sanctions available.
- 5.29. For example, market makers are allowed up to 5 exemptions in any rolling 20 business days. If the market maker uses all five and then fails to meet its obligations three times in a 90-day period, it becomes subject to mandatory Code provisions. This means only two exemptions in a rolling 20 days. In the event that market makers use the remaining exemptions, then they would be subject to the compliance breach process.
- 5.30. We conduct fact finding and possibly a formal investigation on any alleged breaches. Recommendations on the appropriate compliance intervention is presented to the delegated decision makers. They will determine what action to take which may include laying a formal complaint with the Rulings Panel.
- 5.31. We remain committed to applying the Code consistently across all participants and to ensuring that market settings are transparent, robust and support fair competition in accordance with our compliance strategy⁸.

6. Next steps

The urgent Code amendment expires on 12 June 2025

- 6.1. The urgent Code amendment will expire on 12 June 2025 and the market making settings will revert back to its original from.

The Authority intends to undertake a broader review of market making

- 6.2. In the amendment consultation paper, the Authority sought stakeholders' views on the scope for this upcoming review. Submitters generally supported the need for a wider review, and their feedback will inform the next phase of this work. Further detail on their feedback is provided in Appendix A.
- 6.3. The Authority intends to publish a consultation document on its review of market making in late 2025. This document will include an evaluation of costs and benefits of any proposed Code amendments, in accordance with section 39 of the Act.

⁸ [Compliance Strategy](#)

Appendix A Stakeholder feedback on the review of market making settings

The input received on the scope of the review can be grouped into the following key themes:

How the current settings impact market efficiency

Although views diverged on precise changes, many responses called for an examination of how the current settings help to achieve market making objectives of promoting a reliable and efficient forward price curve. The overall goal is to find the right balance between a healthy market with accurate price signals and access to risk management products. Table A1 outlines detailed feedback on each market making setting.

Table A1 – summary of feedback on market making settings

Settings	Feedback
Volume	Calls to increase volume offered, especially through commercial market makers. One submitter proposed only counting passive (non-aggressor) volume toward obligations.
Bid-ask spread	Non-market-makers supported narrower spreads, viewing tighter spreads as lowering transaction costs and improving price discovery.
Exemptions	mostly non-market makers saw this as reducing liquidity and predictability. Some called for fewer exemptions or tighter conditions. Some market makers noted the need to consider volatility (not just stress) as a basis for relief.
Obligation design	Concerns that current design allows for surface-level compliance (e.g. scratching) without effective risk warehousing. A maker/taker adjustment was proposed

Review should go beyond the current Code settings

Many submitters called for the review to go beyond current Code settings and include the following areas.

Table A2 – summary of feedback on the broader market making scheme

Theme	Key points from submitters
Expanded Product Offerings	<ul style="list-style-type: none">• Support for introducing shaped or super-peak products to better reflect retailers' and gentailers' diverse risk profiles
Role of Commercial Arrangements	<ul style="list-style-type: none">• Commercial market making should complement – not displace mandatory obligations for regulated market makers• Support for a transition to fully commercial market making if services are transparent, reliable, and fairly costed
Review of obligations and incentives	<ul style="list-style-type: none">• Concerns raised about current volume-based obligations encouraging low-value trades (eg, scratching)• Suggested to move to a maker/taker model to better align incentives with true liquidity provisions• Suggestion to remove refresh feature to reduce volatility within the trading period

Assessment and implementation considerations

Submitters recommended any review incorporate a structured cost benefit analysis to weigh options, similar to that used in earlier interventions. This analysis should draw on international experience and evaluate how different mechanisms perform under various scenarios of market stress and volatility.

Some submitters advocated for relief mechanisms to be triggered based on volatility metrics—even if prices are not elevated—as opposed to case by case exemptions. Proposals include a presumed activation method where relief would automatically take effect unless the Authority intervenes under clearly defined, exceptional circumstances.

There was concern that recent experiences underscore the need for stronger procurement criteria and more robust performance expectations. Ensuring that market makers are adequately prepared and accountable—especially during periods of stress—is seen as a critical element of the wider review.

The Authority thanks all submitters for their detailed feedback on the review of market making settings. We have carefully considered the wide range of comments and suggestions regarding volume, bid-ask spread, exemption levels, how volumes are offered, and the role of commercial market makers. Our response is provided below in relation to the upcoming review of market making settings.

Table A3 – summary of the Authority’s response

Feedback	Authority’s response
Specific Market Making Settings	
Volume	Will be considered in the broader review
Bid-ask spread	Assessed in the Authority’s analysis of the events during and after winter 2024 and discussed in the consultation paper
Exemptions	Will be considered in the broader review
Obligation design	Will be considered in the broader review
Broader Market Making Scheme	
Expanded Product Offerings	A road map of additional standardised flexibility products has been considered as part of the Task Force work programme ⁹
Role of Commercial Arrangements	Will be considered in the broader review
Assessment and Implementation Considerations	
Cost_Benefit Framework	A cost benefit analysis is a mandatory requirement for any Code amendment. As part of the broader review, the Authority will consult on how the CBA should be approached to ensure it reflects the impacts on market participants and consumers.

⁹ [Energy Competition Task Force | Our projects | Electricity Authority](#)

Regulatory Certainty	The Authority remains committed to applying the Code consistently across all participants and maintaining clear, transparent, and predictable processes for Code changes. This principle will underpin the broader review of market making settings.
Relief Mechanisms	Considered in this decision paper. The Authority has decided not to continue with the amendment and does not intend to adopt alternative relief mechanisms at this time
Procurement	This feedback falls outside the scope of the upcoming review. However, it will be taken into accounting future procurement rounds.