Regulating the standardised super-peak hedge contract: issues and options

Consultation paper

19 August 2025

ELECTRICITY AUTHORITY
TE MANA HIKO

Executive summary

The Electricity Authority Te Mana Hiko (Authority) is seeking feedback on its proposed approach to regulating the standardised super-peak flexibility product, an electricity hedge contract for morning and evening trading periods (the super-peak product).

The super-peak product provides buyers with protection against high prices during periods of peak demand in the morning and evening. It was co-designed by industry experts as an initiative of the Energy Competition Task Force, to improve competition in the market for shaped hedges. The product has traded on a voluntary basis since January 2025, through a fortnightly brokered event on the over-the-counter (OTC) market.

Shaped hedges are a critical tool for managing risk in a high renewables market

Shaped hedge contracts, like the super-peak product, play an important role in helping participants manage risk as the electricity system becomes more reliant on intermittent (wind and solar) generation and spot market pricing becomes more volatile. Access to these contracts supports the financial viability of new and independent generators and retailers, by ensuring they can offer a product that meets their customers' needs – sustained power at a stable price.

This increases competition in the market, brings more power into the system, provides more choice for consumers, and puts downward pressure on retail prices.

This issues and options paper sets out the Authority's objectives to improve liquidity and price discovery for super-peak hedges. This will give participants confidence in access to and pricing of these products and enable them to make better operational and investment decisions, including investment in new generation, batteries and demand response.

The super-peak product has improved availability and pricing, but the market remains shallow

Introduction of the super-peak product, supported by voluntary trading, has improved the availability and pricing of super-peak hedges on the OTC market. Since its introduction on 28 January, 147 trades have taken place, totalling 109 GWh volume. The product is also trading at prices closer to baseload price compared to other super-peak hedges.

While these improvements are encouraging, the market is not yet sufficiently deep or liquid, with only two participants selling 87% of contracts and only around 2.5MW of the super-peak product available to buy at any one time on average per product. The volume available is less than independent retailers' super-peak exposure.

Regulation could be required to ensure reliable supply at efficient prices

If liquidity does not improve to a sufficient level, the Authority intends to consider regulating super-peak product trading to ensure a reliable supply of contracts at efficient prices.

This paper sets out the Authority's expectations for voluntary trading, and makes clear that if these expectations are not met for two consecutive quarters (commencing in January 2026), the Authority will investigate and may take steps towards regulation. It also makes clear that we expect robust participation in voluntary trading by the four large generator-retailers or 'gentailers', given they currently control over 95% of the flexible hydro and thermal generation resources that back shaped hedge contracts.

We have considered two options for regulating super-peak product trading on an enduring basis, and evaluated these against our objectives to improve price discovery and liquidity, as well as practical considerations such as cost and workability. These options are:

1. market making on the Australian Securities Exchange (ASX)
2. market making on the OTC market.

Market making OTC is the Authority's preferred regulatory option, if required, to improve super-peak hedge contract access and price discovery

The Authority considers that market making OTC would deliver sufficient price discovery and liquidity, and could be implemented more quickly than on the ASX. Participation in the OTC market is more accessible for smaller independent retailers, a key buyer group. OTC trading would also provide greater flexibility to update the product if market needs change over time – which could happen relatively quickly as new types of generation resources come online.

Our proposed market making settings would apply to those participants with sufficient scale and diversity of flexible generation resources to manage the price risks associated with peak demand. At present, that is the four large gentailers. If any other participants were to develop a diverse flexible generation portfolio of scale, the Authority would also consider including them under this regulation.

The proposed market making settings are:

a) 10 MW volume of super-peak product
b) initial bid-ask spread of 5%
c) fortnightly trading on an approved OTC platform
d) contracts available for the next three years.

The Authority also stands ready to introduce urgent regulation should shaped hedge trading suddenly collapse

The Authority is cognisant of the risk that rapidly declining thermal fuel supplies or other causes could lead to a sudden regression in trade of shaped hedge contracts, including the super-peak product. Given the importance of shaped hedges for risk management, the Authority would consider introducing urgent regulation to preserve trade in the super-peak product in the event of a sudden and material reduction in trading of shaped hedges.

Specifically, urgent regulation could introduce a requirement to offer and sell hedges on a temporary basis, while we consider implementing enduring regulation in the form of market making. Indicative drafting for an urgent Code amendment to enable this is at Appendix C.

Strengthening trade in the super-peak product is part of a package of measures the Authority is exploring to support effective risk management and greater competition

This proposal was informed by the findings of the Authority's recent Risk Management Review. The review confirmed that super-peak hedge products are critical for effective risk management by non-integrated retailers, yet are often thinly traded and vulnerable to fuel or capacity scarcity. The review could not reach the conclusion that super peak pricing was likely to be competitive.

Addressing these challenges will be essential to promote competition and investment in flexible resources. By enabling participants to trade flexibility in different forms, improving

trade in the super-peak product will strengthen confidence in the super-peak market and create investment incentives to address the underlying physical supply challenge – whether through new supply-side capacity or demand-side flexibility.

The Authority is also undertaking a wider review of market making to ensure that policy settings are appropriate to achieve our objectives of access to risk management contracts and efficient price discovery. We expect to release a paper for consultation in November 2025, which will be informed by feedback received on this paper.

Efficient super-peak product prices could form an important benchmark for assessing compliance with the Authority's proposed non-discrimination obligations to 'level the playing field' between the gentailers and independent generators and retailers. The Authority has announced, alongside this paper, its intention to consult in October on amending the Code to introduce non-discrimination obligations on the gentailers.

We want your feedback

We encourage you to read this paper and email us your feedback at taskforce@ea.govt.nz, with the subject line 'Regulating trade in standardised super-peak hedge contracts' by 5:00pm on Tuesday, 30 September 2025. You can also provide a verbal submission. Contact us at taskforce@ea.govt.nz or call 04 460 8860 to discuss arrangements.

Contents

1. How you can inform our thinking

What this consultation is about

1.1. We are seeking feedback on regulating the super-peak standardised flexibility product, an electricity hedge contract for morning and evening trading periods (the super-peak product). This may be required if voluntary trading of the super-peak product does not achieve the required depth and liquidity to ensure reliable supply of contracts at efficient prices.

1.2. This proposal will, if required, strengthen competition in the super-peak contract market and fulfil our main statutory objective to promote competition in, reliable supply by, and the efficient operation of, the electricity industry for the long-term benefit of consumers.

1.3. We are interested in three main questions:

a. Is there a need to regulate the standardised super-peak hedge contract?

b. If the standardised super-peak contract is to be regulated, when and under what circumstances would regulation occur?

c. What is the right form of regulation?

1.4. This paper presents:

a. the objectives and intended outcomes we expect trading of the super-peak product to achieve;

b. a framework for assessing voluntary trading of the super-peak product against those objectives and intended outcomes, including in which circumstances the Authority would consider regulation;

c. an early assessment of current trading against this framework;

d. options for regulation, should voluntary trading fail to achieve the objectives;

e. our assessment of these options, and our preferred option; and

f. our intention to consider introducing temporary, urgent regulation to preserve trading in the event of a sudden and material reduction in supply of shaped hedges.

1.5. The paper does not consider the potential for new standardised flexibility products or changes to the current super-peak product specification, but it does consider the implications of potential future product changes in assessing regulatory options.

1.6. Your feedback will inform the Authority's approach to regulating the super-peak product, and any future consultation on proposed amendments to the Electricity Industry Participation Code 2010 (Code) to implement an enduring regulatory solution.

1.7. We will also take this feedback into consideration in developing our approach to the proposed non-discrimination obligations for gentailers, on which we plan to consult in October, and in the Authority's broader review of market making, on which we plan to seek feedback in November.

How to make a submission

1.8. We prefer to receive submissions in electronic format. Please email your feedback to taskforce@ea.govt.nz, with 'Regulating the standardised super-peak hedge contract' in the subject line.

1.9. If you cannot send your submission electronically, please contact the Authority (04 460 8860) to discuss alternative arrangements.

1.10. Please note we intend to publish all submissions we receive. If you consider that we should not publish any part of your submission, please:

(a) indicate which part should not be published and explain why you consider we should not publish that part

(b) provide a version of your submission that we can publish (if we agree not to publish your full submission).

1.11. If you indicate part of your submission should not be published, we will discuss this with you before deciding whether to not publish that part of your submission.

1.12. However, please note that all submissions we receive, including any parts that we do not publish, can be requested under the Official Information Act 1982. This means we would be required to release material not published unless good reason existed under the Official Information Act to withhold it. We would normally consult with you before releasing any material that you said should not be published.

When to make a submission

1.13. Please deliver your submission by 5pm on Tuesday 30 September.

1.14. Authority staff will acknowledge receipt of all submissions electronically. Please contact the Authority at taskforce@ea.govt.nz or 04 460 8860 if you do not receive electronic acknowledgement of your submission within two business days.

2. Flexibility contracts are a key enabler of competition

Hedge products enable participants to manage exposure to volatile spot prices

2.1. Electricity market participants, such as independent retailers, who buy electricity on the spot market are exposed to the risk that the spot price of electricity exceeds the price that they charge their customers, with negative impacts on profitability. To reduce this risk, they can buy a hedge contract that locks in the future price of their electricity purchases on the spot market, providing insurance against increases in electricity spot prices.[1]

2.2. The hedge market in New Zealand is composed of the electricity futures market (operating at the Australian Securities Exchange (ASX)) and the over-the-counter (OTC) market for hedge contracts.

2.3. Hedge contracts have a range of structures. They could have a fixed volume for all trading periods throughout the contract term (baseload hedges) or the volume could vary ('shaped' or 'flexible' hedges). Two common kinds of shaped hedges are:

(a) peak – a fixed volume of energy for all trading periods during the day (ie, 7am-10pm), and

(b) super-peak – a fixed volume of energy during trading periods at 'super-peak' times of consumer demand (the morning and evening demand peaks).

2.4. Standardised baseload hedge contracts are traded on the ASX, and the four large generator-retailers (or 'gentailers' – Contact Energy, Genesis Energy, Mercury NZ, Meridian Energy) are required to provide market making services for these contracts. Peak hedges are also available to trade on the ASX, but there are no market making requirements for these, and these contracts trade infrequently.

2.5. Both standardised and bespoke hedge contracts (including shaped) can be traded OTC, with a range of terms from a few hours to multiple years.

Shaped hedges can support competition in the electricity market

2.6. Competition in the electricity market is critical to achieving choice and more affordable electricity for consumers.

2.7. Shaped hedge contracts promote competition in several ways:

(a) Mass market retailers can better match their hedge cover to the demand profile of their customers. This helps them manage their exposure to wholesale electricity price volatility and provide price stability to consumers.

(b) End users or retailers who buy power purchase agreements (PPAs) from generators can manage price exposure for their residual (non-PPA) demand – supporting PPA demand which, in turn, supports new generation entry.

(c) Independent generators who are looking to sell firmed PPAs to retailers or industrials can access the shaped hedge cover they need to do so.

[1] Alternatively, they may use other risk management options, as discussed in the Risk Management Review.

(d) Shaped hedge contracts enable other business models, including merchant generation (selling output through wholesale markets) and vertical integration (building a retail position to hedge generation).

2.8. Shaped products are largely backed by flexible generation resources, such as hydro and thermal generation, which can increase or decrease the amount of electricity produced by turning generation on or off when needed (or ramping output up or down). The four large gentailers currently own over 95% of hydro and thermal generation resources.[2]

2.9. The Market Development Advisory Group (MDAG) has highlighted that as thermal generation exits the market in the shift to a renewables-based system, the remaining existing sources of flexible generation (mainly hydro generation, but also some thermal in the transition) will become more concentrated in the larger participants who may have the means and incentive to exercise market power.

2.10. Concentration of these resources increases the risk of a thinning of competition in the supply of flexible generation and in the wholesale market more broadly.

The transition to a high-renewables system increases the importance of a competitive shaped hedge market

2.11. In our level playing field options paper, we explained that wholesale market volatility has materially increased since 2018, and is expected to continue.[3] This is a natural and expected consequence of increasing demand combined with reduced thermal (gas) fuel supplies and the rapid uptake of intermittent renewable generation (wind and solar), which makes the electricity system more sensitive to weather effects.

2.12. For retailers, large users and generators seeking to access risk management products to manage their exposure to wholesale market volatility, the impact of these market conditions is two-fold. Increasing wholesale market volatility will drive increased demand for risk management options. At the same time, it may become more difficult for generators to supply OTC contracts and other risk management products that meet buyers' needs, as the generation mix changes.

2.13. In December 2023, MDAG recommended a package of measures to increase competition and ensure market participants have access to options to efficiently manage their wholesale price risk in the energy transition.[4]

2.14. This included increasing investment in flexible generation by developing the market for flexibility contracts, alongside demand-side flexibility and other measures to increase competition. MDAG specifically recommended that the Authority should facilitate development of one or more standardised flexibility (shaped) products.[5]

2.15. MDAG also recommended 'rachet' steps for competition in supply of flexibility contracts, if liquidity in these flexibility products was found to be insufficient.

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[2] Electricity Authority data. This figure reflects Contact's recent acquisition of Manawa's hydro assets.
[3] See discussion in Chapter 2 of the Level Playing Field measures - options paper.
[4] MDAG, 'Price discovery in a renewables-based electricity system' (December 2023).
[5] Recommendation 8, MDAG 'Price discovery in a renewables-based electricity system' (December 2023).

2.16. The Authority's Risk Management Review confirmed the importance of shaped hedges for non-integrated retailers. The Review identified concerns regarding both availability and pricing of super-peak hedge contracts. We found that:

(a) Retailers to date have been able to secure substantial shaped hedge cover through OTC contracts, but the market is neither deep nor liquid. Over a third of the time, retailers received only one offer to requests for shaped hedges.

(b) The evidence points to fuel or capacity scarcity often being the driver behind the current thin and illiquid market for shaped hedge cover.

(c) While our analysis indicated that the prices for OTC baseload and peak hedge contracts are likely to be competitive, we could not reach the same conclusion for OTC super-peak hedge contract prices.[6]

2.17. These findings informed the development of the measures proposed in this paper. They further emphasise the need to improve liquidity, strengthen price discovery, and provide certainty of access. The proposals in this paper seek to ensure that flexibility products such as the super-peak contract can perform their essential role in enabling competition and managing wholesale market risk.

Government priorities for the electricity industry in relation to flexible supply

2.18. The Authority, as the electricity industry regulator, must have regard to government policy statements concerning the electricity industry when performing its functions.[7]

2.19. The October 2024 statement of Government policy on the New Zealand electricity industry notes that the Authority has an important role in facilitating improved forward price discovery, particularly in relation to flexible supply to cover periods of low wind, sun and/or hydro inflows.[8]

The Energy Competition Task Force accelerated work to develop a standardised flexibility hedge product

2.20. The Energy Competition Task Force (Task Force) is focused on promoting greater competition in the electricity market, with an aim to enable new generators and independent retailers to enter and better compete in the market.[9]

2.21. One strand of this work is focused on improving hedge market arrangements. This has included the development of the super-peak product through an industry co-design process, facilitated by the Authority. In December 2024, the new super-peak product was announced, with fortnightly OTC trading commencing January 2025.[10]

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[6] See Pages 2-3 of the Reviewing_risk_management_options_for_electricity_retailers__issues_paper.pdf. In a subsequent update paper, we confirmed that submissions did not cause us to change these preliminary findings. Further consideration will be given to these matters in the Authority's October consultation paper on amending the Code to introduce non-discrimination obligations on the gentailers.
[7] Under section 17 of the Electricity Industry Act 2010.
[8] *Statement of Government Policy to the Electricity Authority under section 17 of the Electricity Industry Act 2010*.
[9] The Authority and the Commerce Commission Te Komihana Tauhokohoko jointly established the Energy Competition Task Force (with MBIE as observers) in the context of the period of sustained high wholesale electricity prices in winter 2024, to investigate ways to improve the performance of the electricity market.
[10] Standardised Flexibility Product Co-design Group | Electricity Authority.

2.22. As part of the initiative, the Authority committed to investigating options for regulating this product, should voluntary trading fail to achieve intended outcomes.

2.23. The Task Force also developed ‘level playing field’ proposals, including a preferred option to introduce non-discrimination obligations for the gentailers, to prevent them from giving preferential treatment to their retail arms for hedge contracts.

2.24. Following consultation, the Authority has announced, alongside this paper, its intention to consult on amending the Code to introduce mandatory non-discrimination obligations for the gentailers.

2.25. Increased liquidity and efficient price discovery of the super-peak product will support these level playing field measures by providing reference prices to value shaped products. We will consider feedback on this issues and options paper as we develop our approach to assessing compliance with the proposed non-discrimination obligations.

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?

3. Objectives and intended outcomes of trade in the super-peak product

3.1. We have two core objectives for trading of the super-peak product:

(a) increase liquidity in the market for super-peak hedges

(b) increase transparency in the form of robust price discovery for flexible resources.

3.2. Access to and price discovery for super-peak hedge contracts will contribute to our intended outcomes of effective risk management, increased competition and greater investment in new flexible and renewable generation capacity.

Liquid trading contributes to efficient prices

3.3. Liquidity refers to the ease with which an asset can be bought or sold without affecting the price. Liquid trading means that the price at any given point in time will be the same whether you trade one or many units.

3.4. When a market is not deep – ie, there is little volume offered, or it is offered at a range of prices – a participant will have little confidence in the price, as it will materially shift on trading small volumes.

3.5. Liquidity can be difficult to measure directly. Generally, the following aspects are associated with increasing liquidity:

(a) increasing volume on offer

(b) smaller differences in price between offers to sell, and bids to buy

(c) smaller variations in order prices for the same contracts.

A robust forward price curve for the super-peak hedge contract will enable better risk management, greater competition and better investment decisions

3.6. Clear price signals for flexible contracts help electricity market participants with:

(a) **Risk management.** Effective price discovery allows market participants to manage risks better. This includes hedging against price volatility and ensuring that contracts reflect true market conditions.

(b) **Competition and fairness.** Transparent pricing promotes competition among electricity providers, which can lead to better prices for consumers. A competitive market helps ensures a level playing field for all participants.

(c) **Investment decisions.** Clear price signals are crucial for investment in new flexible and renewable generation capacity and infrastructure. Investors need reliable information to make decisions about where and when to invest in these projects.

3.7. Another benefit of the super-peak product is that it enables participants to trade flexibility in different forms. The value of a super-peak contract can be used to compare the value of demand-side flexibility relative to new physical sources of supply.

3.8. By improving price discovery and fungibility of flexible resources, the proposals in this paper will therefore not only strengthen competition and confidence in the

super-peak market, but will also create investment incentives to address the underlying physical supply challenge – whether through new supply-side capacity or demand-side flexibility.

Q2. Do you agree with our objectives for and intended outcomes of trade in the super-peak product?

4. Assessment framework for voluntary trading

4.1. A clear assessment framework will enable participants and other stakeholders to understand how the Authority is evaluating the success of voluntary trading arrangements. It will also provide a clear basis for when and why we might need additional regulatory measures to support liquidity and price discovery.

4.2. Our proposed metrics are set out in Table 1 below. These set out the Authority's initial expectations for trade in the super-peak product. Two of the metrics (volume offered and bid, and bid-ask spread) are objective measures with specific target values. The other metric (volume traded) has an expectation of trend over time.[11]

4.3. We will consider performance across all metrics, recognising that any measure on its own cannot determine whether there is sufficient liquidity and price discovery.

4.4. If these expectations 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. If we determine this to be the case, we intend to take steps towards implementing an enduring regulatory option as discussed in sections 6 and 7 of this paper.

4.5. Gentailers' participation in the formation of standardised super peak prices over the entire forward price curve is necessary to ensure efficient price discovery. Given their current control of over 95% of flexible hydro and thermal generation resources, we expect robust participation from all four gentailers in this market, in line with the expectations set out in this framework.

Table 1: Framework for assessing liquidity and our expectations

Metric[12]	Expectation
Volume traded	Trend up over time
Volume offered and bid	At every trading event and over the whole forward price curve (ie, per contract[13]): • The total volume of offers should be at least 6MW • The total volume of bids should be at least 6MW
Bid-ask spread	At every trading event and over the whole forward price curve (ie, per contract): • The spread between the highest bid price and lowest offer price should not exceed 8% across all contracts for the first assessment period (Q1 2026), and • The spread should further narrow to 5% for the second assessment (Q2 2026) and beyond

[11] The proposed assessment framework is informed by the Authority's assessment of liquidity in the standardised super-peak market from January to 1 July 2025 (*Liquidity assessment of standardised super-peak product* at Appendix A), and an evaluation of appropriate market-making settings commissioned from Principle Economics (*The standardised super-peak hedge product: Volumes and bid-ask spread for market making* at Appendix B).
[12] We have not included a metric for 'open interest', which is commonly used to evaluate exchange traded futures markets. In OTC markets for derivatives like standardised flexibility contracts, contracts can only settle on expiry. Open interest will therefore be equivalent to volume traded, so we have not included it as a separate metric.
[13] In this section, contract means a specific form of the standardised super-peak product. Eg, the Benmore 2026 Q3 standardised super-peak.

Volume traded

4.6. This is the sum volume of trades in the super-peak product for each trading event. Low volumes could reflect low demand for the product, prices higher than expectations, or that a different form of hedge (eg, a non-standardised super-peak, or a daily peak) is being used manage price risks.

4.7. We therefore have not set a specific target volume for the trade of the super-peak product. However, we would expect the volume traded to grow over time from present levels, particularly as price discovery is used to support investment in flexibility resources. If it should decline, we will assess the reasons for it doing so.

Volume offered and bid

4.8. This is the sum volume of offers made and the sum volume of bids made in every super-peak contract for every fortnightly trading event. That is, both Benmore and Otahuhu standardised super-peak contracts, for every contract period (eg, 2026 Q3) over the forward curve (ie, three years).

4.9. The Authority considers that both volumes offered and volumes bid should be at least 6MW per contract to ensure sufficient volume is available at each trading event to support liquidity and competitive pricing.

4.10. In setting this threshold, we have sought to balance the following factors:

(a) There must be sufficient volume offered to exceed natural demand for these hedges. This is to ensure that scarcity of hedge contracts does not drive significant price premiums above efficient levels. This is currently estimated at around 2.5MW summed across both Benmore and Otahuhu contract nodes, per fortnightly trading event, depending on season.[14]

(b) The market is still maturing, and therefore current levels of trading are not yet indicative of the level of demand.

(c) We want to allow voluntary trading to establish and the market to mature.

(d) The expert report we commissioned from Principal Economics (Appendix B) recommended that the market making volume for bids and offers of the super-peak product should be 10-15MW.

(e) Alternative hedge products (eg, bespoke OTC hedges and alternative methods of managing price risk such as demand response) may be suitable substitutes for the standardised super-peak.

Bid-ask spread

4.11. The bid-ask spread is a key market metric. It is the difference between the highest price a buyer (eg, a retailer or end user) is willing to pay and the lowest price a seller (eg, a generator) is willing to accept.

4.12. A tighter bid-ask spread is generally associated with a more liquid market. Narrow spreads indicate high liquidity and low transaction costs, and will maximise the net benefit to the market and to consumers. Wide spreads suggest lower liquidity and higher costs, and are often present in volatile or less-traded markets.

[14] See Table A1: Appendix A Liquidity assessment of the standardised super-peak product – January-June 2025.

4.13. The participation of traders (ie, non-physical participants) is also important to close any price differences relative to fair value or efficient pricing.

4.14. Principal Economics recommended a two-tier policy for market making a super-peak product, with a base cap of 3.5% under normal conditions, and an elevated cap of up to 8% when volatility exceeds a defined threshold or during designated stress events (see Appendix B).

4.15. In a voluntary setting, where normal levels of volatility are not yet established, the Authority considers that a bid-ask spread of 8% (for all contracts, at every trading event) would be an appropriate point to reach as soon as possible, and by the first assessment period in Q1 2026 at the latest.

4.16. The Authority considers that the bid-ask spread should further narrow to 5% by the second assessment period in Q2 2026 to ensure the market benefits from increased liquidity.

Q3. Do you agree with our framework and metrics for assessing liquidity in the standardised super-peak market?

Assessment period and frequency

4.17. Our initial assessment of trading in the super-peak product against these metrics (outlined in section 5 below) covered the period from when the super-peak product was introduced in January to 1 July 2025 (ie, January-June 2025). Our next assessment will cover the period July-December 2025.

4.18. From January 2026, we will move to quarterly assessment periods, or more frequently if the Authority is concerned about trading. If the expectations set out in our assessment framework are not met for two consecutive quarterly assessments, we intend to move quickly to investigate whether it may be necessary or desirable to implement an enduring regulatory solution, as set out in section 7 below.

Q4. Do you agree with our proposed quarterly assessment period for voluntary trading from 2026 onwards?

Some stakeholders support market making the super-peak product now

4.19. In its submission to the Task Force's level playing field proposals, Mercury viewed further market making obligations on gentailers as the best market-based approach to improve the credibility, liquidity and accessibility of risk management products to independent retailers and generators. It recommended the Authority:

> *Consider introducing market making obligations for gentailers for an appropriate shaped product (peak or super-peak) and monitor market performance.*[15]

4.20. This was supported by the independent panel commissioned by Mercury, which saw the contracts market as one of the issues in risk management requiring action:

[15] Mercury submission, page 5.

A range of measures to strengthen the contracts market are essential, including more standardised 'shaped' hedge contracts with liquidity (and therefore mandatory market making).[16]

4.21. Meridian also commented in its submission that:

Introducing market making obligations on the new standardised super-peak product would be a more proportionate and targeted solution than the Authority's current [level playing field] proposal.[17]

4.22. The submission from the group of independent electricity retailers (representing 2degrees, Electric Kiwi, Octopus Energy and Pulse Energy) put forward, among other suggestions, that market making obligations need to be extended to standardised flexibility products to enhance their effectiveness.[18]

4.23. Separately, individual submissions from Haast, Pulse, Octopus, and 2degrees on the Authority's *Expiry of Urgent Code regarding market making under high stress conditions* consultation voiced support for expanded shaped product offerings and for market making, to better reflect retailers' and gentailers' diverse risk profiles; eg:

Haast considers that the review of the role of market-making should include what shaped products are needed (beyond the limited voluntary product) and the efficacy of relying on voluntary arrangements. [19]

4.24. Pulse submitted that any review of market-making should include development of a range of shaped/super-peak hedge products – in accordance with MDAG recommendations – and consider whether provision of these should be mandated.[20]

We consider that voluntary trading should continue, with a clear regulatory pathway

4.25. The Authority's current view is that we should continue with voluntary trading of the super-peak product for now, to allow time for trading to develop further. This would allow liquidity to develop naturally and the market to acquire more information to inform market settings (if required). However, we propose to investigate whether it may be necessary or desirable to move to a regulated solution if trading does not meet the expectations set out in our assessment framework, as outlined above.

4.26. We note that voluntary arrangements for hedge supply and price discovery have been fragile in the past (eg, during the Pohokura gas field outage in 2018). We are ready to intervene to regulate urgently if needed, as set out in section 8 below.

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.

[16] Independent expert panel commissioned by Mercury submission, page 43.
[17] Meridian submission, page 38
[18] Independent Electricity Retailers submission, Paragraph 55, page 12.
[19] Haast submission, page 3.
[20] Pulse submission, page 2.

5. Our current assessment of liquidity, and measures we are taking to increase transparency

Voluntary trading is shallow and lacks liquidity, but the market is still evolving

5.1. As at 1 July, 147 standardised super-peak trades have been carried out during trading sessions since the product was introduced for a total 109 GWh volume.

5.2. Participation in the fortnightly trading events has grown, and participants are providing two-way pricing with bid-offer spreads. Pricing appears to be referenced to ASX baseload contracts, and we have heard anecdotally that the price signal generated through voluntary trading is useful.

5.3. Notably, the super-peak product is trading at prices 1.3 times higher than corresponding ASX baseload prices, compared with previously, when super-peak CFDs were trading at prices 1.5 times higher than corresponding ASX baseload prices before the product was introduced. Super-peak hedges being priced higher than ASX baseload prices is to be expected, but it is clear that there has been a decrease in relative pricing since the introduction of the standardised super-peak product.

5.4. Our initial assessment of liquidity of the super-peak product is at Appendix A. Performance against our assessment metrics is summarised in Table 2 below.

Table 2: Summary of assessment of liquidity January–June 2025

Metric	Assessment
Volume traded	Trading volume increased over the assessment period, to an average of 22MW in the last 4 sessions.
Volume offered and bid	On average per contract and trading session, 3.0MW of buy order volume and 2.5MW of sell order volume has been available.
Bid-ask spread	Trended down over time, but between 5 and 13% depending on contract (contracts for winter periods tended to have a wider bid-ask spread).

5.5. Our initial liquidity assessment, covering the period January to June 2025 (at Appendix A), concludes that at this point, liquidity is low and the market shallow:

(a) An average of 2.5MW of each super-peak contract was available to buy at any point in time during a trading event, with one or two buy and sell orders active per contract.

(b) Approximately 22MW of contracts were traded on average per trading session over the last four sessions.

(c) While four participants sold the super-peak product, only two participants sold the majority (87% of total volume).

(d) Nine participants bought the super-peak product, with approximately half of the volume bought by a single participant. Although some independent electricity retailers have purchased super-peak contracts to help build a hedge book, the market has recently lost a natural buyer of flexibility contracts (through Meridian's acquisition of Flick Electric).

(e) The bid-ask spread has trended down over time, but is now between 5 and 13% depending on contract and appears to be stabilising. Contracts for winter periods tended to have a wider bid-ask spread.

(f) Price volatility is substantially higher in the OTC market for the super-peak product compared to the ASX market for baseload products (ie, 10-15% for super-peak trading compared with 3-5% for ASX baseload products).

5.6. In addition, trading of the super-peak product may have offset trading of other OTC shaped hedges to an extent. This can be seen in the flexibility hedge products dashboard published by the Authority.

5.7. Greater market depth or more consistent ordering behaviour across trading events may improve price efficiency and the usefulness of the super-peak product market as a tool for price discovery. The market could also deepen through having a greater number of participants, or existing parties ordering higher volumes.

5.8. Overall, however, our view is that it is too soon since the introduction of the product to draw firm conclusions about how successful it has been in providing additional liquidity and price discovery of flexibility for super-peak contracts.

5.9. The metrics and expectations in section 4 above set out the level of improvement we expect to see to be assured that continuing with voluntary trading is sufficiently improving liquidity and price discovery for standardised super-peak contracts.

Transparent and timely information will contribute to market confidence

5.10. We recognise that participants are seeking transparency and timely information on trading volumes and prices to support their decisions about participating in trading events. We are monitoring trading of the super-peak product as part of our broader monitoring of the OTC market, and are making this information readily available.

5.11. We publish fortnightly auction data sourced from Aotearoa Energy showing all bids, offers and trades in the standardised super-peak product. This is an anonymised dataset targeted at those familiar with the electricity industry. It can be used for more detailed price information and to understand the depth of the market.

5.12. This information is supplemented with a broader suite of indicators of competition in the flexibility product market, drawing on enhanced hedge disclosure obligations. The Authority has published a flexibility hedge products dashboard since April 2025. It shows prices and traded volumes of key types of flexibility products (including the super-peak product) to help industry make operational and investment decisions.

Q6. Do you have views on whether barriers exist to wider or more diverse participation in the super-peak trading events?

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?

6. Options for regulating trade in the super-peak product

6.1. The Authority's main statutory objective is to promote competition in, reliable supply by, and the efficient operation of, the electricity industry for the long-term benefit of consumers. It can impose Code obligations on market participants and undertake other market facilitation measures to achieve this objective.

6.2. Regulating the super-peak product may be necessary or desirable to promote competition, should voluntary trading fail to deliver liquidity and price discovery.

6.3. Our assessment of current trading in section 5 above suggests that present performance is insufficient to improve access to hedges at efficient prices. Unless liquidity improves, regulation may therefore be necessary or desirable to support price discovery and promote competition in this market.

Key parameters to consider when regulating hedge products

6.4. Trading of any hedge product is made up of three distinct activities. These are:

(a) **Participant makes an offer to sell.** Offers to sell must be transparently available at economically efficient prices, on a reliable and regular basis. This is particularly important for super-peak contracts where the supply of generation which can support these is concentrated among a few participants.

(b) **Participant makes a bid to buy.** Transparent offers to buy are similarly important in order to value the supply of flexibility.

(c) **Trade is completed.** Where an offer to sell and a bid to buy overlap, a trade will result, providing hedge cover for both parties.

6.5. The price of an offer and bid are important reference points in price discovery, as is the value of the resultant trade where it occurs. When considering options for regulation, we have considered the impact of each of these components and the resultant impact on price discovery and hedge access.

We have considered two options for regulation on an enduring basis

6.6. Both of our options for regulation involve market making the super-peak product:

(a) Option 1: Market making on the Australian Securities Exchange (ASX)

(b) Option 2: Market making on the over-the-counter (OTC) market

6.7. Market making is a conventional method to support liquidity in financial markets. Market makers help create a market by offering to both buy and sell a product.[21]

6.8. We have considered, but do not prefer, other options for an enduring regulatory solution: requiring offers only, or requiring offers and trades. Market making, or requiring bids and offers to be provided, ensures greater confidence that prices are competitive than requiring offers only. Requiring bids and offers is also preferred as

[21] Under the arrangements for baseload futures, market makers (Contact Energy, Genesis Energy, Mercury NZ, Meridian Energy) are required to provide services for baseload monthly futures and quarterly futures on the ASX. There is also a market maker with a commercial contract rather than Code obligations (Vivienne Court Trading).

an enduring solution over requiring offers and trades, as it entails lower risk of distorting price signals, as set out in section 8.

6.9. Where market making settings are explored in the options set out below, these consider the super-peak product in isolation from other market making obligations. The Authority's wider review of market making will assess the appropriateness of these settings within the context of overall market making requirements, and this could result in small changes to these options. We will consult on the detail of any Code changes to implement an enduring regulatory option, should this be required.

6.10. Table 3 below summarises the key policy settings for each option. This paper and its appendices provide material to guide the appropriate settings, and we encourage you to provide your views on these. Further detail on each option is set out below.

Table 3: Summary of options for regulating the standardised super-peak contract

	Option	Description	Regulatory requirements
1	**Market making on the ASX**	Market making of every standardised super-peak contract on the ASX platform	• Minimum volume offered and bid: 10MW • Bid-ask spread: 5% • Trading frequency: Daily • Time horizon: 3 years
2	**Market making OTC**	Market making of every standardised super-peak contract on an OTC platform	• Minimum volume offered and bid: 10MW • Bid-ask spread: 5% • Trading frequency: Fortnightly/twice monthly • Time horizon: 3 years • OTC platform provider agnostic

Option 1: Market making on the Australian Securities Exchange

6.11. Option 1 would require market making of the super-peak product on the ASX. It would require obligated participants[22] to provide bids and offers for the super-peak product that comply with requirements relating to:

(a) minimum volume offered and bid

(b) bid-ask spread

(c) trading frequency

(d) time horizon.

Minimum volume offered and bid

6.12. The Principal Economics report at Appendix B suggests that total volume of super-peak contract for market making should be between 10-15MW. It found that this

[22] Obligated participants are discussed in paragraphs 6.31 to 6.35 below.

quote depth maximised benefits to the market. Additional depth beyond this had diminishing returns.

6.13. The Authority considers that 10MW, the low end of this range, is an appropriate initial volume of standardised super-peak contract to ensure that liquidity improves in the market. This is higher than the 6MW expectation we have for voluntary trading from 2026 on the basis that market making would be an enduring regulatory solution. This is approximately 2.5MW per product, per obligated participant, and allows room to increase in future.

Bid-ask spread

6.14. The Principal Economics report suggested that bid-ask spreads should be around 3.5% under normal conditions and up to 8% when volatility exceeds a defined threshold or during designated stress events.

6.15. Consistent with our decision to use a single bid-ask spread for baseload market making, we do not intend to apply a volatility-based settings adjustment. This is because relief mechanisms can be correlated with poorer market outcomes. We consider a single bid-ask spread of 5% to be appropriate.

Frequency of trading

6.16. Market making of baseload futures on the ASX is undertaken daily. This delivers high quality price discovery over the whole curve, supported by the premise that the price incorporates all available information at that time.

6.17. While trading fees on an exchange are relatively low, there are significant costs for participants to provide initial and variation margin to the exchange and the clearing participant. These costs are based on potential price movements between active trading opportunities. This means less frequent market making (ie, fortnightly) would have higher costs than more frequent (ie, daily) because there could be larger price movements between trading opportunities.

6.18. On this basis, we consider that option 1 should have daily market making sessions to minimise margin costs for all participants.

Time horizon

6.19. The ASX baseload product schedule, supported by market making, has a time horizon of a minimum three financial years of contracts. Every 1 October, a further calendar year of contracts is listed. Once listed, these are added to the obligation for market making.

6.20. Longer term investment signals (eg, for flexibility assets) could be assisted by having price discovery over a longer timeframe (eg, 5-10 years). However, super-peak contract prices typically track baseload energy reference prices. The ASX baseload forward curve therefore forms a limitation on the time horizon over which the super-peak product can be traded with useful price information.

6.21. Given the time horizon of the existing baseload energy curve, the methodology around having three financial years' worth of price discovery remains the industry standard. We do not consider there to be sufficient benefits compared with the costs to providers of requiring a longer timeframe for the super-peak product at this time.

Option 2: Market making over-the-counter

6.22. Option 2 would require market making of the super-peak product on an OTC trading platform. As with option 1, this option would support the market with both bids and offers. It would be similar to the current super-peak product trading events, but strengthened with regulatory requirements.

6.23. This option would require obligated participants to provide bids and offers for the super-peak product that comply with requirements relating to:

(a) minimum volume offered and bid

(b) bid-ask spread

(c) trading frequency

(d) time horizon

(e) and a specified OTC market platform.

Minimum volume offered and bid

6.24. As for option 1, the Authority considers that 10MW is an appropriate initial volume of super-peak product to ensure sufficient liquidity. This is approximately 2.5MW per obligated participant and allows room to increase in future.

Bid-ask spread

6.25. As for option 1, the Authority considers that 5% is an appropriate starting point for the bid-ask spread for OTC-based market making of the super-peak product.

Frequency of trading

6.26. Our liquidity assessment of the super-peak product suggests that natural demand for the product is low at present, but we expect this to grow as the proportion of intermittent (wind and solar) generation increases. Feedback on current trading events suggests that increasing frequency of trading would increase administrative burdens on small participants. Rather, it would be preferable to increase the volume available in each trading event, instead of frequency of trading.

6.27. On this basis, the Authority considers that OTC-based market making should continue fortnightly or twice monthly to support hedge access for physical participants while reducing the administrative burden on small participants.

Time horizon

6.28. As for option 1, the methodology around having three financial years' worth of price discovery remains the industry standard, and we consider this appropriate for OTC-based market making also.

Platform

6.29. The Authority is agnostic as to who provides the OTC market platform. There is a clear regulatory pathway through the Financial Markets Authority for a prospective provider within a reasonable timeframe.

6.30. However, we would seek assurance that the provider:

(a) is exempt from, or compliant with, any relevant market operator legislation (eg, the Financial Markets Conduct Act 2013 and/or Financial Markets Conduct Regulations 2014),

(b) is able to ensure access for a wide range of participants,

(c) can deliver transparent and timely information to participants, and

(d) can deliver the required data to the Authority, in a quality and consistent format, and in a timely fashion, to inform monitoring and compliance with any Code requirements.

Q8. Do you agree with our options for enduring regulation? Are there other options you think we should consider?

Q9. Do you have feedback on the settings for the options (eg, bid-ask spread, volumes)?

Regulation would apply to generators with flexible resources who are able to manage price risks associated with peak demand

6.31. Hedges should be sold by parties most able to manage the risks associated with the hedge, noting that the goal is for parties to manage risk rather than remove risk entirely. For the super-peak product, those most able to manage risk are those that hold the flexible generation resources (such as hydro and thermal) that can respond to high priced periods in the morning and evening peak. Over 95% of all hydro and thermal generation is owned by the four large gentailers.

6.32. The Authority's view is that regulation should therefore apply to the gentailers (ie, Contact Energy, Genesis Energy, Mercury NZ, and Meridian Energy). These participants all have diversified flexible generation portfolios and well-resourced generation and trading teams. This approach is also consistent with the named obligated participants for market making baseload contracts on the ASX.

6.33. We have not included other owners of flexible generation on the basis that:

(a) they have only gas in their flexible generation portfolio, which could leave them unable to fulfil their obligation in the event of a long-term reduction in fuel supply; or

(b) they have insufficient scale to have well-resourced trading teams.[23]

6.34. If any other participants were to develop a diverse flexible generation portfolio of scale, the Authority would also consider including them under this regulation.

6.35. The Authority considers that regulatory requirements would be applied evenly across all obligated participants. This will ensure that each obligated party is equally incentivised to develop additional flexible resources. We do not favour proportional allocation of obligation volumes as we consider this could deter investment in flexible resources.

[23] Market making using either option requires significant resourcing. For market making ASX it is possible that additional trading staff would be required to deliver the obligation, and that significant investment in technology may be required (ie, trading algorithms). For market making OTC there is an administrative burden that is automated in larger organisations but is done manually by staff in smaller organisations.

Q10. Do you agree with our rationale for who the regulation should apply to, and that it should be evenly spread across the obligated participants?

7. Assessment of options for regulation

We have evaluated each option against a clear set of criteria

7.1. We have assessed the options for regulation against a set of criteria, set out in Table 4 below, based on what is needed to deliver the objectives and intended outcomes set out in section 3 of this paper.

7.2. The criteria help us to understand the extent to which each of the options will meet our main statutory objective of promoting competition in, reliable supply by, and the efficient operation of, the electricity industry for the long-term benefit of consumers.

Table 4: Criteria for assessing options for regulating the super-peak product

Criteria for assessing options for regulating the super-peak product	
Price discovery	• Will there be sufficient price and volume data for efficient price discovery? • Will it enable monitoring of the market for flexibility products?
Access and liquidity	• Will there be a positive effect on the range of participants that can access hedges? • Will the volume of hedges available increase over a reasonable timeframe?
Investment and innovation in flexible supply	• To what extent will regulation help promote investment in flexible supply, or other forms of flexible risk management (eg. demand response)?
Costs	• Are costs incurred on obligated parties? Non-obligated parties? All participants? • How significant are these costs?
Timing	• How long will it take for the option to take effect? • How easy would it be to remove or undo the option in the future if it is no longer required?
Workability	• How easy would it be to implement? • Is compliance achievable by regulated parties? • How easy can it be monitored, breaches identified, and enforcement action taken in response?
Risks	• Is there a significant risk the option will not achieve our aims? • Will it lead to inefficiencies or unintended consequences?

Q11. Do you agree with our criteria for assessing options for regulation? Do you think we should include anything else?

Assessment of options for regulating the super-peak product

Table 5: Summary of assessment of the market making options against criteria

Criteria	Option 1: Market making on ASX	Option 2: Market making OTC
Price Discovery	There will be sufficient data for efficient price discovery. It will be of a high quality and temporal resolution. This option will enable monitoring of the market for flexibility products.	There will be sufficient data for efficient price discovery, at discrete time steps and at a lower temporal resolution than option 1. This option will enable monitoring of the market for flexibility products.
Access and liquidity	It is likely that this will have a slightly negative effect on the diversity of participants who can access hedges because smaller participants find it difficult and expensive to access. The volume of hedges available (ie, liquidity) is likely to increase over a reasonable timeframe due to a larger pool of traders.	It is likely that this will have positive effect on the diversity of participants who can access hedges. The volume of hedges available (ie, liquidity) is likely to increase over a reasonable timeframe due to reliable volumes offered.
Investment in innovation and flexible supply	This option will bolster price discovery to support investment decisions in flexible supply.	This option will bolster price discovery to support investment decisions in flexible supply.
Costs	Medium levels of costs are incurred on all participants. There may be an increase in staffing costs for obligated participants.	Low levels of cost are incurred by all participants.
Timing	ASX process for listing a new product estimated as up to 24 months. Products are not easily changed if the preferred product needs to evolve.	Expected to take around 9 months for a provider and data arrangements to be put in place.
Workability	Relatively easy to implement in regulation. Compliance achievable by regulated parties, as this is broadly similar to existing baseload market making requirements. Pre-existing model of operation for market makers including regulator monitoring, compliance.	Relatively easy to implement in regulation. Compliance achievable by regulated parties, as this is broadly similar to existing trading events. New model of monitoring compliance would need to be established.
Risks	The need for this kind of flexibility product may change in the next few years and this option may limit the market's ability to evolve quickly.	New monitoring and compliance processes would need to be established, which could create uncertainty.

Assessment of option 1: market making on the Australian Securities Exchange

Option 1 advantages

7.3. This option builds on existing policies and market arrangements for baseload electricity. The exchange also offers wider participation (ie, traders and international participants) in the price discovery process, but note the disadvantage at 7.6.

7.4. Market making on the ASX would deliver efficient price discovery. Exchange-based trading delivers high temporal resolution and efficient price discovery, enabling almost instantaneous arbitrage between parties in associated products. Exchange-based prices can be used as a reference point for equivalent OTC trades.

7.5. While this is not one of the criteria, trading on the ASX is also anonymous for participants (unlike OTC trading, as discussed below). This is considered preferable because trades can be executed without increasing the risk that participants' trading intentions influence prices offered. The lack of anonymity has been noted as a disadvantage of the current OTC-based voluntary trading events.

Option 1 disadvantages

7.6. Access to the ASX can be difficult and expensive for small participants. It is contingent on access to clearing participants and to the exchange. The withdrawal of some clearing participants from supporting the New Zealand electricity market in 2022 caused significant difficulties for many parties. While this issue has been resolved for now with the entry of additional clearing participants, the event reflects the fragility of wider financial market arrangements.

7.7. Price discovery without direct access to ASX hedges could disadvantage smaller participants, including independent retailers and generators. For some participants, brokers or financial intermediaries bridge this gap by making an OTC trade and simultaneously transacting an ASX hedge to manage the risks. This would increase the costs to acquire the hedges.

7.8. Exchange-based trading is centrally cleared. To manage the risk of default by any party to a trade, substantial margin must be provided based on daily market price movements. This requires participants to hold significant amounts of capital. Anecdotally, this is prohibitively expensive for small participants who may need to post margin both at their ASX clearing participant for their ASX hedges and at the New Zealand clearing manager for their New Zealand physical position.

7.9. In terms of implementation, we expect it would take 18–24 months to list a new product such as standardised super-peak product on the ASX (based on the time to list the new variants of Australian peak load futures).

7.10. Moreover, the preferred type of flexibility contracts may evolve within the next five years, particularly as solar generation increases its market share. Committing to ASX-based trading at this time may limit the market's flexibility to adapt in the transition, as initiating and changing products can take up to 24 months.

7.11. Similarly, as trading of the super peak product is still being established, there are benefits from retaining flexibility to be able to adapt market settings if required. Clearing participants on the ASX rely on market making settings to manage their

own risk, and if these settings were to change materially this could be reflected in the ability for the contract to be cleared, or in clearing costs.

Q12. Do you agree with our assessment of option 1: market making ASX ?

Q13. How important do you think it is to retain flexibility for the product to evolve?

Q14. Is access to the ASX a problem for your organisation? If so, please explain why.

Assessment of option 2: market making over-the-counter

7.12. The key differences between option 1 and option 2 is the platform or venue hedges are available at, and that OTC is not centrally cleared to manage risk of default.

Option 2 advantages

7.13. As with option 1, price discovery is maintained, albeit at discrete time steps and at a lower temporal resolution than option 1. A relationship can be established between the super-peak product and equivalent baseload contracts to give greater certainty about price in the gaps between OTC market making sessions.

7.14. Option 2 is likely to be able to be implemented within 9 months, and offers greater flexibility to amend the product as the needs of the market change. The super-peak product, as recommended by the co-design group, meets the current needs of buyers and sellers. However, as the electricity system transitions, the product specification may need to change as well (possibly within five years).

7.15. We note that the Australian peak product was recently amended to be two separate products to suit their solar dominated market: one for the morning peak and one for the evening. As wind and solar penetration increases, the preferred hedge may also need to support medium duration periods of cloudy and calm weather.

7.16. Costs to the market are also likely to be lower compared to the costs of accessing the ASX. In particular, the overall cost of credit/prudential is lower for participants trading on the OTC. Participants can also net credit/prudential for spot and hedge market exposure at the New Zealand clearing manager through a hedge settlement agreement (HSA). This may create capital efficiencies (ie, reduced costs) for smaller physical participants.

7.17. The current hedge access frequency (ie, fortnightly) is likely close to the right level for physical participants and New Zealand-based traders.

7.18. As with current bespoke OTC arrangements, trading in this format builds on existing credit relationships with sellers, unlike ASX trading under option 1 which requires relationships with the clearing participant.

Option 2 disadvantages

7.19. The comparatively lower frequency of trading could lead to increased risk to the obligated parties as there are fewer opportunities for them to manage the risk associated with the obligation.

7.20. Feedback from participants about their experience with brokered trading events for the super peak product has highlighted significant administration costs to maintain OTC documentation. This can be especially onerous for small participants. This

could be eased with larger volumes in each offer (to reduce processing burdens), or if back-office processes were automated to reduce manual errors.

7.21. We also note that OTC trading is not fully anonymous, unlike option 1. While the matching of the bid and the offer is blind to their identities, the two counterparties are able to identify each other when the documentation is shared. Full anonymity is preferable because trades can be executed without the risk that the identity of counterparties, or their trading intentions, influences prices offered.

Q15. Do you agree with our assessment of option 2: market making OTC ?

Q16. How much of a problem is the administration burden and/or lack of total anonymity?

Our preferred option for regulation of the super-peak product is market making over-the-counter

7.22. The Authority considers that both market making options (1 and 2) would deliver liquidity and price discovery, through the disclosure of pricing and volume data.

7.23. However, we think market making OTC has advantages including lower access costs (particularly for smaller participants), speed of implementation (9 months), and greater flexibility to change products and/or amend product settings as the needs of the market evolve.

7.24. In contrast, market making ASX would take longer to establish (18-24 months). It is also likely to require a fixed product structure as the traded contracts must be carried by participants, the exchange, and clearing participants to expiry. This could prove a significant disadvantage, should we need to adapt the product as the market evolves.

7.25. The Authority considers that OTC market making is an appropriate first step and that this option could also enable a transition to market making a standardised flexibility product on the ASX in future, if/once there is greater certainty about the product. The new hedge disclosure obligations would enable us to monitor product innovations as they become defined. We will also continue to engage with the market on future standardised products to meet the demand of industry.

Q17. Do you have any feedback on our preferred option for regulating the standardised super-peak hedge contract?

8. We have considered the circumstances that could warrant an urgent Code response

A sudden and material reduction in the supply of shaped hedges could trigger urgent regulation

8.1. In the Risk Management Review, the Authority identified shaped hedges (including super-peak contracts) as a key risk management tool in the short-to-medium term, supporting price discovery, retail competition and confidence in the market among existing participants and prospective entrants.

8.2. The findings suggested that fuel or capacity scarcity was often a driver of the thin and illiquid market for super-peak contracts. It also acknowledged that competition issues may exist in this market.

8.3. With rapidly declining thermal (gas) fuel supplies, there is a real risk that the market for shaped hedges, including the super-peak product, could materially contract for a period. This could occur suddenly and potentially with little warning.

8.4. The Authority recognises that there may be valid reasons why the supply of shaped hedges may be limited in the near term, for example, in the event of a sustained dry sequence. It could be argued that a prudent participant should not wait for a crisis before seeking to access hedges. Our intention is not to cover parties who have not prudently insured themselves from near term risks in the electricity market.

8.5. However, we consider that shaped hedges should continue to be offered and available to trade for future periods (ie, more than three months and up to three years in the future). Maintaining access to future hedges is important to retain confidence in the electricity market and preserve price discovery for the value of flexible supply.

Triggers for acting urgently

8.6. The Authority can amend the Code on an urgent, temporary basis (for a period of up to nine months) without consultation.[24] Urgent Code amendments must be necessary or desirable in the public interest, as well as meeting the other requirements in section 32 of the Electricity Industry Act 2010 (Act) for an amendment to the Code. That is, the Code amendment must be:

(a) consistent with the Authority's objectives, and

(b) necessary or desirable to promote one or all of the following:

(i) competition in the electricity industry

(ii) the reliable supply of electricity to consumers

(iii) the efficient operation of the electricity industry.[25]

[24] Under section 40 of the Electricity Industry Act 2010.
[25] Code amendments can also promote other matters not directly relevant here, ie, the protection of the interests of domestic consumers and small business consumers in relation to the supply of electricity to those consumers, and the performance by the Authority of its functions.

8.7. We consider that an urgent Code amendment may be necessary or desirable in the public interest where there is a sudden and material reduction in the offers or trades[26] of *shaped hedges*, including the super-peak product.

8.8. In such circumstances, the Authority may consider acting urgently to:

(a) ensure continued access to shaped hedges which are a key risk management tool in the medium term

(b) support forward price discovery for flexible supply

(c) support retail competition and mitigate the risk of sudden impacts on competition

(d) promote confidence in the market amongst existing participants and potential entrants.

8.9. An urgent amendment to address a sudden and material reduction in the supply of shaped hedges would necessarily take a different form from the Authority's preferred enduring form of regulation, given the timeframes for implementation of these options. We discuss options for urgent regulation, and identify our preferred option, below.

8.10. The Authority will closely monitor the market for shaped hedges to be ready to intervene urgently if necessary. We will use our flexibility hedge contracts dashboard to inform views on any rapidly emerging problems. We also recently consulted on a proposal to improve visibility of competition in the OTC contract market using a clause 2.16 information gathering notice. Among other things, this will help to inform whether further intervention is needed to preserve trading in shaped hedges.

Regulatory options suitable for urgent implementation

8.11. In our view, any urgent regulatory solution would need to:

(a) make a meaningful difference to liquidity in shaped hedges, to continue to support:

(i) forward price discovery

(ii) competition in retailing and/or generation

(iii) confidence in the market as a whole

(b) be able to be implemented quickly to be a viable 'stop-gap' measure, while an enduring solution is considered and consulted on and, if appropriate, implemented at pace.

8.12. We consider that any urgent regulation should apply to the four large gentailers as obligated participants, for the reasons set out in section 6 above.

8.13. Table 6 below summarises the two options we have considered for urgent regulation on a temporary basis to address a sudden, material reduction in trading.

[26] We refer to both offers and trades to include the scenario where there is no material reduction in offers, but the prices of offers to sell are priced such that they are considered a constructive refusal to supply, therefore resulting in a reduction in trades.

Table 5: Summary of options for temporary, urgent regulation

	Option	Description	Regulatory requirements
A	**Requirement to offer hedges OTC**	Obligated participants required to offer a minimum volume of every standardised super-peak contract at trading events over a specified period	• Minimum offer volume 6MW across all products • Monitored fortnightly
B	**Requirement to offer and sell hedges OTC**	Obligated participants required to offer and sell standardised super-peak contracts OTC over a specified period	• Trade volume set appropriate to the situation • Monitored quarterly, or monthly if necessary

Option A: Requirement to offer hedges over-the-counter

8.14. This option would require obligated participants to offer a minimum volume of super-peak contracts OTC, over a specified time period.

8.15. Under this option, we would require obligated participants to offer a minimum total of 6MW standardised super-peak contracts of every contract at every fortnightly trading event (ie, in line with our expectations for voluntary trading set out in section 4 above). Each individual offer would be limited to a maximum volume of 1.5MW to avoid the obligation being fulfilled by a small number of high-volume offers.

8.16. Participants affected by the sudden and material reduction in liquidity could thereby use standardised super-peak hedges to continue to build their hedge book.

8.17. This would provide the market with assurance that offers for standardised flexibility contracts will always be available, even when flexible generation supply may be concentrated amongst a few parties, and when fuel might be limited.

8.18. This option would strengthen the existing request for proposal (RFP) processes. It would also be relatively fast to implement (likely to be able to be established within one week), given it would be undertaken OTC and would continue to support the super-peak product trading events as a means of compliance.

8.19. Offers to sell hedges would be assessed fortnightly against the requirements in 8.14 above. We would monitor compliance either by using our information gathering powers under the Act, or by including in the urgent Code amendment a requirement on obligated participants to report periodically (ie fortnightly) to the Authority.

8.20. We consider there is a risk of uncompetitive prices under this option, because:

(a) it does not involve an obligation to trade or market make; and

(b) the obligation could be fulfilled with high-priced offers rather than competitive ones.

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?

Option B: Requirement to offer and sell hedges over-the-counter

8.21. This option would require obligated participants to offer and sell a minimum volume of OTC standardised super-peak contracts, over a specified time period, to an unrelated qualifying counterparty.

8.22. This option entails lower risks of uncompetitive prices than option A above, because obligated participants would need to price their offers to meet the market and achieve a trade. However, if the volume obligation is set too high, there is a risk that this could artificially suppress prices, which could lead to non-compliance or overly-onerous obligations for participants. It may also compromise the forward price curve and future investment decisions.

8.23. Given the risks involved in setting volumes too high, the volume obligation would likely need to be limited, but sufficient to maintain confidence and competition in the market. The regulated volumes may depend on the situation (eg, if the reduction in liquidity is the result of a single fuel shortage, a plant outage, or something else). Given this, we do not consider it prudent to give a specific value at this time.

8.24. Under this option, obligated participants would be required to trade with an unrelated qualifying counterparty, including:

(a) independent retailers

(b) industrial consumers

(c) generators who are not obligated participants

(d) traders or financial intermediaries.

8.25. Qualifying counterparty criteria would ensure that offers or trades are made with participants without access to their own flexible generation, to mitigate against the risk that the obligation could be satisfied by obligated participants trading large quantities to other obligated participants.

8.26. We are agnostic as to the method of delivering these hedges, which could include existing trading events or elsewhere on the OTC market. There would be no restriction on the obligated participant seeking cover from others to fulfil their obligation.

8.27. Given this is an obligation to trade, and requires a willing buyer, monitoring requirements should be reasonable given the underlying circumstances. We consider quarterly monitoring of compliance with this option to be appropriate, or alternatively monthly monitoring if the situation was expected to last 3 months or less.

8.28. We could monitor offers using hedge disclosure data, or via an additional disclosure requirement in the urgent Code amendment, which would give assurance to small participants that trades will be made.

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?

Q20. What are your views on the frequency of monitoring for this option?

8.29. Table 7 below summarises our assessment of options A and B as temporary options for urgent regulation to preserve trading in the event of a sudden and material reduction in liquidity across shaped hedges.

Assessment of options for temporary, urgent regulatory intervention

Table 7: Summary of assessment of options for urgent regulation

Criteria	Option A: Requirement to offer hedges OTC	Option B: Requirement to offer and sell hedges OTC
Price Discovery	There will be prices for most contracts over the forward curve for super-peak hedges. However, these prices could be higher than in a competitive market. It will enable monitoring of the market for flexibility products.	Trade price data is more reliable than offer prices as a buyer has agreed to the price. However, because the obligation captures a range of shaped products, price discovery for super-peak contracts may not cover every period in the forward curve for super-peak contracts. It will enable monitoring of the market for flexibility products.
Access and liquidity	It is likely that this will have positive effect on the range of participants who can access hedges. While the volume of hedges will be available, it is possible there could be reduced liquidity due to the risk of high-priced offers.	It is likely that this will have positive effect on the range of participants who can access hedges. A level of liquidity will be maintained.
Investment in innovation and flexible supply	Investment in flexible supply could be compromised by the quality of price discovery resulting from the risk of high-priced offers.	Investment in flexible supply could be compromised by the quality of price discovery as trades may not cover all future periods.
Costs	Low cost for participants	Low cost for participants
Timing	Likely to be able to be established within a week.	Likely to be able to be established within a week
Workability	Simple to implement and monitor. Participants able to comply within business as usual. Non-compliance will be able to be detected by the provision of the information from participants.	Simple to implement and monitor. Participants able to comply within business as usual. Non-compliance will be able to be detected by the provision of the information from participants.
Risks	High prices may be offered to be compliant but could constitute a constructive refusal to supply.	If the volume is set too high, a participant may feel they need to sell at lower prices to ensure they can comply with the regulation.

Our preferred approach for urgent regulation is to require obligated participants to offer and sell a minimum volume of hedges over-the-counter

8.30. While both options A and B would be relatively quick to implement (likely within a week each), our current view is that option B would be preferable if urgent regulation is needed.

8.31. This is primarily because, by requiring obligated participants to offer and sell contracts, it mitigates against the risk of offers being made at too-high price levels to allow trades to be made – which would compromise our core objectives of price discovery and hedge access to support competition.

8.32. We recognise that option B would likely lead to a lower level of price discovery than that which could be attained through requiring bids and offers (ie, market making requirements), and that it might not cover all periods to show a future price curve.

8.33. We do not consider either option A or B to be suitable as an enduring regulatory solution, due to the less robust levels of price discovery and hedge access than the enduring regulatory options 1 and 2 set out in section 6 of this paper, and the volume-setting risks outlined above.

8.34. We therefore propose option B as an interim measure which could be put in place urgently should trading in shaped hedges suddenly and materially reduce. Option B is likely to maintain the market, including a level of price discovery, while an enduring solution is considered and, if appropriate, implemented at pace.

8.35. We have included an indicative draft of an urgent Code amendment to implement option B in the event of a sudden and material reduction of trade in shaped hedges at Appendix C.

Q21. Do you agree the Authority needs to be prepared for urgent action if necessary?

Q22. Do you agree with option B as the preferred option for urgent regulation while more enduring regulation is being considered?

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?

9. Next steps

9.1. We welcome feedback on the issues and options discussed in this paper.

9.2. Stakeholder feedback is valuable as it will help us refine our approach to monitoring voluntary trading and, should it be required, any future consultation on proposed Code amendments to implement an enduring regulatory solution.

9.3. This paper also outlines what urgent regulatory intervention might look like (in section 8 above), in the event of a sudden and material reduction in liquidity of shaped hedges. It may be necessary, in that case, to make an urgent Code amendment while we further consider and consult on an enduring solution.

9.4. If we determine that an enduring regulatory solution is required, industry would have an important role in informing requirements for market making to make sure the rules and settings are workable and practical. Irrespective of any decision to regulate, we will continue to monitor the market, measure its liquidity, and publish price and volume data on our flexibility hedge products dashboard.

9.5. We will also consider feedback on this issues and options paper, together with feedback on our intended consultations on Code changes to introduce non-discrimination obligations on the gentailers (October) and on the Authority's wider review of market making (November), in developing our approach to assessing compliance with the proposed non-discrimination obligations.

Appendix A Liquidity assessment of standardised super-peak product – January to June 2025

Appendix A Liquidity assessment of standardised super-peak product – January to June 2025

This appendix evaluates liquidity in the standardised super-peak market

A.1. Market liquidity is a term to describe how easy it is to buy and sell in a market. A market is highly liquid when assets can be exchanged quickly without drastically changing the state of the market.

A.2. There is no one standard way to measure liquidity. Experts and researchers have created many different metrics to assess liquidity in a market. Several liquidity measures will be applied to the standardised super-peak contract market to generate an overview of standardised super-peak market liquidity.

A.3. The Authority proposes the following metrics for assessment:

a. Volume traded - This represents the total volume of trades in standardised super-peak products during each trading event.

b. Volume offered and bid - This is the total volume offered for each product during each trading event.

c. Bid-ask spread - This is the difference between the highest buy order (bid) and the lowest sell order (ask) for each product.

d. Depth dependent bid-ask spread - This captures how much prices may shift when trading varying volumes.

e. Price volatility – This is the standard deviation of the buy and sell order prices over a trading session for each contract. Market price volatility is a good indicator of how much risk there is in a market.

f. Amihud's illiquidity - This is calculated as the absolute return of the day over the volume traded.

We have concluded that the standardised super-peak contract market is shallow and lacks liquidity

A.4. It is difficult to know whether the standardised super-peak contract market is liquid 'enough'. It is clear that the market is not very deep (refer to A.16, A.20 and A.27). The liquidity of the market can be improved by having more parties participate, or by encouraging existing parties to provide higher volumes.

A.5. Often only 5-15MW of volume is traded per session (Figure A1) and only an average of 2.3MW of each product may be available to buy at any one time (Figure A4). Since independent retailers would require much more volume than that to cover the super-peak demand of their customers (Table A1), the standardised super-peak contract market may not be liquid enough for the independent retailers (A.12).[1] Larger independent retailers would need to attend several trading sessions over several months to accumulate the required volume (A.11). Buying large amounts of volume in one session would also cause the prices to move and is likely

[1] We note that retailers do have access to other options to manage their risk at super-peak times, but some of these are still developing in the New Zealand market. See Reviewing risk management options for electricity retailers - issues paper

to significantly widen the bid-ask spread (A.27). Overall, only 5-14% of bid offer volume got traded throughout all sessions depending on the type of contract. However, trading volume has been trending up by a gradient of ~2MW per trading session.

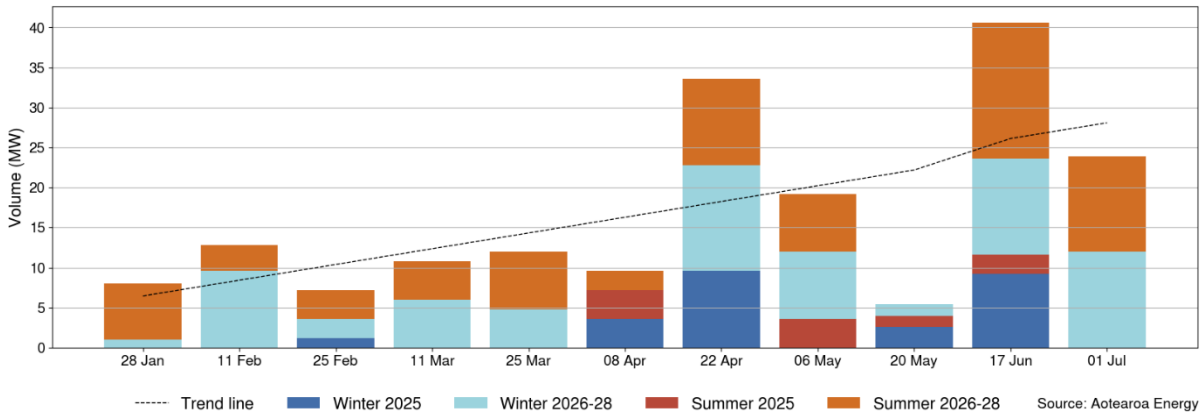
A.6. The bid-ask spread and price volatility analyses indicate that the standardised super-peak market liquidity has begun to stabilise (refer to A.23 and A.30). The volatility of sell order price is higher than buy order prices. The standardised super-peak market volatility is substantially higher than ASX market volatility.

A.7. If we consider the standardised super-peak market a tool for price discovery rather than a market where a retailer can buy enough volume to effectively manage their risk quickly at competitive prices, many contracts are not traded consistently between sessions. This could make it difficult for a participant to find a price that reflects current market expectations for the product they want. Therefore, either greater market depth or more consistent ordering behaviour across sessions may improve the usefulness of the standardised super-peak market.

Volume traded is lower than independent retailers' super-peak exposure

A.8. One of the simplest measures of liquidity is volume traded. A higher volume traded is generally associated with a more liquid market. Figure A1 shows the traded volume for each standardised super-peak trading session in MW. There is a trend line that shows how the volume traded has trended over time.

Figure A1: MW of standardised super-peak product traded in different trading sessions, coloured by contract type[2]



A.9. The volume traded has been trending up over time with a gradient of 2MW per session. At least 5MW has been traded in every session so far and 17MW has been traded per session on average. The 17 June trading event had the most volume traded with a total of 40.6MW and the last four sessions had an average of 22.2MW traded. This may be because the 3 June trading event did not go ahead. This may be why the trend line appears to change gradient in Figure A1.

A.10. The average demand at super-peak times was calculated for all retailers with over 1000 ICPs, excluding major generators, to determine how much super-peak volume

[2] Contract types are contract grouping used for the purposes of this analysis. A 'winter' contract is effective in the winter quarters (Q2 and Q3) while a 'summer' contract is effective in the summer quarters (Q1 and Q4). These quarterly groupings include monthly contracts for the constituent months. Contracts were also grouped by whether they will be effective the current year or a different year in the future.

independent retailers may require. The average demand at all other times was then subtracted to isolate how much super-peak volume may be required to meet demand on top of baseload volume. The monthly average super-peak demand was calculated and the highest winter month and summer month volume required were used as points of comparison for the offer and trading action seen so far. Table A1 shows the volume the independent retailers may require against the average volume offered and traded per session for a single year and season.

Table A1: Minimum volume required by independent retailers and amount currently available

	Winter duration (Q2 and Q3)	Summer duration (Q1 and Q4)
Max super-peak volume required by independent retailers	92MW	57MW
Amount required per trading event over a year of trading events	3.6MW	2.2MW
Current average volume available to buy per trading event per effective year	19MW	14MW
Current average volume traded per trading session per effective year	3.3MW	3.0MW

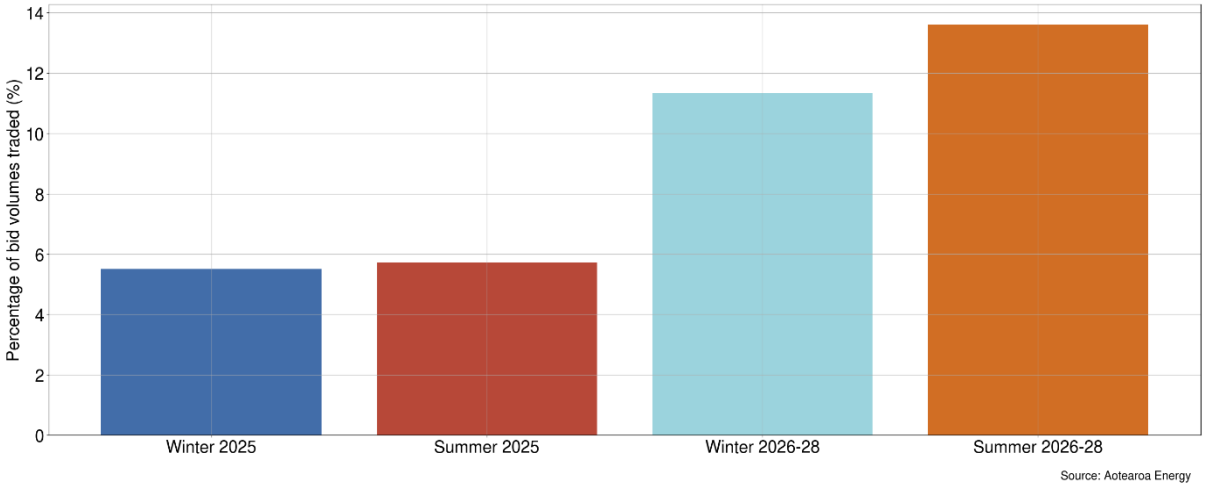
A.11. The current share of the market covered by independent retailers requires up to ~90MW in winter quarters and ~60MW in summer quarters. When looking at the total volume available to buy in a session, if retailers purchased everything offered for around 5 sessions (across 2-3 months), they may accumulate enough super-peak volume to cover their customer demand. As liquidity is a summation of how quickly products can be exchanged, taking 2-3 months to purchase the desired volume already indicates the market is not very liquid.

A.12. In a workably competitive market, available volume to sell should exceed that which is necessary to buy. Otherwise, it would mean buyers cannot be selective about which prices they choose to trade at and therefore the market may be vulnerable to the exercise of market power. The average volume traded in a session is a more reasonable indicator of how much the independent retailers can competitively buy per session. With that in mind, it seems like there is enough standardised super-peak product to cover the summer quarters if independent retailers trade in most sessions throughout the year. However, this may risk competition problems and ability for sellers to exercise their market power.

A.13. For winter quarters, even if the independent retailers traded at every session over a year, they would likely not accumulate enough to cover the higher demand winter months.

A.14. The percentage of buy order volume that got traded was also calculated (Figure A2). Only 5-14% of the total buy order volume was traded, with winter 2025 orders traded the least and contracts for later years traded the most. This is very low compared to both the percentage of super-peak requests that end in a trade on the OTC market and the percentage of orders that trade on the ASX market, both roughly 50%.

Figure A2: Percentage of bid volume traded in the standardised super-peak market



The standardised super-peak market is not deep

A.15. Market depth shows how much volume is available to trade at different prices. In a deep market there is lots of volume available to trade at a similar price. A deeper market is generally a more liquid market.

A.16. The standardised super-peak market is a shallow market as it has very few parties trading within it and those parties are trading small volumes. Indications that the market is very shallow are:

a. There are an average of 2 buy and sell orders per product active at any time during a standardised super-peak trading session.

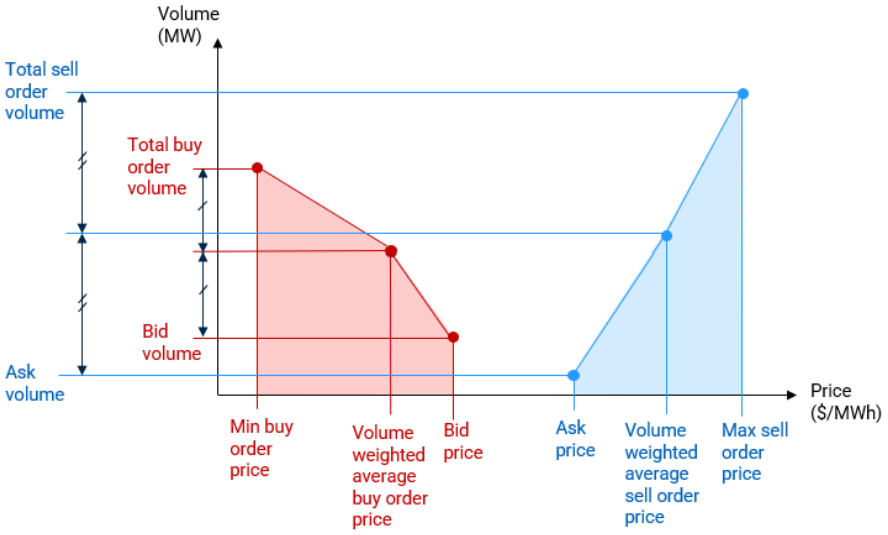
b. There are 5 participants selling standardised super-peak product, with 2 participants doing the majority of the selling (87% of total volume sold).

c. There are 9 participants buying standardised super-peak product, with a single participant doing roughly half the buying.

A.17. Given the market is shallow, it is difficult to analyse the market depth effectively with any common measures used. We have, however, calculated an approximation of depth.

A.18. To approximate the average market depth, the min, max and volume weighted mean price were identified for formation of orders over time. The corresponding volumes to purchase at these prices were also calculated (ie, the volume of the highest buy order, the total volume of all the buy orders, etc). The details of what features were identified to approximate the depth of the active orders is shown in Figure A3.

Figure A3: The key order features identified to approximate the active stack



A.19. These prices and volumes were averaged using the time the orders remained active before the active orders changed as a weighting. They were then averaged by contract type (summer, winter, and effective year) and plotted (Figure A4).

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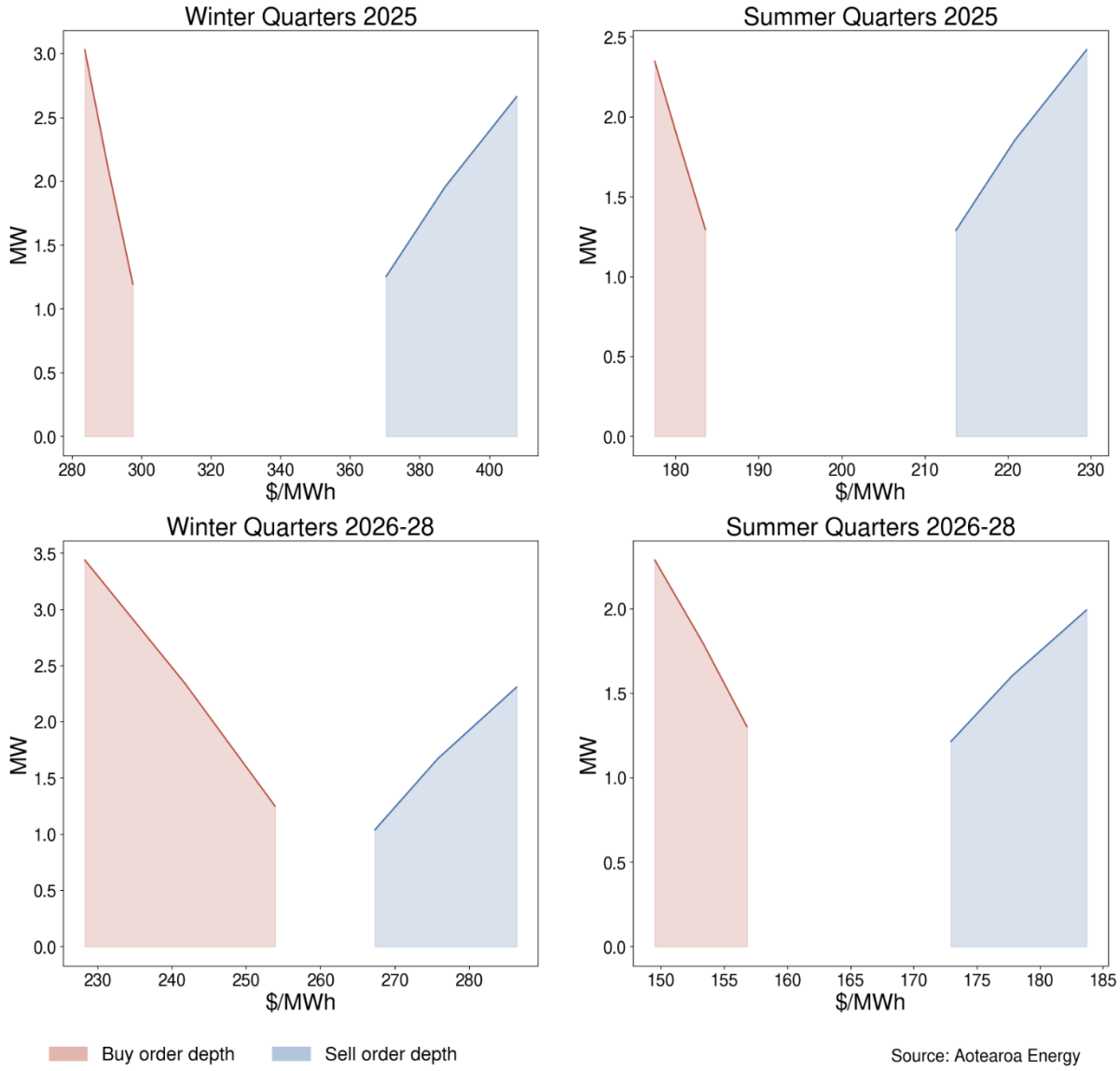
Figure A4: Representation of average depth in the standardised super-peak market by contract type.



A.20. The average depth during the trading window is 2-3.5MW across the standardised super-peak contract types. This depth approximation, again, suggests the market is shallow. The winter contracts for later years have the greatest buy side depth but the lowest sell side depth. On average per contract and trading session, 3.0MW of buy order volume and 2.5MW of sell order volume has been available.

The bid-ask spread has been trending downwards over time

A.21. The bid-ask spread for a product is the difference between the highest buy order (bid) price and lowest sell order (ask) price of that product. A tighter bid-ask spread is generally associated with a more liquid market.

A.22. The bid-ask spread in the standardised super-peak market was analysed by identifying the bids and asks throughout the trading sessions for each contract. The percentage differences between the bids and asks were calculated to represent the bid-ask spreads. The time weighted average bid-ask spread was calculated for each contract and session. These bid-ask spreads were then averaged by contract

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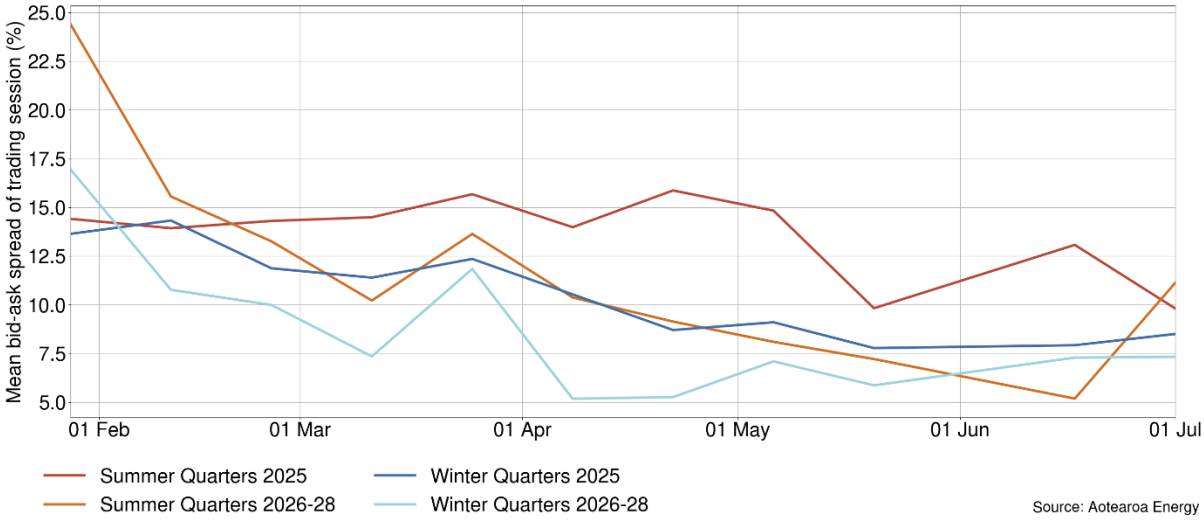
type. Figure A5 shows the average bid-ask spread during each session for each type of contract.

Figure A5: Average bid-ask spread of different types of contracts during trading sessions



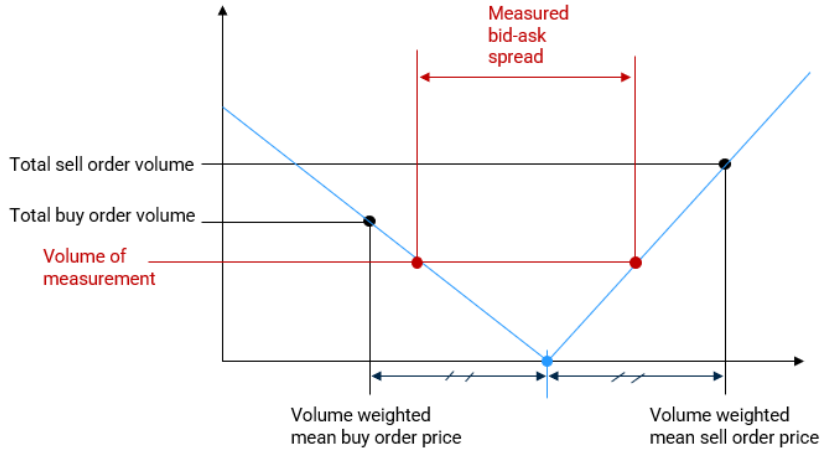
A.23. The bid-ask spread has narrowed for most contracts over time (from an average across contracts of 17% in the first session to 10% in the 1 July session) but appears to be stabilising from around April. Summer 2025 contracts were the exception – they are traded the least (Figure A1) and have the shallowest depth (Figure A4), which often resulted in higher bid-ask spread (Figure A5). Winter 2026-28 contracts generally had the lowest bid-ask spreads on average. Most sessions and contracts seem to have average bid-ask spreads between 5% and 13%.

The depth dependent bid-ask spread suggests the standardised super-peak market is not very liquid

A.24. The bid-ask spread measure does not consider the amount of volume on offer as it is dependent on the highest buy price and lowest sell price. If the bid and ask orders have very small volume, a large volume trade could widen the bid-ask spread substantially.

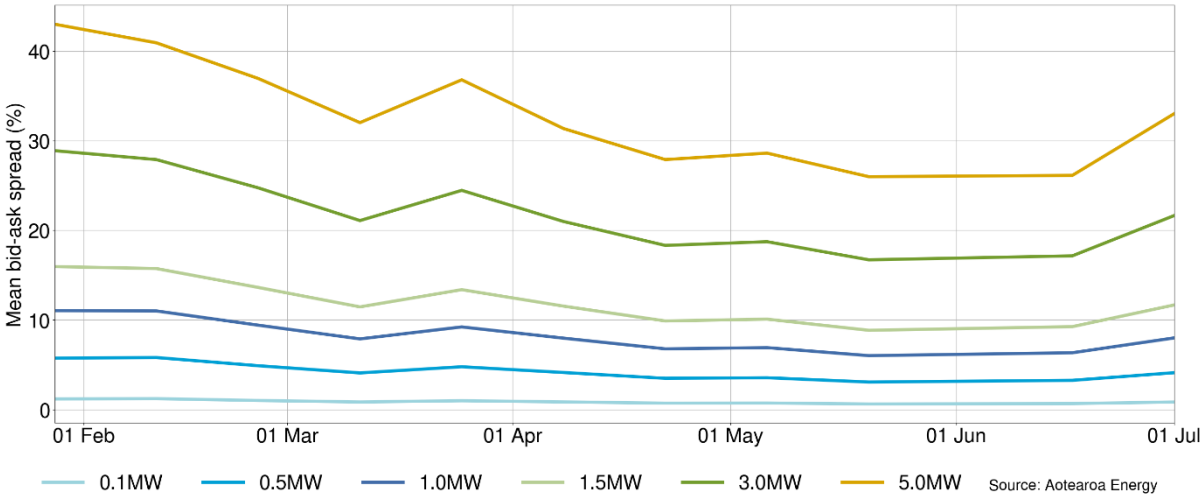
A.25. To capture how the bid-ask spread might change after certain volumes of trading, the volume weighted mean buy order and sell order prices, and the total order volumes were used to extrapolate the bid-ask spreads at different volumes. The procedure for this is demonstrated in Figure A6.

Figure A6: Procedure for extrapolating the bid-ask spread after certain volumes of trading



A.26. Using the above methodology, the bid-ask spreads corresponding to different trading volumes were calculated. These bid-ask spreads were averaged with a time weighting over each session and contract, then the average across all contracts was plotted (Figure A7).

Figure A7: Mean bid-ask spread extrapolated to see the bid-ask spread after buying different volumes



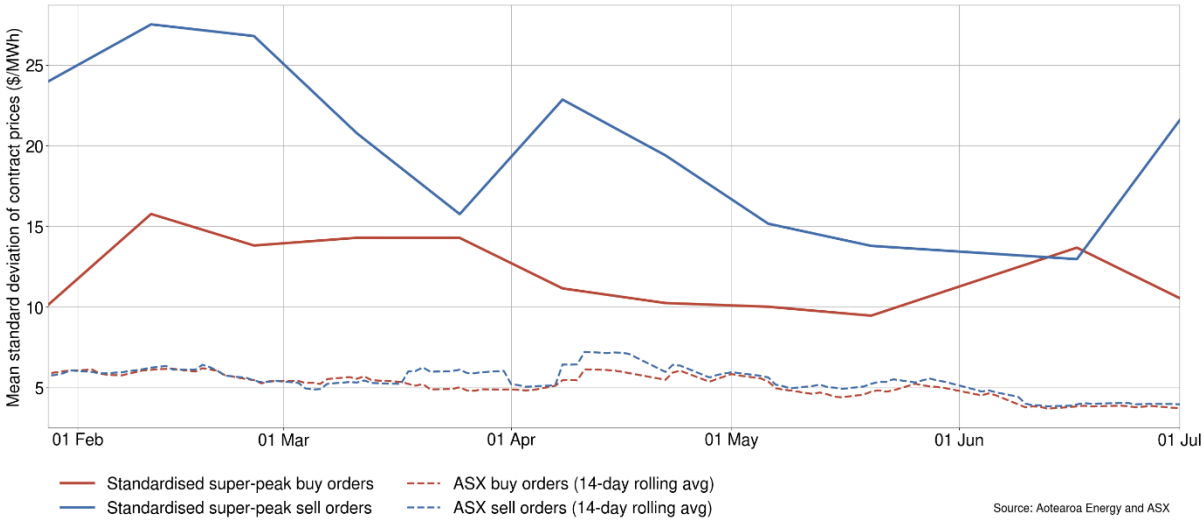
A.27. This shows that the bid-ask spread becomes much wider when a substantial volume is traded. This, again, suggests the standardised super-peak market is not very liquid.

Price volatility is higher for sell orders compared to buy orders

A.28. Market price volatility is a good indicator of how much risk there is in a market. When volatility is high, that means the prices change quickly, which can lead to greater risk but potentially higher reward. High volatility is generally associated with low liquidity because when liquidity is low, it takes minimal action in the market to push the price to substantially change.

A.29. To assess the market volatility in the standardised super-peak market, the standard deviations of the buy and sell order prices were calculated over a trading session for each contract. These contract standard deviations were averaged to get an overall market volatility for each session. Figure A8 shows the resulting average standard deviations in the standardised super-peak and ASX markets.

Figure A8: Average contract standard deviation of buy and sell order prices



A.30. Market volatility is higher for sell order prices than buy order prices. This indicates that sell orders have less consistent prices for the buyers. The market volatility appeared to be decreasing at first, but it now appears to be relatively stable. The ASX market is consistently less volatile than the standardised super-peak market. This is likely due to the market making regulations applied to the ASX market. The high volatility of the standardised super-peak market compared to the ASX market is another indication that the standardised super-peak market is not very liquid. It is also an indication that the standardised super-peak market carries more risk than the ASX market.

Amihud's illiquidity

A.31. Amihud's illiquidity is a common measure used in liquidity analysis. It is calculated as the absolute return of the day over the volume traded. In the standardised super-peak market, the trading is fortnightly rather than daily. The return for each contract was calculated as the natural log of the volume weighted average session trade price over the average price from the previous session. If a contract was not traded in the previous session, the price from the last session it was traded in was used.

A.32. While Amihud's is traditionally a measure of illiquidity, rather than liquidity, the reciprocal can be taken to get the equivalent Amihud's liquidity. The average Amihud's liquidity of each contract type is in Figure A9.

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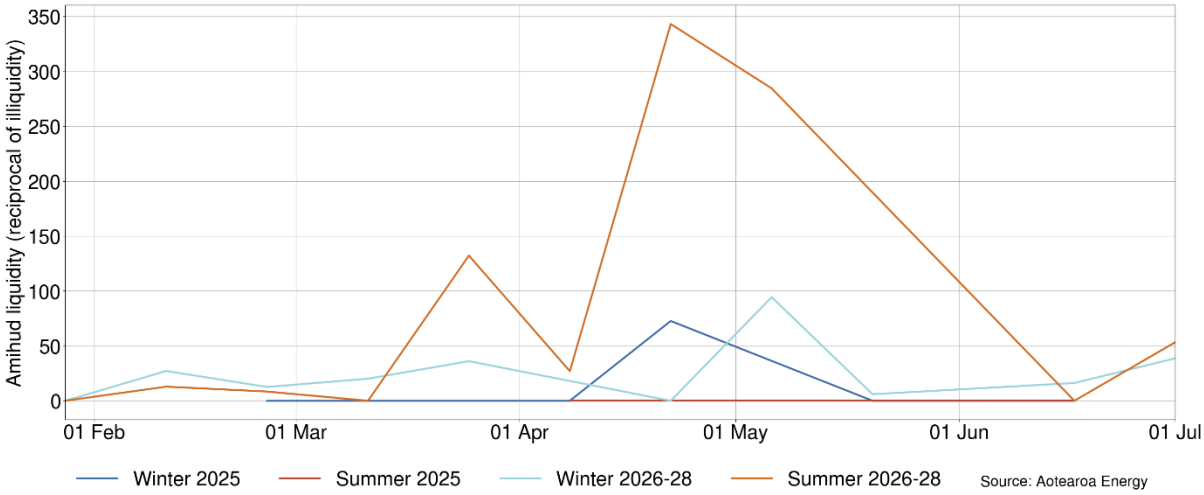
Figure A9: Amihud's Liquidity, where a value of zero means no contracts of that type were traded that session or a previous session



A.33. In the standardised super-peak market, there is no guarantee that the same contract will be traded across consecutive sessions. Most contracts did not trade frequently. As such, trying to calculate some form of Amihud's liquidity is not suitable for the market at present. There were not enough datapoints to draw any reliable conclusions from Figure A9.

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Appendix B Maximum bid/ask spread and minimum volumes for market making

B.1. Report from Principal Economics Ltd included as a separate document.

Appendix C Indicative drafting for urgent regulation

Below is indicative drafting for an urgent Code amendment to require obligated participants to offer and sell a minimum volume of hedges over-the-counter (option B, discussed in section 8 of this paper).

1.1 Interpretation

(1) In this Code, unless the context otherwise requires,—

…

evening peak period means 1700 to 2100 hours New Zealand time

interconnected bodies corporate has the meaning in section 2(7) of the Commerce Act 1986;

minimum required volume means [xx] **MWh**

morning peak period means 0700 hours to 1030 hours New Zealand time

standardised flexibility contract means a **contract for differences** relating to the price of a quantity of electricity during the **morning peak period [**and/or**]** the **evening peak period**

Subpart XX—Trading of standardised flexibility contracts

XX.1 Contents of this subpart

This subpart provides for the mandatory trading of **standardised flexibility contracts** by certain **participants**.

XX.2 Application of subpart

This subpart applies to the following **participants**:

(a) Contact Energy Limited;

(b) Genesis Energy Limited;

(c) Mercury NZ Limited;

(d) Meridian Energy Limited.

XX.3 Requirement to trade standardised flexibility contracts

(1) In each three-month period, each **participant** referred to in clause XX.2 must enter into **standardised flexibility contracts**:

(a) in which that **participant** is the **seller**; and

(b) which cumulatively cover at least the **minimum required volume** of **electricity**.

(2) For the purposes of subclause (1), a **standardised flexibility contract** in which the **participant** or any of its **interconnected bodies corporate** is the **buyer** does not qualify for the purposes of calculating whether the **minimum required volume** of **electricity** in subclause (1)(b) has been met in each three-month period.

(3) In each three-month period, at least **[**xx**]** percent of the **minimum required volume** of **electricity** in subclause (1)(b) must be covered by **standardised flexibility contracts** in which the buyer is a **participant** that is not:

(a) any of the **participants** referred to in clause XX.2; and

(b) an **interconnected bodies corporate** of any of the **participants** referred to in clause XX.2.

(4) For the purposes of subclauses (1) to (3):

(a) the first three-month period commences on the day after the date that this subpart comes into force;

(b) each subsequent three-month period commences on the day after the final day of the immediately preceding three-month period.

(5) The **standardised flexibility contracts** in subclause (1) may be in respect of the Otahuhu reference **node** and/or the Benmore reference **node**.

Appendix D Glossary of abbreviations and terms

Authority	Electricity Authority Te Mana Hiko
Act	Electricity Industry Act 2010
ASX	Australian Securities Exchange
Code	Electricity Industry Participation Code 2010
OTC	Over-the-counter

Market terminology

A **hedge contract** is a way of reducing or eliminating exposure to risk in a market. A hedge contract can also be called a risk management contract. For example, retailers are exposed to the risk that the electricity spot price will be higher than the price for which they have already agreed to sell electricity to their customers. To reduce this risk, they can buy an over-the-counter (OTC) hedge contract from a gentailer or an exchange-traded contract on the ASX that guarantees them electricity at a certain price instead of the spot price during a future period, or use other risk management options as discussed in the risk management review.

There are different types of hedge contracts. They can be for **baseload** (a fixed volume of energy traded during a fixed period for a fixed price, for all trading periods, that is, the same volume in each trading period), **peak** (a fixed volume of energy traded for all trading periods during the day), or **super-peak** (a fixed volume of energy during periods at 'super-peak' times of consumer demand, that is, morning and evening peaks).

The **hedge market** in New Zealand is primarily the electricity futures market (run by the ASX) and the OTC market for hedge contracts. Standardised baseload hedge contracts can be traded on ASX. In the OTC market, generators and traders can enter standardised or bespoke hedge contracts, including **shaped** contracts. Shaped hedge contracts are customised to meet specific load profiles or consumption patterns of end users.

The **super-peak flexibility product** is a new, standardised super-peak hedge OTC contract that was co-designed with industry and announced in December.

Market making

Market making is a service where a participant will quote prices for two sides (ie, both buys/bids and sells/offers) of a market in a particular derivative with a specified amount of volume and a specified bid-ask price spread. This service provides liquidity by there being always volume available to be bought or sold.

In 2022, the Electricity Authority introduced mandatory market making in the electricity futures market, to support a robust and reliable forward price curve and increase the availability of risk management contracts for market participants.

Market making of baseload contracts requires four regulated market makers (the four large gentailers) and one commercial market maker to provide a certain volume of buy and sell offers on the ASX.

The Authority is now undertaking a policy review of market making arrangements to ensure that current settings remain appropriate and aligned with our market making policy objective. As part of this review, we will also explore potential changes to strengthen market making services and ensure they continue to support a resilient and efficient electricity market. The Authority will consult on these proposals in late 2025.

Generation

Flexible generation means the ability to increase or decrease the amount of electricity produced, by turning generation on or off when needed (or ramping output up or down). Hydro is the most common type of flexible generation. Most flexible generation assets are controlled by the Gentailers. Ownership of those assets underpins the ability to offer shaped hedge contracts and firming for intermittent generation.

Intermittent generation means generation such as wind or solar power that may not be able to generate at times when its fuel source is unavailable (for example, if it there is no wind or it is cloudy). The more intermittent generation there is in the system, the more flexible capacity is required to firm it.

Firming means ensuring intermittent generation can reliably meet demand by supplementing it with flexible generation or other flexible resources such as battery energy storage solutions. A **firming contract** is an agreement that ensures the availability of a specified amount of electricity supply during times when it is needed, especially when dealing with variable or intermittent generation sources.

Retailer types

A **gentailer** means a generator-retailer, an electricity business that operates both as a generator and a retailer of electricity. In this paper, we use ‘gentailer’ to refer to the four large generator-retailers that control the vast majority of New Zealand’s flexible generation: Contact Energy Ltd, Genesis Energy Ltd, Meridian Energy Ltd and Mercury NZ Ltd.

Independent or non-integrated retailer means a retailer that does not own generation.

Key regulatory concepts

Level Playing Field measures are measures that are designed to ensure fair and even-handed access treatment of all participants in a market. They can range from disclosure obligations to structural remedies like corporate separation.

Non-discrimination obligations are a level playing field measure that, in relation to the supply of hedges, would require gentailers not to treat themselves substantially differently from their non-integrated competitors, or to treat different competitors substantially differently.

Appendix E Format for submissions

Submitter	

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?	
Q2. Do you agree with our objectives for and intended outcomes of trade in the super-peak product?	
Q3. Do you agree with our framework and metrics for assessing liquidity in the standardised super-peak market?	
Q4. Do you agree with our proposed quarterly assessment period for voluntary trading from 2026 onwards?	
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.	
Q6. Do you have views on whether barriers exist to wider or more diverse participation in the super-peak trading events?	
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?	
Q8. Do you agree with our options for enduring regulation? Are there other options you think we should consider?	

Q9. Do you have feedback on the settings for the options (eg, bid-ask spread, volumes)?	
Q10. Do you agree with our rationale for who the regulation should apply to, and that it should be evenly spread across the obligated participants?	
Q11. Do you agree with our criteria for assessing options for regulation? Do you think we should include anything else?	
Q12. Do you agree with our assessment of option 1: Market making ASX ?	
Q13. How important do you think it is to retain flexibility for the product to evolve?	
Q14. Is access to the ASX a problem for your organisation? If so, please explain why.	
Q15. Do you agree with our assessment of option 2: market making OTC ?	
Q16. How much of a problem is the administration burden and/or lack of total anonymity in option 2?	
Q17. Do you have any feedback on our preferred option for regulating the standardised super-peak hedge contract?	
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?	
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?	
Q20. What are your views on the frequency of monitoring for this option?	

Q21. Do you agree the Authority needs to be prepared for urgent action if necessary?	
Q22. Do you agree with option B as the preferred option for urgent regulation while more enduring regulation is being considered?	
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?	