Webinar Q&A: Regulating the standardised super-peak hedge contract consultation

Question 1:
Could you talk us through the rationale for continuing with voluntary arrangements?

Answer 1:
The consultation paper sets out the Authority's view that continuing with voluntary arrangements would allow more time for liquidity to develop and for the market to acquire more information to inform market settings if regulation is required. The paper acknowledges that voluntary arrangements for hedge supply and price discovery have been fragile in the past and seeks feedback on the case for regulating more quickly, and if so, what the settings should be.

Question 2:
Why has voluntary trading not been successful to date?

Answer 2:
The Authority considers that voluntary trading to date has improved availability and pricing of super peak contracts, but our assessment highlights that the market is not deep or liquid eg, two participants selling 87% of contracts. We are seeking feedback on the performance so far of voluntary trading, and what settings might improve liquidity and price discovery for super-peak hedges. Feedback may also inform us of any barriers to wider participation in trading events.

Question 3
The voluntary arrangement introduces a great deal of regulatory uncertainty for independent retailers because an access-seeker has no guarantees of a hedge at all times. The paper's uncertain basis for moving to regulation is another source of regulatory uncertainty.

Answer 3
We agree that voluntary arrangements can be fragile. We also consider that it is important to set out, and consult on, our expectations for liquidity (including volume and bid-ask spread) to give the market clarity on the trigger for regulation. We look forward to your submissions on this.

Question 4
Could you expand on the poorer market outcomes with a volatility-based settings adjustment?

Answer 4
This was previously considered in our work on the Expiry of the Urgent Code. That work detailed that wider spreads had the potential to adversely affect liquidity and market outcomes. You can read more about it in that consultation paper and decision paper.

Question 5
How did you arrive at the proposed market making settings?

Answer 5
We considered a range of information to reach the proposed market settings. This included:

- the natural demand for the product and our expectations of how that will grow
- our liquidity assessment of the standardised super-peak product which included the current market depth and bid-ask spread
- the expert report from Principal Economics which evaluated the minimum trading volumes and maximum bid-ask spreads for market-making.

We expect feedback on the consultation paper to further inform market settings.

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 further changes to these options. We will consult on the detail of any Code changes to implement an enduring regulatory option, should this be required.

Question 6:

Why did you assume that independent retailers would only buy super-peak contracts to cover their exposure?

Answer 6:
This was one reference point to inform the assessment of liquidity in Appendix A. Our modelling indicated that the market is not sufficiently liquid to cover the super peak demand of independent retailers. As noted in the answer to question 5 above we considered a range of information to reach the proposed market settings. We are now seeking further information from stakeholders to inform the market settings.

Question 7
Is the Authority considering formalising platform provider arrangements to enhance trading session outcomes?

Answer 7
Feedback from this consultation will help to inform our assessment of whether measures are needed to formalise platform provider arrangements. If the Authority determines that regulation is required, we will seek assurance that the platform provider meets certain requirements including that they can ensure access for a wide range of participants and

can deliver transparent and timely information to participants and to the Authority. We also welcome feedback on how voluntary trading arrangements could be improved.

Question 8
Can you clarify the threshold for considering regulation?

Answer 8
The threshold for enduring regulation is set out in section 4, *Assessment framework for voluntary trading*. The threshold comprises some quantitative measures (eg, volume of offers and bids, and bid-ask spread). We have not specified values for all aspects of trading eg, traded volume. This recognises that some judgement will be necessary. Paragraph 4.18 sets out the Authority's proposed approach, that if the expectations in the assessment framework are not met for two consecutive quarters from January 2026, then the Authority would assess whether to implement the regulatory proposal. We welcome feedback on this proposed approach

We have also considered the circumstances that could warrant an urgent Code amendment. This is set out in section 8 of the consultation paper.

Question 9
The Authority proposes urgent regulation if the current proposal does not produce intended results. At what point will you do a cost benefit analysis of whether those further interventions would achieve the stated goals or not?

Answer 9
The Act provides that urgent regulation can be implemented if the Authority considers it is necessary and desirable in the public interest. Urgent regulation may be necessary or desirable if there is a sudden and material reduction in the offers or trades of shaped hedges. However, urgent regulation expires after nine months. Should it be deployed, the Authority would act quickly to develop enduring regulation supported by a cost benefit analysis.

Question 10
Is the Authority investigating the data on participation and seeking to understand drivers for parties who are not currently involved?

Answer 10
We have looked at the data and we have surveyed participants. We are looking forward to receiving feedback on any barriers to participation.

Question 11
If there is relatively low participation in this market, it may be that regulating the product will not make a great deal of difference to the wider market and consumers. What is the Authority's view?

Answer 11

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 sustained power at a stable price.

We are seeking feedback on whether the product is important, and whether regulation is required.

Question 12

Is there a chance of asking Principal Economics questions about how they came to their recommendations?

Answer 12

We invited questions on the Principal Economics report here Questions invited on standardised super-peak hedge contract independent report | Electricity Authority. Principal Economics provided responses here: [add link to Principal Economics Q&A PDF].

Question 13

Could you talk about how you see this dovetailing into the review later in the year?

Answer 13

The submissions on regulating the super-peak hedge contract close on 30 September 2025. Submissions on this paper will inform the Authority's wider review of market making. We expect to release a consultation paper on the wider market making review in November.