30 September 2025

Electricity Authority
Level 7, AON Centre
1 Willis Street
Wellington 6011

To whom it may concern,

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

Contact Energy ('Contact') appreciates the opportunity to respond to the consultation paper titled 'Regulating the standardised super-peak hedge contract: issues and options.'

Voluntary participation preferred

Contact understands the importance of the super-peak product for hedging risk in the New Zealand electricity market. Contact is one of the two entities cited who have consistently supported the evolution of the super-peak trading product through voluntary market making during all super-peak trading events at a bid-ask spread and volume that we consider is appropriate for the nature of the super-peak product.

Contact advocates for the continued voluntary participation in super-peak trading with guidance and oversight from the Electricity Authority ('Authority'). In terms of the burden on participants required to undertake the service, market making is among one of the more costly regulations required by the Authority[1], and lower cost approaches should be tested before codifying it as a requirement. The market for trading super-peak via the OTC platform is still in its infancy and requires more time to develop liquidity through broader participation. Contact expects that as investment in battery storage increases and the value of flexibility in consumption becomes apparent, more participants are likely to become involved in trading the product and liquidity will improve organically.

Contact remains in favour of the market continuing to run in an over the counter (OTC) manner. OTC best meets the needs of the market in terms of accessibility; however, we strongly believe there is room for improvements in the OTC trading platform.

[1] In recent years, market making on ASX listed New Zealand electricity futures has at times cost Contact more than $10m per annum.

Trading platform requirements

Contact has been an active participant in the fortnightly super-peak trading events. We understand that the owner of the trading platform only had a short period of time between being recommended as the venue for the super-peak trading events and the actual events starting, but the current state of the platform is not fit for the purposes of a codified market making requirement. The platform would benefit from investment regardless of whether the Authority finds that market making of super-peak contracts is required or not.

The platform currently requires a heavy amount of manual processing to get orders from participants to the point of being uploaded to the platform. This manual processing step takes time and is too slow to meet the requirements of trading parties to manage their risk effectively.

We have also experienced several trades in error resulting from the manual processing of orders. The trades in error were eventually cancelled but this represents a major risk and weakness of the current system.

We recommend that the Authority develops a set of minimum trading platform requirements to facilitate improved liquidity of super-peak trading in all scenarios. Improved access, ability to alter buy and sell orders in real time and visibility during trader periods will result in a material improvement in the ease of participation and will likely lead to an improvement in the liquidity of the product.

As a minimum, we suggest:

1. Participants must have full control over their own orders and be able to insert, update, cancel and refresh orders.
2. Participants must have access to a live feed of price information which can be accessed via an API (or similar).
3. Participants must have the ability to download a transaction summary during and after each trading event in a standardised format.
4. The trading platform must be secure, and the platform owner should follow good security practices that would be expected of a trading platform.
5. The trading platform must be stable and reliable such that participants receive a high-quality trading experience for each event.
6. The trading platform must be available for all trading events. Platform maintenance should be scheduled outside trading windows.

We recommend that the Authority sets up a work programme with the platform owner and participants to bring the platform up to required standards. Any assessment of liquidity should only occur after these minimum standards are met.

A codified market making requirement

Once necessary improvements to the platform have been implemented the Authority must give the market sufficient time to build up liquidity. If following that period of discovery the Authority determines that codified market making is necessary, the parameters of market making require careful development.

We note that in the Electricity Authority's "Market Making under high stress conditions – Decision Paper" section 5.21 and 5.22 the EA noted a wider review of market making would occur and acknowledged "that market making becomes more costly during periods of market stress" and "the upcoming review of market marking is to ensure our market making obligations delivery reliable, sustainable and fit for purposed market making services". Accordingly, our views in this section are based on this premise – that sustainable market making services must be designed with specific relief or settings that can be maintained through high stress conditions. Our analysis that follows and review of the Principal Economics paper should be seen in this light.

Contact is concerned with the suitability of several key assumptions used by Principal Economics in their paper. We consider that assumptions on benefits and costs to market makers are incorrect in the New Zealand electricity context and, as such, the recommendations of the paper should be viewed with caution.

Principal Economics paper

Contact appreciated the opportunity to ask questions on the Principal Economics paper. We offer our perspective based on experience and knowledge of market making in both ASX baseload futures and OTC super-peak trading events.

The paper looks at the impact of volatility on bid-ask spreads on super-peak trading events. We believe this does not sufficiently address the underlying price volatility, which in our opinion is the most significant cost, which can see the market prices move significantly over a short period of time – and results in market makers taking on significant risk from open inventory. We address this further in Figure 2 below.

Contact also questions the benefit to market maker assumptions in the response to questions addendum. It is acknowledged that commercial market making required significant compensation and super-peak market making should require additional compensation. In our opinion, if the assumptions about the benefit of market making were true, the market should have formed naturally without the guidance of the Authority. The fact that it hasn't formed suggests to us that there are significant costs involved. If in the model the assumed benefits do not hold, we expect that either bid-ask spreads would need to widen and/or volume requirements would need to decrease to compensate.

Reflecting on costs, Principal Economics notes that the cost equations are simplified and do not include critical costs of carrying inventory between trading events. They acknowledge that including this in the cost function would shift the net benefit curve

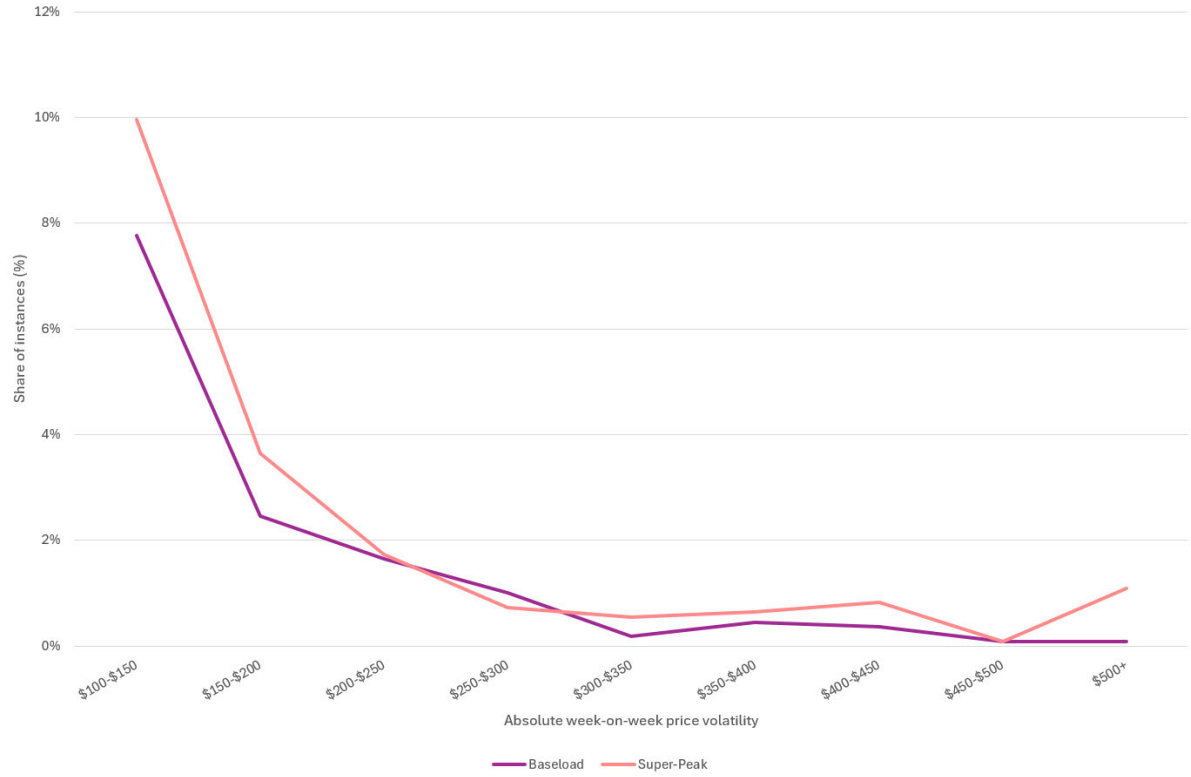
downward. Again, where net benefits decrease, we expect that either bid-ask spreads would need to widen and/or volume requirements would need to decrease to compensate. We also note that the market does not need to be experiencing fuel related stress (i.e. low hydro inflows etc) to be experiencing volatility – the market can be equally if not more volatile as supply conditions improve.

Bid-ask spreads: Super-peak vs baseload volatility in the spot market

Super-peak spot prices tend to be more volatile than baseload. To demonstrate this, we investigated the distribution of daily average baseload or super-peak price changes from week to week from September 2022 to August 2025.

Figure 1 shows the distribution of week-on-week absolute volatility for baseload and super-peak products. This clearly shows a consistently higher volatility of super-peak products – and notably more at the higher end of the volatility spectrum.

Figure 1. Distribution of week-on-week spot market volatility (Sep 2022 to Aug 2025)



Tables 1 and 2 further show that the absolute volatility of the super-peak product and the distribution of outcomes are significantly higher than baseload – and further magnified at the extreme end of the distribution.

Table 1. Week on week volatility (Sep 22 – Aug 25).

	Baseload	Super-Peak
Average Volatility ($)	$56.13	$70.85
Std Deviation ($)	$63.30	$109.47
Median ($)	$37.45	$42.34

Table 2. Distribution of week-on-week volatility (Sep 22 – Aug 25).

	Baseload	Super-Peak
99th percentile	$358.99	$626.39
95th percentile	$167.59	$215.70
75th percentile	$75.20	$84.94
50th percentile	$37.45	$42.34
25th percentile	$14.96	$16.84
5th percentile	$2.50	$2.64
1st percentile	$0.21	$0.45

Contact expects this volatility will increase in the future as intermittent generation sources increase in market share.

Bid-ask spreads: Day-to-day versus fortnight-to-fortnight volatility in the ASX futures market

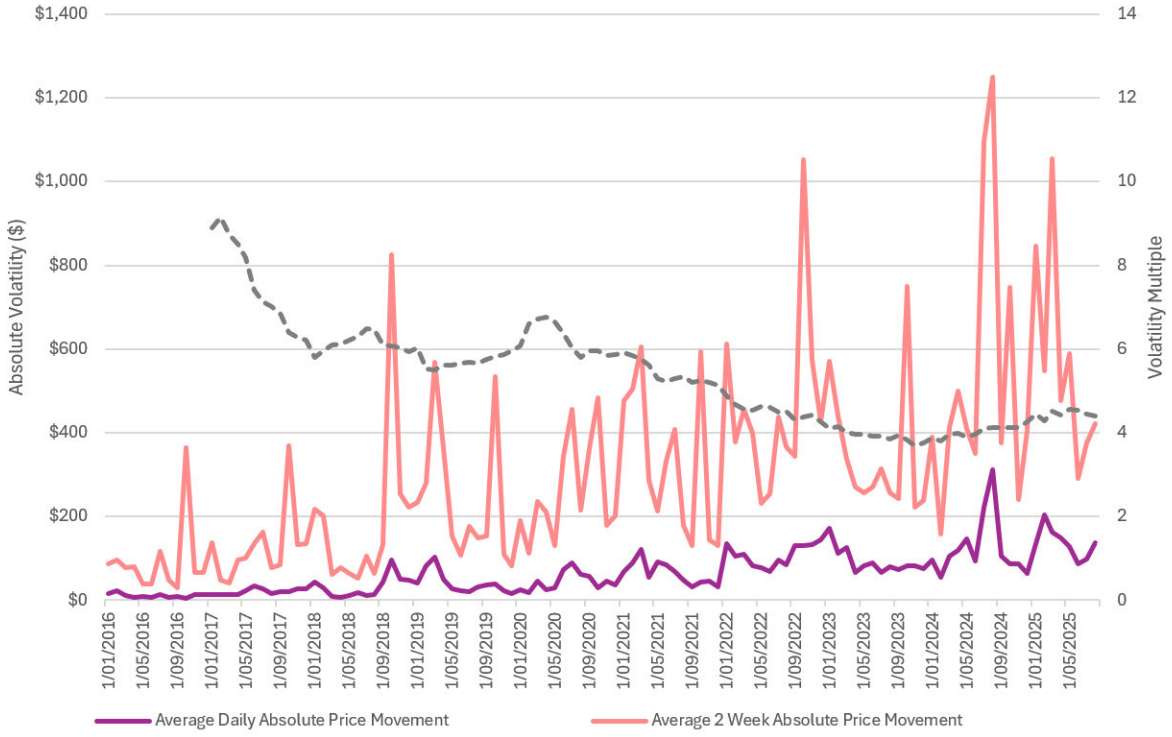
Super-peak trading events through 2025 have proven that the super-peak product has a close tie to the relevant ASX baseload product at the time of the auction.

In the event the Authority requires market making of super-peak products run in fortnightly trading events, the effect is to force additional price risk on market makers of the super-peak product when considered against a product traded daily (such as ASX baseload contracts). This is especially true when open trade inventory is carried from one trading event to the next.

Figure 2 shows our analysis which takes the sum of the absolute price movements summed across all listed ASX contracts[2] from day to day and fortnight to fortnight[3] suggests that the fortnightly price risk has tended to sit between a multiple of 4 to 6 times over that of a day-to-day price risk over the last three years.

[2] To allow comparison of quarterly and monthly products, we adjust monthly contract (ED and EH ASX contracts) price movements by dividing them by 3.
[3] For example, a day-to-day comparison would compare the price change between 30 September and 29 September. A fortnight-to-fortnight comparison compares price changes between 30 September and 16 September.

Figure 2. Average monthly day-to-day absolute ASX contract volatility versus fortnightly absolute ASX contract volatility



Bid-ask spreads: Our recommendation

While we agree with the Authority that the super-peak trading events are only required fortnightly, we recommend that the bid-ask spread be widened to at least 10% to compensate market makers for this additional price risk from the combined effects of spot volatility of super-peak products and the significantly higher volatility from resulting from fortnight-to-fortnight price movements.

Volume settings: Over-procuring volume and impacts on other markets

There is not currently enough evidence to back the Authority's claim that 10 MW of super-peak contracts are required to be available in each auction. The Authority notes in Appendix A that "it is difficult to know whether the super-peak contract is liquid enough" (A.4). The period of data collection on super-peak events is small and it is clear that not all proposed market makers have been consistently offering liquidity.

If the Authority was to regulate 10 MW of super-peak contracts be made available across each available contract, it would give the market the opportunity to transact at least 720 MW (the equivalent of almost 3 Huntly Rankine units) of super peak contracts[4] on both bid and ask from market makers alone across a 3-year listing time frame.

[4] 10 MW x 24 trading events per annum x 3 years

Based on independent retailer volume requirements of 92 MW, we suggest this would be an extreme over-procurement of market making services. We also suggest that not all independent retailers will opt to fully hedge their super-peak exposures and may be willing to take some level of risk – or hedge with different products.

Over subscribing of market making volumes may have unintended consequences on other markets. The proposed market makers generally operate their portfolio on risk-based measures, with super-peak products being one of the riskiest products they sell. Exposure to excessive sold volumes may result in them being unable to service other sales channels such as residential, SME and Commercial and Industrial, or offer risk products such as swaptions or other risk management products due to the uncertainty created by unnecessarily large super-peak market making requirements.

Volume settings: Our recommendation

We recommend the Authority adopts an iterative approach to the required volumes for market making of super-peak contracts. The Authority should focus on the voluntary participation from up to four market makers with a volume requirement of 1.2 MW each.

This would make at least 4.8 MW available in each contract for each event, or approximately 350 MW available across 3 years[5] . Assuming a main buyer for the hedging is independent retailers, they would need to participate in approximately 25-30% of auctions to achieve 90 MW of winter super-peak hedging (assuming market makers are the *only* source of liquidity).

In future, and following sound statistical analysis and reasoning, if it is proven that these volumes are insufficient, the Authority could provide guidance that increased volumes are required.

We also recommend that the Authority thoroughly consider any unintended consequences from requiring market makers to provide an excessive amount super-peak liquidity.

Encouraging good hedging behaviours: Avoid market making into real time

In the event the Authority deems that super-peak market making is required, we recommend that the codified market making requirements are only implemented from 6 months out from the auction date. Near-term contracts could still be listed, but it would be optional for participants to provide quotes on those contracts – while baseload contract liquidity would still available via ASX listed contracts.

This promotes good hedging practices by setting an expectation that market participants should hedge price risk in advance. It also prevents the creation of a market with obligatory trading and material upside price risk. A specific example is useful to illustrate this point – if market making is obligatory in an active month or

[5] Alternatively, 290 MW across 2.5 years if the Authority adopts the approach not to require market making in the front six months.

quarter within which a scarcity pricing event has occurred (currently a $17,000 / MWh price) the underlying derivative, particularly for a super peak period with limited trading periods in the month / quarter, will move materially in the next trading event post scarcity price event/s.

Recommendations

Contact applauds the Authority for this work. We are a committed voluntary trader of the super-peak product, and we support efforts to continue to deepen this market.

We recommend that the Authority continues to advocate for voluntary participation in the super-peak trading events whilst focussing its efforts on measures to encourage trading. The market is still in its infancy and requires platform investment and more time for the nascent market to grow before deciding whether regulation is required.

The Authority should only assess the liquidity of the super-peak product after necessary improvements to the platform have been made.

However, if at that point the Authority finds that super-peak market making is required, the parameters need to be well suited to the risks and demand for the product. As we outline in this submission, we consider that;

- trading should be held fortnightly on an OTC platform as proposed by the Authority;
- market makers should be required to provide liquidity at a fixed bid-ask spread of at least 10% to reflect the higher volatility of the super-peak product;
- the total volume available should be 4.8 MW (1.2 MW for each market maker) to better reflect the demand for the product and potential unintended consequences on the provision of other hedging; and,
- market making should apply to all contracts outside the front six month of contracts to encourage an appropriate level of longer-term risk mitigation.

Yours sincerely

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