Via email to taskforce@ea.govt.nz

30 September 2025

Regulating the standardised super-peak hedge contract

Mercury welcomes the opportunity to submit on the Electricity Authority's (Authority's) consultation paper, *Regulating the standardised super-peak hedge contract: issues and options*, 19 August 2025.

Mercury agrees with the proposed approach in general to regulating the standardised super-peak flexibility contract, an electricity hedge contract for morning and evening trading periods.

As the consultation paper states, regulation could be required to ensure reliable supply at efficient prices. It sets out the Authority's expectations for voluntary trading by gentailers 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 is important that the information collected over the first two quarters of 2026 informs an assessment that identifies issues that adversely impacted contract supply and price discovery. This assessment would enable the determination of appropriate actions, including steps toward regulation. Mercury, therefore, proposes that the scope of information collected should address the following factors:

1. *Conduct of gentailers*

   The focus of the consultation paper is the Authority's expectations from gentailers. Mercury agrees that the Authority should clearly set these expectations as these will mitigate regulatory risk. The Authority should also assess the other factors noted here to best ensure that the standardised contracts with market making result in efficient prices.

2. *Drivers of parties trading or not trading the standardised super-peak contract*

   Should individual independent retailers not trade in the standardised super-peak contract, it will be important to understand why. This might occur for a range of reasons that relate to the factors listed here or for other reasons. The Authority should therefore collect information to understand the drivers of parties trading or not trading the super-peak contracts.

3. *Performance of the standardised super-peak contract trading platform*

   The OTC platform's systems and processes on which the standardised super-peak contracts are traded should be fit for purpose and easy to use. A platform process and system that is not fit for purpose introduces friction into the trading process and would result in transaction costs that are detrimental to economic efficiency. As well as assessing the performance of the platform during the first two quarters in 2026, Mercury proposes that the Authority should review the trading platform now to identify improvements that can be implemented before 2026.

4. *Metrics for assessing market liquidity*

   As the standardised super-peak hedge contract has little trading history and it is complex, there is presently uncertainty regarding the appropriate value of the metrics for assessing market liquidity. The Authority should therefore allow for the possibility of amending the metric values based on the information gained during the quarterly assessments.

5. *Impact of standardized super-peak market-making on the broader OTC market*

   We 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. We also expect that the standardised super-peak product should not be the sole or even the dominant shaped hedge contract traded. It should enable

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and serve as a reference point (amongst others) for a broader range of shaped hedge contracts by providing an important reference point for price discovery. It will also be important to ensure that the standardized contract does not displace or reduce pool of these other contracts as this may reduce overall market efficiency. The Authority should capture this information as part of its assessment of the voluntary market-making regime.

These points are expanded on in our response to the Authority's questions, which is attached.

We look forward to continuing to engage with the Authority and the sector on the implementation of the standardised super-peak hedge contract and market making.

Yours faithfully,

[redacted]

Antony Srzich
Principal Advisor Regulatory Economics

ANNEX: Mercury comments on the Authority questions

Authority questions	Mercury 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?	We agree that access to shaped hedge contracts including 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?	We agree in general with the two core objectives of: (a) increase liquidity in the market for super-peak hedges; and (b) increase transparency in the form of robust price discovery for flexible resources. In addition, the purpose of the standardised super-peak hedge contract should be to inform the pricing of the other, wider range of shaped hedge contracts. Success, therefore, should not be measured in terms of the volume of standardised super peak hedge contracts in isolation of the broader set of shaped hedge contracts.
Q3. Do you agree with our framework and metrics for assessing liquidity in the standardised super-peak market?	Reiterating the general point made in the letter above, the Authority at this point should signal its current view of metrics for assessing liquidity while allowing for these metrics to be amended during the quarterly assessments. With this in mind, the proposed initial bid-ask spread of 5% may not fairly reflect the risk associated with the contract given the cadence of trading events and the underlying volatility of the super peak to base ratio. Mercury, at this point, considers that a more realistic measure of risk is in the 10-15% range. Mercury, therefore, proposes that it is better to assess the initial bid-ask spread during the quarterly assessments, within this range, in order to identify an appropriate setting. Similarly, an appropriate contract volume should be considered during the quarterly assessments, instead of being prescribed at this point. This volume needs to be sufficient to enable price discovery, but not so much as to distort or reduce trade in other hedge contracts more generally. Mercury considers that the objective should be to focus on promoting the

	trade in hedge contracts in total and not narrowly focus on one subset of contracts.
Q4. Do you agree with our proposed quarterly assessment period for voluntary trading from 2026 onwards?	We agree in general with the proposed quarterly assessment period for voluntary trading from 2026 onwards. The Authority should also make its data and assessments available so that market makers can take appropriate actions. For instance, assessing and further understanding counterparty rationale for engagement (or otherwise) is important, especially on the buy side from non-gentailers.
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.	The proposed approach seems reasonable, particularly given that the standardised super-peak hedge contract is relatively new to the market. As noted above, we agree with the quarterly assessment period, with data and assessments being made available.
Q6. Do you have views on whether barriers exist to wider or more diverse participation in the super-peak trading events?	We have no specific views at this point. However, we repeat the point made above, that the Authority should assess counterparty rationale for engagement (or otherwise) and making the assessment available to the market makers.
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?	We suggest that an auction dashboard similar to the ASX public site should be made available, with as a minimum more easily accessible information on final and bid offers.
Q8. Do you agree with our options for enduring regulation? Are there other options you think we should consider?	Generally yes, we agree with the options for an enduring regulation. An enduring regulation should include a robust design process around platform and process management based on the evidence gathered during the quarterly assessments.
Q9. Do you have feedback on the settings for the options (eg, bid-ask spread, volumes)?	To reiterate, the Authority should treat the value of the bid-ask spread, volume, and other parameters as an initial view for further assessment, rather than even an expectation of the settings, that can be amended based on the information gained from the quarterly assessments. Expanding on this point, Principle Economics in its, *Technical addendum: response to consultation questions* , responds to the question *How has the analysis accounted for the fortnightly cadence of super-peak trading*

	sessions in its appropriateness of spread? (question 1). The response states, amongst other things, "*The consistency between the two datasets [ie ASX baseload data and standard super-peak contract trading] supports the robustness of the standardised super-peak based results, with ASX data used to capture the necessary variation for policy testing.*" Based on the explanation in the response, we consider this conclusion to be flawed. To start with, there is an implicit assumption that the datasets are drawn from the same statistical population – i.e. the ASX baseload contract and standard super-peak contract are statistically the same. We contend that this is not a valid assumption and that we do not expect them to be statistically the same, because these contracts hedge different risks – ie baseload and peak demand risks. Further, even supposing they are drawn from the statistical population, the prices of these contracts are determined over different trading intervals – the ASX baseload is traded daily whereas the standardised super-peak contract is traded fortnightly. This means that a stochastic process should be proposed and tested before comparing the risk between the two sets of contracts. As a general observation, though, we expect that the uncertainty of a baseload hedge that is traded daily to be significantly less than that for a super-peak hedge that is traded fortnightly. In summary, this strongly suggests that the Authority should adopt a test-and-learn approach over the assessment period to determine the appropriate settings for the standardised super-peak hedge contract.
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?	The Authority states that 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 Authority should, therefore, include a roadmap with criteria for including other parties with flexible generation.
Q11. Do you agree with our criteria for assessing options for regulation? Do you think we should include anything else?	In general, we agree with the Authority's criteria, subject to our preceding comments above.

Q12. Do you agree with our assessment of option 1: Market making ASX ?	We agree generally at this point with the assessment. However, in the long run we consider that all market made hedge contracts should be traded on the ASX. .
Q13. How important do you think it is to retain flexibility for the product to evolve?	Our comments above highlight the importance of maintaining flexibility given this standardised super peak hedge product is expected be both complement and substitute for the other hedge contracts.
Q14. Is access to the ASX a problem for your organisation? If so, please explain why.	The ASX is not a problem for Mercury. As noted above, in the long run we consider that all market made hedge contracts should be traded on the ASX
Q15. Do you agree with our assessment of option 2: market making OTC ?	In general, we agree with the assessment as an initial short-term solution. We consider, however, that option 2 understates the administration costs and credit process challenges.
Q16. How much of a problem is the administration burden and/or lack of total anonymity in option 2?	As noted above, option 2 understates the administration costs and credit process challenges, which is expected to impact the determination of efficient prices. Anonymity, however, is not a major issue.
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?	As a general response to this and the following questions, within the present context of voluntary trading during the quarterly assessment period in 2026, Mercury supports Option A for the temporary, urgent regulation only at times of extreme market stress. However, for the avoidance of doubt, should market-marking for a standardised super-peak hedge contract become a regulated obligation under the Code, then this option should not apply. As a general point, if market-making of standardised super-peak products is regulated, Mercury considers that signalling that the Authority might intervene in the market should it come under stress does not decrease but increases market risk. Mercury agrees that shaped hedges, including standard super-peak contracts are a key risk management tool.

	However, signalling there would be a regulatory intervention during times of market stress introduces a potential moral hazard which reduces the value of the standard super-peak contracts as a risk management tool.
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?	No. See response to question 18.
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?	See response to question 18.
Q22. Do you agree with option B as the preferred option for urgent regulation while more enduring regulation is being considered?	No. See response to question 18.
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?	See response to question 18.