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nova energy

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Submissions
Electricity Authority

By email: taskforce@ea.govt.nz

Consultation paper: Regulating the standardised super-peak hedge contract

Nova Energy (Nova) supports the Electricity Authority (The Authority) in promoting the liquidity of the super peak contract for the purpose of enabling independent retailers and other market participants to manage their exposure to high spot prices during the morning and evening peak demand periods. Nova does not believe, however, that the Authority needs to impose high liquidity requirements or move quickly to impose compulsory market making requirements on the larger generator-retailers (gentailers).

The downside of locking in the super peak contract as the primary tool for managing peak period price volatility is that it creates a potential subsidy from the gentailers to independent retailers. It will also supress the potential development of alternative risk management products. Both impacts ultimately lead to higher prices for consumers in the long run.

The Authority should consider alternative market platforms for the trading of the super-peak products to that provided by the ASX. Integrating a platform with the wholesale spot market would deliver better outcomes than the ASX futures exchange, especially with respect to market access and credit support.

Thank you for giving Nova the opportunity to comment on this matter.

Yours sincerely

[redacted]

Tamiris Robinson
Regulatory Advisor

Nova submission: Regulating the standardised super-peak hedge contract

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?	Yes. Shaped hedge contracts have a role and should remain available. They support independents in managing risk, provided they are accessible and liquid. The market must remain domestic (OTC) however, so independent retailers can use the contracts as part of their capital management by lodge contracts with the Clearing Manager for the purpose of prudential security requirements. Given that trading in the super-peak product was introduced just recently in a compressed timeframe, the Authority should be cautious in locking this in as the primary traded product.
Q2. Do you agree with our objectives for and intended outcomes of trade in the super-peak product?	Yes, but there is a question of how much liquidity is necessary to meet the stated objectives and what thresholds are applied before triggering a regulatory requirement for market making. Liquidity is important, but not at any cost, forcing it can increase costs for minimal additional benefit. The argument for improving price discovery for flexible resources, for instance, is very weak. The market for base-load contracts provides near 80% of the pricing information (determined by the correlation between the price of base-load contracts and super peak contracts). The relationship between base-load prices and super-peak prices will vary in different market conditions. This can be derived from historical data. The relationship will change over time with the development of more wind and solar PV generation, but this is unlikely to be dramatic within the 3-year window being traded. It is noted that the value of a super-peak product can be used to assess the value of demand side flexibility, but a significant proportion of the true value in demand side flexibility derives from deferral of transmission and distribution investments rather than just the energy market.

Q3. Do you agree with our framework and metrics for assessing liquidity in the standardised super-peak market?	Nova agrees with the Authority's framework and metrics for assessing liquidity, but not the triggers for imposing regulation. As per the point made above, price discovery is not a strong reason for imposing a regulatory regime. Also, the Authority should assess risk management tools holistically, not just through the imposition of trading in the super-peak product. The Authority should also take into its consideration that market participants already had alternative hedging mechanisms for managing peak price exposure, particularly the FTR market. There is evidence that some independent retailers have been active in this market and as such, have not been reliant on trading the super-peak product (e.g., Electric Kiwi, Haast). Given the super-peak product only commenced trading in 2025, potential buyers of the super-peak product are likely to have alternative hedging arrangements in place through 2026.
Q4. Do you agree with our proposed quarterly assessment period for voluntary trading from 2026 onwards?	Nova proposes the quarterly assessment commence in Q3 2026, and the target volume no more than 4 MW.
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.	Voluntary trading should continue for now. Market making should only be considered if genuine demand is demonstrated, and alternative hedging products like FTRs are not sufficient. The super-peak product was recommended by technical group appointed in 2024 to assess alternative designs for hedging products. At the time Paul Baker proposed a "Flexi-peak" product* for consideration by the group. While this was not favoured at the time, changing market conditions may mean that this or another product finds favour with the market in the future. Once the market for the super peak product is regulated, there is a reduced chance of an alternative product being developed or the super peak product being enhanced. * *Strike prices linked to the highest priced trading periods each day rather than fixed trading periods. Suits the situation where prices are volatile through the day due to high proportion of wind and solar PV output driving prices.*

Q6. Do you have views on whether barriers exist to wider or more diverse participation in the super-peak trading events?	The primary issue with an OTC market is counterparty risk. The Gentailers involved in providing liquidity should not be required to take on unreasonable counterparty risk as that is effectively a subsidy from the well capitalised business to a smaller competitor. Nova anticipates that over time financial institutions will provide those retailers with limited capital an avenue for accessing the OTC market, albeit for a fee. It is important that Gentailers allow independent retailers to lodge contracts with the Clearing Manager automatically as part of the process in order that they can minimise their prudential requirements with the Clearing Manager. The inability of ASX Futures positions to be taken into account in a party's prudential requirements creates a competition barrier for retail participants that should be avoided with respect to super-peak products.
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?	The current transparency is good, but the Authority should publish data that allows comparison across all hedge tools. Nova expects that over time the ability to incorporate the available data into risk management tools will improve and so long as the Authority and owner of the market platform are responsive to requests or suggestions then transparency will improve over time.
Q8. Do you agree with our options for enduring regulation? Are there other options you think we should consider?	Nova favours the Authority taking a long-term view and regulates for a New Zealand based trading platform for a super-peak (or alternative) product. The trading frequency can evolve, but twice monthly is likely to be adequate initially. Trading on the platform should still be voluntary in the first instance. The regulations should separate out the trading platform requirements from the market making and liquidity requirements. The platform operator should be free to add baseload contracts or alternative products should there be an interest in such from market participants. In comparison the ASX option is expected to take too long to develop, be costly, and inaccessible for small participants.
Q9. Do you have feedback on the settings for the options (e.g., bid-ask spread, volumes)?	As per the comments above, Nova believes the initial trading settings are too high given the timing, availability of alternative products, and limited additional value from the price curve.

	The risk is that there are significant costs being imposed on the gentailers for limited additional benefit for independent retailers, and no benefit for industrial electricity consumers. Ultimately this may result in higher retail prices rather than enhancing competition and enabling lower prices.
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?	Regulation must minimise the inefficiencies it creates. Nova agrees the obligations should be realistic and evenly applied across the 4 major gentailers. To the extent that they have a greater or lesser flexible capability in their generation fleet, they should be able to use the market to manage their overall exposure to peak period volumes and prices. While Nova does have its fleet of gas turbines, much of the time it must run these during occasional long spells of very high prices rather than holding fuel for peak intra-day periods only. For instance, under normal conditions it would not be expecting to run its gas turbines very much at all during the summer months.
Q11. Do you agree with our criteria for assessing options for regulation? Do you think we should include anything else?	Yes – the point on the cost of providing margin for trades on the ASX and alternative of being able to lodge contracts with the Clearing Manager in NZ are particularly important. Over time it may be possible to introduce anonymity to trades on a New Zealand platform, but this does not need to be an immediate priority.
Q12. Do you agree with our assessment of option 1: Market making ASX?	The ASX option offers high-quality price discovery but is impractical. Costs, capital requirements, and access barriers make it unsuitable for many participants.
Q13. How important do you think it is to retain flexibility for the product to evolve?	Flexibility in product design is very important. The preferred hedge product may need to evolve as the generation mix changes. Care must be taken that regulation doesn't lock in today's product design. As intra-day prices become more volatile with increased penetration of wind and solar PV generation, the flexi-peak product may become a more effective hedging tool than the super-peak contract. Once the super-peak is traded on the ASX it is unlikely that an alternative contract will evolve.
Q14. Is access to the ASX a problem for your organisation? If so, please explain why	Nova can access ASX products, but compared to contracting directly with counterparties in NZ, it finds it overly expensive to hedge with ASX traded contracts due to the high margin requirements.

Q15. Do you agree with our assessment of option 2: market making OTC?	The OTC market option is the more workable and cost-effective approach. It is accessible, quicker to implement, and better suited to independent retailers.
Q16. How much of a problem is the administration burden and/or lack of total anonymity in option 2?	Nova believes these issues can be resolved over time, particularly if the operator of the OTC platform has the right incentives and is not encumbered by regulation from doing so.
Q17. Do you have any feedback on our preferred option for regulating the standardised super-peak hedge contract?	Nova supports regulation for voluntary market making for a super-peak product on an OTC platform. It doubts the value of even considering moving the super-peak product to the ASX. If regulation is needed, this should be very light handed in the first instance as the super-peak should not be treated as the only hedge tool available. There is also potential for increasing the liquidity of FTR contracts and bespoke contracts are always possible between parties. Regulating for compulsory market making should only come as a last resort and once existing risk management products mature, i.e. beyond 2026. There is a real risk that excessive or misguided regulation leads to higher costs for gentailers, with minimal benefit for independent retailers, which will likely lead to higher rather than lower consumer prices.
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?	Yes, but only if the obligated participants remain free to trade between themselves, i.e. this would ensure a fair market price is being discovered and the Gentailers do not need to hold reserve hedging capacity in the event the regulation is triggered.
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?	Nova does not believe such a provision is necessary or desirable. If this is implemented then any rational party would respond to the provision by a) Gentailers holding peak-period hedging capacity in reserve in case it is implemented, and b) Independent retailers relying on the provision to mitigate the consequences of inadequate hedging.

	The costs of the provision would not be apparent to the market but would have the effect of a notional subsidy from gentailers to independent retailers. It is unlikely there would be any commensurate benefit to consumers through lower prices
Q20. What are your views on the frequency of monitoring for this option?	If the option needs to be triggered, then the event causing that should be very apparent to all market participants and no formal monitoring regime should be required. It is also difficult to predetermine what circumstances might lead to such an event or how long it might last, in which case it is also difficult to define what the appropriate response needs to be.
Q21. Do you agree the Authority needs to be prepared for urgent action if necessary?	It is not clear why the availability of a peak-period product is so important that it needs provision for an urgent action from the Authority. Market participants need to be encouraged to manage their exposures well in advance of short-term disruptions to the market. This includes having sufficient equity capital to sustain adverse trading conditions as well as coherent risk management policies. Incentivising participants to manage risk in advance assists price signals that also flow through to generator and consumer investment decisions. If the Authority starts trying to offset all types of market risks; trading in peak-period products should not be a priority on that list. The result of such policies will likely result one part of the market subsidising the costs of another.
Q22. Do you agree with option B as the preferred option for urgent regulation while more enduring regulation is being considered?	No.
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?	No action should be taken. Parties can partially substitute a lack of peak period hedges through increasing base load hedges. Given the recent development of BESS projects, independent retailers might also wish to secure options from BESS owners to cover extreme price spikes as a form of insurance. Such arrangements would be at market value as opposed to forced values as per the Authority's Option B.