

Market making review: strengthening price discovery in the forward electricity markets

Consultation paper

14 November 2025

Executive summary

The Electricity Authority Te Mana Hiko (Authority) is seeking feedback on proposed changes to market making requirements. These measures are designed to strengthen price discovery, improve confidence in New Zealand's forward electricity markets and support competition and investment so that, over time, New Zealanders benefit from better access to affordable electricity.

The proposals, which may result in changes to subpart 5B of Part 13 of the Electricity Industry Participation Code (Code), include:

- **Introducing market making** requirements for the standardised super-peak contract on an appropriate OTC platform, with a total offer¹ volume requirement of 6 MW per contract and a bid-ask spread of 5%, by the current regulated market makers
- **Extending longer-dated futures** by increasing the market making requirements for quarterly ASX-traded baseload contracts from three to five years
- **Reducing total baseload offer volume** requirements from 12 MW to 10 MW per contract.

Clear price signals in the forward markets are important

Price volatility is a natural feature of electricity markets, reflecting the changing balance between supply and demand. However, as more renewable electricity is integrated into the market, price volatility is increasing. This raises uncertainty and costs for participants.

The electricity forward market helps participants to manage this price risk by enabling participants to fix the future price of a volume of electricity. A public forward price curve also provides important signals for potential new generation investment and gives participants a benchmark for bilateral contractual prices.

Market making supports liquidity and strong price signals

Market making is an established tool to support price discovery in the forward market in New Zealand and overseas. Our assessment shows that market making has improved liquidity and contributed to more robust price signals in the futures market, especially after the introduction of mandatory market making of baseload contracts in 2020.

However, our market making review has identified opportunities to strengthen market making to improve price discovery so that participants can better manage risk and distinguish the drivers of that risk.

Currently, contracts for baseload electricity extend only three years, limiting visibility for longer-term planning including generation investment and longer-term power purchase agreements.

Shaped contracts are mostly traded bilaterally in the over-the-counter (OTC) market, providing limited price signals. Voluntary trading of the standardised super-peak contract since late January 2025 has improved price transparency. However, voluntary trading

¹ This includes offers to sell as well as offers to buy

arrangements are fragile, and this fragility can undermine market confidence, ultimately constraining liquidity and weakening price discovery.

We have developed proposals to strengthen market making

Baseload contracts provide an important generic price signal but have limitations including that they cannot distinguish easily between different types of risk. Applying market making requirements to a combination of baseload and shaped contracts could strengthen liquidity and price discovery, increasing confidence in the effectiveness of the forward markets. This is expected to benefit consumers by enabling more competitive pricing by retailers, and improve system security and reliability by helping to derisk investments in new generation and storage.

The Authority's issues and options paper *Regulating the standardised super-peak hedge contract* was an initial step in this process.² That paper sought feedback on whether to continue with the voluntary trading arrangement for the standardised super-peak contract (supported by quarterly assessments of liquidity to inform the need for mandated market making) and on proposed settings for voluntary trading and market making requirements.

Feedback on that paper provided mixed views on the appropriate market making approach and settings. After considering stakeholder input and conducting further analysis, the Authority now proposes mandatory market making arrangements for the standardised super-peak contract, to provide the market with certainty and to develop trading depth and liquidity. The Authority's proposed settings seek to balance the cost to market makers with benefits to the wider market.

The Authority is aware of growing interest from some participants in contracts with longer terms, especially because future wholesale prices are expected to fall. We are proposing to extend the availability of quarterly baseload contracts from three to five years to improve price discovery across a longer horizon.

Market making longer duration contracts would help ensure that the forward curve is as good an indicator of future prices as possible, and that the margin between prices and costs is minimised. Extending the forward price curve would also help the Authority and participants to test the extent to which electricity prices are converging towards the levelised cost of energy, a key indicator of competitive market outcomes.

To ensure market making obligations remain proportionate and sustainable, the Authority also proposes lowering the volume requirements for baseload contracts from 12 MW to 10 MW per contract. Our analysis indicates that current volume obligations may exceed market demand. We will monitor the impact of this change over time.

Market making the standardised super-peak contract on an OTC platform

Our recent consultation on options for regulating the standardised super-peak elicited suggestions for an OTC platform to ensure it has the functionality required to support regulated market making.

² https://www.ea.govt.nz/documents/8199/Regulating_the_standardised_super-peak_hedge_contract.pdf

To address that feedback we have developed some minimum standards that we propose a platform be required to meet in order to be a platform that can be used to fulfil market making obligations. These requirements cover:

- **access** to ensure a broad range of participants can trade
- **functionality** as required to support fast-paced trading with minimal errors and so that participants can manage their own bids and offers directly
- **information and data** must be available in real time for prices and the Authority must receive timely and accurate data for monitoring and compliance, and
- **availability** relating to reliability of the platform during trading events and good security practices to protect data and users.

Other enhancements to market making provisions

The Authority's compliance algorithm deems a market maker to have failed if they do not meet the quoting requirements for more than five minutes within the designated trading window. The test is tightly calibrated, to the millisecond, which can result in exemptions being used for minor or negligible failures, even when meaningful liquidity is provided. This reduces the availability of exemptions for periods of genuine market stress and may unintentionally penalise market makers for brief low impact lapses.

The Authority proposes adjusting the compliance algorithm by rounding failure assessments to the nearest second instead of the millisecond. This change aims to better support continuous market presence and liquidity.

Market-makers can be exempt from the requirement to quote in limited permitted circumstances, including where trading is likely to cause a breach of an applicable law. The Authority proposes amending the drafting to clarify this permitted circumstance is not intended to apply where reasonable steps could have been taken by a participant to avoid a breach of the law while continuing to trade. This change reflects the expectations outlined by the Authority in a news item published in March 2025³.

Next steps

The Authority intends to publish its decision on these proposals in early 2026. Subject to consultation feedback, changes to market making requirements are proposed to take effect as follows:

- **Super-peak contracts:** by mid-2026
- **Changes to duration and volume of baseload futures:** March 2027, aligned with the launch of the new commercial market maker (CMM) contract
- **Other enhancements:** by mid-2026

We welcome your feedback on these proposals. Your input is important as we work to enhance transparency and confidence in forward electricity markets.

³ [Authority comment on permitted circumstances for market makers | Electricity Authority](#)

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1. What you need to know to make a submission

What this consultation is about

- 1.1. This paper seeks feedback on proposed changes to market making requirements. It presents:
- (a) the Authority's assessment of how market making policy changes since 2020 have supported availability and price discovery of risk management contracts
 - (b) proposals to modify market making arrangements for baseload
 - (c) a proposal to introduce super-peak market making requirements
 - (d) the regulatory statement for the proposed Code amendment pursuant to section 39 of the Electricity Industry Act 2010 (Act).
- 1.2. The proposals are intended to work alongside other pro-competition measures being considered by the Authority, including its Level Playing Field measures released for consultation in October.⁴ The proposals align with the Authority's main statutory objective to promote competition in, reliable supply by, and the efficient operation of, the electricity industry for the long-term benefit of consumers⁵.

How to make a submission

- 1.3. The Authority prefers to receive submissions in electronic format (Microsoft Word), following the template in Appendix B. Please email your submissions to market.making@ea.govt.nz with the subject line: "*Consultation Paper—market making review: strengthening price discovery in the forward electricity markets*".
- 1.4. If electronic submission isn't possible, contact the Authority (market.making@ea.govt.nz or 04 460 8860) to discuss alternatives.
- 1.5. Please note all submissions will be published unless you request otherwise. If you wish to withhold any part, please:
- (a) clearly identify the section
 - (b) explain why you it should not be published; and
 - (c) provide a version that the Authority can publish.
- 1.6. If you indicate part of your submission should not be published, the Authority will discuss this with you before deciding whether to not publish that part of your submission.
- 1.7. However, your submission may still be released under the Official Information Act 1982, even if not published. The Authority would normally consult with you before releasing any material that you said should not be published.

⁴ [Level playing field measures](#)

⁵ [Energy Competition Task Force | Our projects | Electricity Authority](#)

When to make a submission

- 1.8. Please deliver your submission by 5pm on Tuesday 23 December 2025
- 1.9. Authority staff will acknowledge receipt of all submissions electronically. Please contact the Authority market.making@ea.govt.nz or 04 460 8860 if you do not receive electronic acknowledgement of your submission within two business days.

2. Purpose of the review

Strengthening price discovery and confidence in the forward market

- 2.1. Electricity in New Zealand is bought and sold on the spot market. Electricity spot prices change frequently depending on demand, the availability and cost of generation, and transmission constraints.
- 2.2. Price volatility is a natural feature of energy markets, serving as signal for investment in new generation. The forward electricity market (or electricity futures market) allows participants to buy or sell future contracts, which can protect them against volatile spot prices by fixing their electricity price for a specified period.
- 2.3. Access to risk management contracts is particularly important for small or independent participants who may be less resilient to price volatility than larger, diversified and established participants.
- 2.4. Liquid contracts markets are important to enable participants to trade quickly without significantly affecting the price. Market makers support liquidity and price transparency by regularly quoting prices and updating them to reflect the latest information on market conditions.
- 2.5. In 2020, the Authority introduced an obligation on the four large generator-retailers (gentailers) (Meridian, Contact, Mercury and Genesis) to provide market making services for New Zealand electricity baseload contracts traded on the ASX platform. The Authority's aim was to improve the availability of risk management contracts and increase price transparency by creating a forward price curve.
- 2.6. The forward price curve reflects participants' collective expectations of the future price of electricity. It is used by electricity sector participants and others to inform operational decisions (such as when to charge or discharge a battery, or to start or stop using electricity) and longer-term investment planning.
- 2.7. As more renewable electricity is integrated into New Zealand's electricity system, spot prices are becoming more volatile, and the forward contracts market will need to play a stronger role in helping participants to manage risk.
- 2.8. The Authority is considering proposals to bolster market making arrangements in order to improve transparency of price signals by:
 - (a) extending the horizon of the forward price curve for baseload contracts to support investment decisions and longer-term power purchase agreements
 - (b) increasing transparency of price signals for shaped hedges where trading is less concentrated.

- 2.9. The forward price curve produced by the ASX futures market is three years, which provides a limited horizon to inform longer-term planning and investment decisions. The Authority is aware of growing interest from some participants in hedge contracts with longer terms whose prices tend to be closer to the cost of building new renewable generation. Market making longer duration contracts would help ensure that the forward price curve is as good an indicator of future prices as possible, and that the margin between prices and build costs is minimised.
- 2.10. There is also limited transparency of prices for shaped hedges, which are mainly traded bilaterally in the OTC market. A standardised peak contract is listed on the ASX but is rarely traded, and it is not market made. The introduction of the standardised super-peak contract at the start of 2025, with fortnightly brokered trading on an OTC platform, has improved price transparency for super-peak contracts. However, voluntary trading can be fragile and a lack of confidence in the market is likely to constrain liquidity and price discovery.
- 2.11. The Authority commissioned expert economic advice from Concept Consulting Group (Concept) to assess the economic costs and benefits of alternative market making arrangements, with a focus on how different product suites and contract specifications could better meet the needs of an evolving electricity system. A link to this report, which is published on the Authority website, is included in Appendix D.
- 2.12. This review and its proposals have also been informed by submissions on the Authority's consultation paper *Regulating the standardised super-peak hedge contracts (Issues and Options paper)*, and recent insights from the Frontier Economics report to the Government (and its peer reviewers) into the performance of the electricity system.

Questions this review would like to address

- 2.13. This review addresses two key questions:
- (a) Have our market making policy settings led to an improvement in the availability of contracts and price discovery?
 - (b) Would extending market making to other product types and adjusting settings lead to improvements in price discovery and consumer outcomes?

3. Evolution of market making requirements

- 3.1. In 2011, four gentailers (Contact, Genesis, Meridian and Mercury) entered a voluntary agreement with the ASX to provide continuous buy and sell quotes for baseload electricity futures.
- 3.2. However, the voluntary nature of these arrangements proved fragile under market stress. During the 2018 Pohokura gas outage, market makers widened spreads or withdrew services. This reduced stakeholders' confidence in voluntary market making.
- 3.3. In late 2019, the Authority worked with market makers to enhance the voluntary market making arrangements, and settings evolved with tighter bid-ask spreads and increased volume requirements.

- 3.4. Market making was also a focus of the Government's 2019 Electricity Price Review. One of the recommendations from this review was to "Introduce mandatory market making obligations, unless the electricity sector develops an effective incentive-based scheme".
- 3.5. In response, the Authority urgently amended the Code in 2020⁶ to require the existing voluntary market makers to compulsorily provide market making services if their voluntary performance did not meet standards set by the Authority. In 2021 the Authority made this temporary regulatory backstop permanent.
- 3.6. Market making requirements on the largest gentailers ensure that:
- (a) market makers are unable to impose price barriers because of their obligation to offer to both buy and sell contracts at a set price differential or spread; if they sought artificially to inflate the price of contracts, traders would be able to sell contracts to the market makers at a similar price, resulting in a loss for the market maker; and
 - (b) market makers are unable to impose non-price barriers because trades take place anonymously and are cleared centrally on the exchange.
- 3.7. Since 2020, several measures have been implemented to strengthen market making settings. Three of these changes took effect in 2022 including the introduction of the CMM, modifying the rules that allow market makers to take exemptions from market making, and adjusting how market makers offer contracts. Table 1 outlines the main policy changes since 2020.

Table 1 – Market making policy changes 2020-2025

	Feb 2020	Apr 2021	Sep 2022	Aug 2024	Sep 2024	July 2025
	Mandatory backstop		CMM, refresh, exemptions		Stress relief	
Status	Temporary Code change	Permanent Code change	Permanent Code change	Temporary relief of obligation	Temporary Code change	Temporary Code change expired
Volume per market maker per contract	30 lots (3 MW)	30 lots (3 MW)	24 lots (2.4 MW)	12 lots (2.4 MW)	24 lots (2.4 MW)	24 lots (2.4 MW)
Volume per contract	12 MW	12 MW	12 MW	12 MW	12 MW	12 MW
Spread	3%	3%	3%	15% ⁷	3%	3%
Number of market makers	4	4	5	5	5	5

⁶ [Hedge Market Enhancements Permanent market making backstop - decision paper.pdf](#)

⁷ This change was temporary and withdrawn in two stages – spreads reduced to 8% from 21 August 2024, and returned to 3% from 26 August 2024.

Exemptions	5 per month	5 per month	5 in rolling 20 days	-	5 in rolling 20 days	5 in rolling 20 days
Refresh			Min 12 lots initial order then refresh	6 lots initial order	12 lots initial order	12 lots initial order
Stress relief					For contract with prices > \$500MWh, spread 5%	---

4. Performance of market making settings

4.1. This review seeks to assess the impact of changes to market making arrangements in terms of availability of contracts and price discovery. We have considered this through the following questions:

- (a) What impact have policy changes had on market liquidity and price discovery?
- (b) Is the forward price curve an unbiased predictor of spot prices?
- (c) Are available risk management options priced against the forward price curve?

Impacts of previous policy changes on liquidity and price discovery

4.2. To address question (a) we have assessed how key indicators of liquidity (trade volumes, bid-ask spreads, market depth, open interest, and market maker presence) have changed in response to previous policy measures. This is summarised in Table 2 below and further detail is provided in Appendix C.

Table 2 – Impact of policy changes on key liquidity indicators

Indicators	Mandatory backstop measure	CMM + Refresh+ 5 exemptions in 20 rolling days
Trade volume	Increase	Inconclusive
Bid-ask spread	Decrease	Inconclusive
Market depth	Decrease	Dropped slightly More stable
Open interest	Increase	Increase
Volatility in near term contracts	Inconclusive	Increase
Market makers presence	Decrease	Increase

The market making backstop has improved liquidity

- 4.3. A liquid electricity futures market is one in which participants can easily transact: buying or selling with minimal price impact, sufficient volume, and low transaction costs. A liquid market supports confidence to trade and improves price discovery.
- 4.4. The introduction of the backstop mechanism in 2020 led to a noticeable improvement across trade volumes, open interest and a bid-ask spread that was at

times lower than the regulated bid-ask spread of 3%. These improvements reflect the increase in the availability of contracts.

Changes to exemption rules appear to have supported availability of contracts and liquidity

- 4.5. Market maker presence also improved notably following the tightening of exemption rules from five exemptions per calendar month to five exemptions within a rolling 20-day period. This change produced more consistent participation from market makers.
- 4.6. Prior to the change, there were many days when no market maker was present to provide quotes, and these days without market makers tended to be clustered at the end of each month. This resulted in reduced market liquidity and gaps in price discovery.
- 4.7. Since the rule change, there have been no days when no market makers were present. As a consequence, price signals are more reliable and access to futures baseload contracts has improved.

Refresh mechanism has been voluntarily adopted by market makers

- 4.8. The refresh mechanism allows market makers to split their volume obligation into two tranches, enabling a second tranche of volume to be offered if the first is traded. This was intended to ensure that volume remains available after initial trades, providing more opportunities to adjust prices throughout the session which strengthens the forward price curve.
- 4.9. Our analysis indicates that volatility has risen since the refresh mechanism was introduced. This could reflect more dynamic pricing behaviour as market makers adjust quotes in response to trades and the refresh requirement. However, it is not possible to directly attribute increased volatility to the refresh because of other changes in policy settings and market dynamics over this period.
- 4.10. Most market makers have voluntarily adopted the refresh feature, indicating its practical value and alignment with participant needs.

The CMM has contributed to improving market confidence

- 4.11. In August 2020, the Authority published its decision to procure a CMM. The CMM was intended to provide an independent view of future electricity prices and to enhance the performance of market makers by bringing a more service-oriented approach. At the time, the Authority was considering transitioning over several years to a fully incentivised market making scheme, where providers would be compensated on commercial terms. The first stage of this transition introduced in September 2022 involved a hybrid model of four regulated market makers and one commercial provider.⁸

⁸ Since the introduction of CMM, the Authority has engaged two commercial market makers: Bold Trading, who provided services from 2022 until June 2024, and Vivienne Court Trading Pty Ltd, who commenced in July 2024.

- 4.12. To assess the impact of the commercial market making model, we examined the following quantitative metrics including traded volume, market makers' presence, bid-ask spread, volatility and depth of the market.
- 4.13. Our analysis shows that the hybrid model has strengthened some aspects of market making. In terms of trade volume, the CMMs have matched the activity levels of regulated market makers and, in some cases, exceeded them. This has contributed to liquidity and facilitated price discovery.
- 4.14. Our analysis suggests that the addition of a fifth market maker (the CMM) has increased the likelihood of having market making services available at any given time. With five market makers in place, the probability of continuous quoting and active participation rises, supporting liquidity and resilience in the market even when individual participants temporarily step back.
- 4.15. We also consider that the CMM model has provided several qualitative benefits:
 - (a) **Trust and confidence in the forward price curve**, by facilitating a non-physical participant to provide market making services, the CMM has diversified the sources of price information. It offers a counterbalance to gentailers, whose pricing may be influenced by their generation portfolios. The presence of independent financial participants helps mitigate concerns about bias in the forward price curve.
 - (b) **Greater transparency in the cost of market making**, through levy consultations, beneficiaries have had the opportunity to express preferences regarding service levels. This feedback mechanism helped to align service provision such as bid-ask spread and volume requirements with market needs.

Investing in an additional CMM would not materially improve outcomes

- 4.16. The Authority proposes retaining the current hybrid model of four regulated market makers and one commercial market maker. The presence of one CMM has improved transparency and trust in the forward price curve. Adding another CMM is expected to yield only incremental benefits, which are unlikely to justify the additional levy costs required to procure the service. The Authority's levy increased to a \$14.4m on annual basis to support implementation of a commercial market maker in 2022.
- 4.17. The regulated market makers play a critical role in maintaining the integrity and resilience of the futures market due to them having physical positions in the market. Their direct exposure to generation and retail operations provides valuable insights into market dynamics, supporting more informed pricing and a robust forward price curve.
- 4.18. As with all regulatory interventions, market making policies involve costs and benefits. While our analysis shows that market making arrangements have improved price discovery, the requirements also create a financial, operational, and administrative burden for market makers.
- 4.19. These impacts are not uniform across participants. Some have successfully integrated market making into their business models, leveraging strategic

positioning and robust risk management frameworks. Others may face greater challenges, especially if obligations expand to cover multiple products, as we propose in this consultation.

The forward price curve can be an unbiased predictor of spot prices for short-term trades

- 4.20. The forward price curve is formed by ASX New Zealand electricity baseload futures prices (ASX prices) and plays a critical role in enabling market participants to hedge against price volatility and manage financial risk. If the curve systematically misrepresents future spot prices, particularly in early trading, then participants may be exposed to unexpected costs. This can undermine confidence in the market and lead to inefficient investment or contracting decisions.
- 4.21. A forward price curve can be considered *unbiased* if, on average, it correctly predicts the future spot price. That is, the expected value of the forecast error (spot price minus forward price) is zero. Over time, the overestimations and underestimations cancel each other out.
- 4.22. The Authority commissioned Infometrics to assess the relationship between ASX prices and actual spot prices between June 2015 and March 2025. The Infometrics' report is published on the Authority's website along with this paper and the link is provided in Appendix F.
- 4.23. The analysis found that ASX prices tend to exhibit a downward bias in early trading relative to the eventual spot price, ie, baseload hedge prices are lower in early trading than the eventual spot price for the same time period. However, this bias largely dissipates in later trades as more information becomes available, suggesting that the forward curve becomes more accurate as contracts approach delivery. This pattern indicates that while uncertainty may affect early pricing, the market adjusts over time.
- 4.24. Nonetheless, the convergence of prices over time indicates that the forward curve remains a useful predictor of spot prices for contracts with approaching effective periods. We do not believe the downward bias undermines the effectiveness of the forward price curve in creating transparency and providing a meaningful price signal. The downward bias in early trading has likely been a reflection of the unexpectedly rapid decline in New Zealand gas availability and a temporary stalling of investment in new generation. To further support market confidence, we are also undertaking initiatives to improve industry information on thermal fuel availability and the investment pipeline.

OTC risk management contracts are priced against the forward price curve

- 4.25. OTC contracts are negotiated directly between parties, allowing for customised terms that better suit individual risk profiles and operational needs, particularly for smaller participants or new market entrants.
- 4.26. Many smaller participants rely on the OTC market to access risk management contracts, as margin requirements make ASX contracts costly to access and ASX contracts cannot be offset against prudential requirements. However, the bilateral nature of OTC negotiations could potentially disadvantage smaller players, as they

may lack the information needed to negotiate with larger, more established counterparties.

- 4.27. A reliable forward price curve is essential in this context to provide a transparent benchmark of prices for buyers and sellers during OTC negotiations. Access to the forward curve enables participants to assess whether the prices offered in bespoke OTC contracts are fair and reflective of prevailing market expectations.
- 4.28. While OTC contracts offer flexibility and customisation, our analysis shows that their pricing is increasingly anchored to the forward price curve. This trend reflects growing confidence in the forward curve as a reliable benchmark and highlights the positive impact of market making and transparency initiatives on price discovery and risk management efficiency for those parties that use the OTC market. Refer to Figure 5 in Appendix C for more detailed analysis.

Q1. Do you agree with the Authority's assessment of the impacts of market making policies? If not, please explain your reasoning.

Q2. Do you agree with the Authority's assessment that the introduction of the CMM has achieved its intended policy objectives? If not, please explain why.

Q3. In your view, does the CMM arrangement offer good value for money?

Q4. Do you support the Authority's proposal to continue with the current hybrid model of four regulated market makers and one commercial market maker? If not, please explain your concerns.

5. Considerations that informed our thinking on future settings

- 5.1. The electricity system is rapidly changing. Increased investment in intermittent wind and solar generation increases opportunities to benefit from low cost and sustainable generation but also presents critical challenges for the system. These include greater price volatility as more variable resources are integrated into the electricity system, exacerbated by declining gas production and an increase in ownership concentration of flexible firming generation.
- 5.2. These challenges increase the importance of a liquid and competitive contracts market to meet the needs of buyers and sellers, providing access to risk management contracts at competitive prices and long-term price signals to support investment.
- 5.3. The recent review of the Australian wholesale electricity market highlighted New Zealand's market making arrangements and recent initiatives to develop new standardised contracts as successful initiatives to support price discovery.⁹

⁹ [National Electricity Market wholesale market settings review - DCCEE](#)

- 5.4. The Authority proposes to build on these arrangements to strengthen liquidity and price discovery in the forward market. Strong and transparent price signals provide participants with confidence to trade, helping to foster competition and investment, and putting downward pressure on prices. However, price signals are currently limited for:
- (a) Longer-dated futures
 - (b) Super-peak standardised contracts.

Longer-dated futures

- 5.5. Currently, the forward price curve extends out three years, which provides limited visibility of prices for financial decision making about longer-term investments.
- 5.6. There is evidence of growing interest in longer term contracts in the OTC market, where trading in longer-dated contracts (effective date longer than three years from trading date) has grown significantly from 12 out of 894 in 2009 to 41 out of 1,404 in 2023. While the number of traded contracts dipped to 27 out of 1,377 in 2024, the overall trend indicates a clear shift toward longer-dated instruments.
- 5.7. Market making longer-dated futures would enhance price transparency and trust in the contracts markets. For example, it would help ensure that the forward curve is as good an indicator of future prices as possible, and that the margin between prices and costs is minimised. Extending the forward price curve would help the Authority and participants to see whether electricity prices are converging towards the levelised cost of energy (LCOE), a key indicator of competitive market outcomes.
- 5.8. Other jurisdictions have advanced their futures offering. The European Energy Exchange, for example, now lists baseload and peak derivatives up to ten years in advance for several countries. These contracts support long-term portfolio planning and financing tools such as power purchase agreements.
- 5.9. While extending longer-dated futures can offer benefits, there are limits to how far this can be done. The cost of market making longer-dated futures is closely tied to the positions held by market makers. As quarterly contracts are extended further out, costs tend to rise, and the price becomes less meaningful due to thinner liquidity and greater price uncertainty at the longer end of the curve.

Super-peak standardised contracts

- 5.10. As noted previously in this paper, the growth in intermittent generation as a proportion of the overall generation mix is leading to an uptick in price volatility with more periods of very low as well as high prices. The Authority has an important role to facilitate improved price discovery, particularly in relation to flexible supply to cover periods of low wind, sun and/or hydro inflows. Stronger price signals for shaped hedges, such as super-peak contracts, could also promote investment in demand side flexibility services, that can lower prices for consumers and support security of supply in the electricity market.

- 5.11. In August this year, the Authority published the *Issues and Options* paper on regulating the standardised super-peak contract.¹⁰ This product was developed through a co-design process with industry experts¹¹. The *Issues and Options* paper assessed liquidity of the super-peak product and found that while its introduction has improved availability and pricing, the market was not sufficiently deep or liquid. We sought feedback on whether to continue with the voluntary trading arrangement for the standardised super-peak contract (supported by quarterly assessments of liquidity to inform the need for mandated market making) and on proposed settings for voluntary trading and market making requirements. We noted that the wider review of market making would assess the appropriateness of super-peak market making settings within the context of overall market making requirements.
- 5.12. The Authority received 14 submissions on the *Issues and Options* paper from a range of participants, including gentailers, independent retailers and generators, and financial intermediaries. Submissions are available on our website.¹²
- 5.13. A summary of the submissions on the *Issues and Options* paper and the Authority's response is in Appendix E. The main themes of the submissions are also discussed in section 6 as they relate to the central features of some proposals in this paper.

Voluntary or mandatory market making?

- 5.14. The Authority considers that the regulated market makers are central to delivering robust price discovery. They take on financial risk by holding inventory, with lower risk when liquidity is high and greater exposure when market conditions are volatile.
- 5.15. Price discovery can also be supported through voluntary market making arrangements. However, as noted in some submissions on the *Issues and Options* paper, voluntary trading arrangements are inherently fragile. They can falter under market stress, eroding market confidence, discouraging investment and weakening price signals. This vulnerability was evident in the 2018 Pohokura outage, when voluntary market making arrangements saw trading activity drop significantly.
- 5.16. Mandatory market making increases costs and risks for regulated market makers compared to voluntary market making. But appropriate volume and spread requirements can help manage these risks while preserving the integrity of the price signal that reflects the physical market.
- 5.17. These considerations are explored further below in the section setting out the Authority's proposals.

¹⁰ [Regulating the standardised super-peak hedge contract: issues and options](#)

¹¹ It was developed as part of a package of Energy Competition Task Force initiatives (initiative 1B).

¹² [1B: Regulating the standardised super-peak hedge contract | Our consultations | Our projects | Electricity Authority](#)

Independent expert advice

The Market Development Advisory Group

- 5.18. The importance of strengthening the contracts markets was a key theme in the Market Development Advisory Group's (MDAG) final report *Price discovery in a renewables-based electricity system*.¹³
- 5.19. MDAG proposed the development of standardised flexibility contracts as a key measure to improve the market's ability to manage the risks of increasing price volatility as more intermittent renewables are integrated into the electricity system. Liquid trading of flexibility contracts would safeguard against the potential for the exercise of market power as the flexible supply base reduces as a proportion of the total generation mix.
- 5.20. This informed their progressive package of pro-competition measures for the supply of flexibility contracts. MDAG recommended that the Authority:
- (a) work with industry to develop one or more standardised flexibility contracts (recommendation 8) - this recommendation informed the co-design process of the standardised super-peak product in Energy Competition Task Force initiative 1B
 - (b) investigate introducing market making requirements if liquidity (price discovery) is not sufficient after 12 months (recommendation 24)
 - (c) consider extending the horizon of market made long duration contracts subject to cost effectiveness test (recommendation 28).
- 5.21. A panel of experts convened by the Chair of MDAG, in their submissions to the *Level Playing Field measures* consultation paper, agreed in principle with MDAG's progressive approach.¹⁴ Their solutions to pressures in the wholesale market included improving the product range and liquidity of risk management contracts.
- 5.22. Specifically, the panel recommended extending market making by adding a "peaky" product and sharing the same platform to allow netting of positions to reduce margin calls. They proposed shifting a proportion of baseload market making volume to the new peak product, keeping total volumes the same. They also noted the importance of carefully assessing the potential dilution of overall liquidity and the cost implications of additional market making.

Concept Consulting Group

- 5.23. The Authority engaged Concept to assess the economic costs and benefits of alternative market making arrangements, focusing on how different hedge product suites and specifications could enhance price discovery and availability of risk management contracts in the evolving electricity market.
- 5.24. Concept analysed four anchor scenarios representing different combinations of the baseload, peak, and super-peak hedging products. Using modelled hourly price

¹³ [MDAG final recommendations paper, Price discovery in a renewable-based electricity system, December 2023](#)

¹⁴ [Independent expert panel commissioned by Mercury.pdf](#)

forecasts that capture supply-demand interactions across multiple system states and weather years, Concept constructed proxy forward price curves for baseload, peak, and super-peak products. These curves formed the basis for notional hedged positions, which it tested against a range of weather- and scenario-driven outcomes.

- 5.25. The analysis evaluated how different contracts, volumes, and bid-ask spread influence earnings volatility and risk for market participants—specifically independent retailers and solar generators—and market makers.
- 5.26. The results suggested that baseload contracts significantly reduce risk and provide a strong price signal, but do not distinguish between energy and capacity risks. Adding a super-peak product delivers the most improvement in risk management and price discovery by revealing capacity-related exposure and solar variability. The peak product has limited value as an addition to baseload contracts.
- 5.27. Overall, Concept suggests that focusing market making obligations on baseload and super-peak products would enhance liquidity and transparency while keeping obligations manageable under stressed conditions.
- 5.28. The report is published on the Authority’s website alongside this paper and the link is provided in Appendix D.

Frontier and independent peer reviewers

- 5.29. The Frontier Economics report¹⁵ found no material issues with New Zealand’s contracts market or participants’ ability to manage risk. Concerns were primarily about the cost of cover, not its availability. While the market maker function imposes costs—through both commercial arrangements and gentailer participation on the ASX—they considered that it provides valuable price discovery, especially for independent retailers.
- 5.30. The report also noted that current market price signals are insufficient to incentivise investment in capacity to manage dry year and firming risks. They cited examples such as Genesis’s Heads of Agreement for Huntly and Contact’s decision not to refurbish Taranaki Combined Cycle thermal plant, to support their conclusion that uncertainties (supply, demand, policy, fuel) outweigh price signals.
- 5.31. Frontier cautioned against introducing a super-peak market making obligation at this stage. This is because they consider that the product’s market demand is unclear and that the obligation could undermine liquidity in existing peak products due to overlapping requirements. The Authority notes the existing peak product listed on the ASX is highly illiquid.
- 5.32. In contrast, Bushnell et al (one of two peer reviewers of the Frontier report) stated that in their view, the forward market serves not only as a hedging tool but also as a valuable source of information about market expectations. They recommended that the Authority pursue greater transparency in OTC contracts and consider the

¹⁵ [Review of Electricity Market Performance by Frontier Economics](#)

feasibility of extending market making obligations to super-peak or other shaped products.¹⁶

6. Proposals to enhance market making settings

- 6.1. Having carefully considered the views of stakeholders and the independent expert advice, the Authority proposes to extend market making requirements to shaped and longer-dated futures to strengthen price discovery. These proposals are:
- (a) **Introduce market making** for standardised super-peak contracts on an appropriate OTC platform, with a total offer volume requirements of 6 MW per contract and a bid-ask spread of 5%
 - (b) **Extend longer-dated futures** by increasing the availability of quarterly baseload contracts from three to five years
 - (c) **Reduce total baseload offer volume** requirements from 12 MW to 10 MW per contract
 - (d) **Other minor enhancements** to market making settings.
- 6.2. We have developed these proposals as a package however each proposal could be implemented as a discrete measure. Each proposal is described below.

Market making the standardised super-peak contract

- 6.3. We propose to introduce mandatory market making of the standardised super-peak contract. The assessment of costs and benefits of this proposal is described in section 7.

Reasons for our proposal

- 6.4. The Authority's proposal for mandatory market making of the standardised super-peak contract is informed by the considerations in section 5 above, in particular:
- (a) Improved price discovery through stronger price signals for shaped products will support much needed investment in generation, storage and other new technologies to support the evolution of the electricity system to a more highly renewable generation mix.
 - (b) Voluntary market making arrangements are fragile, and risk faltering when the market is under stress. A lack of confidence in the market could reduce participation and weaken price signals.
 - (c) Concept found that a combination of baseload and super-peak products provide the greatest benefits in terms of supporting forward price signals and providing net benefit for consumers.
- 6.5. We acknowledge that this proposal is different to the approach presented in the *Issues and Options* paper where we sought feedback on voluntary market making. Submitters on that paper expressed mixed views. Some supported a mandatory

¹⁶ [Review of the NZ electricity market performance: Peer review evaluation](#)

approach, arguing that the current voluntary arrangement, combined with the possibility of future regulation, creates uncertainty. They saw mandatory market making as a way to ensure sufficient liquidity and build market confidence. Others preferred retaining or adapting the voluntary approach, citing the market immaturity and the costs of market making, and arguing that voluntary trading is sufficient to meet the Authority's price discovery objectives.

- 6.6. As noted above, the Authority agrees with submitters that the voluntary approach provides the market with less certainty. The lack of firm obligations is likely to lead to inconsistent participation and unreliable trading volumes. This would undermine price discovery and impede effective risk management, particularly during stress periods. Voluntary market making is a lower cost option but comes at the expense of market reliability and effectiveness. Overall, voluntary trading does not sufficiently contribute to the Authority's objectives and fails to deliver the certainty of consistent outcomes needed to support a resilient and future-focused market.
- 6.7. We think codifying market making requirements will provide sharper price signals and stronger liquidity compared to a voluntary approach. We address the concerns about market maturity and the cost of market making by aligning the proposed market making settings, outlined in the next section, with the proposed expectations for voluntary trading in the *Issues and Options* paper. These settings seek to balance the costs to market makers with the benefits to the wider market.
- 6.8. This approach better aligns with the additional measures the Authority is proposing to improve the operation of forward markets. In particular, strengthening the trading of super-peak contracts supports the Authority's efforts to enhance access to hedge products under its proposed Non-Discrimination Obligations. These obligations are designed to ensure that gentailers cannot favour their own retail arms over other retailers in the availability or pricing of risk management contracts. By improving the liquidity, pricing, and access to hedge products, the initiative aims to support more effective competition in the retail electricity market.

Q5. Do you agree with the Authority's proposal to market make super-peak contracts? Do you agree with the rationale for this proposal? If not, please explain why.

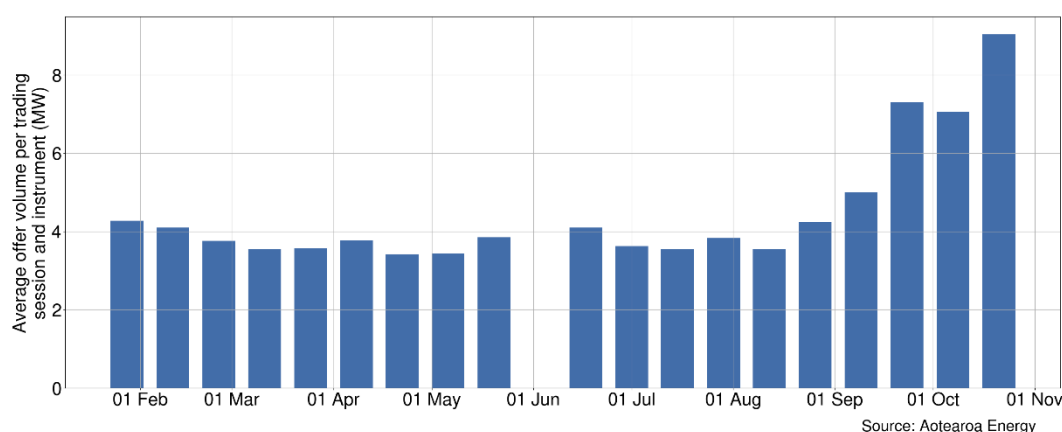
Proposed spreads and volume settings

- 6.9. The Authority proposes that market makers be required to quote 6 MW for each contract per fortnight at a 5% spread (or NZ\$2, whichever is greater, to maintain a workable spread between bids and offers when market prices are low).
- 6.10. This is lower than the 10 MW per contract initially proposed for regulated market making in the *Issues and Options* paper, but aligns with the Authority's stated expectations for "good" voluntary market making. The Authority judged that 6 MW per contract was sufficient to support liquidity and competitive pricing.
- 6.11. The proposed volume requirement is designed to support price discovery rather than seeking to meet all participants' demand for shaped products. This approach is intended to preserve incentives for participants to invest in complementary risk

management strategies, such as demand response and battery storage. It also ensures that settings for market making complement the Authority's proposed Non-Discrimination Obligations, which aim to improve access to risk management contracts.

- 6.12. The proposed volume is informed by Concept's analysis and feedback from submissions on the *Issues and Options* paper. Concept indicatively suggested a 10 MW fortnightly trading volume per contract. However, their analysis also indicated that the current volume requirements of 12 MW for baseload futures per contract could be distributed across both baseload and super-peak products. They considered that independent retailers are likely to gradually substitute some of their current baseload positions with super-peak and so their need could potentially be addressed by 6 MW of super-peak volume per contract. For further details on the methodology and assumptions behind these estimates, please refer to the Concept report in Appendix D.
- 6.13. Since the first trading event, the average offered volume has consistently ranged between 3–4 MW per contract across all market makers (Figure 1). However, quoting activity has increased in recent trading events with some sessions exceeding this volume.

Figure 1 – Average offered volume for super-peak contracts



- 6.14. Feedback from the *Issues and Options* paper reflected a wide range of views on appropriate volume requirements, with suggestions ranging from 4 MW to 12 MW. The proposed 6 MW per contract is also informed by information provided in submissions about likely demand for this product and how the volume compares relative to current offerings in the market.
- 6.15. Submitters suggested treating the proposed settings as a starting point and recommended an iterative approach to refinement to avoid over-procurement and reduce the risk of unintended consequences.
- 6.16. Submitters also expressed divergent views on the proposed bid-ask spread. Some considered the proposed 5% spread was too wide, recommending a narrower spread to improve price competitiveness. Others viewed 5% as a pragmatic starting point, balancing liquidity and cost. A number of submitters argued for a wider spread, up to 10%, to reduce costs. They cited the combined effects of super-peak

price volatility and low trading frequency (fortnightly), which could result in significant price movements between trading intervals.

Product design

- 6.17. Choosing the right product for market-making is important. It affects how well the market works, sends clear price signals and supports trading.
- 6.18. Concept's analysis suggests that between 2032 and 2037, price dynamics may shift further toward the evening peak. This could justify the development of separate morning and evening peak products in the future.
- 6.19. Submissions on the *Issues and Options* paper provided limited feedback on this point. Nevertheless, we invite feedback on whether the super-peak product should continue to combine the morning and evening peaks or whether these should be split into separate products, as it has been done recently for the new Australian super-peak contract.
- 6.20. Alternatively, should the needs of buyers and sellers change in the future, the Authority could amend the product specifications as part of a future review of market-making arrangements. The current proposed specification of the super-peak product is set out in Table 3.¹⁷ Red font shows what has changed since the *Issues and Options* paper.

Table 3– Proposed settings for market making super-peak

Feature	Specification
Product type	Contract for Difference
Contract unit	0.1 MW per hour
Node	Benmore, Otahuhu
Trading periods	15-21 (7-10:30 am), 35-42 (5-9 pm) All days
Monthly contracts	The current quarter and next two quarters (6 to 8 months total), excluding the current month
Quarterly contracts	9 quarters following the monthly contracts (when including the front 6 months, a total of 12 quarters, or 36 months offered)
Volume per contract	6 MW (1.5 per market maker)
Spread	5% or NZ\$2, whichever is greater

We propose that super-peak market making is performed by regulated market makers

- 6.21. Consistent with our position in the *Issues and Options* paper, we propose that market making obligations for the standardised super-peak contract apply to the four regulated market makers.

¹⁷ [Product specification of standardised flexibility product 2025.pdf](#)

- 6.22. Over 95% of all hydro and thermal generation is owned by these participants who also have diversified portfolios of flexible generation. This means that market making requirements will sit with those most able to manage the price risks associated with peak demand, namely, those that hold the flexible generation resources (such as hydro and thermal).
- 6.23. Generators whose flexible capacity relies solely on a single thermal fuel source (eg, gas) are excluded, as their ability to meet obligations could be compromised in the event of a prolonged disruption to fuel supply.
- 6.24. The proposed volume would also apply equally across all obligated participants. We do not support a proportional allocation of obligation volumes, as we believe this could discourage investment in flexible capacity.
- 6.25. The Authority is not currently proposing to procure commercial market making of the standardised super-peak product. However, we will explore indicative pricing as part of the next commercial procurement to inform our view on the costs of commercial participation in this product.

Q6. Do you think there should be changes to the proposed specifications of the super-peak product (eg, trading periods, contract unit volume, node coverage, or horizon)? For example, would splitting the product into separate morning and evening peak contracts better meet market needs?

Q7. Do you agree with the proposed settings for regulated market making in the super-peak product (eg, offer volume and spread requirements)? Please explain your view

Super-peak market making trading arrangements

Platform

- 6.26. The Authority proposes that market making of the super-peak product take place on an OTC platform. This is consistent with our proposed approach in the *Issues and Options* paper which identified that (compared to the ASX) trading on OTC has lower access costs (particularly for smaller participants), a faster speed of implementation, and greater flexibility to change products and/or amend product settings as the needs of the market evolve.
- 6.27. We recognise that there are disadvantages to market making on an OTC platform. The bilateral nature of trading introduces higher administrative burdens and less predictability, as ongoing negotiations are required to execute trades.
- 6.28. Our recent consultation elicited a number of suggestions to ensure an OTC platform has the functionality required for regulated market making.
- 6.29. To address that feedback, we have developed some minimum standards that a platform will be required to meet in order to be recognised (published) by the Authority as an OTC platform that can be used to fulfil market making obligations:
 - (a) **Access:** The platform must offer open access to a broad range of participants on reasonable terms, with clear service level expectations.

- (b) **Functionality:** Participants must be able to manage their own bids and offers directly, and the platform must support fast-paced trading and minimise errors and delays.
 - (c) **Information and data:** The platform must provide real-time price data, participants should be able to download transaction summaries in a standard format. The Authority must receive consistent, high-quality data to support monitoring and compliance.
 - (d) **Availability:** The platform should be reliably available during trading events, with maintenance scheduled outside trading windows, must follow good security practices to protect data and users.
- 6.30. The platform provider¹⁸ may be based locally but must be compliant with relevant New Zealand legislation, such as the Financial Markets Conduct Act 2013 and the Code. We are preparing to consult on a 2.16 notice to formalise the current voluntary arrangements for the provision of super-peak trading information. If the provider was an overseas entity, we would put in place information sharing arrangements, as we do currently with ASX. The provider will be commercially sustained through transaction-based fees generated by activity on the platform.

Market settings

- 6.31. The Authority proposes no changes to the existing trading settings for standardised super-peak products on the OTC platform recommended by the industry co-design group, except for an attendance requirement (Table 4).

Table 4 – Super-peak trading market settings

Settings	OTC platform
Frequency	Fortnightly
Time	Set by the platform and participants, avoid overlap with ASX baseload market making sessions
Presence	All trading sessions
Exemption	5 mins presence without a bid/offer

- 6.32. Given the fortnightly frequency of sessions and the volatility of super-peak prices, we have considered options to provide greater flexibility for market making on an OTC platform—helping market makers manage stress and reduce the cost of price discovery.
- 6.33. We explored several alternatives, including:
- (a) allowing market makers to miss a limited number of sessions in a year
 - (b) requiring market makers to participate in only 85% of sessions annually
 - (c) permitting offers to be withheld on up to 20% of contracts in a session

¹⁸ We intend to approve one platform provider to concentrate liquidity in the market. This does not preclude trades happening on other platforms outside of the market making window.

- (d) allowing market makers to be present for at least five minutes in a session without placing a bid or offer.
- 6.34. Of these, the five-minute presence option appears to strike the best balance. It ensures contract availability and supports price discovery, while reducing risk for market makers and being straightforward to monitor.
- 6.35. The proposed Code amendment (Appendix A) also provides for situations where a market maker is unable to trade due to platform disruptions, and when doing so is likely to cause it to breach an applicable law (see discussion on other changes, below).
- 6.36. These settings are specifically designed for the OTC platform, where trading occurs fortnightly. If trading for super-peak products transitions to the ASX platform in the future, the Authority would revise these settings to align with the daily trading cadence and operational norms of that market.
- 6.37. While the timing of OTC trading sessions should ultimately be determined by the platform and participants based on their availability and needs, the Authority is of the view that these sessions should not overlap with the ASX baseload market making window (3:30–4:00 PM), to avoid operational conflicts and ensure market makers and other participants can participate effectively in both markets.

Q8. Do you agree with the Authority's proposed approach to establishing the platform? If not, please explain your reasoning.

Q9. Do you agree with the Authority's proposed market settings on the OTC platform? If not, please explain your reasoning.

Extend longer-dated futures

- 6.38. The Authority proposes extending the availability of the ASX-listed quarterly baseload futures from three to five years.
- 6.39. While baseload futures do not perfectly match the variable output profiles of wind and solar generation, they provide a liquid and accessible backbone to a risk management strategy. Their standardisation and transparency make them a valuable tool for hedging and investment planning. Table 5 outlines the advantages and disadvantages of extending the cover of ASX baseload contracts.
- 6.40. Although MDAG recommended that implementation of longer-dated futures be contingent on an assessment of effectiveness of previous actions (such as trading of super-peak contracts), given the growing OTC activity in longer-dated contracts and the need for more robust long-term price signals, the Authority considers there is a strong case to bring this recommendation forward.

Table 5 – Summary of advantages and disadvantages of extending ASX baseload contracts duration

	Advantages	Disadvantages
Extend ASX baseload from three to five years	Provides stronger price signals to support demand-side response, contracting decisions, and new generation investment. Enhances transparency and supports long-term price and LCOE convergence, shifting focus from short-term volatility to strategic investment signals. Facilitates long-term financing by offering more predictable future pricing.	May reduce flexibility to respond to technological and market changes. Liquidity tends to be thinner beyond the three-year horizon. Price uncertainty increases towards the end of the curve. Higher costs and risk exposure for market makers. Elevated credit risk due to longer-term commitments. Longer-dated futures are not unbiased predictors of spot prices (Appendix F).

- 6.41. Concept's analysis concluded that overall, the costs and benefits of longer-dated futures could be minor. They stated that, without greater certainty on likely buyers and sellers, it was unclear whether the costs of extending the horizon would be outweighed by the benefits.
- 6.42. To put this in context, Concept anticipates investment in new generation and storage of over \$1 billion in solar generation and \$300 million in battery storage by 2032. Even a modest 1% improvement in revenue certainty for these investments would have material financial benefits, lowering financing costs by approximately \$1.2 million per year by 2032.
- 6.43. In terms of the costs, Concept found that if buying and selling interest is balanced, the incremental cost to market makers from extending futures to five years would be around \$5,000 per MW held per year. Taking into account current open interest for long-dated futures and Concept's cost estimate, we estimate extending baseload cover by two years could increase total cost to market makers by approximately \$2.5 million per year. This also aligned with our analysis of the current market-making costs over the past few years which shows the collective cost of market making across all market makers is around \$5 million dollars (Figure 16 in Appendix C). This is because longer-duration contracts tend to be relatively stable, and market makers could act as natural counterparties to trades that might otherwise occur in the OTC market.
- 6.44. This proposal does not require a Code amendment. Our initial engagement with ASX indicates that extending quarterly contracts to a five-year horizon is unlikely to be time-consuming, as it is not classified as a new product. The primary time requirements for implementing this change will stem from development and testing activities, as well as engagement with the relevant regulators in Australia.
- 6.45. To inform a decision on whether or not to extend the availability of quarterly baseload futures from three to five years, we are seeking feedback from interested

parties in whether they would find these contracts useful and how likely they would be to buy or sell them if they were available now or in the near future.

- 6.46. We are not proposing to extend the availability of standardised super-peak contracts beyond the three years recommended by the industry co-design group. However, we have asked for feedback on the horizon in our questions on the super-peak contract specifications in question 6 above.

We will publish more information to increase transparency of prices and competition

- 6.47. The Authority has recently increased the information we collect on the OTC market. In 2024 we enhanced the hedge disclosure requirements to cover a wider range of contracts and durations.¹⁹ And in October this year the Authority decided to collect information on buy and sell requests for OTC contracts. This information will provide the Authority with a better understanding of trading activity on the OTC market. We also intend to make more of this information available including regularly publishing price trends for long-dated OTC contracts to increase transparency of prices and competition.
- 6.48. While the Frontier Economics report recommended using OTC market information to construct a replacement for the ASX futures forward price curve, the OTC data is not a suitable substitute. This is due to the lack of standardisation and relatively infrequent trading of longer duration OTC contracts, which limits its robustness as a forward price curve.
- 6.49. The Authority recognises the need to balance increased transparency in the contracts market with the protection of commercially sensitive information. Long-dated contracts are relatively infrequent, which may increase the risk of identifying counterparties. To manage this risk, the Authority proposes publishing the data in an anonymised format, as illustrated in Figure 2, by aggregating baseload OTC contract information on a quarterly basis.

Figure 2 – Forward price trends based on OTC long-term contracts compared with ASX



¹⁹ [Improving Hedge Disclosure Obligations](#)

Q10. Do you support the Authority's proposal to extend the baseload futures horizon from three to five years? Please explain your reasoning.

Q11. Would your organisation expect to use these longer-dated futures contracts? If so, could you describe how they would be used in your risk management or trading strategies?

Q12. What are your views on the Authority's proposed forward price trends based on OTC longer-dated contracts?

Reduce baseload volume requirements

6.50. This review has considered appropriate volume settings across different products to ensure the overall market making requirements are appropriate. The Authority proposes a modest reduction in volume requirements from 12 MW to 10 MW per contract and will monitor the impact of this change over time. We will consider the volume requirements in the Authority's broader review of pro-competition reforms in 2027²⁰. Table 6 outlines the proposed settings for market making baseload with changes highlighted in red.

Table 6 – Proposed settings for market making baseload

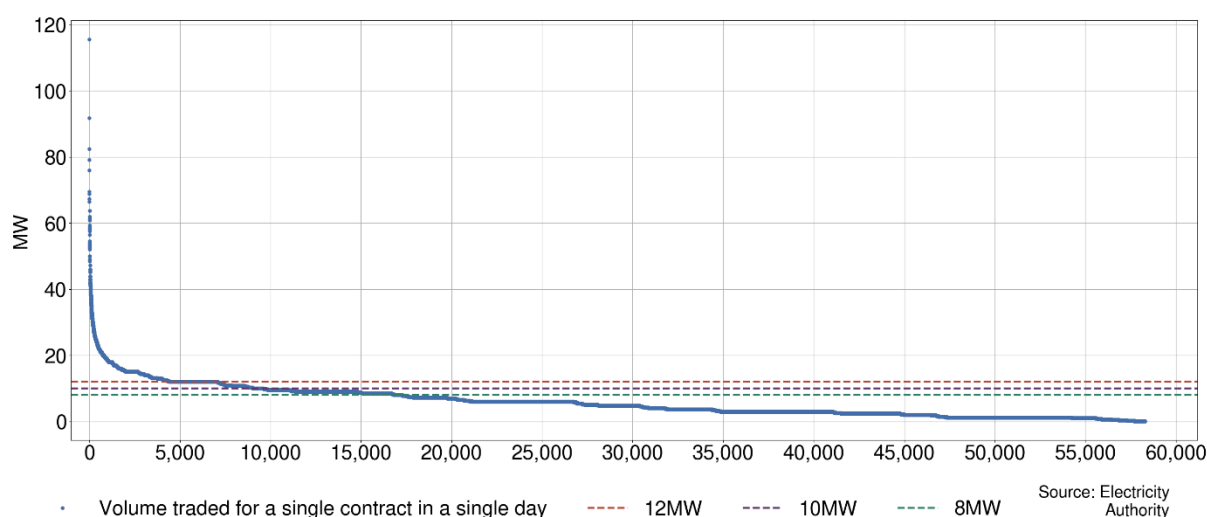
Per trading session	Baseload
Volume per contract	10 MW (2 per market maker)
Spread	3%
Contract unit	0.1 MW
Node	Benmore, Otahuhu
Trading periods	1-48 All day
Monthly contracts	the current month and each of the five months following
Quarterly contracts	22-25 quarters ahead (5 year horizon)

6.51. Our analysis of baseload contracts shows that current volume obligations may exceed market demand (Appendix C). Figure 3 shows distribution of the daily average traded volume for each contract. It indicates that 7.7% of trades are above 12 MW, 15.5% of trades were above 10 MW, and 28.9% of trades are above 8 MW.

²⁰ [Level playing field proposed Code amendments](#) | [Our consultations](#) | [Our projects](#) | [Electricity Authority](#)

The Authority intends to undertake an effectiveness review of the broader pro-competition reforms including non-discrimination obligations and super-peak trading. The Authority proposes that this commences in 2027 following receipt of the first tranche of gentailers' annual reports.

Figure 3 – Volume of trades above 12 MW volume requirements



- 6.52. In jurisdictions with similar annual electricity demand, effective price discovery is achieved with lower quoting volumes. For instance, Singapore has an electricity market similar in size to New Zealand and requires market making on only 12 baseload contracts with quoting volumes of 2-3 MW per contract. In contrast, New Zealand's market makers are required to quote on 42 contracts, each at 12 MW.
- 6.53. Excess volume allows buyers and sellers to transact more easily and frequently. However, consistently offering more volume than market demand imposes unnecessary cost and risk on market makers, which ultimately affects consumers. This is also relevant for the CMM, whose contract is volume-based and funded through the levy.
- 6.54. To ensure market making obligations remain proportionate and sustainable, we propose lowering the volume requirements for baseload contracts. This adjustment reflects the need to balance the benefits of stronger price signals with the cost of market making. Reducing baseload volume also helps better align overall market making requirements with the addition of a second product (super-peak) which increases the quoting obligations for market makers.

Q13. Do you agree with the proposed reduced volume requirements for market making baseload contracts? If not, please explain why.

Q14. Do you consider an 8 MW volume requirement per contract for baseload futures would be sufficient to enable robust price discovery? If so, please provide information to support.

Other changes to further improve market making of baseload futures

Refine binary pass / fail settings

- 6.55. The Authority monitors market maker performance daily using data sourced from the ASX. Under the current compliance algorithm, a market maker is deemed to

have failed if they do not meet the quoting requirements for more than five minutes within the designated trading window, measured to the nearest millisecond.

- 6.56. The tightly calibrated pass / fail test can result in exemptions being used for minor or negligible failures, even when meaningful liquidity is provided. This reduces the availability of exemptions for periods of genuine market stress and may unintentionally penalise market makers for brief low impact lapses.
- 6.57. The Authority proposes adjusting the current compliance metric by rounding failure assessments to the nearest second. This change is intended to reduce the likelihood of exemptions being used for negligible timing discrepancies. Since 2022, around 14% of exemptions occurred due to marginal failures, totalling 47 marginal exemptions. Seven of these occurred in the first half of 2025.
- 6.58. We think this change will better support continuous market presence and liquidity, which will strengthen confidence in market making arrangements.
- 6.59. The Authority considers the current five exemptions per 20 rolling days along with the five-minute quote pause provide a reasonable degree of flexibility to manage operational risks and price volatility. The Authority expects market makers to manage their exemptions carefully, thereby providing a stronger buffer against periods of market stress
- 6.60. More information on this analysis is provided in Appendix C.

Clarifying exemptions for market makers from the requirement to quote

- 6.61. Under clause 13.236N(1) of the Code, a participant is exempt from the requirements to quote in clause 13.236L where the participant cannot comply because an exchange trading platform is disrupted or unavailable or, under clause 13.236N(1)(a)(ii), where:
 - in the reasonable opinion of the **participant**, entering into a contract for a **NZ electricity future** in that **NZEF market making period** may cause the **participant** to breach an applicable law
- 6.62. These circumstances are referred to as 'Permitted Circumstances' and are intended to apply only in very limited situations where a market-maker is unable to quote due to circumstances outside its control. A narrow and clear application of these exemption provisions is essential to support the objectives of the market making requirements.
- 6.63. On 4 March 2025, the Authority published an item outlining its expectations of any market-maker intending to claim a Permitted Circumstance under clause 13.236N(1)(a)(ii), particularly in the context of a developing transaction (given the potential for insider trading issues to arise).²¹
- 6.64. The item explained the Authority's expectation participants take all reasonable steps to ensure they can meet their market-making obligations, in particular by putting in

²¹ See published item at <https://www.ea.govt.nz/news/general-news/authority-comment-on-permitted-circumstances-for-market-makers/>

place insider trading policies that ensure (as far as reasonably practicable) the inside information does not impact the participant's ability to provide market making services.

- 6.65. For clarification and avoidance of doubt, the Authority proposes amending the drafting in clause 13.236N(1)(a)(ii) to ensure, as intended, it provides a limited exclusion from the obligation to market make. The Authority also proposes to adopt the same exception for market making the super-peak product.
- 6.66. The proposed amendment would require the participant to be satisfied on a reasonable basis that trading is likely to cause it to breach an applicable law and that it has taken all reasonable steps to avoid the likely breach of the law while continuing to trade.
- 6.67. Note that under clause 13.236N the participant assesses whether to rely on a Permitted Circumstance and is required to notify the Authority if it is relied on. If the Authority subsequently assesses a claimed Permitted Circumstance as not compliant with the relevant provisions, it would not be accepted for the purposes of decisions made by the Authority under clauses 13.236K, 13.236L and 13.236N.
- 6.68. While the Authority does not approve the use of Permitted Circumstances before they are claimed, participants are encouraged to speak to the Authority on a confidential basis early if practicable, and before the stage where they may not be able to market make.²²

Q15. Do you agree with the Authority's proposal to modify the compliance framework in terms of the quoting requirement time? If not, please explain your reasoning.

Q16. Do you agree with the Authority's proposal to modify the Code to clause 13.236N(1)(a)(ii)?

7. Regulatory statement for the proposed amendment

Objective of the proposed amendment

- 7.1. The objective of the proposed Code amendment outlined in Appendix A is to bolster market making settings to strengthen liquidity and price discovery and improve confidence in the forward electricity markets. The proposal achieves this objective by providing more granular price signals for shaped contracts, facilitating effective risk management strategies and long-term investment decisions. By better enabling investment and competition, this will support the evolution of the electricity market.

Q17. Do you agree with the objective of the proposed amendment? If not, please explain why?

²² As set out in the published item referred to in n15 above.

The proposed amendment

- 7.2. The proposals are to extend market making requirements to standardised super-peak contracts, reduce baseload futures volume requirements, clarify the exemptions for market makers, and make minor changes to the wording of some clauses in subpart 5B to improve their clarity and accessibility.

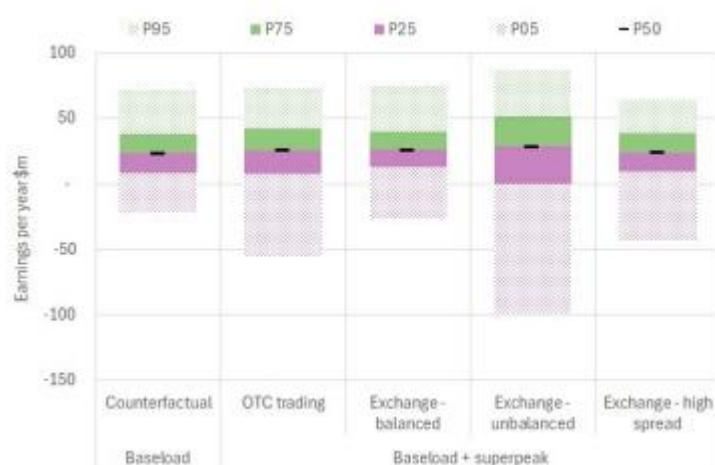
The proposed amendment's benefits are expected to outweigh the costs

- 7.3. Assessing the effect of proposed amendments is complex and not easily quantifiable. To provide a tangible perspective, the Authority commissioned Concept to evaluate costs and benefits of market making arrangements across four scenarios: baseload, baseload plus peak, baseload plus super-peak, and baseload plus peak plus super-peak. See Appendix D for the full report.
- 7.4. The analysis suggests that the benefits of the proposed changes outweigh the costs. The changes are expected to increase price discovery leading to lower earnings-at-risk for retailers, higher investment efficiency and better risk management for market makers without compromising liquidity.

Market making super-peak contracts

- 7.5. The Concept analysis estimates that improved price discovery and access, particularly through market making in super-peak alongside baseload, could generate annual benefits of up to \$10 million per year by 2032. These benefits include \$3m from enhanced retail competition, \$1.2m from improved generator financing, and \$6.25m from reduced shortage and fuel costs.
- 7.6. The report evaluated how market makers' earnings could vary when supporting both baseload and super-peak products across different market scenarios (Figure 4). It found that earnings variability tends to increase when super-peak is traded OTC while baseload remains on the ASX, compared to a counterfactual scenario where only baseload is traded. However, this difference may be overstated, as the analysis does not account for price correlations between the two products.

Figure 4 – Concept's outcomes for baseload and super-peak scenarios



- 7.7. We have reviewed and agree with Concept's analysis that market makers are well-equipped to manage the majority of these risks, primarily through pricing and spread strategies that were not fully captured in the modelling. We also agree with the broader conclusion: the earnings risk to market makers is unlikely to outweigh the market-wide benefits, particularly the enhanced liquidity for super-peak contracts.
- 7.8. We have considered submitters' views on costs and benefits, provided in response to the *Issues and Options* paper. Some submitters recommended that the Authority compare the costs of mandatory and voluntary market making to help determine the preferred approach. Given that we propose mandatory settings that closely align with the voluntary approach, under normal market conditions, the costs of mandatory market making are expected to be broadly equivalent to the voluntary arrangement. However, during periods of market stress, costs to market makers may increase, although we do not consider that these costs outweigh the benefits of improved price discovery and access. Given their physical positions in the market, these participants are best placed to manage this risk.
- 7.9. We will explore indicative pricing as part of next commercial procurement to further inform our view of the cost of market making super-peak contracts.

Reduce baseload volume requirements

- 7.10. Concept's analysis of optimal baseload settings, including scenarios with reduced baseload volumes, provides a basis for assessing the proposed amendments. Their cost-benefit analysis—covering both lower baseload volumes and super-peak market-making—demonstrates that reducing baseload volume does not compromise the broader benefits of market-making. On the contrary, it may reduce the inventory risk borne by market makers during periods of market stress.
- 7.11. It is important to assess the broader implications of volume reduction. Our own analysis shows that trading beyond market-making obligations is minimal (Figure 15). On a rolling basis, traded volumes account for half of total market-making volume requirements (Appendix C).²³ Persistently offering volumes that exceed market demand imposes unnecessary costs and risks on market makers—costs that ultimately flow through to consumers. This consideration is also relevant to the CMM, whose contract is volume-based and funded through the levy.
- 7.12. Therefore, the proposed amendment to reduce baseload volume requirements are expected to deliver net benefits to the market.

Other changes

- 7.13. Other changes in the proposed Code amendment have the primary benefit of increased efficiency through clearer obligations and reduced uncertainty. Any costs are likely to be very minimal, as the proposals simply clarify the application of existing requirements.

²³ This estimate includes all non-market maker participants.

Q18. Do you agree that the benefits of the proposed amendment outweigh its costs? If not, please explain why.

The proposed amendments are preferred to other options

The most appropriate suites of products

7.14. The Authority considered a range of different market making approaches in this review. We commissioned the Concept to assess the costs and benefits of alternative market making arrangements on four anchor scenarios representing different combination of the baseload, peak, and super-peak hedging products to identify the appropriate suites of products to best support price discovery and availability of risk management contracts in the evolving electricity market. We have reviewed and agree with Concept's analysis that market making obligations on baseload and super-peak would enhance liquidity and price transparency while keeping obligations manageable under stress conditions. Table 7 sets out their recommended market making arrangement.

Table 7 – Concept's summary of benefits of market making arrangements

Baseload	
Estimated potential benefit	Negligible
Market making arrangements	3%, 12MW (though a reduction could be considered)
Baseload + peak	
Estimated potential benefit	\$3m per year by 2032 (retail competition benefits)
Market making arrangements	Peak: 5% spread, 4 MW volume daily Baseload: 3% spread, 10 MW volume daily
Baseload + super-peak	
Estimated potential benefit	Up to \$10m per year by 2032 made up of: • \$3m retail competition • \$1.2m generator financing • \$6.25m avoided shortage/fuel costs
Market making arrangements	Super-peak: 5% spread, 10 MW volume fortnightly Baseload: 3% spread, 10 MW volume daily But should transition in time to exchange trading with appropriate volumes to be determined.
Baseload + peak + super-peak	
Estimated potential benefit	Not explicitly considered
Market making arrangements	Not explicitly considered

Mandatory vs voluntary approach

7.15. In terms of market making super-peak contracts, we assessed two options, voluntary and mandatory market making. The approach presented in the *Issues and Options* paper was to continue with voluntary trading of super-peak contracts with a conditional trigger for regulation. The trigger would have been activated if voluntary trading failed to consistently reach 6 MW with 5% spread in two consecutive quarters, prompting the Authority to consider regulated market making.

- 7.16. Table 8 evaluates the market making options against six policy criteria using a tick scale from one (✓) for weak alignment to three (✓✓✓) for strong alignment.

Table 8 – Summary of option analysis for market making super-peak products

	Mandatory	Voluntary
Robust price discovery	✓✓✓	✓
Availability of risk management	✓✓✓	✓
Greater market certainty	✓✓✓	✓
Lower cost	✓✓	✓✓✓
Contribution to the Authority statutory objectives	✓✓✓	✓✓
Ease of operationalisation	✓✓	✓✓✓

- 7.17. **Mandatory market making for super-peak** performs strongly across most criteria. It delivers high-quality price discovery, as firm obligations during stress periods ensure consistent and transparent pricing. This structure also provides strong support for risk management, enabling retailers and generators to hedge effectively during times of peak demand. From a regulatory standpoint, the model offers high certainty, with clear rules and enforceable commitments that enhance oversight and market confidence. It is well aligned with the energy transition, sending strong signals that encourage investment in flexible and renewable technologies.
- 7.18. However, the model comes with higher costs to market makers, due to the complexity and obligations associated with trading during stress periods. Despite this, it makes a high contribution to the Authority's objectives, supporting competition, reliability, and efficiency. While operationalisation is more complex, the benefits in terms of market performance and long-term investment support make it a compelling option.
- 7.19. **Voluntary trading of super-peak** scores lower due to uncertainty in participation and effectiveness. Voluntary trading of super-peak products offers simplicity and low implementation costs, but these advantages come at the expense of effectiveness and reliability. Without firm obligations, participation is inherently uncertain, leading to unpredictable trading volumes. This inconsistency weakens price signals—particularly during super-peak periods when accurate price discovery is most needed to guide investment and operational decisions.
- 7.20. The optional nature of voluntary trading also limits its value as a risk management tool. Retailers and generators cannot rely on the availability of super-peak products to hedge against price volatility during high-demand periods. As a result, the mechanism falls short in supporting participants' ability to manage financial exposure, especially during stress events.
- 7.21. From a regulatory perspective, the absence of enforceable commitments introduces further uncertainty. The regulator has limited ability to ensure consistent market

outcomes or intervene effectively when the system is under pressure. This undermines confidence in the market's resilience and reduces the clarity needed for long-term planning.

- 7.22. In the context of the energy transition, voluntary trading does little to support investment in flexible or renewable technologies. Strong and reliable price signals are essential to incentivise the development of assets that can respond to peak demand, such as batteries or demand response. Voluntary trading, with its limited reach and uncertain impact, does not provide the foundation needed to drive such investment.
- 7.23. While market makers benefit from lower operational and financial burdens—thanks to the absence of volume obligations and stress-period requirements—this cost efficiency is offset by the mechanism's inability to deliver meaningful market outcomes. The Authority's objectives of promoting competition, reliability, and efficiency are not well served by a model that lacks consistency, transparency, and strategic impact.
- 7.24. Finally, although voluntary trading is relatively easy to implement, ease alone is not a sufficient justification. A mechanism that is simple but fails to deliver on key market objectives cannot be considered a viable long-term solution.
- 7.25. Therefore, the Authority has opted to propose market making of super-peak contracts.

Reduce baseload volume requirements

- 7.26. In assessing the proposed reduction of baseload market making volumes to 10 MW, the Authority considered alternative volume settings of 6 MW and 8 MW across five key criteria: price discovery, risk to liquidity, cost to market makers, market resilience during stress events, and levy implications.
- 7.27. While both 8 MW and 6 MW settings offer cost reductions, the proposed 10 MW volume provides a balanced outcome and allows for gradual adjustment to minimise the risk of unintended impacts on trading and price discovery. It lowers costs for market makers while maintaining sufficient liquidity and supporting robust price discovery. Further reductions to 8 MW or 6 MW may compromise the strength of price signals, particularly during periods of low market liquidity, and could undermine the effectiveness of market making. Table 9 outlines the policy assessment of alternative options.

Table 9 – Option analysis of baseload volume reduction

	10 MW	8 MW	6 MW
Price discovery	High	Moderate, especially in low demand periods	Low
Risk to liquidity	Low	Moderate, potential for reduced depth	High, increased chance of thin market
Cost to market makers	Moderate	Potential for further cost reduction	Reduces inventory costs

Cost to consumers	Efficient use of levy funding	Potential for further reduction in levy costs	Potential for further reduction in levy costs
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- 7.28. At this stage, the Authority considers 10 MW to be the preferred setting, with 8 MW as a viable alternative, after evaluating the effect of volume reduction on the market.

Q19. Do you agree that the proposed amendment is preferable to other options, in relation to a) appropriate suites of contracts, b) mandatory vs voluntary market making, c) reduced baseload volume? If you disagree, please explain your preferred option in terms consistent with the Authority's main statutory objectives in section 15 of the Act 2010.

The proposed amendment complies with section 32(1) of the Act

- 7.29. The Authority's main objective under section 15(1) of the Act is to promote competition in, reliable supply by, and efficient operation of, the electricity industry for the long-term benefit of consumers. The Authority's additional objective under section 15(2) of the Act is to protect the interests of domestic and small business consumers in relation to their supply of electricity. The additional objective only applies, however, to the Authority's activities in relation to the dealings between participants and domestic and small business consumers, under section 32(3).
- 7.30. Section 32(1) of the Act provides that the Code may contain any provisions that are consistent with the Authority's objectives and are necessary or desirable to promote one or all of the matters listed in section 32(1).
- 7.31. The Authority considers that the proposed amendment complies with section 32(1) of the Act because it is necessary or desirable to promote, for the long-term benefit of consumers:
- (a) **Competition in the electricity industry:** the proposal supports competition in both the retail and generation markets by strengthening price discovery. This would help market participants manage their exposure to price volatility more effectively, encourage the entry of new players, drive competitive pricing for consumers, and stimulate investment in new generation.
 - (b) **The efficient operation of the electricity industry:** the proposals support efficiency because stronger price discovery would lead to more efficient risk management and investment decision.
 - (c) **Reliable supply by the electricity industry:** Stronger price signals—particularly for super-peak periods—can incentivise timely investment in flexible and resilient generation capacity, contributing to a more secure and reliable electricity supply over the long term.
- 7.32. The proposed amendment does not address the proposal in this paper to extend longer dated futures (because that proposal does not require an amendment to the Code). We nonetheless have considered this proposal against our statutory objectives and consider that it would promote competition, efficiency and reliability, for the same reasons.

Q20. Do you agree the Authority's proposed amendment complies with section 32(1) of the Act?

The Authority has given regard to the Code amendment principles

- 7.33. When considering amendments to the Code, the Authority is required by its Consultation Charter to have regard to the following Code amendment principles, to the extent that the Authority considers that they are applicable. Table 10 describes the Authority's regard for the applicable Code amendment principles in the preparation of the proposal.

Table 10 – Regard for Code amendment principles

Principle	
Clear case for regulation – the Authority will only consider amending the Code when there is a clear case to do so	Problem definition provides clear case for change outlined in the section 5 of this paper including the need for improved price
Costs and benefits are summarised	The costs and benefits of this proposal are summarised above, and a more detailed analysis is provided in Appendix D.

8. Next steps

- 8.1. Submissions on the proposals outlined in this paper will close on 23 December 2025. Stakeholder feedback will inform the Authority's final decision on the Code amendments and the decision paper will be published in early-2026.
- 8.2. Subject to consultation feedback:
- (a) proposed market making requirements for **super-peak** contracts would come into effect by **mid-2026**
 - (b) proposed market making changes for baseload futures would take effect in **February 2027**, with the commencement of the new CMM contract.
- 8.3. The Authority intends to facilitate an industry-led selection process to identify an OTC platform provider for trading standardised super-peak contracts. This process aims to ensure the selected platform meets our expected standards for either mandatory or voluntary market making. The selection process will begin in late 2025, with the provider expected to be selected by mid-2026.

Appendix A Proposed amendment

Proposed amendments to the Code are displayed as follows:

- (a) text or formatting is red underlined if it is to be added to the Code
- (b) text or formatting is shown in ~~red strikethrough~~ if it is to be deleted from the Code.

Part 1 – Interpretation

1.1 Interpretation

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

bid-ask spread means—

- (a) if expressed as a dollar value, the dollar value that represents the difference in price between a **quote** to buy a **forward contract NZ-electricity future** and a **quote** to sell a **forward contract NZ-electricity future** of the same type on the same **forward market-exchange**; or
- (b) if expressed as a percentage, the percentage calculated by dividing the difference between the price of a **quote** to buy a **forward contract NZ-electricity future** and the price of a **quote** to sell a **forward contract NZ-electricity future** of the same type on the same **forward market-exchange** by the price of the **quote** to sell a **forward contract NZ-electricity future**.

evening peak trading period means a **trading period** between 1700 to 2100 hours New Zealand time

exchange means an exchange included in a list **published** by the **Authority** on which New Zealand electricity base load futures contracts are available for trade

forward contract means a **base load electricity future** or a **super-peak electricity contract**

forward market means an **exchange** or **OTC platform**

morning peak trading period means a **trading period** between 0700 hours and 1030 hours New Zealand time

OTC platform means a platform included in a list **published** by the **Authority** on which **super-peak electricity contracts** are available for trade

quote means an offer to buy or sell a **forward contract NZ-electricity future** on an **exchange forward market**

base load NZEF market-making agreement means an agreement between a **participant** and an **exchange** that imposes obligations on the **participant** in relation

to the **exchange's** daily settlement market-making scheme for **base load NZ electricity futures**, in the form of agreement used on the **exchange** for this purpose that is satisfactory to the **Authority**, having regard to its inclusion of the requirements set out in clause 13.236L and of the permitted exemptions from the performance of market-making services

NZEF-base load market-making period means from 1530 to 1600 New Zealand time on each **business day** on which **NZ-base load electricity futures** are traded

NZ-base load electricity future means a New Zealand electricity 0.1 MW base load equivalent futures contract in respect of the Otahuhu reference **node** or the Benmore reference **node** available for trade on an **exchange**

order, for the purposes of subpart 5B of Part 13, means a **quote**, or a bundle of **quotes** (at the same price) in relation to a particular month or calendar quarter, and particular reference **node** simultaneously, placed on an ~~exchange~~ **a forward market** by a **participant** referred to in clause 13.236K(1)

super-peak electricity contract means a **contract for differences** relating to 0.1 MW of electricity for all **morning peak trading periods** and **evening peak trading periods** in the contract term in respect of the Otahuhu reference **node** or the Benmore reference **node** available for trade on an **OTC platform**

super-peak market-making period means the 60-minute period each fortnight specified by an **OTC platform**, when **super-peak electricity contracts** are traded on that **OTC platform**, but which must exclude 1430 to 1600 New Zealand time

total required base load volume, ~~for the purposes of subpart 5B of Part 13,~~ means 2.4 MW base load equivalent of **NZ base load electricity futures**, taking into account traded **NZ baseload electricity futures** across both buy **quotes** and sell **quotes**

total required super-peak volume means 1.5 MW equivalent of **super-peak electricity contracts**, taking into account traded **super-peak electricity contracts** across both buy **quotes** and sell **quotes**

total traded base load electricity future NZEF, ~~for the purposes of subpart 5B of Part 13,~~ means the cumulative total amount of buy **quotes** and sell **quotes** traded by that **participant** as **base load NZ electricity futures** up to the start of the current **volume refresh period** in that **base load NZEF market-making period** in relation to the applicable reference **node** (Benmore or Otahuhu) and for the particular month or calendar quarter referred to in clause 13.236L(1) ~~for the participant to which the total traded NZEF is being applied~~

volume refresh, ~~for the purposes of subpart 5B of Part 13,~~ means the requirement in accordance with clause 13.236L(3) to refresh the number of **quotes** provided by that **participant**

volume refresh period, ~~for the purposes of subpart 5B of Part 13,~~ means, for a particular **volume refresh**, the time period from the time the most recent buy or sell **quotes** were traded as **base load NZ electricity futures** until the time the **volume refresh** is completed

Subpart 5B—Hedge market arrangements

13.237 Contents of this subpart

This subpart provides for an active market for trading financial hedge contracts for **electricity** by specifying requirements for certain **participants**.

13.236K Application of subpart

- (1) Subject to subclause (2), this subpart applies to the following **participants**:
 - (a) Contact Energy Limited;
 - (b) Genesis Energy Limited;
 - (c) Mercury NZ Limited;
 - (d) Meridian Energy Limited.
- (2) ~~Clause 13.236L only This subpart~~ applies to a **participant** specified in subclause (1) if that **participant**—
 - (a) is not a party to a **base load NZEF market-making agreement** that includes the requirements set out in clause 13.236L; or
 - (b) does not perform market-making services in accordance with the **base load NZEF market-making agreement** on three or more separate occasions in a period of 90 days, and that non-performance is not permitted by an exemption or otherwise under the **base load NZEF market-making agreement**.
- (3) A **participant** to whom subclause (2) applies is relieved of its obligations under ~~clause 13.236L this subpart~~ when the **Authority**—
 - (a) is satisfied that the **participant** has complied with its obligations under ~~clause 13.236L this subpart~~ for a period of 90 days; and
 - (b) has given written notice to that effect to the **participant**, which the **Authority** must do within 5 **business days** of being satisfied as to compliance.

13.236L Requirement to quote **baseload electricity futures**

- (1) ~~Subject to subclauses (2) to (5), the A~~ **participant** to whom this clause applies under ~~clause 13.236K~~ must, for a minimum of 25 minutes in every **NZEF base load market-making period**, provide **quotes** for a minimum of—
 - (a) **2024** monthly **NZ base load electricity futures** for each of the Otahuhu reference **node** and the Benmore reference **node** (being **2024** buy **quotes** and **2024** sell **quotes** for each reference **node**) for the current month and each of the five months following the current month; and
 - (b) **2024** quarterly **NZ base load electricity futures** for each of the Otahuhu reference **node** and the Benmore reference **node** (being **2024** buy **quotes** and **2024** sell **quotes** for each reference **node**) for each calendar quarter that is available for trade on an **exchange**.

- (2) The **participant** must not provide a **quote** under subclause (1) with a **bid-ask spread** that exceeds the greater of 3% or NZ\$2. For the avoidance of doubt, where there are multiple buy **orders** and sell **orders** for a particular reference **node** for a particular month or calendar quarter in a **NZEF market-making period**, the requirement in this subclause means the **bid-ask spread** between the lowest priced buy **order** and the highest priced sell **order** (across those multiple **orders**) must not exceed the greater of 3% or NZ\$2.
- (3) ~~When providing **quotes** Under subclause (1) for each **NZEF market-making period**, the **participant** must provide a quantity of initial **quotes** and (as applicable) **volume refresh** its **quotes** until it has traded the **total required volume** for each of the Otahuhu reference **node** and the Benmore reference **node** in relation to each particular month and calendar quarter as follows:~~
- (a) ~~when first placing **orders** at or after the start of the **NZEF market-making period**, the **participant** is required to~~ place an initial buy **order** of at least 1012 **quotes** in total and an initial sell **order** of at least 1012 **quotes** in total at or after the start of the **base load market-making period**:
 - (b) ~~if either initial buy **order** or sell **order** is fully traded then that **participant** must (as applicable) **volume refresh** its **order(s)** such that where the amount of the **total traded base load electricity future NZEF** up to that point in time in the **base load NZEF market-making period** is—~~
 - (i) 1012, then at the end of the **volume refresh period** the buy **order** must comprise at least 1012 **quotes** and the sell **order** must comprise at least 1012 **quotes**:
 - (ii) greater than 1012, then at the end of the **volume refresh period** that **participant** must ensure that the number of **quotes** comprising each of the buy **order** and sell **order** respectively are a minimum of X , where—

$$X = 2024 \text{ quotes} - \text{total traded baseload electricity future NZEF}$$
 - (c) once the **participant** has traded the **total required base load volume** it may withdraw any remaining **quotes**.
- (4) A **participant** required to **volume refresh** in accordance with clause 13.236L(3)(b) may also carry out any other changes not inconsistent with their obligations under this subpart that the **participant** chooses to make to any other **order(s)** for the particular month or calendar quarter and particular reference **node** that is the subject of the **volume refresh**.
- (5) For the purpose of determining whether a **participant** has met the minimum time requirement of 25 minutes under clause 13.236L(1), a **quote** will not be treated as being provided during a **volume refresh period**.

13.236LA [Expired]

13.236LB Requirement to quote super-peak electricity contracts

- (1) A **participant** to whom this clause applies under clause 13.236K must, for a minimum of 25 minutes in every **super-peak market-making period**, provide **quotes** for a minimum of—

- (a) 15 monthly **super-peak electricity contracts** for each of the Otahuhu reference **node** and the Benmore reference **node** (being 15 buy **quotes** and 15 sell **quotes** for each reference **node**) for each month in the current calendar quarter (excluding the current month and any previous months), and for each month in the following two calendar quarters; and
 - (b) 15 quarterly **super-peak electricity contracts** for each of the Otahuhu reference **node** and the Benmore reference **node** (being 15 buy **quotes** and 15 sell **quotes** for each reference **node**) for each of the nine calendar quarters following the last calendar quarter referred to in paragraph (a).
- (2) The **participant** must not provide a **quote** under subclause (1) with a **bid-ask spread** that exceeds the greater of 5% or NZ\$2. For the avoidance of doubt, where there are multiple buy **orders** and sell **orders** for a particular reference **node** for a particular month or calendar quarter in a **super-peak market-making period**, the requirement in this subclause means the **bid-ask spread** between the lowest priced buy **order** and the highest priced sell **order** (across those multiple **orders**) must not exceed the greater of 5%.
- (3) The **participant** is exempt from the requirements in this clause for a **super-peak market-making period** if—
- (a) the **participant** cannot comply with a requirement in this clause in that **super-peak market-making period** because an **OTC platform** is disrupted or unavailable; or
 - (b) in the reasonable opinion of the **participant**—
 - (i) entering into a contract for a **super-peak electricity future** in that **super-peak market-making period** is likely to cause the **participant** to breach an applicable law; and
 - (ii) the **participant** has taken all reasonable steps that would have enabled it to enter into the contract for a **super-peak electricity future** in that **super-peak market making period** while avoiding the likely breach of an applicable law.
- (4) If a **participant** relies on an exemption under subclause (3), the **participant** must notify the **Authority** of the exemption it has relied on and the basis for the exemption as soon as practicable.

13.236M *[Revoked]*

13.236N Exemptions from requirement to quote **base load electricity futures**

- (1) The **participant** is exempt from the requirements in clause 13.236L in the following circumstances:
- (a) for a **base load NZEF** market-making period if—
 - (i) the **participant** cannot comply with a requirement in clause 13.236L in that **base load NZEF** market-making period because an **exchange trading platform** is disrupted or unavailable; or
 - (ii) in the reasonable opinion of the **participant**—
 - (A) entering into a contract for a **base load NZ** electricity future in that **base load NZEF** market-making period ~~may~~ is likely to cause the **participant** to breach an applicable law; and

- (B) the **participant** has taken all reasonable steps that would have enabled it to enter into the contract for a **base load electricity future** in that **base load market making period** while avoiding the likely breach of an applicable law;
- (b) in addition to the exemptions in paragraph (a), for up to two **base load NZEF market-making periods** within any 20 consecutive **base load NZEF market-making periods** at the **participant's** discretion.
- (2) To avoid doubt, if the **participant** meets the criteria for exemption in subclause (1)(a)(i) or (1)(a)(ii) in relation to a **base load NZEF market-making period**, that **base load NZEF market-making period** will not count towards the **participant's** two exemptions in subclause (1)(b).
- (3) If the **participant** relies on an exemption under this clause 13.236N from the requirement to **quote**, the **participant** must notify the **Authority** of the exemption it has relied on and the basis for the exemption as soon as practicable but in any case no later than 1700 New Zealand time on the same **business day** that an exemption is relied on.

Q21. Do you have any comments on the drafting of the proposed amendment?

Appendix B Format for submissions

Submitter	
Questions	Comments
Q1. Do you agree with the Authority's assessment of the impacts of market making policies? If not, please explain your reasoning.	
Q2. Do you agree with the Authority's assessment that the introduction of the CMM has achieved its intended policy objectives? If not, please explain why.	
Q3. In your view, does the CMM arrangement offer good value for money?	
Q4. Do you support the Authority's proposal to continue with the current hybrid model of four regulated market makers and one commercial market maker? If not, please explain your concerns.	
Q5. Do you agree with the Authority's proposal to market make super-peak contracts? Do you agree with the rationale for this proposal? If not, please explain why	
Q6. Do you think there should be changes to the proposed specifications of the super-peak product (e.g. trading periods, unit volume, node coverage, or horizon)? For example, would splitting the product into separate morning and evening peak contracts better meet market needs	
Q7. Do you agree with the proposed settings for regulated market making in the super-peak product (eg, offer volume and spread requirements)? Please explain your view	
Q8. Do you agree with the Authority's proposed approach to establishing the platform? If not, please explain your reasoning.	
Q9. Do you agree with the Authority's proposed market settings on the OTC platform? If not, please explain your reasoning	
Q10. Do you support the Authority's proposal to extend the baseload futures horizon from three to five years? Please explain your reasoning.	
Q11. Would your organisation expect to use these longer-dated futures contracts? If so, could you describe how they would be used in your risk management or trading strategies?	
Q12. What are your views on the Authority's proposed forward price trends based on OTC longer-dated contracts?	
Q13. Do you agree with the proposed reduced volume requirements for market making baseload contracts? If not, please explain why	
Q14. Do you consider an 8 MW volume requirement per contract for baseload futures would be sufficient to enable robust price discovery? If so, please provide information to support.	
Q15. Do you agree with the Authority's proposal to modify the compliance framework in terms of the quoting requirement time? If not, please explain your reasoning	
Q16. Do you agree with the Authority's proposal to modify the Code to clause 13.236N(1)(a)(ii)?	
Q17. Do you agree with the objectives of the proposed amendment? If not, please explain why?	
Q18. Do you agree that the benefits of the proposed amendment outweigh its costs? If not, please explain why.	

Questions	Comments
Q19. Do you agree that the proposed amendment is preferable to the other options in relation with a) appropriate suites of contracts and b) Mandatory vs voluntary, c) reduce baseloads volume? If you disagree, please explain your preferred option in terms consistent with the Authority's main statutory objectives in section 15 of the Act 2010.	
Q20. Do you agree the Authority's proposed amendment complies with section 32(1) of the Act?	
Q21. Do you have any comments on the drafting of the proposed amendment?	

Appendix C Market making policy review analysis

This appendix presents the detailed analysis underpinning the Authority's review of the market-making arrangements. The analysis addresses each of the key policy questions grouped into two main parts:

- **Part 1** evaluates whether the current market-making arrangements are achieving their policy objectives—namely, supporting a robust forward price curve and improving access to hedging products—consistent with the criteria of reliability, efficiency, and sustainability.
- **Part 2** explores potential improvements to market-making settings, including product coverage, volume requirements, platform arrangements, and operational rules.

Each section includes quantitative and qualitative assessments, drawing on market data. The findings have informed the conclusions and proposals set out in the main body of the consultation paper.

It is important to recognise that the effects of market making policy changes do not occur in isolation. External factors, including the presence of clearing participants and spot price volatility, also influence market behaviour and should be considered when evaluating outcomes. As a result, it is difficult to attribute observed outcomes solely to policy changes made by the Authority.

Part 1. Have our market-making policy settings led to an improvement in the availability of contracts and price discovery?

Q 1. Is the forward price curve an unbiased predictor of spot prices?

A key objective of the market-making policies is to support the development of a robust forward price curve that reflects market expectations and provides a reliable basis for risk management. To assess whether the forward curve is an unbiased predictor of future spot prices, the Authority commissioned independent analysis from Infometrics.

In this context, 'bias' refers to the ASX pricing being skewed in a particular direction relative to the spot price, so that ASX contracts are either consistently underpriced or consistently overpriced. An ideal 'unbiased' scenario would mean that underpricing and overpricing cancels out on average. The word 'bias' is not commentary on deliberate or cognitive bias of any specific participants in the market.

The Infometrics report evaluates the statistical relationship between forward and spot prices over a multi-year period, testing for bias and predictive accuracy. The full report is available on the Authority's website and can be accessed via the link below.

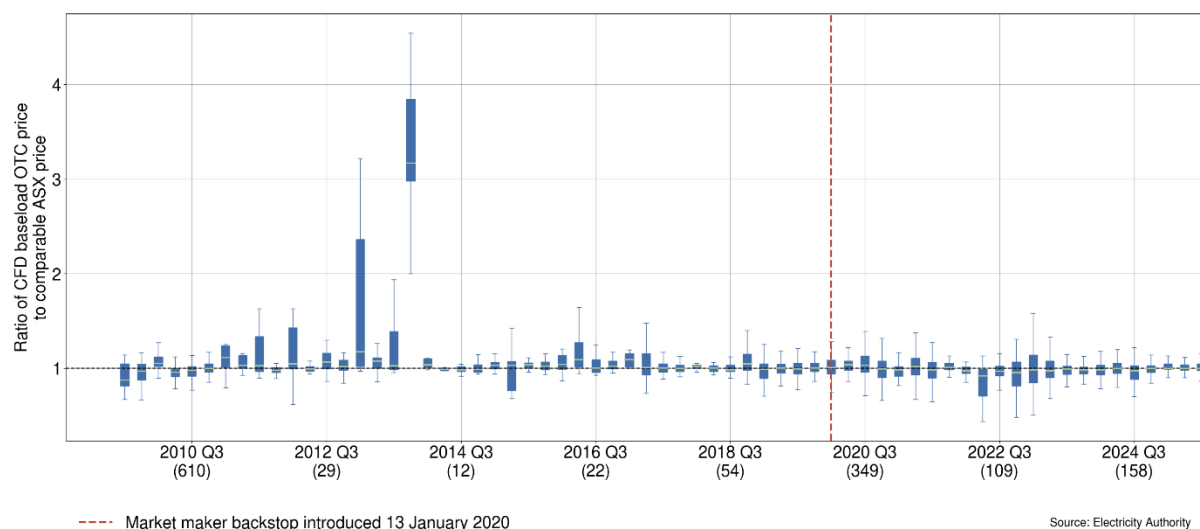
The report concludes that ASX contracts are generally underpriced in the early stages of trading but become unbiased as contracts approach their effective periods.

Q2. Are available risk management options priced against the forward curve

We analysed the relationship between OTC contract pricing and the forward price curve to assess whether risk management products are being priced in line with market expectations.

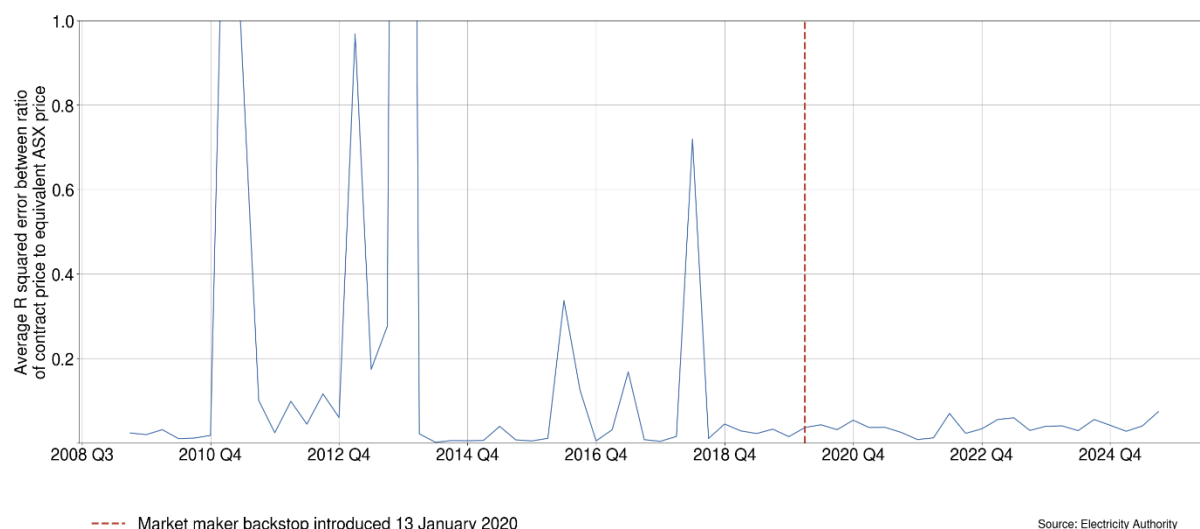
Our analysis focused on the ratio of OTC baseload contract prices—specifically contracts for differences (CfDs)—to comparable ASX futures prices over time. This ratio serves as a proxy for how closely bespoke OTC contracts are anchored to the forward curve. Figure 5 illustrates this relationship from 2010 to 2025.

Figure 5– Quarterly distribution of the ratio of baseload OTC prices to equivalent ASX prices²⁴



To more clearly illustrate this relationship between OTC prices and ASX futures prices, Figure 6 shows how far the ratio is from 1.

Figure 6–Quarterly average variation between OTC prices and equivalent ASX prices



²⁴ The very high-priced contracts traded in Q1 and Q4 of 2013 are hedges made by Transpower with certain gentailers to carry out testing on the new HVDC pole.

OTC contract prices became much closer to ASX prices after the introduction of the market making backstop in 2020. Our analysis suggests that market-making and transparency initiatives have strengthened the role of the forward curve in guiding OTC pricing, thereby enhancing the efficiency and equity of risk management in the New Zealand electricity market.

Q3. What impact have policy changes had on market liquidity?

We analysed the effects of two major market-making policy changes on key liquidity indicators in the electricity futures market:

- the 2020 mandatory backstop measure and,
- the 2022 reforms (including the introduction of the CMM, refresh obligations, and revised exemption rules).

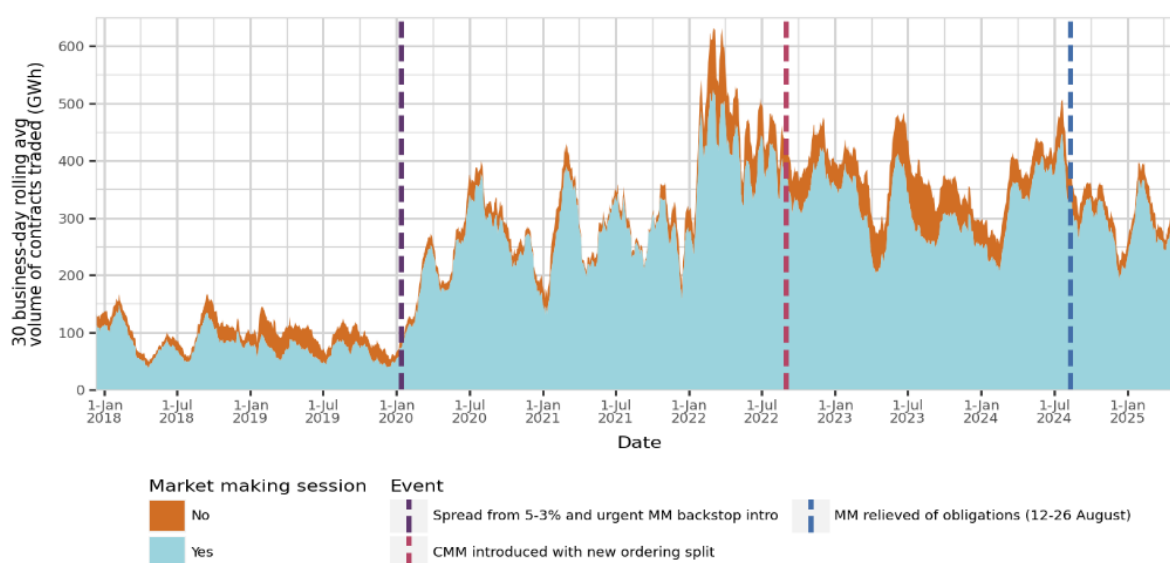
To assess the impact of these market-making policy changes, we examined several standard liquidity indicators commonly used in financial markets. These indicators help evaluate how easily participants can transact in the electricity futures market without significantly affecting prices.

Our analysis suggests that these policy changes have had a measurable impact on the market-making policy objectives of supporting a robust forward price curve and improving access to risk management contracts.

Trade Volume

Figure 7 shows the total volume of contracts traded over a given period in and out of the market making session. Higher volumes generally indicate greater market activity and participant engagement.

Figure 7 – Volume traded on the ASX by whether trades occurred in the market making session



Source: ASX

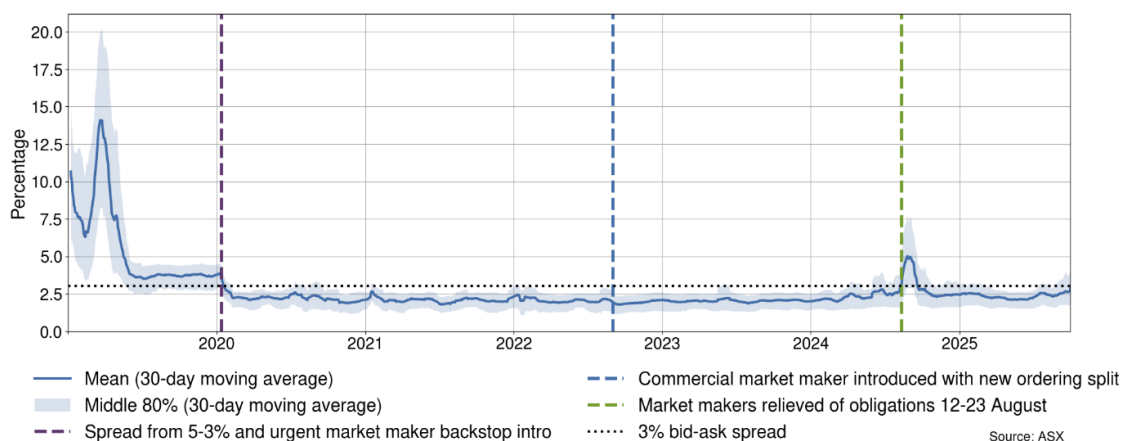
There was a clear increase in volume traded after the introduction of the market-making backstop in 2020. However, the changes in 2022 did not significantly impact volume traded.

The vast majority of ASX trading takes place within the market-making session, showing that participants find market-making useful.

Bid-ask spread

The bid-ask spread of a product is the difference between the highest price a buyer is willing to pay (bid) and the lowest price a seller is willing to accept (ask). Narrower spreads suggest increased market liquidity. Figure 8 shows the average bid-ask spread of market-made contracts on the ASX.

Figure 8 – Average bid-ask spread of market-made contracts on the ASX

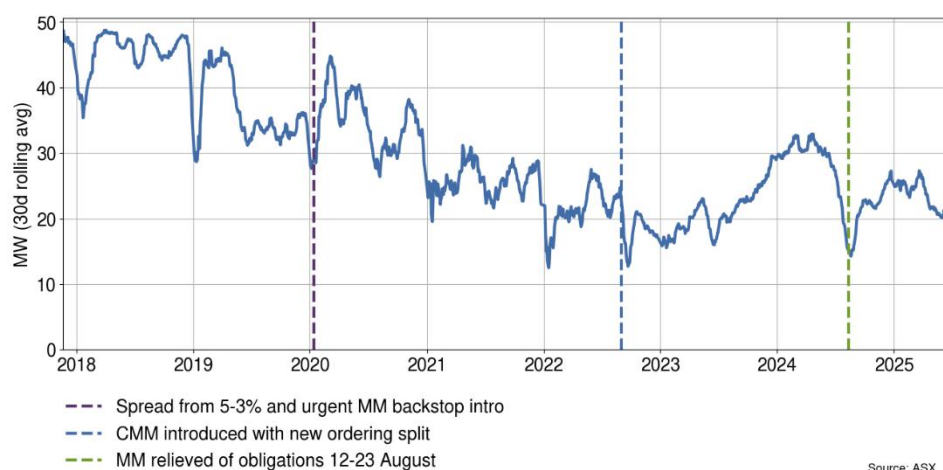


Before the market-making backstop was introduced bid-ask spread fluctuated above 4%. After the backstop, bid-ask spread was generally below 3%, excluding the period where market makers were relieved of obligations in August 2024. The changes in 2022 did not significantly impact average bid-ask spread.

Market depth

Market depth is the volume of buy and sell orders available during the market making sessions. Greater depth indicates stronger liquidity, as larger trades can be executed without moving the market significantly. Figure 9 shows the average market depth in the ASX market during trading sessions.

Figure 9 – Time weighted average order depth throughout trading session over time

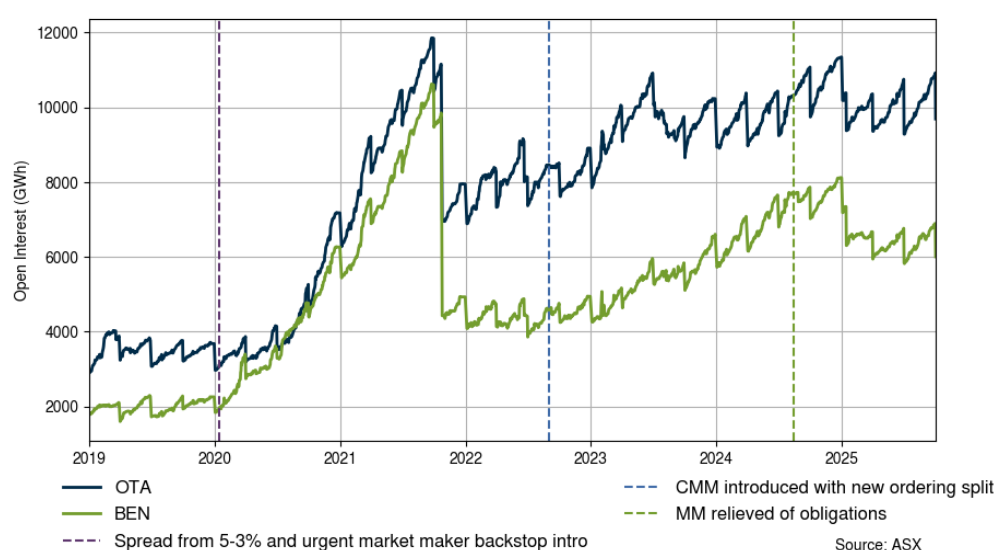


Depth decreased after the introduction of the market making backstop in 2020. It then continued to decrease (temporarily) after the new ordering split was introduced in 2022. We expected that active depth would decrease after the option to split the orders in half was introduced. The depth also seemed to become slightly more stable across the session, which was one of the goals of the split.

Open interest

Open interest is the total number of outstanding contracts that have not been settled. Rising open interest typically reflects growing market participation and confidence in the futures market. Figure 10 shows the open interest in the ASX market for contracts at Benmore and Ōtāhuhu.

Figure 10 – Open interest of ASX contracts²⁵



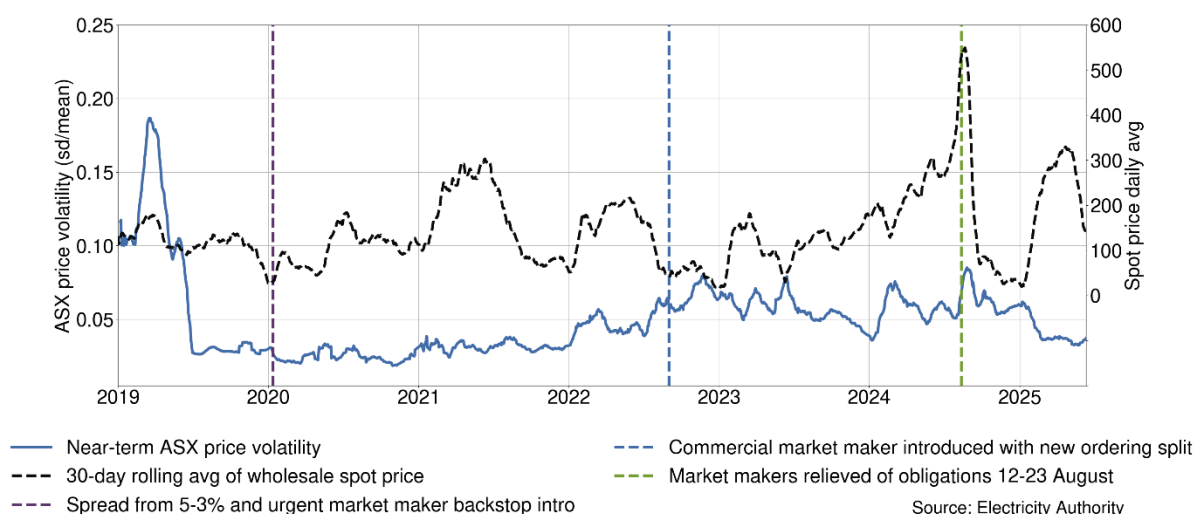
Like with volume, open interest increased when the market-making backstop was introduced in 2020, but did not change significantly after the market-making changes in 2022.

Volatility in near-term contracts

Volatility in near-term ASX contracts is the degree of price fluctuation in contracts close to delivery. While some volatility is expected, excessive near-term volatility may indicate instability or reduced liquidity. Figure 11 shows the ASX price volatility for near-term contracts. The volatility of the wholesale electricity spot price is also shown as a more volatile spot price is likely to cause more volatility in the ASX near-term prices.

²⁵ The Authority notes the significant decrease in open interest reported by ASX in October 2021. This decrease in open interest was as a result of a change to reporting by a clearing participant's reporting of a single participant's multiple trading accounts. The historical record prior to October 2021 is unable to be updated by ASX. The historical record is therefore, overstated, however the increase between Jan 2020 and Jan 2022 is still significant, noting that the January 2020 figure is potentially overstated.

Figure 11 – Average ASX price volatility in near-term contracts plotted against spot price volatility

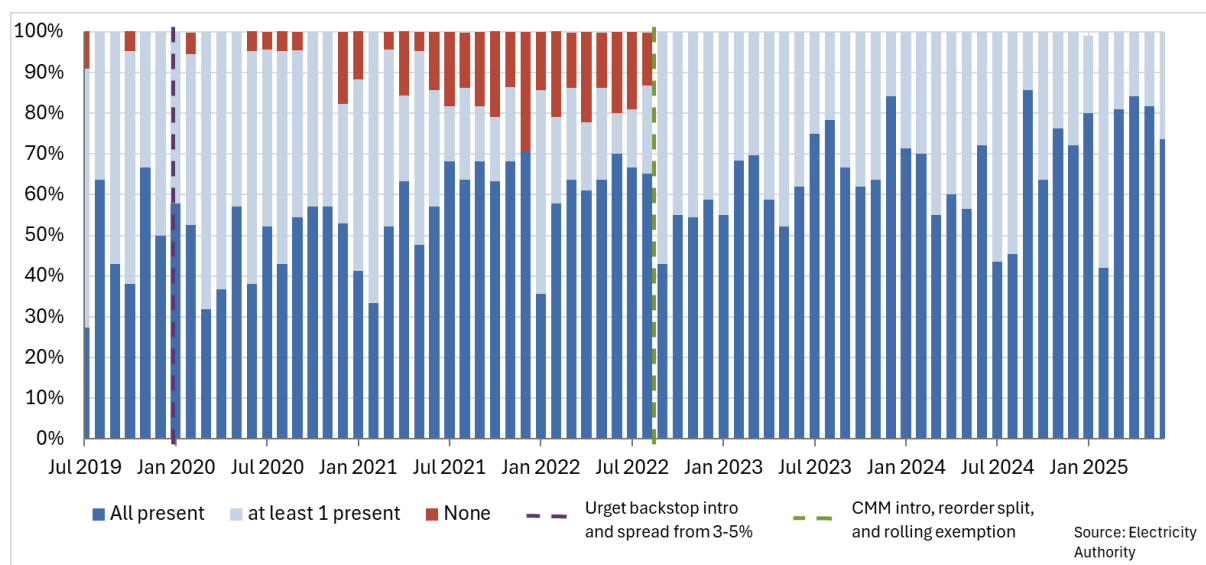


ASX price volatility appears to have increased after the market-making changes in 2022. This could be related to the commercial market maker introducing further price variation. Near-term ASX volatility is loosely associated with spot price volatility.

Market maker presence

Figure 12 shows the presence of market makers actively quoting prices on a given day. Consistent presence supports continuous price discovery and access to hedging products.

Figure 12 – Market maker presence



Following the market making changes in 2022 (which included changing the exemption allowance from a monthly number to a rolling-period number) there was a noticeable decrease in the number of days when no market-makers were participating. There was also an increase in the number of days where all market-makers were present.

Q4. What are the benefits from the introduction of the commercial market maker?

We analysed the performance of the CMM using both quantitative and qualitative indicators to assess its contribution to market-making policy objectives. Because the CMM was introduced in tandem with other major changes, it was difficult to isolate the effect of the CMM on the market. So, the simple liquidity measures used above were less useful.

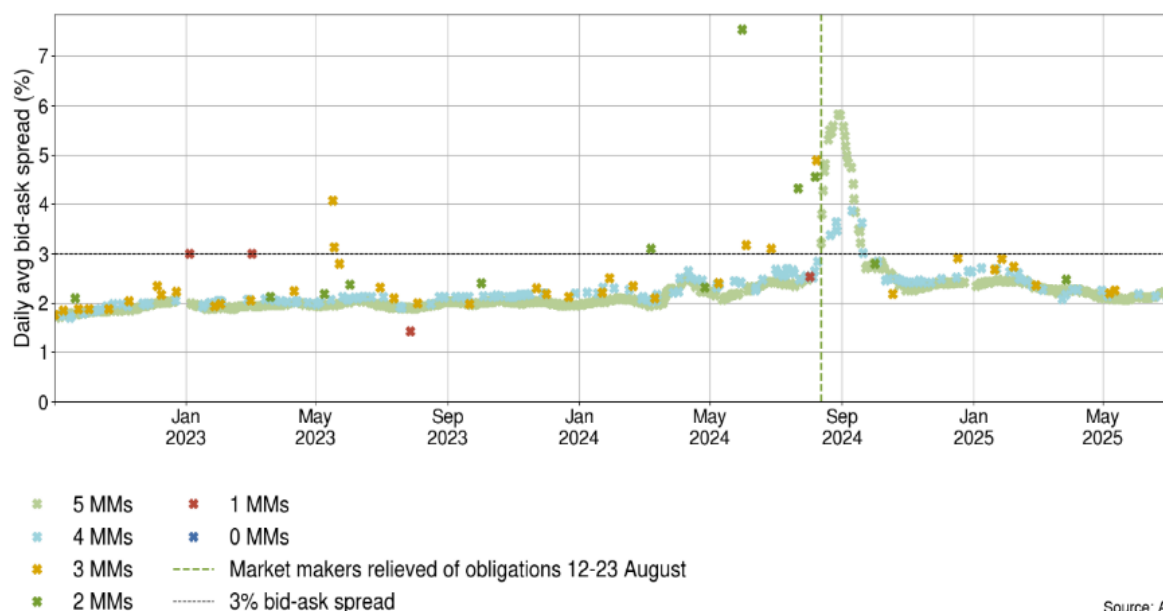
To better understand the role of the CMM in supporting market resilience and access, we analysed the effect of the number of active market makers on key liquidity indicators. Active market makers are defined as market makers who don't fail in their market-making obligations for more than 1 second, or on more than one contract.

While there was generally little difference to market liquidity when 4 or 5 market makers were present, bid-ask spread did appear to increase when there were fewer than 3 market makers. When 5 market makers were active in the market, there were also likely to be fewer days with fewer than 3 market makers present. The required volume being split between 5 market makers rather than 4 also means that depth is less impacted when a single market maker is inactive. This suggests that the presence of the CMM contributes to more stable and efficient market conditions.

Bid-ask spread by market maker presence

Figure 13 shows the average bid-ask spread in the market coloured by market maker presence.

Figure 13 – Average bid-ask spread by number of market makers

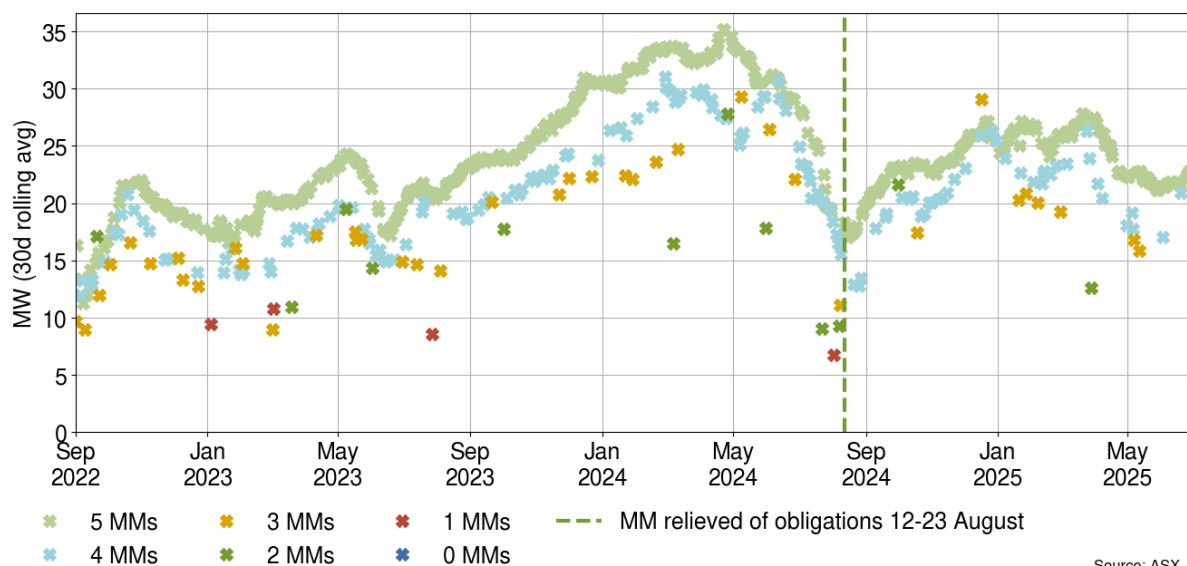


Bid-ask spread is noticeably higher when there are fewer market makers in the market. However, the degree of difference between 4 and 5 market makers being present is minimal. There is a more noticeable increase in bid-ask spread when there are 3 or fewer market-makers.

Depth by market maker presence

Figure 14 shows the daily average order depth in the session coloured by number of market makers active in the session.

Figure 14 – Average price volatility by number of market makers



As expected, depth is highly dependent on market maker presence, as required order volume is split evenly between market makers. Since the introduction of the CMM means that the volume is split between more market makers, the absence of single market maker has less impact on market depth.

Part 2 – Would extending market making to other product types and adjusting settings lead to improvements in price discovery and consumer outcomes?

In this part of the review, we explored potential improvements to the current market-making arrangements to better support the policy objectives of a reliable, efficient, and sustainable electricity futures market. We focused on two areas where additional analysis was undertaken:

- The suitability of extending market-making to shaped products (e.g., peak and super-peak contracts), and the appropriate volume requirements across products.
- The effectiveness of the binary pass/fail compliance framework, and whether it remains fit for purpose under current market conditions.
- The effectiveness of the voluntary refresh mechanism.

These analyses aim to inform future refinements to market-making settings by evaluating whether current arrangements adequately reflect market needs and participant behaviour. The following sections present the findings and supporting evidence.

Should we extend market-making to other products (peak and super-peak)? What are the appropriate settings across all products?

To assess whether market-making should be extended to shaped products (such as peak and super-peak contracts), and to determine appropriate volume settings across all products, we commissioned Concept to provide independent advice. Their report is published on the Authority's website and referenced in Appendix D.

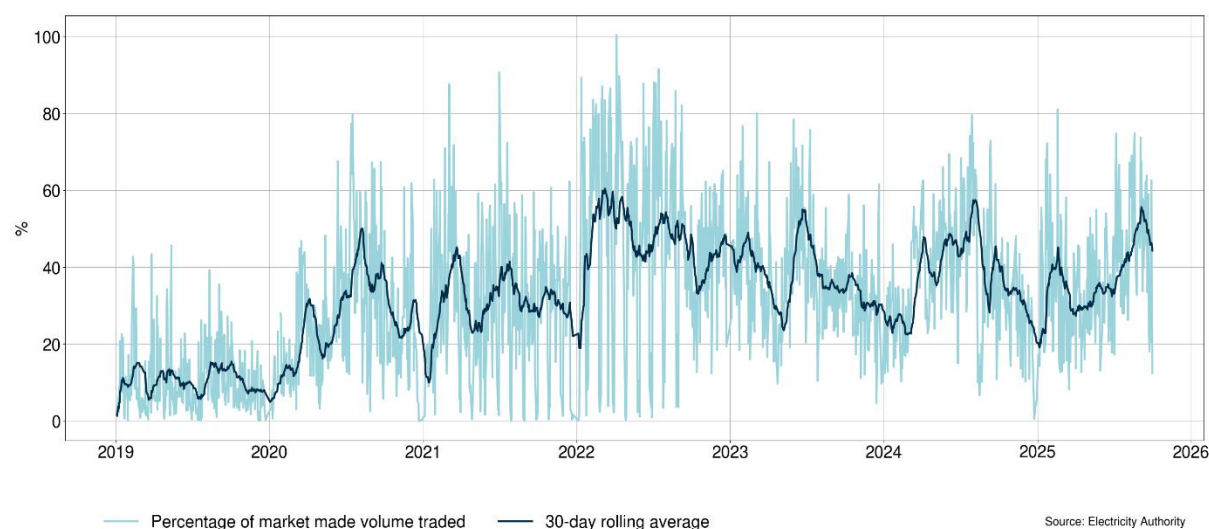
Based on Concept's recommendations and stakeholder submissions to the *Issues and Options* paper, we proposed lowering the volume requirements for baseload contracts. This proposal is supported by additional analysis presented below.

In general, less than half of required market making volume is traded so there is room to decrease baseload volume requirements to leave room for more product types. While some individual market makers may find market making costly, the majority of market makers trade with each other. This means that total costs to market makers are relatively modest.

ASX market made volume being traded

We also examined the relationship between trade volumes and required market-making order volumes (Figure 15).

Figure 15– Percentage of market-making volume requirement that are traded volume



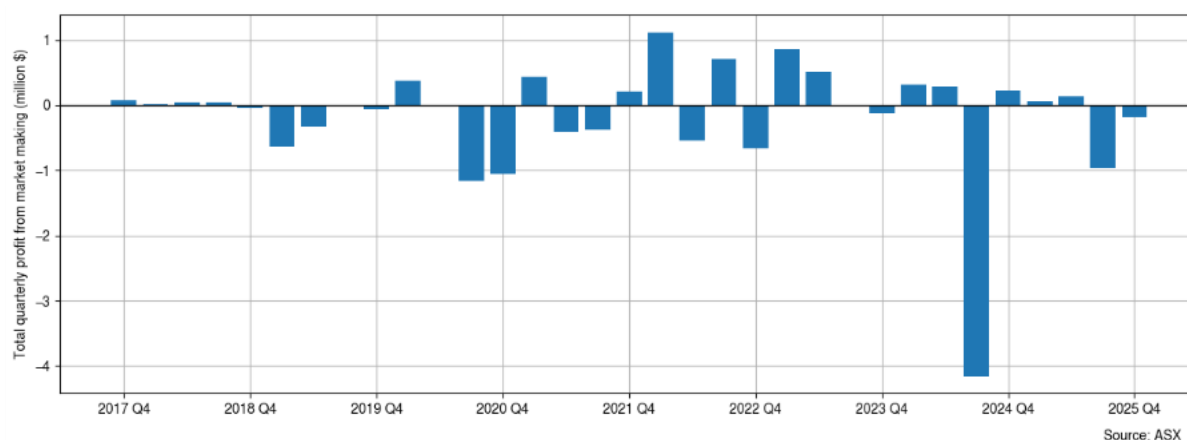
The results show that the required order volume has consistently exceeded actual trade volume, usually by more than two times. This indicates that there is room to lower volume requirements, particularly if market-making obligations are extended to include additional products. Adjusting baseload volumes could help ensure that overall quoting requirements remain proportionate to actual market activity and participant demand.

Market making costs

We also examined market-making costs over the past few years. The analysis treated all five market makers as a single entity and provides only a rough estimate—it does not reflect their full profit or loss from market making. For simplicity, we assumed that any positions traded

out of within a day were related to market-making activity. While not comprehensive, this approach offers a useful indication of the cost profile under current arrangements.

Figure 16 – Total quarterly cost of market making



The analysis indicates a collective loss of approximately \$5 million across all market makers since 2017. This relatively low loss is because market makers are mostly trading with each other. A large portion of the loss occurred during August 2024 when prices were unusually high for a prolonged period.

Other changes to strengthen baseload market-making – binary pass/fail framework

As part of our review of market-making settings, we examined the effectiveness of the binary pass/fail compliance framework. The binary framework is designed to ensure consistent market maker participation, but its rigidity may not fully reflect the operational realities faced by participants.

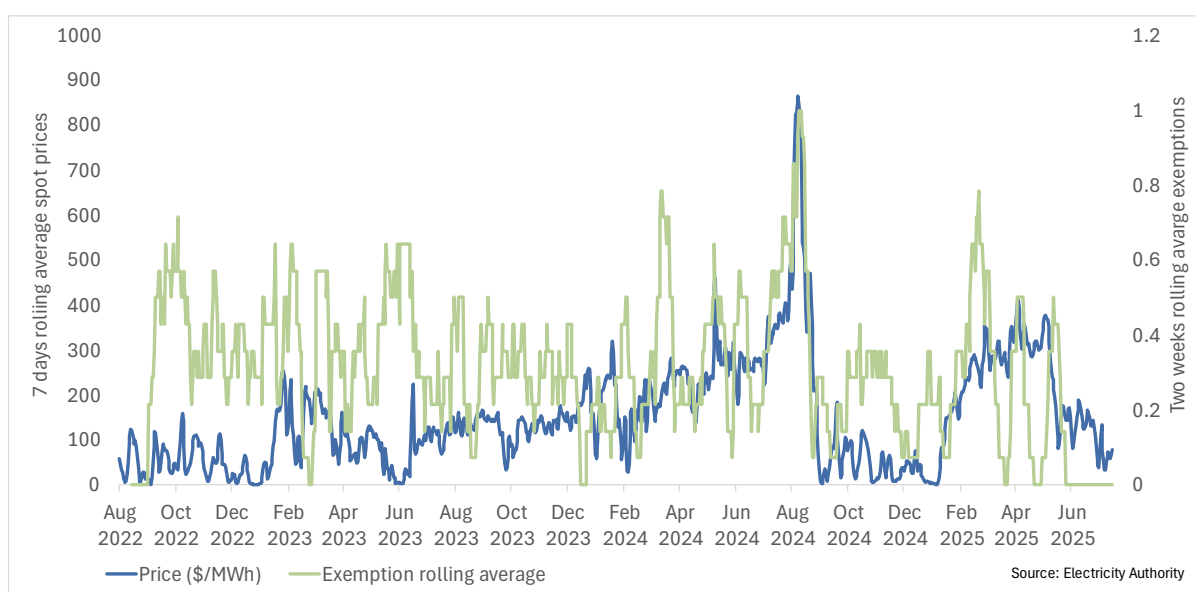
We analysed exemption patterns over time to assess whether the framework is supporting the policy objectives of reliability and resilience. This included reviewing the frequency and nature of exemptions, the extent to which they align with periods of genuine market stress, and the operational challenges faced by both regulated and commercial market makers.

The findings below highlight trends in exemption use, the decline in marginal failures, and the need to refine the framework to better distinguish between sustained market stress and short-term disruptions.

The use of exemptions is not limited to periods of genuine market stress

Figure 17 compares two week rolling average market making exemptions to spot prices.

Figure 17 – Trend of average exemptions compared with spot prices

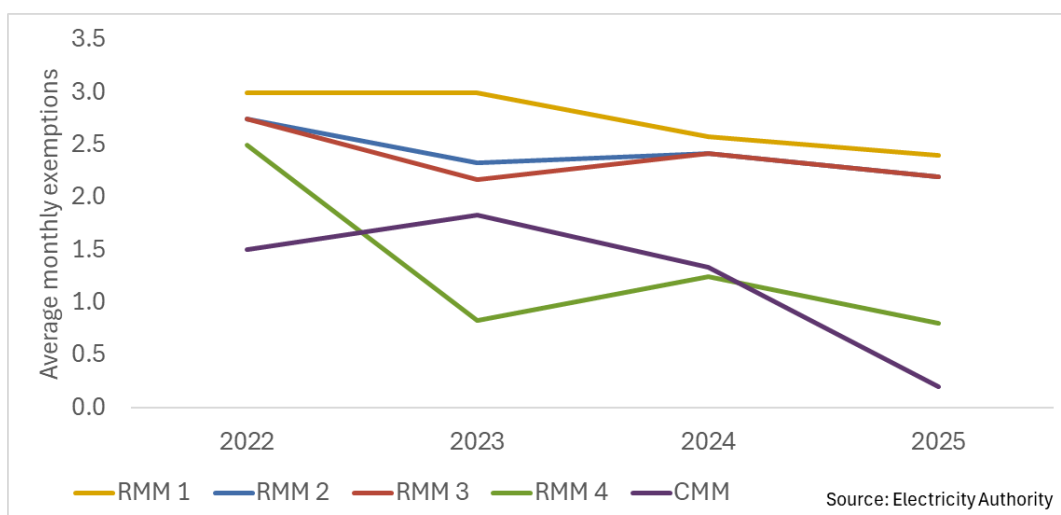


The data indicates periods of higher stress (as defined by elevated spot prices or intraday volatility) do see elevated use of exemptions, however exemption use also occurs in periods of lower stress. Exemptions have been used both during high and low-price periods, suggesting that they are not consistently aligned with market stress conditions. This highlights the need for market makers to manage exemptions effectively and review internal processes when exemptions are exhausted outside periods of genuine market stress.

Average number of exemptions per month declined over time

Figure 18 shows the annual average number of exemptions per month for each market maker.

Figure 18 – Average number of exemptions per month (as of 12 May 2025)



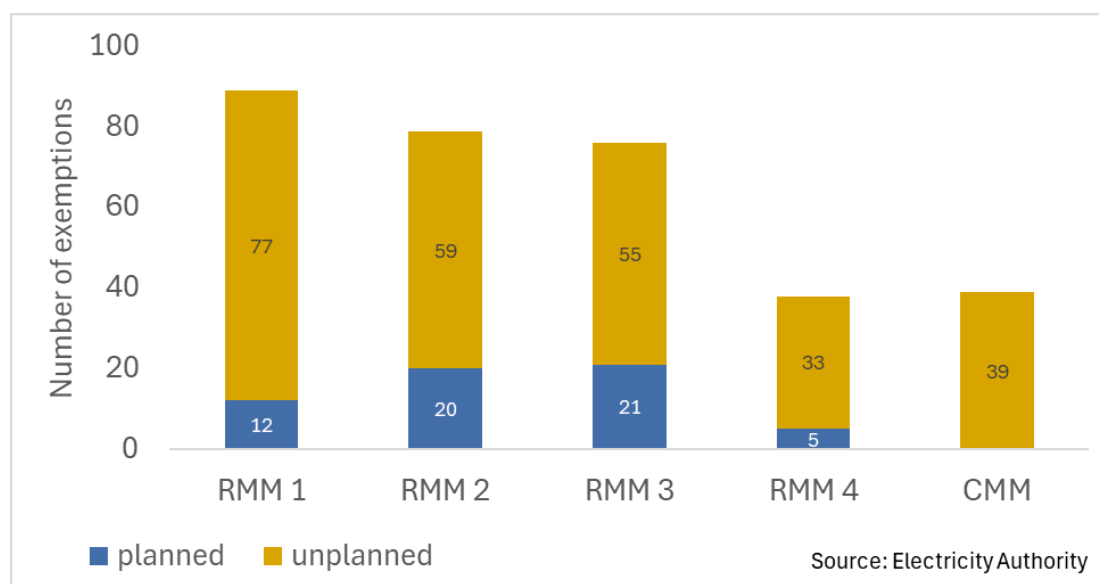
The average number of exemptions taken by market makers has declined over the years, suggesting improved resilience and possibly greater alignment with the rolling exemption framework introduced in 2022. This trend may indicate that market makers are better

managing their risk exposure and that the revised policy is helping to distribute exemptions more evenly across trading days.

Most exemptions were unplanned

Figure 19 shows planned and unplanned exemptions for each market maker.

Figure 19 – Planned and unplanned exemptions (as of 12 May 2025)

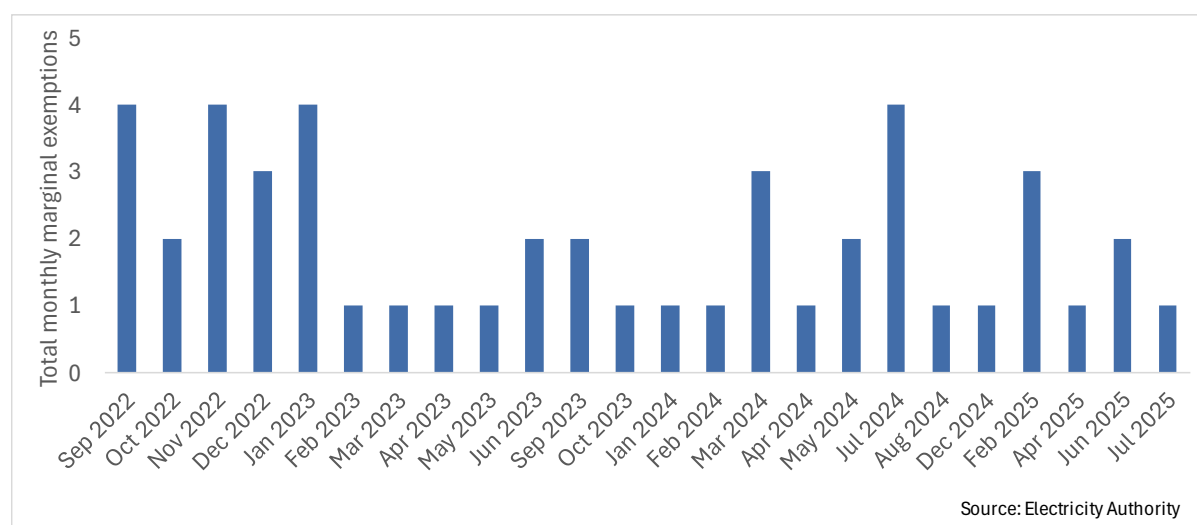


A majority of exemptions have been unplanned, highlighting the operational unpredictability faced by market makers. Notably, the CMMs (the former and current commercial market makers) have recorded a higher proportion of unplanned exemptions compared to regulated market makers. This could suggest that CMM may be more exposed to short-term disruptions or system constraints.

Marginal failures have declined over time, with one market maker accounting for most instances

Marginal failures refer to brief lapses in market-making obligations, defined here as lasting less than one second in only one contract. Figure 20 shows monthly marginal exemptions by all market makers.

Figure 20 – Marginal failures across all market makers



The use of exemptions due to marginal failures was highest in 2022, averaging 3.3 exemptions per month. This was likely driven by several changes introduced at the time including, the refresh mechanism and the allowance of up to 5 exemptions per 20 rolling days. Marginal failures reduced significantly over time, reaching an average of 1.8 exemptions per month in 2025 (as of July 2025). The sharp decline in marginal failures may reflect improved operational systems, better compliance practices or more conservative use of exemptions.

Overall, 14% of exemptions across the board are due to marginal failures. This reinforces the importance of refining exemption framework to ensure they are used primarily during periods of genuine market disruption, rather than for brief, marginal lapses.

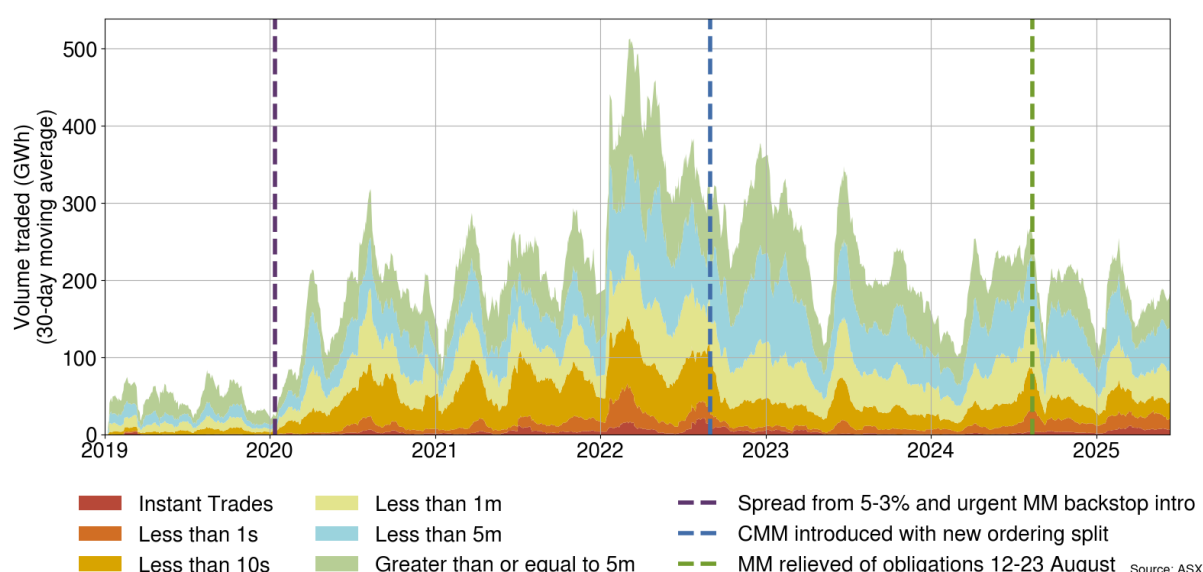
Other changes to strengthen baseload market-making – refresh mechanism

To evaluate the impact of the refresh obligation introduced in 2022, we examined several market indicators, including the frequency of instantaneous trades (executed in under one second), in-session price volatility, and average active buy and sell volumes. The analysis also considered changes in market depth and trading patterns across the session.

Instantaneous trades

Figure 21 shows the volume traded by time between the orders that make the trade.

Figure 21 – The volume of trades by the amount of time between the buy and sell orders

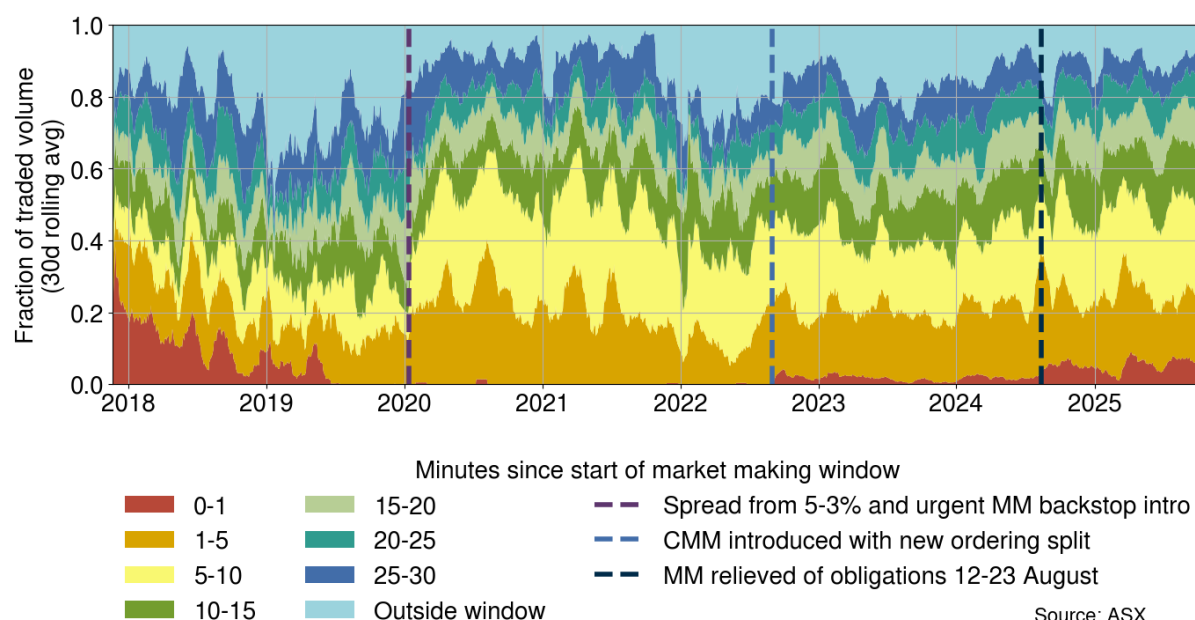


Following the introduction of the refresh, there was a decrease in trades that took place in less than a second. Trades that occur in very short times are an indication that trading may be unintentional. Quick trades may also reflect deliberate strategies involving sophisticated trading algorithms. The number of trades executed in under a second has increased since August 2024, likely reflecting the use of more sophisticated trading algorithms.

Trade timing in window

Figure 22 shows trading in the trading window by when in the window it occurred.

Figure 22 – Proportion of trading volume that occurs within time bands in session



Trading timing patterns also shifted. Before 2020, a greater proportion of trades occurred in the first minute of the session. This activity declined until the introduction of the CMM and new ordering split, which led to a modest recovery in early-session trading. Currently, at

least 40% of traded volume occurs in the first 10 minutes, with the remainder fairly evenly distributed across the rest of the session, noting that market makers are required to comply with the requirements for 25 minutes out of the 30-minute trading session.

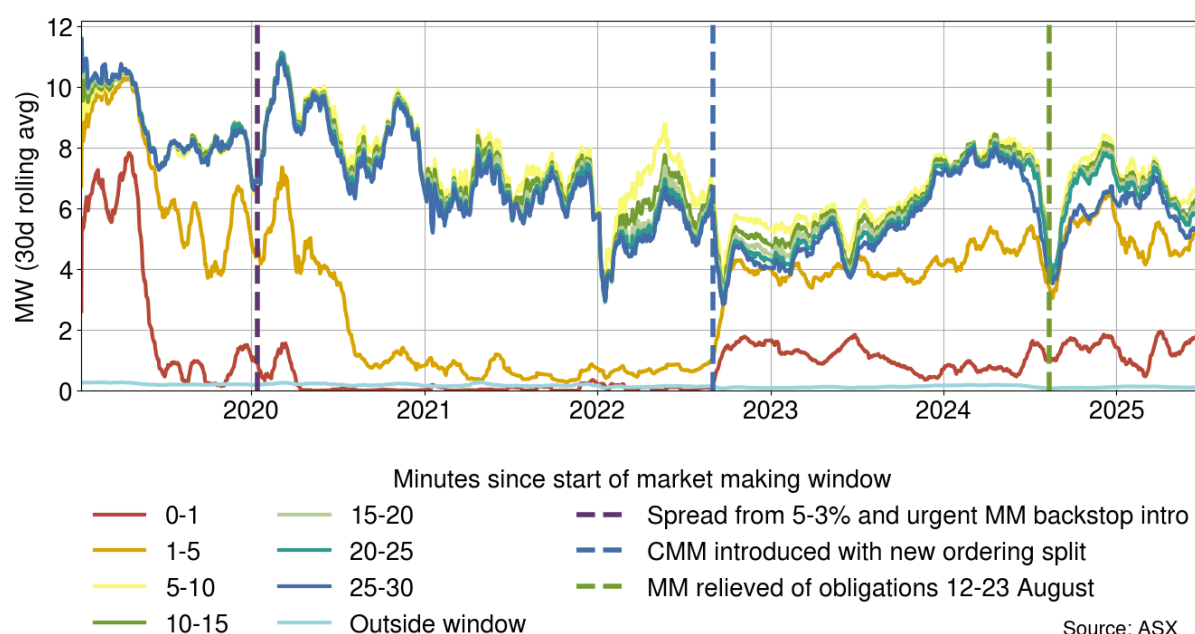
In session price volatility

As illustrated in Figure 23 in-session price volatility also rose after the 2022 changes, likely reflecting more dynamic pricing as market makers adjusted quotes in response to trades and the refresh requirement. However, ASX volatility has declined significantly since early-2025, suggesting that market participants may have adapted to the new quoting environment or that external factors have moderated price movements.

Depth

Figure 23 shows the average sell order volume available during different times throughout the day. Buy order volume is not shown as it looks almost identical.

Figure 23 – Average active sell volume throughout the session



Before the 2022 policy changes were introduced, the depth in the first 5 minutes of the market making session was poor. After the introduction of a refresh mechanism, the depth in the first five minutes increased to be more in line with the depth throughout the rest of the session. This suggests that the refresh mechanism has supported early-session liquidity without negatively affecting depth later in the session—even when the offered volume was halved following changes to the exemption policy.

Appendix D Concept report

The Concept cost benefit assessment is contained in a separate document.

Appendix E Regulating the standardised super-peak hedge contracts submission analysis

The regulating the standardised super-peak hedge contracts submission analysis is contained in a separate document.

Appendix F Infometrics report

The Infometrics report is contained in a separate document.

Glossary of abbreviations and terms

Authority	Electricity Authority
Act	Electricity Industry Act 2010
ASX	Australian Securities Exchange. Some standardised risk management contracts are traded via the ASX. They all have standardised terms (monthly or quarterly), profiles (baseload) and nodes (OTA or BEN)
Australian NEM market	National Electricity Market, operating in the eastern and south-eastern states of Australia
Baseload	A fixed volume of energy traded during a fixed period for a fixed price, for all trading periods (same volume in each trading period).
CMM	An entity engaged by the Authority through a competitive tender process to deliver market making services under a formal contract.
Code	Electricity Industry Participation Code 2010
Futures	In relation to the NZ electricity market, futures are financial contracts purchased or sold by those who wish to hedge or speculate on the underlying spot market prices of a certain amount of electricity for a future period, such as a month or a quarter. These contracts are traded on the ASX.
Gentailers	Generator-retailer - an electricity company that operates both as a generator and a retailer of electricity.
Forward markets	The forward markets in New Zealand are primarily the electricity futures market (run by the ASX) and the OTC market for risk management contracts. This paper uses the term “forward markets” as shorthand for the broader risk management contract market, which includes options and physical supply agreements.
Independent retailer	A retailer that does not own generation
LCOE	The levelised cost of electricity - Most calculations of the LCOE for a particular technology are the sum of the costs over the lifetime divided by the sum of electrical production over the lifetime. This calculation gives a value of the electricity produced as \$/MWh. Levelised cost of electricity (LCOE) = total lifetime costs ÷ total lifetime electrical production
Level playing field	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.

Liquidity	Liquidity refers to how easily and quickly a buyer or seller can enter into a transaction, without causing a major change in price and without incurring significant transaction costs.
MDAG	Market Development Advisory Group - The group provided independent advice on issues that relate to pricing and cost allocation, risk and risk management, and operational efficiencies. Group was formed in October 2017 and disbanded in February 2024.
Non-discrimination obligations	Non-discrimination obligations are a level playing field measure that, in relation to the supply of risk management contracts, would require gentailers not to treat themselves substantially differently from their non-integrated competitors, or to treat different competitors substantially differently.
OTC	Contracts for the purchase and sale of electricity hedges that are traded bilaterally rather than on an exchange. Bespoke contracts between two parties (buyers negotiate directly with sellers). Because it is bespoke, the contract can be for any node(s), term, profile or payment terms that the two parties agree on.
PPA	A power purchase agreement (PPA) is a contract for difference or fixed price physical supply contract, in which the volume of energy sold is directly linked to the output of one or more specific generation plant/s or station/s
Regulations	Electricity Industry (Enforcement) Regulations 2010
Regulated market makers	Participants that are required to provide market making services in the Code. This includes four large genetailers, Contact, Mercury, Meridian and Genesis.
Shaped products/contracts	A customised financial instrument designed to meet specific load profiles or consumption patterns of end users. Unlike standard products, shaped products can account for variations in demand over different times of the day or seasons, allowing customers to better match their energy supply with their actual usage.
Standardised super-peak contract	A new, standardised super-peak hedge OTC contract that was co-designed with industry and announced in December 2024. A contract for a fixed volume of energy at “super-peak” times of consumer demand – ie, morning and evening peaks