23 December 2025

2degrees welcomes proposal to mandate the super-peak hedge products

2degrees appreciates the Electricity Authority's recognition of recent submissions and is now proposing that provision of the super-peak hedge product be mandated.[1] We also welcome that the Authority has moved reasonably swiftly with little over 6 weeks between receipt of submissions on proposals to retain voluntary arrangements and the updated consultation.

It should be clear by now that market power cannot be effectively regulated through voluntary arrangements.

We agree with the Authority that the obligation to provide super-peak products should apply to Contact, Genesis, Mercury and Meridian. The 'big-4' should be regulated on the basis that they: (i) are vertically-integrated; and (ii) have market power. The combination of vertical-integration and market power means they have incentives and ability to act in a manner (including in relation to access to hedge products) that can harm competition in related and downstream markets. We also agree these participants are best placed to manage the risk of market making during periods of market stress.

Responses to Electricity Authority questions

Responses to the Authority's questions are provided in the Appendix to this submission.

Overarching commentary and observations

- The wholesale market remains the key impediment to retail competition. There is clear evidence of competition problems.

- There has been persistent liquidity and access problems in hedge markets for many years. Our submission on the level playing field option paper documents long-standing difficulties for independent retailers in obtaining shaped hedges on economically sustainable terms.

- These issues are, in our view, a product of the current market structure that is dominated by vertically-integrated gentailers who have significant or substantial market power with control over flexible generation and are structurally incentivised to prefer internal allocation and price up external volumes.

- What is critical to 2degrees is that the 'big 4' gentailers provide long-term hedging at a fair price which is not the case today and that the Authority monitors and removes barriers to this occurring. We consider that obtaining liquidity in the OTC market will provide the most significant benefits and will support price discovery of those hedges.

- 2degrees supports introduction of mandated super-peak hedge products.

[1] Responses to the Authority's questions are provided in the Appendix.

- Any costs of market making are far exceeded by the financial benefits of market power created by vertical-integration.

- Creating a standardised product and maintaining an OTC market making approach as per super-peak will provide significant benefits. This will also help support a level playing field by ensuring all retailers are able to obtain hedging similar to the portfolio view of the 'big-4' gentailers.

- The Electricity Authority is commended for wanting to take a longer-term view of hedging but 2degrees encourages the Authority to go even further in term and focus on the OTC market where these deals are traded. These deals also create opportunity to increase demand side participation in the ASX. To materially support generation a longer-term OTC view in the range of 7-10 years commencing at least 1 year forward to avoid correlation to shorter term market conditions and constraints is the appropriate focus.

- We caution that the ASX is less likely to be a useful tool to trade the longer forward curve (ie. less liquid) but 2degrees agrees with the Electricity Authority that clear price signals in the forward markets are important.

- 2degrees continues to support corporate (or full ownership) separation as the most enduring solution creating clear boundary between the two separate wholesale and retail markets.[2]

Support for mandated arrangements

Submissions from access seekers in response to the Authority's last consultation reinforce our concerns that voluntary arrangements are not suitable or effective for regulation of market power and continued voluntary arrangements would result in considerable regulatory uncertainty for incumbent gentailers and new and independent retailers and generators.

We agree with the Authority that "voluntary trading arrangements are fragile, and this fragility can undermine market confidence, ultimately constraining liquidity and weakening price discovery" and that "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."

We also agree "The optional nature of voluntary trading … limits its value as a risk management tool" and "…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. … 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."

The Authority's revised proposals mean independent market participants could grow their businesses and compete more vigorously in the knowledge this will be backed up by access to mandated super-peak and base-load products.

Mandated hedge arrangements may have to do the 'heavy lifting'

We agree with the Authority that "strengthening the trading of super-peak contracts supports the Authority's efforts to enhance access to hedge products under its proposed Non-Discrimination Obligations." This is particularly important as problems with the Authority's proposed non-discrimination obligations mean that, without material and substantive

[22] https://www.ea.govt.nz/documents/8936/2degrees_-_Level_playing_field_Code_amendment_submission1.pdf

changes, they will offer limited value in terms of improving access to risk management contracts and enabling independent suppliers to be able to compete on a level playing field.[3] As it stands, mandated market making will need to do the 'heavy lifting' for there to be improvements in competition in the electricity market.

Regulatory intervention is justified by sustained and substantial market failures

The Authority's super-peak consultations remain largely silent on the root causes of the access problems (the market or regulatory failures).

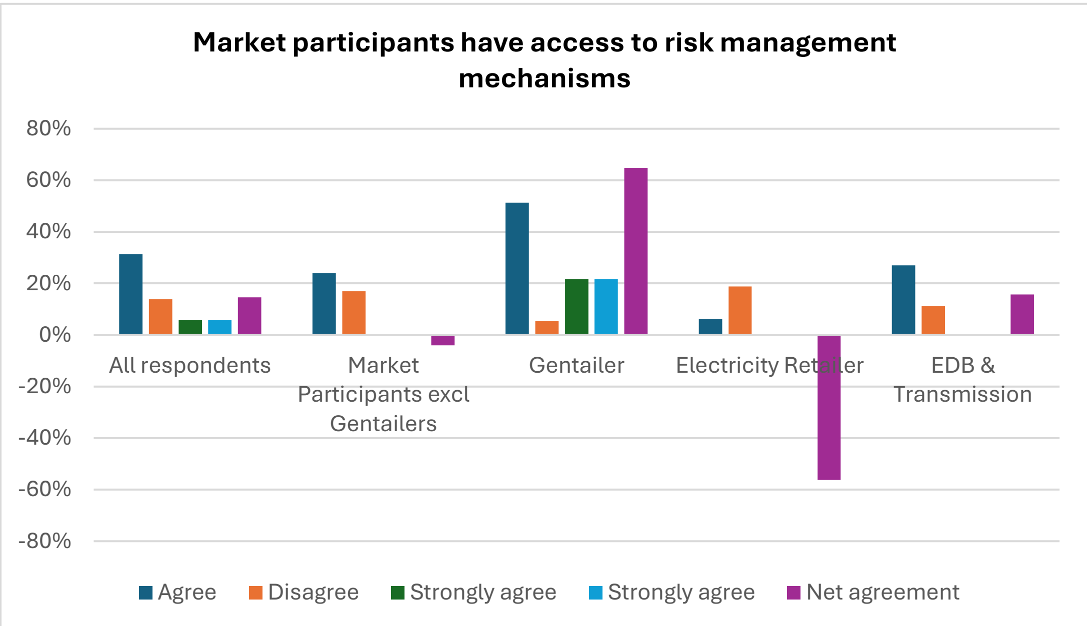
The Authority has articulated the underlying problem in closely related consultations, including the Level Playing Field (LPF) Code amendment consultation: "Our concerns are focused on the combination of vertical integration and market power, which the gentailers maintain through their control of the flexible generation base. The four large gentailers are the main suppliers in both the retail and wholesale electricity markets." And "Although Nova is a gentailer, which has flexibility with its gas-fired peakers, it does not raise the same market power concerns as the four large gentailers."

Building confidence in the forward market is important

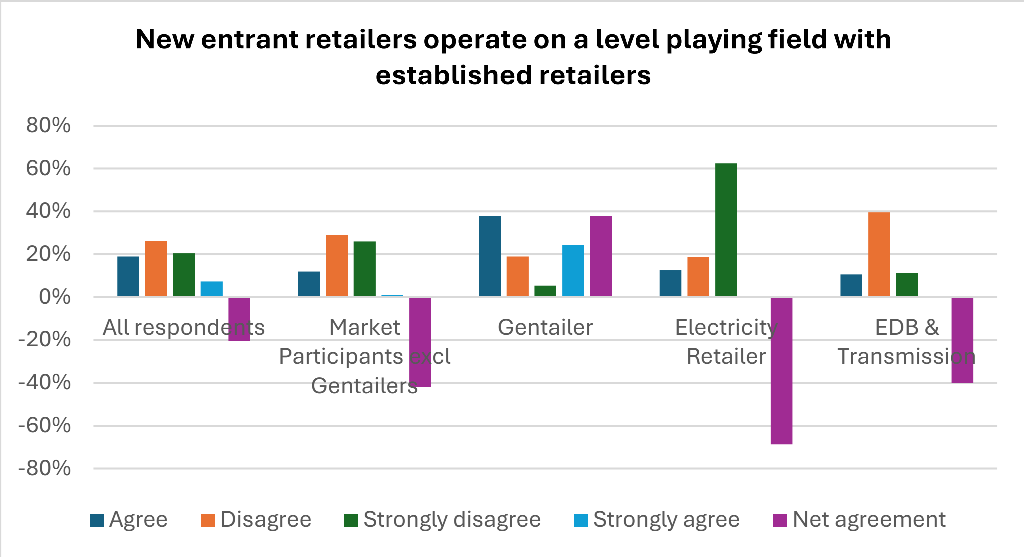
2degrees agrees with the Authority that a "lack of confidence in the market is likely to constrain liquidity and price discovery."

We also agree with the Authority's level playing field commentary that "independent retailers lack confidence in the effective operation of hedge markets" and "Unless addressed, eroded confidence of market participants risks chilling competition in retail markets."

The Authority's market participant surveys provide clear evidence that independent retailers do not have confidence in access to risk management mechanisms. The results below are from the 2024 survey, but if the Authority repeated the survey for 2025 we would expect the results to be even worse, based on the lived experience of 2degrees and other independent market participants.



[3] This is detailed in individual and joint submissions by 2degrees, other independent electricity retailers and independent generators.



Other comments

We reiterate that the Voluntary Code of Conduct For Participants in New Zealand's Over the Counter Electricity Market should be replaced with new mandatory obligations. The current Voluntary Code provisions are weak at best and has had no real or meaningful impact on trading. For example, the "principle" that "All parties … have the right to determine at any point in time the risk management features of the trades they want to transact" amounts to a 'get out of jail free card' and imposes little or no obligations on Access Providers. The Code includes the principle that parties should act in "good faith" but this is not defined.[4]

Concluding remarks

We are ambitious for New Zealand and ambitious for 2degrees. We want to be in a truly competitive electricity market where we can offer innovative electricity services to all New Zealanders. Current market conditions stifle this ambition. Shaped hedge contracts such as the standardised super-peak hedge contract are an important enabler of competition in the electricity market.

Regulating shaped products, including a super-peak product, is both necessary and desirable to promote competition, and to ensure trading is deep enough to deliver liquidity and efficient price discovery.

We agree "Regulated market making provides stronger liquidity compared to a voluntary approach, and … will promote competition in, reliable supply by, and the efficient operation of, the electricity industry for the longterm benefit of consumers." We have seen ample evidence of the gentailers' poor performance in providing super-peak products since January. They were on notice that if things didn't improve they could be regulated and, for whatever reason, did not heed that threat of further regulation.

How successful regulation of super-peak products is at promoting competition and delivering more affordable electricity hinges critically on what happens with complementary non-discrimination/good faith conduct regulations. Shaped/super-peak hedge products should be subject to effective and mandatory equivalence and non-discrimination obligations.

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[4] The Grocery Industry Competition Regulations 2023 (the Grocery Supply Code of Conduct) in contrast has extensive definition of good faith requirements. The Grocery Code includes includes good faith and non-discrimination principles which are common to robust and orthodox access regime for vertically-integrated industries.

Appendix: Responses to Electricity Authority questions

<table>
<tr><th>Questions</th><th>Comments</th></tr>
<tr><td>Q1. Do you agree with the Authority’s assessment of the impacts of market making policies? If not, please explain your reasoning.</td><td>2degrees agrees with the Authority that voluntary arrangements are fragile which undermines market confidence. We also agree there is opportunity to substantially strengthen market-making to improve price discovery and so that market participants can better manage risk.

Our overall assessment of the changes the Authority has made to market making settings, to date, is that they have been positive but insufficient to address the underlying market power problems in the electricity market. We reiterate that “Each of the reforms, in and of themselves, have been helpful, but individually and collectively have been inadequate to address the substantive problems in the electricity market. Retail competition performance has continued to deteriorate over this time.”</td></tr>
<tr><td>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.</td><td rowspan="2">2degrees considers that in order to maximise the value provided by the CMM arrangement they need to both increase the: (i) number of market markers (which it does); and (ii) availability volume of hedge products (which it does not as the Authority used the CMM to scale down Contact, Genesis, Mercury, and Meridian’s market making obligations).

Mandated market making is a good ‘causer-pays’ mechanism which has been diluted by socialising the costs of the CMM arrangement.</td></tr>
<tr><td>Q3. In your view, does the CMM arrangement offer good value for money?</td></tr>
<tr><td>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.</td><td>2degrees supports continuation of the current hybrid model but, as per the discussion above, we consider that the Contact, Genesis, Mercury and Meridian volume requirements should revert back to pre-CMM levels.</td></tr>
<tr><td>Q5. Do you agree with the Authority’s proposal to market make super-peak contracts? Do you agree with the rational for this proposal? If not, please explain why</td><td>Yes.

Creating a standardised product and maintaining an OTC market making approach as per super-peak will provide significant benefits. This also helps support a level playing field by ensuring all retailers are able to obtain hedging similar to the portfolio view of the ‘big-4’ gentailers.

We agree with the Authority’s commentary in the LPF Options paper, that the “risk that the combination of gentailer vertical integration and their control of flexible generation is hindering competition in generation and retail, and investment in new electricity generation”. This includes in relation to the impact of market making.

We agree “codifying market making requirements will provide sharper price signals and stronger liquidity compared to a voluntary approach” and “will promote competition in, reliable supply by, and the efficient operation of, the electricity industry for the longterm benefit of consumers.”</td></tr>
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<tr><th>Questions</th><th>Comments</th></tr>
<tr><td>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</td><td>2degrees would support splitting the super-peak product into separate morning and evening peak products, subject to the morning and evening products having the same market making requirements as the mandatory super-peak product.</td></tr>
<tr><td>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</td><td>See response to Q13-14.

For the avoidance of doubt, 2degrees supports the requirements for monthly super-peak electricity contracts as this will significantly help us shape our hedge book compared to the quarterly provision.</td></tr>
<tr><td>Q8. Do you agree with the Authority's proposed approach to establishing the platform? If not, please explain your reasoning.</td><td rowspan="2">As per 2degrees previous submission, we support the Authority proposal for the super-peak product to be traded OTC.</td></tr>
<tr><td>Q9. Do you agree with the Authority's proposed market settings on the OTC platform? If not, please explain your reasoning</td></tr>
<tr><td>Q10. Do you support the Authority's proposal to extend the baseload futures horizon from three to five years? Please explain your reasoning.</td><td>2degrees considers that long-term OTC is a much higher priority. The Electricity Authority is commended for wanting to take a longer-term view of hedging but 2degrees encourages the Authority to go even further in term and focus on the OTC market where these deals are traded. These deals also create opportunity to increase demand side participation in the ASX.To materially support generation a longer-term OTC view in the range of 7-10yrs commencing at least 1 year forward to avoid correlation to shorter term market conditions and constraints is the appropriate focus.

We caution that the ASX is a useful tool but it less likely to be traded the longer the forward curve i.e. less liquid.</td></tr>
<tr><td>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?</td><td></td></tr>
<tr><td>Q12. What are your views on the Authority's proposed forward price trends based on OTC longer-dated contracts?</td><td></td></tr>
<tr><td>Q13. Do you agree with the proposed reduced volume requirements for market making baseload contracts? If not, please explain why</td><td rowspan="2">No. 2degrees does not support reduction of baseload offer volumes from 12MW to 10MW. As per our response to Q4 we consider that Contact, Genesis, Mercury and Merdian's market making obligations should be increased/restored back to 15MW each.

We note that the Authority has suggested its analysis indicates that current volume obligations may exceed market demand."

2degrees considers that the Authority should be cautious about basing volume obligations on purported current demand given: (i) the poor state of the retail electricity</td></tr>
<tr><td>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.</td></tr>
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Questions	Comments
	market and the stunted growth of independent retailers over the last several years; and (ii) if the Authority succeeds in creating a level playing field and promoting a stronger, more effective competitive retail market then substantially higher volumes will be needed. We note and agree with emhTrade's comments that "The Authority currently estimates that bid and offer volumes of at least 6 MW are sufficient to exceed natural (independent retailer) demand for these hedges. While that may currently be the case, the overall objective of the standardised super-peak workstream is to enhance competition and provide a framework under which retailers can grow, not merely survive."[5]
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)?	2degrees supports amendment of clause 13.236N(1)(a)(ii) to ensure, as intended, it provides a limited exclusion from the obligation to market make. We support proposed requirement for "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."
Q17. Do you agree with the objectives of the proposed amendment? If not, please explain why?	2degrees considers that one of the primary objectives should be to curb the harm that the the combination of vertical integration and market power can have on the hedge market and downstream and related markets. Strengthening liquidity and price discovery and improving confidence in the forward electricity markets are outcomes that can be expected from addressing the principal market failure.
Q18. Do you agree that the benefits of the proposed amendment outweigh its costs? If not, please explain why.	Yes. We consider though that obtaining liquidity in the OTC market will provide the most significant benefits and will support price discovery of those hedges. 2degrees agrees, in particular, with Concept Consulting that "Improved access to baseload, peak, and super-peak hedges reduces retailers' earnings-at-risk, giving them greater confidence to manage price volatility. Lower earnings-at-risk enables retailers to offer more competitive and differentiated products, encouraging new entrants and strengthening competition. Stronger competition drives efficiency by incentivising retailers to innovate, lower costs, and better respond to consumer preferences. For consumers, this can translate into more choice, products that better match usage patterns, and potentially lower overall electricity costs."

[5] https://www.ea.govt.nz/documents/8439/emhTrade_-_Standardised_super-peak_hedge_contract_submission_2025.pdf

Questions	Comments
	We expect that the potential competition benefits have been conservatively and substantially underestimated.
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.	See response to Q13-14. We consider that the Authority should include options to retain volume at 12MW and to increase volume back to 15MW, not just options to decrease volume.
Q20. Do you agree the Authority's proposed amendment complies with section 32(1) of the Act?	Yes.
Q21. Do you have any comments on the drafting of the proposed amendment?	