The Electricity Authority
PO Box 10041
Wellington 6143

23 December 2025

To whom it may concern,

Consultation Paper— market making review: strengthening price discovery in the forward electricity markets

Five Billion Dollars.

A recently released report provided to Cabinet by Sense Partners, *Historical impacts of high electricity and gas prices on the New Zealand economy and industries*[1] estimates the GDP impact of high electricity prices since 2017 as $5.2b. That is a significant and consequential detriment to the wellbeing of New Zealanders, including all electricity consumers.

Now is not the time for delicate tinkering or quid-pro-quo regulation. As the Authority states, liquid, transparent forward markets are the cornerstone of a functional and efficient electricity market. Market-making settings play a pivotal role in supporting generation investment and enabling retail competition and innovation.

In considering the settings going forward, the Authority must take decisive action supported by robust analysis; we have five billion dollars of catching up to do.

Bold Trading and its subsidiary emhTrade Markets are deeply experienced participants in the market for New Zealand electricity price risk. We are also active in the nascent super-peak market and provide OTC hedging solutions to numerous parties, including regulated market-makers (RMMs) and independent generators and retailers.

This submission should be read in conjunction with our submission on the prior consultation (which we re-submit as Appendix 1).

No part of this submission is confidential, and we would be happy to discuss any aspect of it in more detail.

Yours Faithfully,

Stuart Innes,
CEO
emhTrade Markets Ltd

Georgina Herb,
CEO and Co-founder
Bold Trading Pty Ltd

[1] https://www.mbie.govt.nz/dmsdocument/31690-sense-partners-economic-and-industry-impacts-of-alternative-future-electricity-price-paths

Proposed super-peak volume requirement ineffectual.

In its supporting analysis to the last consultation paper[2], Principal Economics state that the "observed net benefit peaks around 10-15MW of quote depth". It is worth noting also that this benefit explicitly excluded any additional dynamic efficiency benefits from increased liquidity.

The Authority agreed and suggested 10MW, the "lower end of that range" would be appropriate for regulated market-making.

Concept Consulting, in Appendix D of the consultation paper, also suggest a super-peak volume of 10MW if trading events are only fortnightly (with potentially lower volumes if trading was daily).

On a MWh basis, 15MW of super-peak is less than 50% of the daily ASX baseload market-making obligation. Adjusting for the proposed fortnightly super-peak market making frequency, the incremental obligation on the regulated market makers is merely incidental.

However, the Authority has now stated that its preferred option is a 6MW obligation and that this "maintains incentives to consider a variety of ways [for Participants] to manage their exposure to spot price risk during peak periods including investing in batteries and demand response". There is no supporting analysis presented for this change in view and the suggested reasoning doesn't pass even a cursory critique.

For Participants to make investments in demand response and batteries (and other forms of flex), there must be both transparent *and transactable* price signals. The super-peak contract is designed to be the key mechanism for parties to *transfer* price risks associated with shaped generation and load. On what basis is the Authority trying to argue that a *less liquid* contract would make that process more efficient? There is no analysis to support such a position.

Both the Principal and Concept CBAs made the point that in aggregate there is very little cost to market-makers from providing super-peak liquidity (although from submissions it is clear these costs don't fall evenly, due to individual participants' commercial decisions). The Authority appears to have ignored its two commissioned CBAs purely to make the proposal less contentious with the RMMs. This is an unacceptable approach.

Reduction in Baseload volumes not supported by analysis presented.

The Authority states that the cost of providing market-making in base-load contracts has been relatively low, less than $1m pa across all market-makers. It is also stated in Appendix C that "A large portion of the loss occurred during August 2024 when prices were unusually high for a prolonged period", and that "this relatively low loss is because market-makers are mostly trading with each other".

We also note that, as both the Concept and Principal Economics papers suggest, the RMMs themselves also derive benefits from market-making due to the liquidity created, allowing them to actively manage the risk of their physical and contract portfolios. The RMMs themselves have also made this point in recent submissions:

"Broadly speaking, Meridian does this in a way that continuously tries to balance and ensure adequate returns against a reasonable level of financial risk… This position is adjusted as hydrology and other key uncertainties unfold and deviations from this optimised position will

[2] https://www.ea.govt.nz/documents/8193/Appendix_B-standardised_super-peak_hedge_contract_volumes_and_bid_ask_spread.pdf

create earnings losses, additional portfolio financial risks, or both."[3]

So, while daily provisioning of liquidity may be a financial burden to some market-makers, even those costs cannot be viewed in isolation without acknowledging the value of that same liquidity, which allows all parties, including RMMs, to manage their portfolio positions through time and different market conditions. ASX liquidity provided by other market-makers is the primary avenue for RMMs to manage their own short-medium term energy/capacity positions.

The Authority proposes that baseload market-making obligations be reduced to 10MW despite there being negligible cost to the current volume requirement. The Authority reasons that a reduction is warranted because of a lack of demand for contracts.

There are manifest flaws in this reasoning.

- The attempt to quantify "demand" for hedges is inherently flawed:

  In reaching the conclusion that market-maker volume can be reduced with no cost because traded volume is much lower on average than market-maker volume, the Authority has made a fundamental error.

  There has been no consideration given to the fact that *demand*[4] for hedges is a function of price.

  The existing market-making settings, which have dramatically increased intra-session price movements, mean that volume is, in effect, unavailable at a transactable spread. If prices are moving by 5-10% before the second tranche of volume is available, it is no surprise that this doesn't often transact and gives no insight about the 'demand' for hedges on any given day.

  If the proposed volume reduction is implemented with no change to the obligation design, traded volumes will, in all likelihood, reduce by the corresponding amount (perhaps, perversely, prompting a further reduction in future).

  The Authority itself has said that *"In a workably competitive market, available volume to sell should exceed that which is necessary to buy. Otherwise, it would mean buyers cannot be selective about which prices they choose to trade at and therefore the market may be vulnerable to the exercise of market power."*[5]

  As long as intra-session price volatility is so high, traded volume will remain a correspondingly small percentage of available volume due to hedgers being selective in which prices they transact. It does not follow that there is a lack of demand for volume or that more is being provided than is necessary or efficient.

- Analysis of the front vs back of the curve would tell different stories:

  The nature of long-term hedge procurement and book building requires various estimates about fuel position, customer demand, plant availability, regional price exposure and numerous other factors. The line of sight over the actual values of these variables becomes clearer as hedge windows tend towards real time.

[3] Meridian Submission – "Level Playing Field measures: Options Paper" proposing virtual disaggregation and non-discrimination obligations for Meridian, Genesis, Contact and Mercury 7-May-2025

[4] In this context, it appears demand means demand for a hedge, which could be *demand* to buy or sell.

[5] Regulating the standardised super-peak hedge contract, issues and options paper.

Hedge positions must be adjusted to reflect new information. For this reason, liquidity in the front end of the futures curve is particularly important for participants of all stripes to finesse their hedge books to optimal (and efficient) levels.

Even by the Authority's metric, reduction of volume in the front-end would not be justified. Similarly, the effect of averaging across all contracts at all times likely hides the strong demand for hedges at certain times.

- Entrenching constraints on retail competition:

  Notwithstanding the two significant issues above, for market-making to facilitate retail competition, the available volume must *exceed* that which is required for independent retailers to hedge their portfolios if they were to *increase* their market share (which is currently a paltry 13% of ICPs and declining).

  It is no surprise that Meridian "gave detailed feedback on Table A1"[6] to correct the data following their acquisition of Flick's customers.

  It is telling that Table 3 in Appendix E, whilst titled "Minimum volume required by independent retailers and amount currently available" has data stating "Max super-peak volume required by independent retailers" (emphasis added). This upper limit on hedge volume was, unsurprisingly, reduced following Meridian's detailed feedback.

  Reducing volumes to what the Authority (incorrectly) perceives as the current demand, based on existing market-share, is a sure-fire way to *keep independents in their pen*. If hedge volume is only available to support *current* independent market share (reduced due to recent reductions in that market share through acquisitions), competitive pressure in the retail market will be entirely removed (as there will be no credible growth prospects).

  We are at a loss as to why the Authority doesn't recognise such an obvious consequence of reducing, or in any way deriving, volume obligations based on current market share.

  How has the *minimum* required volume become an upper limit?

The proposal to reduce baseload volumes appears to be nothing more than a quid-pro-quo give to RMMs in order to make super-peak market-making more palatable. There is, quite simply, no place for this in the regulatory process.

The Authority must consider only the costs and benefits of any proposed changes. The analysis presented is clear that the incremental costs of providing base-load volumes are negligible and that the limited costs to RMMs are virtually all wealth transfers (largely between themselves).

The Authority must not regulate to appease particular Participants and instead must consider the costs and benefits to the economy and consumers.

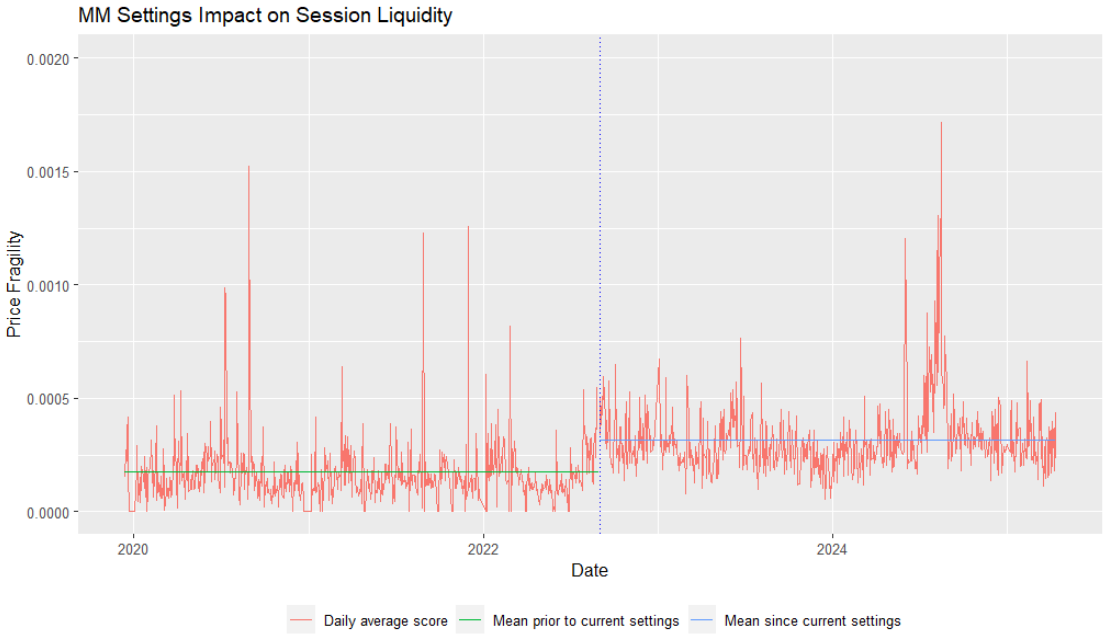
The true economic cost of quid-pro-quo regulation is the $5b that we as a country have incurred since 2017. It must stop.

Authority has failed to give due to consideration to refresh settings

[6] Para. E.70 Appendix E: Summary of consultation feedback: Regulating the standardised super-peak hedge contract

In recent consultations the Authority has established various analytical methods to measure the impact on liquidity of various settings. These include:

- Amihud Illiquidity presented in the Expiry of Urgent Code regarding market making under high stress conditions consultation and the Regulating super-peak hedge contract issues and options paper.
- The price fragility metric we proposed in the attached submission to the first of those two consultations. – see Figure below from Appendix 1.
- The detailed bid/ask depth and price elasticity analysis undertaken in the latter of the two consultations.



In its decision paper following the April 2025 consultation, the Authority noted that a number of submitters had concerns with the refresh and volume obligations, including the proposal for differentiating between *maker* and *taker* when considering volume counted towards a market-maker's obligation. In that decision paper, the Authority stated that *Obligation Design* "will be considered in the broader review"[7].

The Authority has neglected to undertake any such analysis or give consideration to the adverse impact that the current design is having on intra-session volatility, the resultant effective spread, and the availability of volume at *transactable* prices. Apparent liquidity (total daily volume including scratch trades) has been mistaken for actual liquidity (transactable volume that transfers risk to/from independents).

In fact, the only adjacent analysis presented by the Authority is Figure 11 in Appendix C (also incorrectly referred to as Figure 23). After making enquiry with the Authority, it has been clarified that even this chart is erroneously depicting the *volatility of order prices* rather than actual traded volatility[8].

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[7] https://www.ea.govt.nz/documents/7265/Market_making_under_high_stress_conditions_decision_paper.pdf

[8] We also note that this metric (standard deviation of quoted prices / mean of quoted prices) is a departure from what is more conventionally referred to as volatility in financial markets (standard deviation of log returns). In addition, it is unclear why order prices would be considered given

This omission raises significant questions:

What is the reason for this lack of analysis and follow through on commitments made in the decision paper?[9]

Why has the Authority failed to consider the impact of the obligation design? More specifically, why has the Authority failed to consider or assess the question of whether maker/taker rules should apply to market-maker obligations?[10]

Again, Five Billion Dollars. The Authority must justify the reversal of its prior *decision* to undertake the necessary analysis and consideration of Obligation Design.

We submit that if market-making volume obligations continue to be on a *volume taken or provided* basis, base-load volumes available at transactable effective spreads will be further eroded as super-peak volume will cannibalise the available liquidity (as RMMs hedge positions acquired in super-peaks using base-load contracts).

We further submit that the primary driver of the step change in volatility since the current settings were introduced is the refresh obligation coupled with the fact that market-makers can fulfil their obligation by *taking* liquidity. This, in turn, creates a high effective spread, diminishing the utility, and therefore the traded volume (which is a function of price sensitive demand for hedges).

Extending the baseload futures horizon is a positive development

Investment decisions will generally have a time horizon much longer than the current 3-4 yr ASX curve. Clear, transactable prices are critical to making such long-term investment decisions. For this reason, we support extending the curve and market-making obligations. However, we consider that the benefits will be somewhat limited in due to the lack of signal for shape (noting that shape is evolving very quickly with new intermittent generation, and that virtually all investment in the next 5-10 years will have a material exposure to this uncertainty).

We agree 5 years appears to be the "sweet spot" in the sense it broadly matches the observed OTC hedge flow; however, we do not agree the extended curve is justification for a quid-pro-quo reduction in volumes across the curve. Furthermore, ultimately this isn't something that can be regulated without timely co-operation from the ASX in listing the products.

Compliance time buffer appears unnecessary

From the analysis presented, we fail to see any justification for this proposal. Figure 18 shows that two market-makers take far fewer exemptions than 3 of the RMMs. The Authority also states that "Marginal failures have declined over time, with one market-maker accounting for most instances".

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orders may be well back from the market.

[9] We sought clarification from the Authority as to whether this analysis had been conducted to inform the decision and were told that "we only included material that informed policy proposals in the market making review consultation paper". In response to a request for further clarification, the Authority has advised that this will be provided in line with OIA timeframes. We therefore draw the conclusion that no analysis of volatility or illiquidity metrics was undertaken to inform the policy proposal.

[10] We're not aware of any other liquidity incentive scheme that would treat maker and taker volume equivalently.

Thus, it is clear that marginal failures are the result of commercial decisions (in regards to investment in people and processes) rather than any inherent issue with the current arrangement.

The Authority has made a leap of logic to suggest that having *more exemptions available* (for participants who currently can't manage to comply) will "better support continuous market presence and liquidity". This is demonstrably false. In actual fact, if a participant inadvertently uses an exemption, it follows that their propensity to use their next exemption will be reduced (meaning they are more likely to provide subsequent liquidity).

The Authority presents no identified economic benefit from proposed change. Essentially the Authority is proposing to alter the rule to facilitate compliance, for the benefit of one party.

Mandated super-peak market-making is crucial to support the energy transition and retail competition

We reiterate our prior position that given the identified lack of liquidity in super-peaks, there is no time for a wait-and-see voluntary approach.

For independent retailers and generators (or their intermediaries) to have any confidence in super-peak pricing, the certainty of a regulated approach is required, with a magnitude that will allow for growth in market share (of retail and generation) over time.

As is highlighted in the Concept CBA, a significant amount of the variance in super-peak prices can be explained by the variance in baseload prices. Thus, the prudent market-maker can easily offlay unwanted super-peak risk into baseload futures – that is if they cannot close or hedge the super-peak exposure directly to another counterparty. Given this context we find the strong opposition to regulated obligations by some of the RMMs to be somewhat alarmist and likely more reflective of their desire to maintain competitive hurdles than any genuine concern about the cost of providing liquidity.

Whilst super-peak risks cannot be perfectly hedged with baseload products, as Concept note, for a large vertically integrated gentailer with significant dispatchable generation resources, the profit and loss swings from high or lower super-peak premiums against a baseload hedge would barely amount to noise over the medium-long term.

By contrast, for an independent retailer, intermittent renewable or flexible resource developer, workable liquidity giving transparent and transactable super-peak prices are a critical input to efficient growth or investment decisions.

By virtue of their generation portfolios and retail exposure, the RMMs are highly sophisticated with respect to super-peak pricing and risk. They are well placed to manage these risks, and the concentration of ownership in flexible resources creates material market-power issues in regards to the pricing of firming contracts. It is imperative that market-making in super-peaks is a requirement under the Code.

Answers to specific questions (to be read in conjunction with the main body of this submission)

Questions	Comments
Q1. Do you agree with the Authority's assessment of the impacts of market making policies? If not, please explain your reasoning.	Yes.
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.	Yes.
Q3. In your view, does the CMM arrangement offer good value for money?	Generally, Yes. However, it is highly questionable as to whether a CMM that has failed to perform its obligations during a period of market stress is providing good value for money without understanding what guarantees, penalties and remedies are in place in the event it happens again.
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.	Yes. It is not feasible to move to a model where there are no RMMs.
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	Yes.
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	No.
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	No, see above.
Q8. Do you agree with the Authority's proposed approach to establishing the platform? If not, please explain your reasoning.	Yes.
Q9. Do you agree with the Authority's proposed market settings on the OTC platform? If not, please explain your reasoning	Yes.
Q10. Do you support the Authority's proposal to extend the baseload futures horizon from three to five years? Please explain your reasoning.	Yes, but not strongly.

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?	It remains an open question given the lack of shape. Whilst we field many enquires for longer dated hedges, PPAs, battery offtakes etc, none of these are baseload and shape is incredibly uncertain at longer horizons. We certainly would if peak or super-peak liquidity was also available.
Q12. What are your views on the Authority's proposed forward price trends based on OTC longer-dated contracts?	N/A
Q13. Do you agree with the proposed reduced volume requirements for market making baseload contracts? If not, please explain why	No, see above.
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.	No. Furthermore, robust price discovery is necessary, but not sufficient to achieving the objectives. Prices must be transparent *and* transactable in meaningful volume.
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	No, see above.
Q16. Do you agree with the Authority's proposal to modify the Code to clause 13.236N(1)(a)(ii)?	Yes.
Q17. Do you agree with the objectives of the proposed amendment? If not, please explain why?	Yes.
Q18. Do you agree that the benefits of the proposed amendment outweigh its costs? If not, please explain why.	Some of the proposed amendments have net benefits, many do not.
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.	No. As stated in the main body, greater net benefit will be derived if the existing baseload volume requirement is retained, and only volume transacted by *making* prices (as opposed to *taking*) is counted towards that obligation.
Q20. Do you agree the Authority's proposed amendment complies with section 32(1) of the Act?	Potentially not. Unnecessarily considering multiple proposals as a package in order to include quid-pro-quo amendments that have no net-benefit may not comply with section 32(1) and is unlikely to comply with section 39(2).
Q21. Do you have any comments on the drafting of the proposed amendment?	No.

APPENDIX 1 – Submission to Expiry of Urgent Code regarding market-making under high stress conditions consultation

The Electricity Authority
PO Box 10041
Wellington 6143

14 April 2025

To whom it may concern,

Expiry of Urgent Code regarding market-making under high stress conditions

Thank you for the opportunity to make a submission in regards to the proposal to let the current urgent code change related to market-making lapse and to provide initial views on the necessary changes to the scheme going forward.

Bold Trading and its subsidiary emhTrade Markets are deeply experienced participants in the market for New Zealand electricity price risk. The companies provided the expertise and operational capability to Bold Market Making New Zealand Ltd, which fulfilled the first contract under the commercial market-making scheme.

We provide a brief submission covering both the proposal to allow the urgent code change to lapse and to provide input into what we consider to be essential changes to the current market-making settings.

Certainty and stability are paramount

As the Authority notes in the paper, the market-making scheme has been designed over many years to ensure that market-making, and therefore liquidity, will be robust and reliable in times of market-stress. This is critical to ensure participation in the market at other times due to the fact that participants will measure their risk by what happens in the worst-case scenarios.

The Authority has scored an own goal

Whilst there was plenty of time in the lead-up to last year's event for the Authority to conduct analysis and plan an appropriate response, this didn't happen until, in the Authority's opinion, the scheme's collapse was imminent[1] the day before the guidance was issued.

It is absurd that the Authority has for many years held the view that market-making is critical in times of market stress only to take knee-jerk actions to halt it with no analysis or consultation during a period of market stress, and to then once again state that market-making is "*especially important during times of market stress, when prices in the spot and futures market are increasing rapidly*"[2].

Whilst we agree with the conclusion that market-makers continuing to provide liquidity without widening spreads is in the best interest of consumers and the wider economy (which we stated during informal submissions on the urgent code change). Revoking the code change at this point is likely to provide further uncertainty to the market.

If the $500/5% trigger is made permanent, the trigger price should be subject to 3-6 monthly review. The review process need not be overly complex, but rather (similar to the stress test levels) it should be dynamically aligned with technology and fuel prices such that it remains reflective of a price level which would indicate a stressed market.

Authority decisions are the primary driver of reliability.

The greatest risk to reliable market-making during the next period of market stress is likely to be the actions of the Authority rather than participants. A circuit breaker such as that in place under the urgent code change is likely to provide the Authority with enough time to undertake thorough analysis before making decisions in response to lobbying.

The Authority now states that its *"primary objective in considering the urgent Code amendment is to consider reliability. To meet the goals of a robust forward price curve and available risk management tools, the Authority needs reliable market making services at all times, particularly in times of high stress"*.

The market needs reassurance from the Authority that appropriate controls and decision making processes have been put in place since August to ensure that the Code can be relied on.

If the Authority is going to use discretion not to enforce the Code in times of market stress, it is quite irrelevant what the Code stipulates. The Code, with or without the circuit breaker, will provide this reliability, but only if the Authority chooses to enforce it.

Procurement decisions directly impact reliability

If the primary goal is to ensure the provision of reliable market-making services at all times, it is unclear why the Authority (at a cost to consumers) has continued to utilise the services of a commercial market-maker that was unable or unwilling to provide the services to the level that is required of the regulated market-makers during times of market stress.

The commercial market-maker (and indeed some regulated market-makers) relied heavily in August on a 'regulatory put' to save them from commercial losses. It is unconscionable, after they failed to provide services for 6 consecutive days, and arguably provided the catalyst for the Authority's concerns about 'cascade failure', that the Authority continues to procure services from the current commercial market-maker. Whilst their performance may have resumed since August, enabling them to collect revenue when the going is good, market participants and consumers appear to continue to wear the risk that they won't perform during the next period of stress.

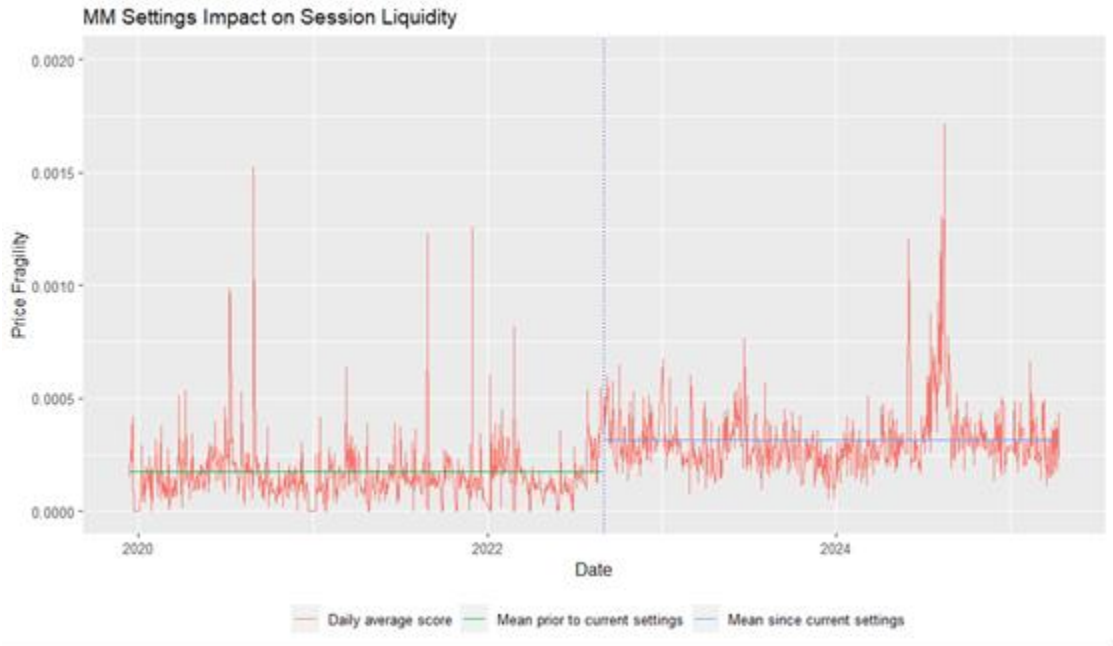
The Authority ought to reflect on and review the criteria and procurement process that led to contracting with a provider that appears to have been incapable of managing electricity price risk without help from the regulator; help which came at significant cost to other market participants and ultimately, consumers.

Current settings have empirically reduced liquidity

As the Authority's analysis shows, liquidity has reduced since the inception of the commercial market-making scheme[3]. Whilst the metric presented in the consultation allows this conclusion to be easily drawn, it drastically understates the impact that the settings have had on liquidity within the market-making session.

The Amihub illiquidity ratio that the Authority presents uses closing price data. This is a potentially useful metric, but it is generally not possible for parties to reliably transact based on closing prices. For the forward curve to provide economic benefit it must be transactable, and any party that wishes to transact NZ electricity futures will generally be trying to do so during the market-making session (potentially via a broker).

Since the settings were introduced in late 2022, the volatility within any given market-making session has increased dramatically. There have been much larger price swings (as a percentage), happening as a result of lower traded volumes.



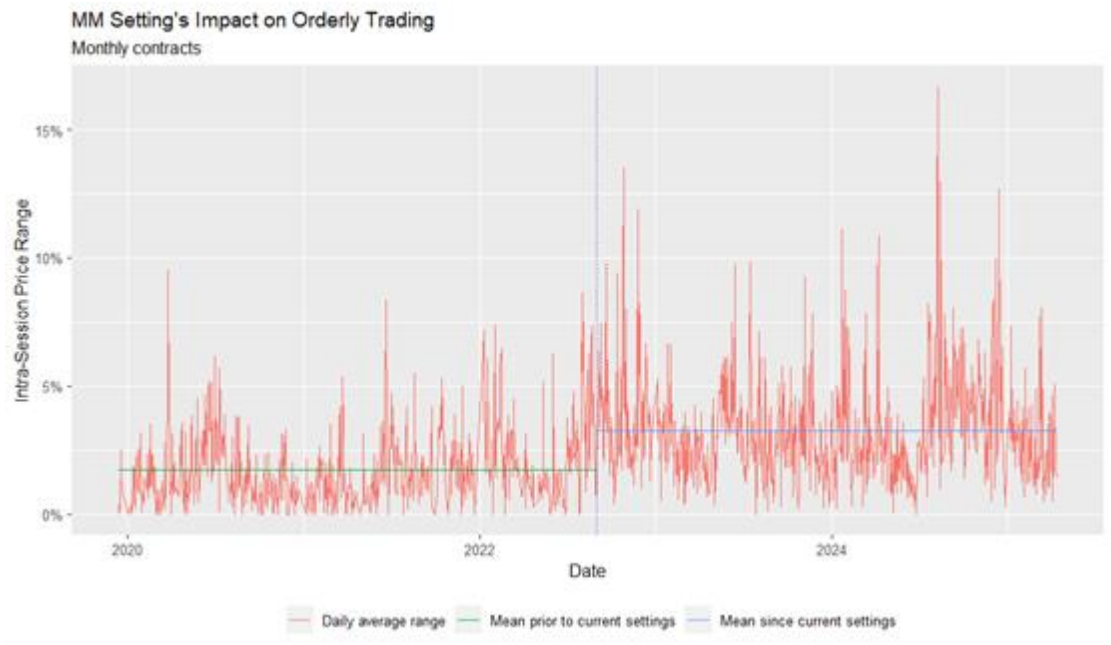
We conducted a similar analysis[4] using data from within the market-making sessions. In the chart above we are effectively looking at the movement within the sessions, normalised for the volume traded. It clearly shows a step change towards worsened liquidity since the current settings were implemented.

This matters when it comes to the utilisation of the forward curve. If participants are attempting to utilise the market, contracts need to be available to do so, and price needs to be static enough (on a second by second basis) for them to have some degree of comfort that they reflect a fair, competitively determined and efficient level.

We can see from the chart below that the trading during the market-making sessions has become far less orderly since the current settings were implemented, and that this is true even when there is a lack of any market stress.

It is one thing to say that settlement prices are moving more relative to the quantity traded, there are situations where it may be entirely efficient for a market to move to a new level without trading as new information becomes available and the market *gaps* to the new price.

However, it is quite another to see that contracts are frequently displaying movements of 5-10% between *traded* prices that are occurring *within* a 30-minute market-making window. Again, this step-change is observed regardless of whether the market is in a particularly tight spot. We show the monthly contracts below, but the issue is similar in the quarterly contracts (albeit not quite as stark).



Refresh implementation to blame

As we warned in our submission in 2022[5], the structure of the refresh, combined with the 'total traded' volume threshold:

- ∉ Increases the effective spread on volume to > 6% vs the prior settings (because prices will move after the first tranche transacts).
- ∉ Reduces the available volume to non-market-maker participants (and to market-makers trying to adjust their positions). This occurs because a market-maker that buys and sells but is net-flat is deemed to have fulfilled their obligation.

The fact that the obligation can be fulfilled without providing any net volume heavily incentivises market-makers to *scratch* (instantly trade out of) positions that they are given. As this activity then fulfils their obligation, the market loses both the refresh volume that they would have provided *and* the volume that they are scratching into (usually provided by another market-maker). Thus, if a 3rd party procures 1.2MW of a contract, this often consumes 3.6MW of the total 12MW that market-makers are, in theory, providing.

In fact this effect often creates a feedback loop where the next market-maker also scratches and so on, such that the initial 1.2MW transaction has significantly moved the price, and allowed multiple market-makers to fulfil their obligations, even though no further risk has been transferred to participants.

This combined volume reduction and price volatility makes it challenging for any participant to undertake any meaningful hedging activity during the market-making session.

Easily resolved with maker/taker approach

It is critical that the Authority resolve this issue in the next iteration of market-making settings. A simple and effective approach would be to maintain all of the current settings but use a maker/taker approach with regard to volume obligations.

Under such an approach, the same 'total traded' threshold will be used, but only volume where the market-maker is not the aggressor will count towards their obligation. This will be simple to

implement as all common tools used by market participants have this flag on fill notifications and it is clear in the tick data provided to the Authority for monitoring purposes (ie if a market-maker order is filled it is clear whether that was in the market *providing* liquidity or aggressed another order to *take* liquidity).

The approach is used extensively in global markets in fee calculations and liquidity support and market-making schemes. It makes perfect sense in that the principle and purpose of our current scheme is that 12MW of liquidity is provided (as it has been voluntarily for many years). However, under the current settings we effectively have 12MW of liquidity 'taken *or* provided', which results in the lower liquidity and higher volatility that is observed in the data.

This change will still allow market-makers to scratch out of fills, but the incentive to do so will be far lower given that they will still be required to quote afterward. There will be direct benefits from better price discovery after any initial flurry of buying or selling, the lack of which is currently driving a lack of liquidity and high volatility within the sessions.

Furthermore, because an order needs to be on exchange in order to count towards the obligation (rather than being an aggressor order) there will be a strong incentive for market-makers to *frame* the market in the first few minutes of the session (even if at slightly wider spreads). Again, this will lead to a gentler open and improved price discovery.

We agree with the reasons for implementing the refresh, particularly to avoid early collisions and no follow up price discovery, but the loss of liquidity and increased volatility that has resulted from the way the volume is calculated must be resolved.

Broadly speaking, we don't see any other settings that ought to be changed at this stage. Consistency in settings will provide greater certainty in cost estimates for parties that are looking to provide market-making services in any future procurement process.

No part of this submission is confidential, please don't hesitate to contact us if you have any questions.

Yours Faithfully,

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