23 December 2025

Electricity Authority

By email to: market.making@ea.govt.nz

Tēnā koe

Response to Market Making Review Consultation Paper

Contact Energy welcomes the opportunity to comment on the Electricity Authority's Market Making Review consultation paper. We agree with the Authority that market making is a valuable tool for improving liquidity and price discovery.

We support the introduction of years 4 and 5 baseload ASX contracts in a manner which aims to provide price discovery for market participants. We support proportionate market making of these additional years.

We also recognise the importance of the standardised super-peak product to the market. Contact has been actively trading, and voluntarily market making, this product since its introduction, and will continue to do so regardless of the outcome of this consultation.

However, this comes at a cost to market makers that will ultimately be passed on to consumers. Market making is therefore best suited to a small number of products that help provide a benchmark for OTC trading of more bespoke products. We agree with the conclusions of the Concept Consulting report in Appendix D that the introduction of a super-peak product reduces Earnings-at-Risk for both buyers and sellers, "but a third product adds minimal incremental benefit".[1]

We do not consider that the Authority has accurately assessed the specific costs of market making. The Authority needs to separately assess the provision of ongoing required liquidity separately from proprietary trading and / or portfolio trading activities (which would have occurred absent market making). For Contact alone, market making costs were $30.3m in 2023, $6.5m in 2024 and $15.8m in 2025. In assessing these costs we consider that the Authority should draw on the costs of the commercial market maker of up to $14.4m annually. The commercial market maker provides 20% of the market making obligation, suggesting the industry-wide cost is approximately $70m per annum.

These costs are materially influenced by the settings. For example, we consider that the proposed 5% spread for the standardised super-peak product will materially increase the costs of market making for super-peak products. We do not consider that this trade-off has yet been fully considered by the Authority.

We propose that the costs of market making can be better managed, while still meeting the purpose of market making by considering a more dynamic obligation over different time periods. For example:

[1] https://www.ea.govt.nz/documents/8615/Appendix_D_Concept_report_-_cost_and_benefit_assessment.pdf, p4

- A consistent market making volume requirement for 3 years out. This will provide a greater ability for market participants to hedge ahead of time and reduce total market risk.
- A smaller obligation in the newly introduced ASX baseload years 4 to 5. In these years we consider that the primary goal of market making is to improve price discovery. This can be achieved by smaller volumes. This will minimise the risk of trading far into the future where market conditions are far less certain. Over time this can be adjusted upwards if there is evidence of unmet demand.

We also recommend market-stress exemptions to allow market making to stop when the market is highly volatile, and to help protect confidence in the forward curve.

We have attached a detailed response to the consultation questions below.

Ngā Mihi

Brett Woods

Head of Regulatory and Government Relations

Contact Energy.

Appendix A: Response to Consultation Questions

Questions	Comments
Q1. Do you agree with the Authority's assessment of the impacts of market making policies? If not, please explain your reasoning.	We broadly support well targeted market making. However we consider that the costs to the New Zealand electricity market need to be accurately assessed.
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 we support the introduction of the CMM.
Q3. In your view, does the CMM arrangement offer good value for money?	Yes. The CMM provides an important role in revealing the costs of market making to the Authority, as well as improving liquidity in the market.
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
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	Market making is an expensive intervention, adding significant costs on to market makers, which ultimately are born by consumers. The Authority must balance potential benefits against these costs, recognising that using market making to optimise all hedging requirements is likely to come at a prohibitive cost. The costs of market making are materially influenced by the settings. In this case the proposed 5% spread will materially increase the costs, and we do not consider that this trade-off has yet been fully considered by the Authority. We support the work by the Authority to improve the platform for the OTC super-peak auctions. We strongly believe that this work must be complete before the market making obligations come into force.
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	The current product is very new to market. We advise against frequent material changes so that the market is not constantly adjusting to new products. We consider that the product design meets the needs of buyers and sellers. Splitting the product adds unnecessary complexity. Market making does not need to provide a suite of products that results in perfectly shaped hedges for every buyer and seller (i.e. there is limited benefit from a risk perspective as is shown in Appendix D by Concept Consulting). Should buyers or sellers have more specific needs, the OTC market can provide more bespoke products where necessary, utilising the price discovery afforded by the market made products.
Q7. Do you agree with the proposed settings for regulated market making in the superpeak product (eg, offer volume and spread requirements)? Please explain your view	We support the proposed 6MW offer volumes. We consider this is a pragmatic compromise which meets the likely need in the market. We do not support a 5% spread, and note that there is very little consideration of this in the consultation paper. We would like to

Questions	Comments
	reiterate the risks we raised in the last consultation on a 5% spread, and ask these to be fully considered before the proposal is implemented. Specifically we highlighted that: • Super-peak spot prices tend to be more volatile than baseload; and • volatility can be exacerbated by the fact that the super-peak auction runs only fortnightly, compared to the daily trading of the ASX. The Authority's only response to these points was that "[b]oth market makers and purchasers benefit from narrow bid-ask spreads. Whereas purchasers benefit from liquidity to access hedges, market makers are able to use liquidity to manage the risk they incur with further trading." This misses the point of our submission. When there is material volatility and a one directional market (either up or down), market price movements occur quickly and the obligation on the market maker to continue to provide tight bid/ask spread liquidity becomes a material cost which is ultimately borne by consumers. We continue to believe that a 10% spread is more aligned with the needs of a super-peak market making environment where trading occurs fortnightly.
Q8. Do you agree with the Authority's proposed approach to establishing the platform? If not, please explain your reasoning.	Yes we support the proposed approach. We consider that a suitable platform must be in place before market making obligations can commence.
Q9. Do you agree with the Authority's proposed market settings on the OTC platform? If not, please explain your reasoning	We consider that allowing exemptions of only 5 minutes is overly restrictive compared to the allowances for baseload market making which allow exemptions for days. There can be technical reasons why we may not be able to participate in any given period, which may cross multiple 5-minute periods and result in a breach. An alternative might be to have 4 or 5 exemptions to full trading events over the course of the year, which aligns with the principles of baseload market making. This better-reflects the risk to market makers, which is technical and / or access risks to the market platform. It is also not clear how the Authority intends to measure compliance, or what the consequences of a breach are. Finally, we also recommend market-stress exemptions to allow market making to stop when the market is highly volatile, and to help protect confidence in the forward curve.
Q10. Do you support the Authority's proposal to extend the baseload futures horizon from three to five years? Please explain your reasoning.	Yes, we consider that this will improve price discovery further out into the future. However, this will result in increased market making costs. We do not agree with the analysis undertaken at pp56-57 on the costs of market making. This analysis only considers trades closed out in the same day. This biases the results as trades closed out in the same day are typically low cost. The costliest trades are trades that cannot be closed out immediately in session, particularly in a very volatile and one-directional market (i.e. several days of market making in a market where there are large price movements each day and liquidity to close positions off is scarce to non-existent). In these events, positions and

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	losses compound very quickly without relief. Obligatory market making for these types of markets (significant and sustained one-directional price movement) is not common worldwide. We consider that a better way to estimate the costs of market making is to consider the costs of the commercial market maker of up to $14.4m annually. The commercial market maker provides 20% of the market making obligation, suggesting the industry-wide cost of true market-making is approximately $70m per annum. We propose that these costs can be better managed, while still meeting the purpose of market making by considering a more dynamic obligation over different time periods. For example: • Maintain the market making requirement for 3 years out. This will provide continued ability for market participants to hedge ahead of time, and reduce total market risk. • Maintain the market making volume obligations for front 2-3 quarters but reduce the obligations under stress events. This will reduce the costs of market making without reducing the overall benefits. • A smaller obligation in the newly introduced years 4 to 5. In these years we consider that the primary goal of market making is to improve price discovery (rather than futures traders taking on large positions). This can be achieved by smaller volumes and will minimise the risk of trading far into the future where market conditions are far less certain. Over time this can be adjusted upwards if there is evidence of unmet demand. We also consider that the Authority should allow sufficient time before implementation for market makers to adjust their trading strategies, algorithms, technologies etc
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?	Contact believes there would be benefit to the market in having a longer-date ASX pricing curve. Customers are seeking longer contract pricing and this would provide a useful price reference. However, the addition of 2 years is unlikely to improve the investment case for a new generation build - which are typically seen as 20 years investments (or more).
Q12. What are your views on the Authority's proposed forward price trends based on OTC longer-dated contracts?	We support the publication of more data on forward price trends.
Q13. Do you agree with the proposed reduced volume requirements for market making baseload contracts? If not, please explain why	Yes, we support this change in concert with the introduction of super-peak market making. The Concept Consulting analysis clearly shows that current volume requirements are more than the market needs.
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.	As above, we recommend that the Authority consider different volume requirements for different contract terms. The newly introduced years 4 and 5 would likely require lesser volumes, as we consider the primary benefit of these new contracts will be price discovery. We also note that there is more opportunity to hedge these years over time, further supporting a lower volume requirement.
Q15. Do you agree with the Authority's proposal to modify the compliance framework in terms of	Yes, we support this change. However, we encourage the Authority to consider moving to a contract-by-contract compliance model. Many

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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)?	exemption days are caused by a failure to meet requirements on 1 contract (i.e. 1 out of 46 contracts, or 98% compliance). This is not comparable to missing an entire trading day. In our view a better approach is to measure exemptions by contract, and ensure that market making requirements are met in respect of that contract.
Q17. Do you agree with the objectives of the proposed amendment? If not, please explain why?	Yes, we agree with the objective. We believe that the balance between strengthening liquidity and price discovery is an important distinction in market making with liquidity a key focus for front end trading and shaped products, whilst price discovery is more important for long dated contracts. We support the development of mechanisms that support price signals for the shaped products.
Q18. Do you agree that the benefits of the proposed amendment outweigh its costs? If not, please explain why.	Yes, we believe in the benefits of supporting a super-peak product with appropriate designed market making obligations which strike the balance between liquidity, price discovery and cost for the market maker as outlined in our submission. Separately, we note that Concept Consulting's work in Appendix D aligns with our view that significant risk to both buyers and sellers is mitigated through one well designed shaped product. As a result Contact does not support any future moves to add market making obligations to any further shaped products.
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.	We are largely indifferent as to voluntary vs mandatory, provided that the settings for mandatory market making consider the points in our submission (reduced front end super-peak volumes and wider spreads). Contact has been a supporter of the product in a voluntary capacity since its inception and we consider it an effective hedge for our portfolio. We will continue to support it by providing liquidity in any scenario.
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?	