Electricity Authority Consultation - November 2025
Market making review: strengthening price discovery in the forward electricity markets - Appendix B

MAREX

Preamble

These responses broadly support the Authority's overall direction and acknowledge the significant improvements in liquidity, transparency and price discovery achieved since 2020. At the same time, they identify areas where progress may be overstated or residual risks understated, particularly in relation to market concentration, shaped risk and the constraints of a short, baseload-focused forward curve. The comments are intended to be constructive, with an emphasis on sequencing, market architecture and participation, rather than opposing reform in principle.

Q1. Do you agree with the Authority's assessment of the impacts of market making policies?

Broadly, yes. Market making changes since 2020 have improved liquidity and made the forward curve more usable, with tighter spreads, increased open interest and more reliable market-maker participation.

However, the assessment feels incomplete. It focuses heavily on the three-year baseload strip, which only partially addresses real-world hedging needs. Participants face shaped load, renewable intermittency and long-dated PPA risk. The current settings still leave smaller retailers and industrials exposed, as margining and prudential rules limit their ability to use ASX markets at scale.

The discussion of early-year downward price bias is also treated too lightly. If forward prices systematically underprice risk in the early years of a contract, both PPA negotiations and investment decisions are affected. It cannot be dismissed on the basis that it corrects later, as the problem remains for parties who need to commit earlier.

Finally, liquidity remains concentrated among a small number of participants. While improved, this structure is still vulnerable under stressed conditions.

In summary, the policies have delivered benefits, but the assessment does not fully capture the remaining gaps or the risks associated with concentration and reliance on a short, baseload-only curve.

Q2. Do you agree with the Authority's assessment that the introduction of the CMM has achieved its intended policy objectives?

Mostly yes. The CMM has improved quote continuity, increased pricing responsiveness, and introduced at least one participant without physical assets, which are positive outcomes.

However, it has not fundamentally changed the market structure. The market remains reliant on a small group of vertically integrated gentailers, and the CMM is a trading firm with its own risk limits rather than a neutral index provider. As a result, the degree of

diversification is useful, but inherently limited. There is also limited transparency on whether the level of service procured delivers the maximum system benefit.

In summary, the CMM has added value, but its impact is more modest than the Authority's assessment suggests.

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

At today's scale, probably yes, but ongoing scrutiny is needed. The levy is significant relative to the size of the NZ electricity futures market, and benefits primarily accrue to participants able to use ASX products. Without a clear counterfactual – for example, whether the same funds could better support smaller participants' access to cleared markets or improved transparency tools – it's difficult to say the CMM is definitively the best use of resources.

The true test of value for money will be whether the CMM helps build liquidity in the products the market will need next, such as longer-dated strips and shaped hedges. If activity remains concentrated in a thin three-year baseload strip, the value proposition diminishes.

For now, the CMM provides value, but the Authority should regularly reassess whether the spend delivers the best system-wide outcome.

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?

Yes - it is the least risky option today. Removing either leg of the hybrid model would likely reduce liquidity and undermine confidence. The combination of gentailer obligations and a CMM provides a stronger foundation than pre-2020 arrangements.

However, this should be seen as a staging point, not a final design:

- Concentration risk remains high with only five providers.
- The product set is still too narrow for a renewable-heavy system
- Over time, the Authority should expand the pool of market makers and transition toward a more incentive-based scheme rather than relying indefinitely on regulatory obligations.

In summary, continue the hybrid model, but make clear that a more diversified and product-rich forward market is needed to support investment and consumer outcomes.

Q5. Do you agree with the Authority's proposal to market make super-peak contracts? Do you agree with the rationale for this proposal?

We agree that super-peak prices are important, as shaped risk becomes more significant in a wind- and solar-dominated system. However, we do not support mandatory market making at this stage.

As noted in our earlier consultation, the super-peak product is still early in its life, liquidity is shallow, and market participants have not settled on how to use it. Imposing mandatory obligations risks creating synthetic liquidity that could disappear once the obligation is removed.

While the Authority notes that voluntary agreements can be fragile, the current context differs from past agreements that failed during the Pohokura outage. Trading infrastructure is stronger, the product design is clearer, and participants are actively using the product. Voluntary trading can be sufficiently resilient without forcing gentailers, who already carry most of the forward market burden, to quote compulsory positions.

The gap the Authority seeks to address can be better resolved by improving market architecture rather than mandating inventory risk. This approach provides the Authority with transparency while avoiding regulatory risk for a maturing product.

We also caution against over-interpreting the Concept model. Baseload plus super-peak may perform well in theory, but the market is not yet ready for compulsory quoting. The real issue is participation. Durable liquidity develops by making trading easy and low friction for more counterparties, including financial participants, rather than forcing a few parties to quote a shaped product when demand is still forming.

In summary, we support the Authority's objective of stronger shaped price signals and a forward market that better reflects renewable dynamics, but a robust voluntary framework is the more effective tool now. A stronger voluntary framework will achieve the outcome faster and with fewer unintended consequences. Mandatory obligations should remain a fallback if voluntary arrangements fail after been given a fair trial.

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?

At this stage, we do not support splitting the super-peak product into separate morning and evening contracts. The market is still adjusting to the underlying super-peak shape, and volumes remain thin. Introducing multiple products would dilute participation and slow the development of meaningful price signals. The priority is building depth and confidence in a single, well- understood super-peak contract.

We agree with the Authority that price dynamics may shift toward the evening peak over time. If trading behaviour shows this clearly, it would make sense to revisit the idea of separate morning and evening products in a future review.

On technical specifications, we support retaining the current unit size, node coverage and horizon. Standardisation and simplicity are critical at this stage, and any redesign now could reduce participation.

Finally, the main market gap is not contract design, but the lack of continuous visibility of shaped prices.

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

We support the goal of improving shaped price discovery, but we do not agree that mandatory market making with the proposed settings is appropriate at this stage.

The 6MW per contract volume requirement is lower than earlier proposals and more realistic for a new shaped product, but it still imposes obligations on a small group of gentailers who already carry most forward-market risk. Liquidity is not yet natural and forcing quotes risks producing price signals that reflect obligation rather than genuine market interest.

The proposed 5 percent spread is a pragmatic starting point for a low-frequency, high-volatility product, but fortnightly sessions do not align with the volatility profile of super-peak hours, meaning large price moves between sessions are inevitable.

In summary, while the settings may work on paper, a stronger voluntary framework supported by continuous price transparency is likely to deliver a more durable market. Mandatory requirements could remain an option if voluntary participation fails after a fair trial under improved infrastructure.

Q8. Do you agree with the Authority's proposed approach to establishing the platform?

We agree with the Authority's approach and support using an OTC platform for super-peak market making. The platform must be accessible, operationally robust and deliver real transparency.

The proposed minimum standards – open access, fast and reliable functionality, consistent data, and dependable availability – are appropriate baseline expectations for any modern trading environment.

We note that the risks of bilateral execution are overstated. The administrative burden described reflects older OTC processes, whereas modern technology largely mitigates these limitations.

We also support concentrating liquidity on a single platform during the market making window, while allowing participants to trade elsewhere outside this window to maintain competition and innovation.

Q9. Do you agree with the Authority's proposed market settings on the OTC platform?

We agree with most of the proposed market settings but note that the Authority's design still reflects a session-based model, whereas continuous pricing is now achievable. Fortnightly market making windows may be acceptable initially but should not constrain broader product evolution.

On specific settings:

- Fortnightly frequency is workable, but participants should be able to trade or price outside the window.
- Avoiding overlap with the ASX baseload window is sensible.
- The attendance requirement and five-minute presence rule are reasonable, providing flexibility without undermining availability.
- A single approved platform during the window is appropriate to concentrate liquidity.

We also support the exemption settings and allowances for platform disruption or legal constraints, which are practical and reflect how market markers manage operational risk.

Overall, the settings are well-directed, but the framework should remain flexible to enable a continuous-pricing environment as the market develops.

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

In principle, yes. Extending the baseload futures horizon to five years is useful, particularly for renewable project developers who need clearer revenue visibility to support financing. A longer curve provides a better anchor for long-dated PPAs, storage investment, and demand-side strategies.

The proposal's direction is sound, but sequencing matters. The market is still developing liquidity in super-peak products, and longer-dated futures are only meaningful if the nearer-dated shaped products are liquid and trusted.

We therefore support the extension in principle, but caution that it should follow progress on super-peak liquidity rather than run ahead of it.

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?

Yes, we would support longer-dated futures, though actual use will depend on market participation and liquidity once listed.

In the New Zealand market, our role covers ASX clearing, broking, and facilitating risk management for generators, retailers, industrials, and renewable developers. Longer-dated futures could be used to:

- Structure long-dated PPAs and tolling arrangements.
- Anchor bespoke OTC hedges, including split-peak or customised shaped profiles.
- Input into valuation models for renewable and storage projects where financing relies on clarity beyond year three.
- Benchmark and cross-check long-dated OTC pricing.

Real usage will depend on liquidity. A five-year contract with low volumes would serve mainly as a reference point, while the OTC market will remain the primary venue for long-dated structured risk.

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

We support publishing anonymised forward trends from longer-dated OTC activity. Improved visibility reduces information asymmetry and helps new entrants and smaller retailers benchmark their positions.

However, there are limitations. OTC data is thin, infrequent, and highly customised. Even quarterly aggregation does not fully solve the problem that many longer-dated trades reflect bespoke risk allocation rather than pure forward prices. Treating these as a substitute for a traded curve could lead to noise or misleading signals.

Continuous pricing, standardised reporting, and higher participation will make the longer-dated OTC curve more robust and reduce the risk of identifying counterparties as trade counts increase.

Q13. Do you agree with the proposed reduced volume requirements for market making baseload contracts?

We are largely agnostic on reducing baseload market making from 12 MW to 10 MW. The change is modest and unlikely to materially affect overall liquidity. If market makers view 12 MW as overstating true demand, testing a lower requirement poses little risk.

However, comparisons with Singapore should be treated cautiously. Their generation mix, hydro-free volatility, and market design differs significantly from New Zealand, so quoting volumes are not directly comparable.

Most baseload risk is already well served; current pressures lie in shaped risk, renewable intermittency, and long-dated hedging. Reducing baseload obligations may ease cost pressures for market makers, but it does not address these core issues.

In summary, we are neutral. We are comfortable with 10 MW if others see value in it, but do not view it as essential, and would welcome broader participation input before forming a stronger view.

Q14. Do you consider an 8 MW volume requirement per contract for baseload futures would be sufficient to enable robust price discovery?

It depends on how the market evolves. An 8 MW requirement could be sufficient if natural trading interest remains similar to current volumes, but the number alone does not guarantee robust price discovery. Active participants, consistent quoting, and confidence in price integrity matter more.

If the market shifts toward shaped and bespoke hedges, baseload volume becomes less critical, and 8 MW may be more than adequate. Conversely, if ASX baseload continues to carry most hedging activity, 8 MW could be too low.

In short, 8 MW might be sufficient, but broader participant feedback is needed. A monitored trial, with the option to revert if liquidity declines, is the sensible approach.

Q15. Do you agree with the Authority's proposal to modify the compliance framework in terms of the quoting requirement time?

Yes, this is a sensible refinement. We are not deeply involved in the mechanics of ASX market making compliance but rounding the quoting requirement to the nearest second rather than the nearest millisecond avoids treating minor, low-impact lapses as failures, and preserves exemptions for when they are genuinely needed.

From a market perspective, this reduces noise and eases administrative burdens on market makers without affecting real liquidity. Anything that supports consistent quoting while reducing unnecessary compliance tension is positive for the health of the curve.

We support the change.

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

Yes, we support clarifying the permitted circumstances exemption. The exemption should be narrow and clearly defined to prevent it from becoming a general escape clause. Market makers need certainty about when it applies, and the Authority needs confidence it is not applied too broadly.

Requiring participants to demonstrate that they have taken all reasonable steps to avoid a legal breach while meeting market making obligations is a fair standard. It protects market integrity while recognising genuine compliance conflicts.

We support any clarification that tightens interpretation, reduces ambiguity, and maintains market confidence.

Q17. Do you agree with the objective of the proposed amendment?

Yes, we agree with the objective. Strengthening liquidity, improving price discovery, and building confidence in the forward market are essential for an efficient electricity system. Clearer forward curves and better shaped price signals help participants manage risk and support investment, particularly in a more renewable and more volatile.

We note that success depends as much on market architecture and participation as on Code changes. Continuous visibility, accessible platforms, and practical trading arrangements are equally important. We support the objective, while emphasising that implementation should be sequenced to build real liquidity rather than relying solely on obligations.

Q18. Do you agree that the benefits of the proposed amendment outweigh its costs?

Yes, we agree that the benefits outweigh the costs.

Stronger price discovery in shaped products, clearer long-dated visibility, and more proportionate baseload obligations should improve risk management and investment decisions. The changes reduce unnecessary inventory risk for market makers while improving access and competition for buyers – a sensible balance.

While super-peak market making introduces extra effort, clarifying exemptions and lowering baseload volumes should offset some of that burden. Costs appear manageable, particularly for parties with physical positions who are best placed to carry the obligations.

The benefits depend as much on market infrastructure as on regulation. With the right trading environment, the proposed amendments should deliver tangible gains in liquidity, transparency, and investment confidence. On this basis, we support the reforms.

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?

On balance, yes. We agree that the proposed package is preferable to the alternatives, with some practical caveats.

a) Appropriate suites of contracts

We support baseload and super-peak as the two core market-making products. Baseload provides a foundational curve, while super-peak reveals capacity pricing that becomes increasingly important in a renewable-heavy system. This approach aligns with MDAG and Concept and avoids diluting liquidity across too many instruments.

The main caveat is execution: success will depend on how the OTC platform evolves. If shaped liquidity deepens over time, more granular products could be considered later, but baseload plus super-peak is a sensible starting point.

b) Mandatory vs voluntary market making

In principle, we support mandatory market making for super-peak, but still believe voluntary arrangements were constrained by platform design rather than lack of intent. If obligations are introduced, the proposed framework is a reasonable balance and provides confidence that liquidity will be available in stressed conditions. We would encourage the Authority to revisit voluntary arrangements once the platform demonstrates sustained adoption and depth.

c) Reduced baseload volume

We are comfortable with the reduction to 10 MW as a pragmatic step, but we do not have a strong position on whether 10 MW is materially better than 8 MW. Baseload liquidity is already relatively deep, and quoted volume is not the primary constraint on market performance. Platform functionality and broader participation matter more than marginal changes in obligation size. Comparisons with Singapore should be treated cautiously given the very different market structure.

Overall

The Authority's preferred package is pragmatic and directionally sound. The determining factor will be the trading infrastructure that supports it, rather than the specific parameter settings alone.

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

Yes. We agree the proposed amendment complies with section 32(1) of the Act.

The amendments support the Authority's statutory objectives by strengthening price discovery in both baseload and super-peak products. Clearer forward prices improve competition by enabling participants of all sizes to contract, hedge and invest with greater confidence, supporting entry and more effective retail competition over time.

Improved transparency also promotes efficiency. More reliable forward price signals reduce uncertainty for renewable developers, flexible generation providers, retailers and storage investors, lowering reliance on assumptions and supporting better long-term planning and capital allocation.

Finally, stronger peak price signals support reliability. The ability to observe and hedge the value of flexible capacity encourages investment in resources that respond to scarcity periods, such as batteries, demand response and firming generation, improving security of supply for consumers over the long term.

On that basis, we consider the amendment consistent with, and supportive of, the objectives in section 32(1) of the Act.

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

The drafting is generally clear, and the structure of the definitions makes the obligations across baseload and super-peak products easy to follow. Aligning language between products and clarifying exemptions is sensible.

Our only drafting caution is around hard-coding product design into the Code. Highly prescriptive definitions, such as specific trading periods for morning and evening peaks, or contract structures, may limit the Authority's ability to refine products as liquidity and market usage evolve. If the market later supports more granular products, a rigid Code could slow sensible improvements.

A more flexible approach would be to keep the Code focused on outcomes, with detailed product specifications set out in an Authority-published schedule that can be updated, following consultation, as the market matures.

Overall, the drafting is workable, but flexibility will be important to avoid unnecessary barriers to future refinement.

Summary

Overall, the proposed package is pragmatic and directionally sound. Market making, the CMM, and recent refinements have clearly strengthened the forward market, but material gaps remain in shaped risk, long-dated hedging and diversification of liquidity providers. The key risk is relying too heavily on regulatory obligation rather than building durable, voluntary liquidity through improved platforms and transparency. With careful sequencing, regular review, and a focus on infrastructure and participation, the proposed amendments should improve price discovery and investment confidence, and the benefits are likely to outweigh the costs.