Via email: market.making@ea.govt.nz

19 December 2025

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

Mercury welcomes the opportunity to provide feedback on the Electricity Authority (Authority) market making review. We are pleased the Authority has taken onboard the industry's feedback that the top priority should be developing the existing hedge market to support improved transparency, price discovery and to address concerns around availability of risk management products.

We strongly support the policy intent behind the market making measures outlined in the consultation which include strengthening price discovery, improving confidence in New Zealand's forward electricity markets and supporting competition and investment so that, over time, New Zealanders benefit from better access to affordable electricity. We agree that access to risk management contracts is particularly important for small or independent market participants who may be less resilient to price volatility than larger, diversified and established participants.

Mercury recommends the Authority set up a technical industry group to keep upgrading the contracts market. The future electricity system is likely to be characterised by innovation and unexpected change. Options for risk management are likely to keep changing as well. An expert technical group could meet regularly and be charged with looking for product and related ideas that may have common good benefits for the hedge market as a whole. This approach was recommended by Carlson Consulting in their expert report submitted as part of the response to the Level Playing Field consultation earlier this year.[1]

Review of market making policies

Mercury supports the retention of the current hybrid market making model (four regulated market makers and one commercial market maker), in the short term. However, longer term, we recommend the Authority consider expanding the number of regulated market makers and commercial market makers. Mercury considers that a broader group of market makers would add resilience, improve price discovery, and further enhance liquidity in the futures market.

Market making super-peak standardised contacts

Mercury supports the introduction of a form of mandatory market making for a super-peak product in addition to the existing mandatory market making of baseload contracts on the ASX rather than spreading the volume across baseload and super-peak products.

Proposed spreads and volume settings for market making super-peak

Mercury generally supports the proposed specifications of the super-peak product; however, we believe the spread needs to be wider than proposed. Regardless, it will be important that the initial settings are monitored and

[1] Expert Panel submission for the Energy Competition Task Force and interested parties on "level playing field" proposals and underlying issues, May 2025, pg 89 and Appendix D Level Playing Field Hedging Considerations (Carlson Consulting).

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reviewed to ensure they are working as intended. As detailed below, we don't think there is a sound rationale for reducing volume in the baseload contract (refer to section below for more detail).

Super-peak market making trading arrangements – platform
Mercury supports introducing market making requirements for the standardised super-peak contract on an appropriate OTC platform as a good first step with an adjustment to spread. The trading period could be either bi-monthly or fortnightly to start, recognising there are access issues for smaller market participants, but it is important to be mindful of the administrative costs associated with this approach. We also support developing minimum standards for the functionality required to support regulated market making on an OTC platform in the short term.

Longer term, we would like to see super-peaks traded more frequently (ideally daily) over the ASX platform for the following reasons:

> Margining efficiencies are likely when super-peak positions can net against existing baseload futures.
> Offshore participation is significantly more achievable through ASX, where many participants already have access.
> Operational simplicity is preserved when all futures products are traded, cleared, and risk-managed on a single platform, rather than introducing the operational overhead of dual-platform processes.

Long dated futures
Mercury supports extending ASX baseload contract duration from 3 to 5 years. The market has evolved. We have observed customers are increasingly seeking longer term contracts for terms beyond the current traded futures curve and there is demand for PPAs to underwrite renewable generation build. Longer term contacts will enhance transparency and support long-term price and levelised cost of energy (LCOE) convergence as well as facilitating long-term financing by providing better long term price discovery.

Reduce baseload volume requirements
The review of market making considered appropriate volume settings across different products to ensure the overall market making requirements are appropriate. The Authority proposes a modest reduction in volume requirements from 12 MW to 10 MW per contract and will monitor the impact of this change over time.

Mercury does not support reducing baseload market-making volume requirements. Our position is based on the following key considerations:

> Rising national demand and supply means the overall demand for hedging in the ASX market will increase (as evidenced by the increase in open interest), and market-making volumes will ultimately need to increase in the foreseeable future, not decrease.
> Liquidity is critical for gentailers and independent retailers, especially during periods of market stress. Lowering required volumes inevitably reduces liquidity at a given price point.
> Hedging needs are volume-driven rather than price-driven.
> Reducing volumes would heighten price volatility, particularly in stressed market conditions.

In addition, we consider the current "Refresh" mechanism could be removed as it has worked as a significant driver of daily price volatility as it effectively reduces instantaneous liquidity in the market. This is contrary to the original policy intent which was to reduce volatility

In summary, Mercury recommends maintaining the 12MW baseload requirement and removing the Refresh mechanism. We believe these adjustments would materially reduce unnecessary price volatility while supporting the increasing liquidity needs associated with New Zealand's transition to electrification.

Modifications to the compliance framework – quoting requirement time
Mercury does not support the proposed modification to the quoting requirement time. The current compliance window provides Market Makers a reasonable tolerance (five minutes across the 30-minute session). Adjusting compliance measurement to the nearest second weakens discipline and reduces the robustness of the market-

making framework. If a Market Maker is non-compliant by a millisecond, that should still be recorded as non-compliance.

We welcome the opportunity to engage further with the Authority if you have any questions concerning our submission or improving hedge market liquidity and transparency more generally.

Yours sincerely

Craig Parker
Portfolio Manager

Appendix 1 Consultation Questions

Consultation Question	Mercury Response
Q1. Do you agree with the Authority's assessment of the impacts of market making policies? If not, please explain your reasoning.	We agree with the Authority's assessment of the impacts of market making policy changes, particularly regarding the observed "volatility in near-term contracts." In our view, the primary contributor to this volatility is the "Refresh" mechanism, which materially increases intraday price movements and market uncertainty.
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.	We agree that the introduction of the Commercial Market Maker (CMM) has achieved the Authority's intended policy objectives. However, we disagree with the conclusion that adding an additional CMM would not materially improve outcomes. An expanded group of market makers, whether commercial or regulated, would further strengthen confidence in the forward curve, deepen liquidity, and enhance price discovery.
Q3. In your view, does the CMM arrangement offer good value for money?	We acknowledge that providing market-making services entails meaningful cost. As we support the hybrid model, there is value in having a commercial market maker. However, we remain neutral of whether the $14.4m levy is justifiable for a single CMM.
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.	We support continuing with the current hybrid model and recommend that the Authority consider expanding the number of regulated and CMMs over time. As noted in Q2, a broader group of market makers would add resilience, improve price discovery, and further enhance liquidity in the New Zealand electricity futures market. We would support consideration of additional market makers for near dated contracts (or monthly contracts).
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	We support the Authority's proposal to implement mandatory market making for super-peak products.
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	We prefer a wider spread and trading sessions to be twice monthly, as expanded on below in Q7. Consistent with our September submission[2] Mercury considers the Authority should treat the value of the bid-ask spread, volume and other parameters as an initial view for further assessment, rather than even an expectation of the settings, that can be amended based

[2] Regulating the standardised super-peak hedge contract, Mercury submission to the Electricity Authority, 30 September 2025.

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<tr><td></td><td>on information gained from the quarterly assessments.</td></tr>
<tr><td>Q7. Do you agree with the proposed settings for regulated market making in the super-peak product (e.g., offer volume and spread requirements)? Please explain your view.
Table 3– Proposed settings for market making super-peak
<table><tr><th>Feature</th><th>Specification</th></tr><tr><td>Product type</td><td>Contract for Difference</td></tr><tr><td>Contract unit</td><td>0.1 MW per hour</td></tr><tr><td>Node</td><td>Benmore, Otahuhu</td></tr><tr><td>Trading periods</td><td>15-21 (7-10:30 am), 35-42 (5-9 pm)
All days</td></tr><tr><td>Monthly contracts</td><td>The current quarter and next two quarters (6 to 8 months total), excluding the current month</td></tr><tr><td>Quarterly contracts</td><td>9 quarters following the monthly contracts (when including the front 6 months, a total of 12 quarters, or 36 months offered)</td></tr><tr><td>Volume per contract</td><td>6 MW (1.5 per market maker)</td></tr><tr><td>Spread</td><td>5% or NZ$2, whichever is greater</td></tr></table></td><td>Consistent with our September submission[3], Mercury prefers a wider spread requirement for regulated market making in the super-peak product.

The proposed initial bid-ask spread of 5% may not fairly reflect the risk associated with the contract given the cadence of trading events and the underlying volatility of the super peak to base ratio. Mercury considers that a more realistic measure of risk is in the 10% range. Therefore, we propose it is better to assess the initial bid-ask spread during the quarterly assessments, within this range, to identify an appropriate setting. Similarly, an appropriate contract volume should be considered during the quarterly assessments instead of being prescribed at this point. The volume needs to be sufficient to enable price discovery, but not so much as to distort or reduce trade in other hedge contracts more generally.

We consider that the objective should be to focus on promoting the trade in hedge contracts in total and not narrowly focus on one subset of contracts or their specifications as market conditions are evolving at a greater pace than has been the case historically. For example, 10.30am as proposed by the original Standardised Flexibility Product Co-design Group less than a year ago, may already be later in the day than ideal.</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>Mercury supports establishing a new OTC platform for super-peak market making as a short-term solution, but we would like to see listing and trading transition to the ASX over time for the following reasons:

> Margining efficiencies are likely when super-peak positions can net against existing baseload futures.
> Offshore participation is significantly more achievable through ASX, where many participants already have access.
> Operational simplicity is preserved when all futures products are traded, cleared, and risk-managed on a single platform, rather than introducing the operational overhead of dual-platform processes.</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><td>As noted above, we support super-peak market making transitioning from an OTC platform to listing and trading on the ASX platform to capture the efficiencies outlined in our response to Q8.</td></tr>
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[3] Regulating the standardised super-peak hedge contract, Mercury submission to the EA, 30 September 2025.

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 strongly support extending the baseload futures horizon from three to five years, consistent with the rationale outlined in the consultation. A longer dated forward curve provides improved investment signals, enhances hedging optionality, and better supports long-term planning for all participants.
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?	Mercury uses the ASX contracts for a range of purposes and would utilise the extended duration in a similar fashion. The ASX is the reference price for C&I contract pricing. Extending the traded curve would improve confidence in offers made for longer durations. Currently the price beyond the traded curve is inferred based on a variety of factors. Longer dated sales contracts are becoming increasingly common. Having an alternative risk management channel to OTC markets with term alignment and a variety of available products would be beneficial as an option to manage risk associated with such contracts.
Q12. What are your views on the Authority's proposed forward price trends based on OTC longer-dated contracts?	Mercury is broadly supportive of more data being released for the purpose of price discovery; however, it should be noted that OTC contracts vary in complexity, and a view of price without the associated contract specifications may be misleading. It is also the case that longer dated contracts are traded relatively infrequently, as such it may be possible to infer commercially sensitive information from the chart provided, regardless of whether it is anonymised.
Q13. Do you agree with the proposed reduced volume requirements for market making baseload contracts? If not, please explain why.	Mercury does not support reducing baseload market-making volume requirements. Our position is based on the following key considerations: • Rising national demand and supply means the overall demand for hedging in the ASX market will increase (as evidenced by the increase in open interest), and market-making volumes will ultimately need to increase in the foreseeable future, not decrease. • Liquidity is critical for gentailers and independent retailers, especially during periods of market stress. Lowering required volumes inevitably reduces liquidity at a given price point. • Hedging needs are volume-driven rather than price-driven. • Reducing volumes would heighten price volatility, particularly in stressed market conditions.

	In addition, we consider the current "Refresh" mechanism could be removed as it has worked as a significant driver of daily price volatility as it effectively reduces instantaneous liquidity in the market. This is contrary to the original policy intent which was to reduce volatility. In summary, Mercury recommends maintaining the 12MW baseload requirement and removing the Refresh mechanism. We believe these adjustments would materially reduce unnecessary price volatility while supporting the increasing liquidity needs associated with New Zealand's transition to electrification.
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. For the reasons outlined above, we do not consider an 8 MW requirement sufficient to ensure robust liquidity or price discovery.
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	We do not support the proposed modification. The current compliance window provides Market Makers a reasonable tolerance (five minutes across the 30-minute session). Adjusting compliance measurement to the nearest second weakens discipline and reduces the robustness of the market-making framework. If a Market Maker is non-compliant by a millisecond, that should still be recorded as non-compliance.
Q16. Do you agree with the Authority's proposal to modify the Code to clause 13.236N(1)(a)(ii)?	No comment.
Q17. Do you agree with the objectives of the proposed amendment? If not, please explain why?	In principle yes.
Q18. Do you agree that the benefits of the proposed amendment outweigh its costs? If not, please explain why.	In principle yes if implementation is efficient.
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 our comments above with respect to specific design details of the Authority's proposal.
Q20. Do you agree the Authority's proposed amendment complies with section 32(1) of the Act?	See our comments above with respect to specific design details of the Authority's proposal.
Q21. Do you have any comments on the drafting of the proposed amendment?	No.