21 December 2025

Electricity Authority
Wellington.

market.making@ea.govt.nz

Re: Consultation Paper – market making review: strengthening price discovery in the forward electricity markets.

Thank you for the opportunity to submit on this paper. New Zealand Steel's comments are set out below and focus on proposed changes to the duration of baseload futures. We begin with introductory comments summarising our concerns with the proposal to extend the contract term from three to five years. We then provide responses to the relevant consultation questions, before making comment on the Infometrics report.

INTRODUCTORY COMMENT

The consultation document, at Para 2.9, states that "The Authority is aware of growing interest from some participants in hedge contracts with longer terms whose prices tend to be closer to the cost of building new renewable generation. Market making longer duration contracts would help ensure that the forward price curve is as good an indicator of future prices as possible, and that the margin between prices and build costs is minimised".

While the ambition is laudable, based on the current 3-year curve, the reality is somewhat different. We contend the current 3-year prices include unwarranted risk premiums, effectively locking in on-going dry-year and other risk resulting inefficient forward prices. With regard to risk premiums, we refer readers to the 15 December 2025 release of the Cabinet Paper[1] from Ministers Watts and Jones stating "…estimated $50/MWh risk premium — a premium that will remain unless a credible strategy secures investment that addresses the dry-year risk."

With the current market structure and settings, extending to 5 years would extend these inefficiencies even further and, with that, inflated energy prices which impact the productive and social framework of the entire country.

There is no evidence longer-dated contracts will bring hedge prices closer to the cost of new renewable generation.

We cover our rationale in more detail below and we would be interested to understand which market participants the Authority is referring to as having a growing interest in hedge contracts with longer terms, specifically whether this group is representative of different categories of market participants or whether it is limited to generators who will be able to gain from further forward dating of risk saturated forward prices over a longer time horizon.

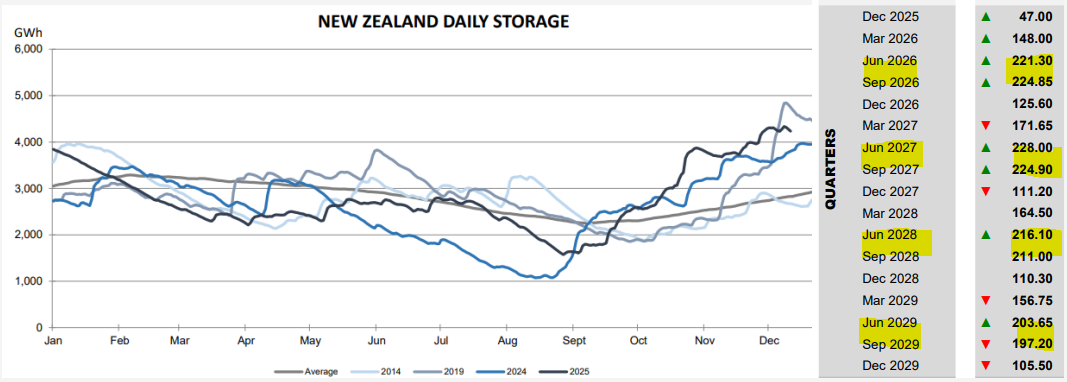
[1] Government Response to Review of Electricity Market Performance - Enhancing New Zealand's Security September 2025, para 16.

NZ STEEL RESPONSES TO RELEVANT CONSULTATION QUESTIONS

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

NZ Steel strongly oppose such an extension. Extending the current 3-year time horizon will further lock-in current inefficiencies.

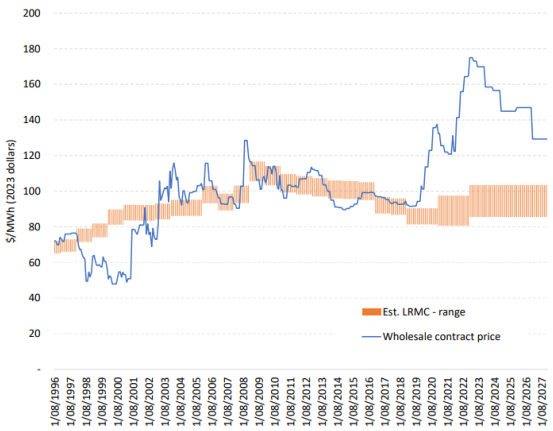
The ambition of a fully functioning futures market for extended dated hedges is laudable. However, the reality is the NZ generation mix and fuel base, as well as industry and energy market structure, make it challenging to have an efficiently functioning and competitive futures market without undue risk premiums. One of the major risks faced by the NZ electricity system is that of fuel, and in particular hydro lake levels. History has shown the NZ hydro situation can go from feast to famine and famine to feast in less than 3-months. A dry-year does not occur every year, yet ASX forward curves largely price in this risk for the duration of the index. The current position demonstrates this with current lake levels at decade high levels, while ASX futures continue out to winter 2029 at largely the same inflated prices we consistently see some quarters out[2].



The consultation paper draws on work by Infometrics[3]. The prime question Infometrics addresses is: "is the ASX an unbiased predictor of spot prices?". Infometrics' headline is: "…that in early trading there is generally some downward bias in ASX prices, but the bias largely dissipates in later trades". Analysis for the Authority undertaken earlier in the year does not support this. There is a considerable gap between wholesale price curve and the LCOE[4], as demonstrated by Figure 4 below taken from the Concept Consulting reference work. The current market making consultation paper does not address this. We comment on these conflicting conclusions later in this submission.

[2] NZX hydro curve 11 Dec 2025, and ASX close prices for Otahuhu 10 Dec 2025 (Enerlytica)
[3] Appendix F
[4] Level Playing Field measures - options paper, page 30 referencing work undertaken by Concept Consulting.

Figure 4 – Contract prices and estimated costs for new baseload supply (2023)



Source: Concept Consulting[28]

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?

No. Given the inefficiencies priced into the ASX long-dated futures, we would not use these contracts as part of our risk management strategy.

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

We agree with para 4.27 to the extent that a reliable forward price curve could be a helpful indicator in providing a benchmark for OTC negotiations. However, with risk premium inflating the price in the forward price trend, any potential value is more than eroded. Additionally, long-dated OTC agreements are more likely to have bespoke clauses which will invalidate price benchmarking.

Q13. Do you agree with the proposed reduced volume requirements for market making baseload contracts? If not, please explain why

The rationale that reducing supply when it exceeds demand is a sound economic principle to restore market equilibrium. However, we contend there is an artificial starting point in the demand for longer-dated ASX futures. The volumes traded are currently low. A key reason being the lack of confidence by non-market potential participants in what is considered an inefficient and over-priced market. Reducing supply will likely put further upward pressure on prices.
We will expand on ASX pricing in comments on the Infometrics report later in this submission.

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.

Refer response to Q13 above.

NZ STEEL COMMENTS ON THE INFROMETICS REPORT

Appendix C of the consultation paper deals with market making policy and review of the market making arrangements. We contend aspects of the Authority's conclusions are incorrect and invalidate the proposed extension to longer-dated futures contracts.

The key question asked, and which Infometrics was engaged to answer, was "Is the ASX an unbiased predictor of spot price?". The key objective being "…a robust forward price curve that reflects market expectations…"[5].

Conclusions by Infometrics relevant to our position on this matter include:

1. "Our assessment is that in early trading there is generally some downward bias in ASX prices, but the bias largely dissipates in later trades"[6].
2. It is important to note the statement "…ASX prices do not seem to be efficient (in the econometric sense) estimators of spot prices, particularly since September 2018…". They further link this to "…unexpected movements in the spot price than to any flaw in how ASX market operates. This is turn may be attributable to the wider electricity market being insufficiently competitive"[7] and this "…clearly merits further research."
3. Infometrics conclusion[8] includes:
    a. "Although bias is usually low, ASX prices are not efficient estimators of spot prices. That is, the standard deviation of the errors are relatively high." As well as hydro situations, mention is also made of "other events" including: Pohokura, Tiwai, Ukraine, carbon price, and coal-fired generation.
    b. And concluding with "It is possible that market participants do not have sufficient information (such as on predicted lake levels) to efficiently price and manage risk. Less uncertainty is key to producing a more efficient market."

The Infometrics report covers the range of factors that can impact spot prices on the day. All of this compounds the challenges of forward pricing in addition to operational and market challenges.

The industry and market structure adds to these challenges and needs to be acknowledged before the Authority proceeds to extend the ASX trading horizon locking in even higher-risk premiums and market prices.

a. The electricity system continues to be largely based around four vertically integrated competing gentailers with a largely hydro dominated system, limited storage, and reducing firming generation and fuels. The system originally designed to complement hydro with thermal has been set-up to compete. Hence, increased perceived risk and resulting premiums.
b. The NZ market is based on the marginal MW dispatched setting the spot price. Given local and international dynamics, the price:cost distortion effect is magnified – The price for the marginal MW dispatched may reflect SRMC for those MW, but does not reflect the average bid price for dispatched MW, nor reflect LRMC which would be expected over time for an efficient market.

[5] Appendix C, Part 1. Q1, page 48.
[6] Appendix F, page 2
[7] ibid.
[8] Ibid, section 6.

c. The consultation paper[9] indicates a collective loss since 2017 of ~$5m across the market makers, and mostly trading with each other. It also notes a large portion of the loss occurred during the prolonged high price period in August 2024. The true situation during that time period will be much more complex than this high-level analysis by the Authority. Firstly, while there may be opportunity cost implications, the true analysis will be the SRMC of their individual generation during this time, and secondly the interconnection between each gentailers' generation and retail 'books'.

Rather than supporting the ASX as a valid base for extending the period of forward pricing, we suggest the Infometrics work concludes the opposite and instead confirms wider issues with the Market[10] . It will be counter-productive to efficient futures pricing for the Authority to proceed with longer-dated hedges until underlying issues in the market are addressed.

NZ Steel is available to provide further input if and when required.

Kind regards,

Alan Eyes

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[9] Page 57.

[10] "Judging by the changes in spot prices, shocks such as the Pohokura outage seem to be largely unexpected. Thus the cause of the inefficiency in the relationship between ASX prices and spot prices may be related more to unexpected movements in the spot price than to any flaw in how ASX market operates. This is turn may be attributable to the wider electricity market being insufficiently competitive.
That question takes us beyond the ambit of this project, but clearly it merits further research. It may also help answer the second question above; whether the Electricity Authority's monitoring of the spot market is robust." Page 2 of Appendix F.