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Haast welcomes the Authority's shift to mandate super-peak market making

Haast Energy Trading (Haast) welcomes that the Electricity Authority has proposed to mandate market-making for the super-peak hedge product in the consultation paper "Market making review: strengthening price discovery in the forward electricity markets".

We consider that the baseload market making should remain at 12 MW rather than be reduced to 10 MW. Maintaining sufficient liquidity at the front of curve is an essential component of efficient price discovery and the orderly functioning of hedge markets in highly vertically integrated markets such as New Zealand electricity.

The move to ASX trading for super-peak products should be prioritised in the Authority's work programme. This is a necessary next step to remove the opportunity for credit policies to inhibit competition. We would like to see the Authority publish a roadmap and timing for the transition from OTC to ASX trading. The Authority should have confidence that financial repackaging will create the various credit and product specifications individual participants demand if open, transparent and liquid access to the key dimensions of risk are available.

Baseload market-making should remain at 12 MW

Haast considers that baseload market making should remain at 12 MW rather than be reduced to 10 MW. The evidence is clear the market needs more total liquidity and removing some baseload at the front of the curve to add long dated and super-peak is not consistent with that. The Authority should not shuffle what limited liquidity we have around. All else being equal, baseload at the front of the curve is the most valuable for efficient price signalling, hedging, and rebalancing, and the Authority should not water down liquidity there.

While the Authority asserts that a reduction from 12 MW to 10 MW will "ensure market making obligations remain proportionate and sustainable" it doesn't say what it means by "proportionate" or provide any evidence why 12 MW would not be "sustainable". The Authority simply provides loose commentary that there is a cost to market making while not acknowledging the dire state of competition from non-integrated participants. Market power combined with vertical integration is the root cause of the lack of competition and the Authority's preferred exacerbators pay cost allocation appropriately identifies the gentailer's as the parties that should bear the cost of remedies. There is no evidence the current cost of remedies are having any material impact on gentailer profitability, quite the opposite is apparent.

The Authority also states that "Our analysis indicates that current volume obligations may exceed market demand." We consider that this position lacks ambition or confidence in any significant or material increase in competition. If the Authority is successful in unlocking a more competitive market, backed by a liquid hedge market, it will require substantial more uptake than what might be deemed current "market demand". We agree with emhtrade that current market demand should not be the benchmark as "the



overall objective of the standardised super-peak workstream is to enhance competition and provide a framework under which competitors to vertically integrated firms can grow, not merely survive.”¹

Haast welcomes the Authority’s change in views about voluntary versus mandated arrangements

Haast considers that the Authority received robust and well-reasoned submissions in support of mandatory arrangements, including that voluntary arrangements already have had sufficient opportunity to prove whether they could succeed or not. We welcome that Mercury, as one of the market makers, has made public statements in support of mandated arrangements and strengthening OTC Code of Conduct requirements. We welcome that the Authority has listened to submissions and has been open to a significant shift in its thinking and proposals.

We agree with the Authority that:

“voluntary trading arrangements are fragile, and this fragility can undermine market confidence, ultimately constraining liquidity and weakening price discovery”

“In 2011, four gentailers (Contact, Genesis, Meridian and Mercury) entered a voluntary agreement with the ASX to provide continuous buy and sell quotes for baseload electricity futures.

“However, the voluntary nature of these arrangements proved fragile under market stress. During the 2018 Pohokura gas outage, market makers widened spreads or withdrew services. This reduced stakeholders’ confidence in voluntary market making.”

“... the voluntary approach provides the market with less certainty. The lack of firm obligations is likely to lead to inconsistent participation and unreliable trading volumes. This would undermine price discovery and impede effective risk management, particularly during stress periods. Voluntary market making is a lower cost option but comes at the expense of market reliability and effectiveness. Overall, voluntary trading does not sufficiently contribute to the Authority’s objectives and fails to deliver the certainty of consistent outcomes needed to support a resilient and future-focused market.

“We think codifying market making requirements will provide sharper price signals and stronger liquidity compared to a voluntary approach.”

“The optional nature of voluntary trading ... limits its value as a risk management tool. Retailers and generators cannot rely on the availability of super-peak products to hedge against price volatility during high-demand periods. As a result, the mechanism falls short in supporting participants’ ability to manage financial exposure, especially during stress events.”

“In the context of the energy transition, voluntary trading does little to support investment in flexible or renewable technologies.”

“Regulated market making provides stronger liquidity compared to a voluntary approach, and ... will promote competition in, reliable supply by, and the efficient operation of, the electricity industry for the longterm benefit of consumers.”

The broader context: market power and economic withholding

Meridian and Dr Brent Layton have raised serious allegations that Contact and Genesis have incentives and ability to use their market power to constrain market access to contingent storage which increases the need for thermal generation and keeps wholesale electricity prices artificially elevated above workable competitive levels.² Meridian cites Genesis’s “real-world behaviour” as evidence.

¹ <https://www.ea.govt.nz/documents/8439/emhTrade - Standardised super-peak hedge contract submission 2025.pdf>

² <https://static.transpower.co.nz/public/bulk-upload/documents/Meridian%20submission%20-%20SOSFIP%20Review%202025.pdf?VersionId=prSSTnDQfUh1Uad2Xsf6ax7ud.Ykvwrd>



Layton, for example, submitted that:

Genesis manages Lake Tekapo but is also the major owner of fossil-fuelled generation capacity with its five units at Huntly. Contact manages Lake Hāwea but is also the owner of significant fossil-fuelled plants in Taranaki, the Whirinaki diesel plant and significant geothermal capacity around Taupō. The incentives on both parties to access contingent water could be influenced by their ownership of thermal plants. Even if there were no evidence this has happened, a prudent regulator should consider with a critical eye the potential incentives on all parties that may impact its proposals.

The allegations have serious implications for the efficiency of wholesale and hedge market arrangements and pricing. They have major potential implications for confidence in the electricity market and in market monitoring and trading compliance enforcement. It is likely Meridian and the other incumbent gentailers have significant information advantages over the Electricity Authority in respect of trading conduct and strategies so allegations from Meridian should be taken very seriously; particularly given the damage the claimed conduct would cause to the electricity market and confidence in the electricity market.

The allegations have parallels with the December 2019 UTS where Contact and Meridian unnecessarily dumped water resulting in substantially higher wholesale prices but are suggestive of conduct that may have been going on for a much more sustained period of time. We consider that the Authority should undertake an investigation into the veracity of the Layton/Meridian allegations.

Robust investigation and enforcement of trading conduct issues has been an area of concerning weakness in the Authority's performance. All meaningful actions in this area have been driven by the small fraction of the market that is not vertically integrated, and generally has modest resources in comparison to the gentailers. We continue to encourage the Authority to take a much more active role in this area for the benefit of consumers.

Frontier report

The Frontier Report has been heavily criticised, including by the Government's expert peer reviewers, and largely rejected by the Government. Haast does not consider it credible. We do not consider Frontier commentary that they found no material issues with New Zealand's contracts market or participants' ability to manage risk has any sound basis. The commentary is particularly odd given Frontier also recommend supporting competition by providing "independent retailers, generators, and large direct customers" with "priority over access to [NewCo's] firm capacity and energy". If there were no material issues why would 'NewCo' be needed to provide priority access to independent retailers, generators and large direct customers?

Concluding remarks

Haast considers that the Authority's shift from preference for voluntary arrangements to mandated super-peak products is a significant and positive move. We encourage the Authority to maintain this momentum by confirming the change and presenting a timetable for transitioning the arrangements to the ASX to ensure credit policies do not undermine the scheme.

The new proposal to reduce baseload making to 10 MW is a significant and unwarranted change which will hurt liquidity and competition. The Authority has presented this at a late stage as if it is a minor tweak but it risks fundamentally undermining any progress that may be achieved from mandating super-peak market making. The Authority should maintain baseload market-making at 12 MW.



Haast
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Sincerely,

Phillip Anderson
Managing Director, Haast Energy Trading



Appendix: Responses to questions

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.

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

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.

No to all three questions.

Haast has always been of the view that for the introduction of a CMM to provide net benefits it would need to add to the available volume of hedge products rather than reduce the mandatory market makers' obligations.

Haast recommends the Authority moves to a purely mandatory model with no CMM. The CMM offers poor value for money and makes the arrangements less stable. The breakdown in market making during winter 2024 was precipitated, in part, by failure of the CMM to perform. In our view, it is unlikely some mandatory market makers would have pushed as hard to withdraw if the CMM was not already negotiating relief. The Authority showed through this period that it wasn't able to extract the expected value from the CMM contract for consumers.

In our opinion, the CMM is not providing any meaningful impact regarding setting the price of the futures curve towards an efficient level. CMM providers have managed the contract in a way which minimises the cost to them. Market making requires a different skill set and capital base compared to speculation which might reduce inefficient premiums that exist in the forward curve. If a goal of the Authority is to attract significant speculators who may deploy capital to profit from a potentially inefficient forward curve then the Authority should focus on:

- minimising price spreads and maximising liquidity to reduce the cost of speculation;
- enforcing the code to require appropriate disclosure of outages and fuel arrangements so that financial players aren't systematically on the wrong side of information asymmetries;
- enforcing the code to ensure spot market outcomes are consistent with workable competition; and
- avoiding blaming speculators without evidence for problems with the market as the Authority did following the collapse of market making in winter 2024.³

Q5. Do you agree with the Authority's proposal to market make super-peak contracts? Do you agree with the rationale for this proposal? If not, please explain why

Yes. Please see main body of the submission.

³ The Authority provided conflicting justifications for providing market makers relief from their market making obligations in 2024, including that "market makers are increasingly unable to fulfil their obligations" and intervention is needed due to "speculation in the market creating volatility" and that speculation "reducing liquidity and keeping prices higher for longer" [<https://www.energynews.co.nz/news/electricity-regulation/165288/futures-intervention-needed-address-speculation-ea>] While the Authority blamed speculation in EnergyNews and elsewhere, a Board member stated during industry meeting on the topic that speculation didn't feature in the Board's decision-making.



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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

Yes, splitting to morning and evening would be more useful for many users. We do not believe liquidity will be materially different assuming the morning and evening products have the same market making requirements as the proposed combined product.

Q8. Do you agree with the Authority's proposed approach to establishing the platform? If not, please explain your reasoning.

As per Haast's previous submission, we support introduction of the super-peak product initially on the OTC platform, as a pragmatic way of making the product available more quickly, and then transitioning to ASX. The move to ASX trading should be prioritised in the Authority's work programme. We would like to see the Authority publish a roadmap and timing for the transition from OTC to ASX trading.

Q9. Do you agree with the Authority's proposed market settings on the OTC platform? If not, please explain your reasoning

As outlined in our previous submission, we believe the optimal end state is for the super peak products to trade daily on the ASX with market making. In this case it would make sense to have a single ASX market making window when everything trades. As an interim measure we do not oppose a less frequent OTC window at a different time.

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

We support this change only if it is additional liquidity and not if it is at the expense of liquidity in the front 3 years. The front three years is by far the most important horizon for competitive and efficient market outcomes. The Authority should not become complacent around the nature of liquidity at the front of the curve. The highly vertically integrated market in NZ means all liquidity is entirely dependent on the market making arrangements. If the Authority withdraws liquidity from the front of the curve competition and efficiency will suffer. The Singapore market collapse is a very relevant warning.

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

No. Please see the main body of the submission.

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

We support tightening significantly or removing entirely the Permitted Circumstances relief. It is clear this has been exploited in the past to avoid market making in situations where the drafting did not intend to allow relief. The Authority's on-going reluctance to enforce the Code has exacerbated this.