

Submission by



to the

Electricity Authority

on the consultation

**Market Making Review: Strengthening Price Discovery
in the Forward Electricity Market**

23 December 2025

Market Making Review: Strengthening Price Discovery in the Forward Electricity Market

— SUBMISSION BY BUSINESSNZ ENERGY COUNCIL—

Introduction

1. BusinessNZ Energy Council (BEC)¹ is pleased to have the opportunity to provide feedback on the Electricity Authorities (EAs) consultation document titled 'Market Making Review: Strengthening Price Discovery in the Forward Electricity Market.'
2. BEC represents a diverse array of leading energy-sector businesses, government bodies, and research organisations dedicated to creating a sustainable, equitable, and secure energy future.
3. As a brand of BusinessNZ, New Zealand's largest business advocacy organisation, we represent the World Energy Council in New Zealand, aiming to shape better outcomes for our wider energy system both locally and globally.
4. With this work the EA is looking at introducing market making requirements for the standardised super-peak contract on an OTC platform, extending the longer-dated baseload futures and reducing the total baseload offer volume requirements. The proposed regulation aims to address limitations in the current forward market and to improve liquidity and price discovery in the forward electricity markets.
5. The EA is also seeking feedback on if they should continue with the current hybrid model of four regulated market makers (RMMs) and one commercial market maker (CMM).
6. Market making requirements for the standardised super-peak contract is building on earlier work within the consultation document 'regulating the standardised super-peak hedge contract' which BEC previously submitted on.
7. As outlined in that submission BEC supports the use of the super-peak product as a way for market participants to better manage their risk, which helps to improve competition within the wider market. However, we argued that the EA should give more time for the market to develop naturally before moving into mandated market making. It is disheartening to see that instead the EA wishes to move into mandatory market making by mid-2026.
8. We recommended that if the EA was to move forward with market for the standardised super-peak product, then it would be best done through the OTC market, as we expected this option to have lower access costs, faster implementation and greater flexibility. We are therefore glad to see that this is the direction that the EA has decided to move in.

¹ More about BEC in APPENDIX One

Key Recommendations for the EA and the Government

- BEC recommends that the EA does not introduce another CMM as we do not believe that the additionality provided would cover the increased costs on the system.
- BEC recommends that the EA does not move forward with the proposal to increase the availability of quarterly ASX-traded baseload contracts from three years to five years. While there are potential benefits for the system, current market realities suggest that this is not the appropriate time for implementation. We would prefer the EA to wait to see the outcome of implementing market making of the super-peak product before determining whether extending market making for the baseload contract is appropriate.
- BEC recommends that the EA moves forward with the reduction in volume requirements for baseload contracts from 12MW to 10MW per contract on the basis that current volume obligations may exceed market demand. This is based on the market making policy review analysis in appendix C and the goal of not imposing unnecessary costs onto the system beyond what is necessary to maintain sufficient liquidity and price discovery.
- BEC recommends moving forward with the proposed settings for market making of the standardised super-peak product.

General discussion

9. The Market Development Advisory Group (MDAG) report recommended market making as a tool to improve price discovery, particularly for products that are essential to the evolving, renewables-based electricity system.
10. BEC outlined in our earlier submission on regulating the super-peak hedge contract that as the share of intermittent generation in New Zealand continues to grow the importance of shaped hedge contracts will increase as wholesale volatility grows. Therefore, as we move forward flexibility products will become more and more essential for the electricity system.
11. The MDAG recommendation of market making was contingent on the Authority assessing whether proceeding measures had been sufficiently effective. If competition for flexibility products were found to be insufficient, then market making was recommended to strengthen the market.
12. It was for this reason that BEC originally advocated for increased time for the market to develop naturally as we were seeing the market already trending towards the expectations laid out by the EA.
13. It is clear that the EA does believe that proceeding measures have been insufficient, as shown through the level playing field workstream. We outlined in our recent submission on level playing field proposed code amendments, that we believe that market making is a more proportionate response to the concerns raised. Therefore, we support the wider implementation of market making within the baseload and super-peak markets.

14. BEC agrees with the EAs assessment of the impact of market making policy changes since 2020 as we see that they have successfully strengthened liquidity and price discovery within the forward electricity market.
15. The addition of the CMM has served to support liquidity and market resilience and BEC does not see it as necessary to introduce additional CMMs as we do not believe that the additionality provided would cover the increased costs on the system.
16. BEC agrees with the Infometrics report, which looked at whether or not the ASX prices are an unbiased predictor of spot prices. There seems to be a strong relationship between the ASX prices and spot prices which confirms the utility of the forward market as a tool to track direction. The lack of efficiency that Infometrics identified shows the difficulty of accurately predicting precise prices, which is inherently difficult due to unpredictable external shocks.
17. The proposed settings for the super-peak market making remain relatively unchanged from the original consultation apart from changes to proposed volume settings.

Proposals to modify market making arrangements for baseload

18. There are two modifications that the EA is looking to implement within the market making arrangements for baseload forward contracts which BEC will comment on. The first of these is the proposal to increase the availability of quarterly ASX-traded baseload contracts from three years to five years. The EA intends for this to improve price discovery across a longer horizon and enhance transparency and trust in the contracts market. Extending the forward price curve could also help the Authority and participants assess whether electricity prices are converging towards the LCOE, which is a key indicator of competitive market outcomes.
19. BEC believes that the disadvantage identified by the EA and the Infometrics report of longer-dated futures not being unbiased predictors of spot prices is well founded. Infometrics stated that in early trading there was generally some downward bias in ASX prices. As the longer-dated futures get pushed out this may become more apparent or, at least have the period of time where the bias is there, active for longer.
20. This has potential implications for both the buyers and sellers of futures contracts including underestimating future revenue/cost, impact investment decisions, or cause under hedging compared to real exposure.
21. These risks highlight the importance of using the extended forward curve carefully, rather than arguing against its extension. With appropriate risk premium, scenario analysis, and governance around hedging and investment decisions, participants can manage the effects of any bias while still benefiting from the greater transparency, improved price discovery and wider improvements to the EAs ability to assess whether electricity prices are converging towards the LCOE that a 5-year curve provides. On balance, BEC therefore

believes that the proposed extension from three to five years could improve the development and maturity of New Zealand's forward electricity market.

22. However, in practice BEC does not believe that this is the correct time to be implementing such a change. As mentioned earlier in this submission MDAG recommended extensions to market making to be contingent on assessing effectiveness of earlier measures. Within this consultation the EA is suggesting two significant changes simultaneously, mandatory market making of the super-peak product and an extension from three to five years for baseload market making. We believe that the EA should be implementing one major change (super-peak market making), evaluating the effectiveness of the policy and then decide on whether or not further steps are needed.
23. Beyond this there are practical reasons for why the extension potentially should not occur in the current market conditions. The first reason for this is that the current risk-premium heavy hedge prices that we are seeing in the market will be pushed out to five years. While parties are not obligated to purchase the five-year contracts those prices are still a bench point which are used when negotiating prices for OTC contracts.
24. The second is that it does not look as if the extension is justified on cost benefit grounds. Concepts analysis suggests that it is unclear whether benefits of extending the horizon would outweigh the costs. This in combination with the points made in paragraph 22 and 23 suggests that the EA should hold off on implementing the extension until there is clear evidence that it would improve market outcomes.
25. The second modification is a reduction in volume requirements from 12MW to 10MW per contract on the basis that current volume obligations may exceed market demand. Based on figure 15 in appendix C BEC agrees with the EA that it looks like there is room to lower volume requirements.
26. There are system costs associated with market making both for the Mandated Market Makers who pass through to consumers and through the Commercial Market Maker which is funded through levy paid by the industry. Therefore, it is important to ensure that market making requirements are not imposing unnecessary costs onto the system beyond what is necessary to maintain sufficient liquidity and price discovery. With this in mind BEC supports the reduction in baseload offer volume requirements from 12MW to 10MW.

Proposal for market making the standardised super-peak contract

27. As previously discussed in this submission and in previous submissions, BEC is supportive of the role that the standardised super-peak contract plays within the electricity market. We expect this role to become more important as the share of intermittent generation grows.
28. We previously advocated for super-peak market making to take through an OTC platform and therefore are supportive of the Authority continuing in this direction. We agree with the Authority that this option will have lower access costs, faster implementation and greater flexibility – which is needed as there is significant likelihood that the product will need to be adjusted. During this time where adjustment may be needed market making

should remain on an OTC platform, once the market has been sufficiently established then the Authority should look at the possibility of shifting to the ASX.

29. BEC broadly agrees with the minimum standards for the OTC platform that the EA outlines of, access, functionality, information and data, and availability. As well as the need to be compliant with relevant New Zealand legislation.
30. BEC is glad to see that the Authority has dropped the minimum total volume offered and bid requirements from 10MW to 6MW. This is in line with what would have been assessed if the EA had not moved directly into mandatory market making and as this shift has been made directly, we believe that this is more proportional than the previously suggested 10MW.
31. The bid-ask spread of 5% has remained unchanged. BEC previously advocated for a wider bid-ask spread which we believed would have been more aligned with the current realities of the super-peak market. However, 5% is likely workable for market participants.

Summary

32. BEC supports the EA's refinements to the current market making arrangements of volume reductions. BEC also supports OTC-based super-peak obligations. These in combination should enhance liquidity, price discovery and risk management in New Zealand's forward electricity market without imposing excessive system costs. These changes align with the growing needs of a growingly intermittent renewable system allowing for greater management of price volatility. We do not support the proposal to increase the availability of quarterly ASX-traded baseload contracts from three years to five years. While there are potential benefits for the system, current market realities suggest that this is not the appropriate time for implementation. We would prefer the EA to wait to see the outcome of implementing market making of the super-peak product before determining whether extending market making for the baseload contract is appropriate.

APPENDIX ONE – BACKGROUND INFORMATION ON THE BUSINESSNZ ENERGY COUNCIL

The [BusinessNZ Energy Council \(BEC\)](#) is a group of leading energy-sector business, government and research organisations taking a leading role in creating a sustainable, equitable and secure energy future.

BEC is a brand of BusinessNZ and represents the [World Energy Council](#) in New Zealand. Together with its members, BEC is shaping the energy agenda for New Zealand and globally.



[BusinessNZ](#) is New Zealand's largest business advocacy body, representing:

- Regional business groups: [EMA](#), [Business Central](#), and [Business South](#)
- [Major Companies Group](#) of New Zealand's largest businesses
- [Gold Group](#) of medium sized businesses
- [Affiliated Industries Group](#) of national industry associations
- [ExportNZ](#) representing New Zealand exporting enterprises
- [ManufacturingNZ](#) representing New Zealand manufacturing enterprises
- [Sustainable Business Council](#) of enterprises leading sustainable business practice
- [BusinessNZ Energy Council](#) of enterprises leading sustainable energy production and use
- [Buy NZ Made](#) representing producers, retailers, consumers of NZ-made goods

BusinessNZ is able to tap into the views of over 76,000 employers and businesses, ranging from the smallest to the largest and reflecting the make-up of the New Zealand economy.

In addition to advocacy and services for enterprise, BusinessNZ contributes to Government, tripartite working parties and international bodies including the International Labour Organisation ([ILO](#)), the International Organisation of Employers ([IOE](#)) and the Business and Industry Advisory Council ([BIAC](#)) to the Organisation for Economic Cooperation and Development ([OECD](#)).

