

24 April 2026

Submissions
Electricity Authority
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Via email: wholesaleconsultation@ea.govt.nz

ERGANZ SUBMISSION ON IMPROVING PRUDENTIAL SECURITY ARRANGEMENTS

The Electricity Retailers' and Generators' Association of New Zealand ('ERGANZ') welcomes the opportunity to provide feedback on the Electricity Authority's code change consultation paper, 'Improving Prudential Security Arrangements', dated 31 March 2026.

ERGANZ is the industry association representing companies that sell electricity to Kiwi households and businesses. Collectively, our members supply almost 90 per cent of New Zealand's electricity. We work for a competitive, fair, and sustainable electricity market that benefits consumers.

Executive summary

ERGANZ supports both of the Code amendments proposed in this consultation paper. We welcome the Authority's responsiveness to submitter feedback on the October 2025 issues and options paper, and in particular the clear adoption of business-model neutrality as a guiding principle.

We support the proposal to reduce the post-default exit period by four days for retailers with 1,000 or fewer ICPs, together with the commensurate four-day reduction in the trader default process. This proposal is appropriately grounded in operational feasibility, and we welcome the Authority's confirmation that any future extension will be based on the Authority's confidence in executing the trader default process for retailers of different sizes, rather than on participant category.

We strongly support the revised proposal to reallocate residual funds to all spot market purchasers in proportion to their purchase volumes. This approach maintains competitive neutrality, reflects the origin of these funds in purchasers' payments, and avoids the targeted redistribution effects that ERGANZ and other submitters opposed. It is consistent with one of the two principled options we identified in our November 2025 submission.

ERGANZ had supported the transition to a more dynamic adder in our November 2025 submission. We understand the Authority's reasoning for not progressing this proposal, based on the clearing manager's modelling showing that variability in exit-period hedge exposures could amplify rather than reduce prudential volatility. We continue to consider that improvements to the alignment between prudential estimates and actual exposure remain a worthwhile area for future development.

We also accept the Authority's decision not to progress a physical and futures offsetting arrangement at this stage, and welcome the commitment to monitor the Australian NEM wholesale market settings review.

Submission points

The Authority's response to submissions

ERGANZ welcomes the Authority's careful consideration of submitter feedback on the October 2025 issues and options paper. In particular, we welcome:

- the explicit adoption of business-model neutrality as a design principle for both amendments;
- confirmation that future extensions of the shortened post-default exit period will be based on operational feasibility rather than participant category;
- the revised proposal to allocate residual funds to all spot market purchasers pro rata to purchase volumes; and
- the transparent explanation of the Authority's modelling work on the dynamic adder and its conclusion that the variability it could introduce could run counter to the goal of effective risk management.

We agree with the Authority's position at paragraph 3.16 that the current risk profile of the prudential regime should be maintained and applied uniformly across participants. We also agree with the reasoning at paragraph 3.14 that differences in business model (including those of social purpose retailers) do not give rise to a principled justification for an alternative tier of risk tolerance. These are important statements of principle that should guide any future work on prudential settings.

Reducing the post-default exit period for small retailers

ERGANZ supports the proposed four-day reduction in the post-default exit period for retailers with 1,000 or fewer ICPs, together with the commensurate reduction in Phase 2 and Phase 3 of the trader default process.

We welcome the Authority's confirmation at paragraph 3.46 that any future extension of the reduced post-default exit period will depend on the Authority's confidence in executing the trader default process for retailers of different sizes. This is an objective, operationally grounded criterion that avoids the business-model-based distinctions we cautioned against in our November 2025 submission. ERGANZ supports a future extension of the shorter post-default exit period to larger retailers once operational and registry improvements make it feasible, and we would welcome the Authority setting out a clear pathway for how that extension will be considered.

We note the Authority's response at paragraphs 3.43 and 3.44 to concerns about the potential effect of a one-day reduction in Phase 2 on commercial and industrial customers. We support the Authority's commitment to consider issues affecting commercial customers as part of a future review of the trader default guidelines.

The proposed notification mechanisms for changes in ICP responsibility (clauses 14A.17(3)(d), 14A.22(4)(a), 14A.22(6A) and 14A.22(7A)) are well-designed. The 20 business days' notice requirement for a retailer seeking to increase its post-default exit period back to 18 trading days provides appropriate operational clarity for the clearing manager.

Reallocating residual funds

ERGANZ strongly supports the revised proposal to allocate residual funds to all spot market purchasers in proportion to their purchase volumes.

This approach reflects one of the two principled options we identified in our November 2025 submission. It is consistent with the origin of these funds in purchasers' payments, maintains competitive neutrality across business models, and avoids setting a regulatory precedent for business-model-based discrimination. We welcome the Authority's responsiveness to feedback from ERGANZ, Contact Energy, and Meridian Energy on this point.

We also acknowledge the further analysis at paragraphs 3.56 to 3.58 showing that typical monthly residual funds available for redistribution are materially smaller than initially estimated, once the effects of the 9 August 2021 UTS disbursement are excluded. This analysis reinforces the case against a complex scaling mechanism and supports the simple pro-rata approach now proposed.

The proposed drafting of clause 14.34A appears to give appropriate effect to the policy intent, and the six-monthly payment schedule (final business day in March and September) provides a reasonable cadence for redistribution.

Not proceeding with a dynamic adder

ERGANZ had supported the transition to a more dynamic adder in our November 2025 submission. We remain of the view that better alignment between prudential coverage and actual exposure is desirable in principle, and can improve efficiency and reduce over-collateralisation in stable periods.

However, we accept the Authority's reasoning for not progressing this proposal at this time. The clearing manager's modelling (paragraphs 3.25 to 3.28), which showed that removing the adder entirely produced widely variable effects on exit-period hedge exposures (ranging from negative 231 per cent to positive 307 per cent), identifies a legitimate concern. Prudential requirements should encourage rather than distort effective risk management through hedging, and an adder methodology that amplified hedge-driven volatility would run counter to that purpose.

We encourage the Authority to keep this matter under review. If future analytical work, or lessons from other jurisdictions, identify narrower forms of dynamic calibration that could deliver efficiency benefits without introducing unpredictable interactions with hedge positions, ERGANZ would support the Authority revisiting this option.

Not proceeding with a physical and futures offsetting arrangement

ERGANZ accepts the Authority’s decision not to progress a physical and futures offsetting arrangement at this stage. The considerations set out at paragraph 3.68, particularly the complexity, costs, implementation risks, and limited apparent market appetite identified in submissions, are reasonable.

We welcome the Authority’s commitment to monitor the Australian experience in implementing recommendation 8 of the NEM wholesale market settings review. The issues identified in that review, including duplicated credit support and the absence of exposure netting between the Australian Energy Market Operator, ASX Clear (Futures), and OTC counterparties, are directly analogous to features of the New Zealand market. Developments in Australia are likely to provide useful evidence for any future consideration of a similar mechanism here.

ERGANZ also supports continued work to broaden the range of over-the-counter contracts capable of supporting Hedge Settlement Agreements. The introduction of fixed price variable volume HSAs on 1 January 2026 was a positive step, and we encourage the Authority to continue building on that approach as a means of supporting retailers’ risk management without the complexity of a cross-market offsetting regime.

Consultation questions

ERGANZ’s responses to the specific consultation questions are set out in the table below.

Questions	Comments
<p>Q1. Do you have any comment on the Authority’s response to submissions?</p>	<p>ERGANZ welcomes the Authority’s careful consideration of submitter feedback on the October 2025 issues and options paper, and we thank the Authority for the constructive way it has engaged with industry on these issues.</p> <p>In particular, we welcome the Authority’s clear adoption of business-model neutrality as a design principle. We agree with the Authority’s observation at paragraph 3.14 that differences in business model do not provide a principled justification for an alternative tier of risk tolerance, and with the conclusion at paragraph 3.16 that the risk profile of the prudential regime should be applied uniformly across participants. These are important statements of principle that should guide future work in this area.</p>
<p>Q2. Do you agree with the objective of the Code amendment proposal? If not, why not?</p>	<p>Yes.</p> <p>ERGANZ agrees that prudential requirements should be efficient, proportionate to the risks they manage, and should not unnecessarily restrict the ability of small retailers to grow and compete in the market.</p>

Questions	Comments
	<p>The stated objective is appropriate and is consistent with the longer-standing principle that prudential settings should be risk-aligned and cost-reflective. The proposed amendments pursue this objective without altering the overall risk profile of the prudential regime.</p>
<p>Q3. Do you agree the Authority has correctly identified the costs and benefits of the proposed amendment?</p>	<p>Generally yes.</p> <p>We note, as the Authority acknowledges at paragraph 5.8, that the direct affordability benefit is likely to be materially greater in periods of elevated exit period prices, particularly over winter.</p> <p>ERGANZ agrees that the broader economic benefits identified (productive efficiency gains, improved retail competition, and reduced likelihood of default) are plausible but difficult to quantify with precision.</p>
<p>Q4. Do you agree the benefits of the proposed amendment outweigh its costs?</p>	<p>Yes.</p> <p>The direct affordability benefit to small retailers is expected to exceed the one-off implementation cost to the clearing manager within a reasonable period, with additional compounding benefits expected in periods of elevated exit period prices.</p> <p>Importantly, the proposals do not alter the overall risk profile of the prudential regime and do not impose ongoing costs on other participants. The residual funds reallocation proposal is cost-neutral in aggregate and returns funds to the parties from whom they originate.</p>
<p>Q5. Do you agree the proposed amendment is preferable to the other options? If you disagree, please explain your preferred option by reference to the Authority's statutory objective in section 15 of the Electricity Industry Act 2010.</p>	<p>Yes.</p> <p>For the reasons set out in the body of our submission, the proposed amendments are preferable to the alternatives considered in the consultation paper.</p> <p>ERGANZ accepts the Authority's reasoning for not progressing a dynamic adder at this time, noting that the clearing manager's modelling identified legitimate concerns about variability in exit-period hedge exposures. We also accept the Authority's decision to defer work on a physical and futures offsetting arrangement pending the outcome of the Australian NEM wholesale market settings review.</p>

Questions	Comments
	We strongly support the revised design of the residual funds reallocation proposal, which is consistent with the neutral, pro-rata approach we identified in our November 2025 submission.
Q6. Do you agree the proposed amendment complies with sections 15(1) and 32(1) of the Electricity Industry Act 2010?	Yes.

Conclusion

ERGANZ thanks the Authority for the constructive approach it has taken to this consultation and for its clear response to submitter feedback. The two Code amendments proposed strike an appropriate balance between supporting the ability of small retailers to grow and compete and maintaining the credit protection that underpins generator investment confidence.

If there are any outstanding questions or a need for further comments, please let me know.

Yours sincerely,

Kenny Clark
Policy Consultant