



28 November 2025

Electricity Authority

By email to: wholesaleconsultation@ea.govt.nz

Tēnā koe

Response to “Improving Prudential Security Arrangements: issues and options”

Contact Energy welcomes the opportunity to comment on the Electricity Authority’s Improving Prudential Security Arrangements issues and options paper.

We support changes to more accurately reflect underlying risk exposure. However, as a principle we consider that risk should be borne by the party that is best placed to manage the risk. In this case, the risk of trader default is best managed by the trader. By in large the proposals align with this principle.

However, we are deeply concerned by the proposals to have arbitrary differences in treatment for smaller and larger retailers. Of most concern is the proposal to bias the return of residual funds to smaller retailers. This is a direct value transfer that sets a dangerous precedent for larger market participants directly subsidising smaller ones. This would materially harm the efficient operation of the market. We are similarly concerned that the proposal to change the duration of the post-default period would exclude large retailers. We cannot understand who benefits from this exclusion, or why it was even contemplated, other than to attempt to punish a particular business model.

Ngā Mihi

A handwritten signature in blue ink, appearing to read "Brett Woods".

Brett Woods

Head of Regulatory and Government Relations

Contact Energy.

Attachment 1: Response to Consultation Questions

Questions	Contact Energy Response
Q1. Do you agree that the current risk profile of the prudential framework is appropriate? If not, why/how should risk be redistributed?	<p>We support changes to more accurately reflect underlying risk exposure.</p> <p>However, we are concerned that this has been interpreted by the Authority as a mandate to try and give a leg up to smaller retailers, rather than simply assessing efficient prudential arrangements.</p>
Q2. Do you agree that the issues identified by the Authority are worth addressing?	<p>If subsidies for smaller retailers are considered a public good, then that should be assessed as a separate project, and subject to thorough debate and cost benefit assessment. It should not come at the expense of generators, larger retailers or direct connect C&I customers.</p>
Q3. Are there other issues with the current prudential security settings that we have not identified but are worth addressing?	
Q4. Do you consider that there are other adjustments that the Authority could make that would better reduce cost and enhance efficiency in prudential requirements for small retailers without significantly increasing credit risk for generators.	
Q5. Do you support the transition to a more dynamic adder? If not, what are your concerns?	<p>We support this proposal in principle.</p> <p>We are concerned that the benefits have only been assessed against for 'retail participants'. However, we consider that if implemented accurately it will also have benefits for generation participants as well.</p> <p>We are unsure what analysis was used to support the assertion that over the year a dynamic adder would reduce the amount of security required. If anything market risk has increased since the current adder was set, indicating a higher security requirement may be necessary on average. We consider that the Authority should leave this assessment to the clearing manager, and give them clear instructions to do so without bias.</p>

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<p>Q6. Do you support the proposal to allow reductions in the post-default exit period? Why/why not?</p>	<p>We are comfortable with the proposed shortening of the post-default exit period by four days to reduce overall prudential requirements. This should be universally applied to all traders.</p>
<p>Q7. Do you agree that the threshold for qualifying for a reduced post-default exit period should be 1,000 ICPs?</p>	<p>We recognise the practical challenges in applying this change in the short-term, and support a pragmatic approach to start with the smallest retailers in the absence of a comprehensive, efficient and effective trader default framework</p> <p>We are indifferent to 1000 ICPs being the threshold for the post default exit period, however this seems like a sensible starting point.</p>
<p>Q8. If broader changes to the trader default process make it feasible to reduce the post-default exit period for all independent retailers, should the Authority pursue this? Why/why not?</p>	<p>We are supportive of a review of the wider industry trader default framework, processes and event timeframes.</p> <p>We have observed a number of inefficiencies and shortcomings associated with the prescribed Code requirements, which are resulting in significant manual burden and delays for both the EA and impacted participants. Most notably, in recent trader default cases, the defaulting trader has been cooperative and in a position to complete switches using BAU/standard industry processes. However, the Code requirements have resulted in the customer, metering and ICP transactions having to be transacted out of system which creates significant manual work and process outcomes driven by spreadsheets (amongst other issues).</p> <p>However, we do not consider that there is a principled basis to have different treatment for different market participants in the longer-term. Excluding larger retailers on the basis that are able to pay is not principled. While larger retailer utilise financial instruments, these also come at a cost, and some portion of the prudential requirements are also met by other means. Larger retailers should not be disadvantaged compared to their competitors.</p>
<p>Q9. Do you agree with the proposal to reallocate residual funds to retailers on a scaled basis?</p>	<p>We support reallocating residual funds to spot market purchasers, on the basis that they are largely interest on funds provided by purchasers. In that sense they</p>

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	<p>are effectively purchaser's money, and should be returned.</p> <p>We strongly disagree with the proposal to bias the redistribution of these funds towards smaller retailers. We can see no principled reason for doing so. This proposal is an outright value transfer from large users (retailers and C&I) to smaller retailers. If this is considered justified, then it would be equally justified for the Authority to require a direct subsidy for smaller retailers paid for by larger retailers and C&I customers. This would materially harm the efficient operation of the market.</p> <p>We disagree that a direct value transfer is an appropriate way to address the cost of risk mitigation by smaller retailers. If subsidising smaller retailers is considered a public good, this should be funded out of central government appropriations, and subject to thorough cost benefit assessment.</p>
<p>Q10. Is there an alternative model by which residual funds could be reallocated to retailers in a fair manner that still achieves the policy objectives?</p>	<p>We consider that these funds should be redistributed to all spot market purchasers by volume.</p>
<p>Q11. Do you support a possible physical and futures offsetting arrangement? Why/why not?</p>	<p>In principle we agree that this option is worth considering. However, we are unsure of the magnitude of the benefits, and therefore if the costs and time commitment required are justified. It may be that the Authority is better placing its effort into higher value interventions.</p> <p>If the solution is to be administered there would need to be clear processes in place to ensure that the offsetting futures position was an accurate and always live view of offsetting ASX position. Our concern is that it is very easy for a retailer to hold a very temporal offsetting ASX position and manipulate required prudentials in doing so. It can then, very soon thereafter, exit this position and materially expose the clearer and generator to uncovered risks.</p>
<p>Q12. Are existing market-based work arounds to physical and</p>	

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futures offsetting arrangements sufficient for managing the issue?	
Q13. If ASX futures positions could offset spot market prudential requirements, would you be more likely to trade in the futures market?	