

28 Nov 2025

Submissions  
Electricity Authority

Via [wholesaleconsultation@ea.govt.nz](mailto:wholesaleconsultation@ea.govt.nz)

To whom it may concern,

Consultation paper – Improving prudential security arrangements: issues and options

Octopus Energy NZ Limited is pleased to submit feedback and appreciates the opportunity to provide input on the Improving prudential security arrangements paper

We strongly advocate for progressing key efficiency measures to reduce the capital burden on independent retailers. Specifically, these include reducing the post default exit period for all independent retailers, transitioning to a more dynamic adder, and implementing physical and futures offsetting arrangements. These changes are necessary to address the high capital constraints and reliance on cash security faced by independent retailers, and will ultimately free up capital for growth and promote greater market efficiency and competition.

Regards,

Alex Macmillan  
Energy Manager

## Appendix A Format for submissions

Submitter	Octopus Energy NZ Limited
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Questions	Comments
Q1. Do you agree that the current risk profile of the prudential framework is appropriate? If not, why/how should risk be redistributed?	<p>Yes. We agree with the EA's approach of maintaining the 25% overall risk profile to ensure market stability.</p> <p>Focus must be on progressing the proposed other efficiency measures of:</p> <ul style="list-style-type: none"> <li>• the dynamic adder</li> <li>• reduced exit period</li> <li>• residual funds allocation</li> <li>• ASX hedge contract offsetting</li> </ul>
Q2. Do you agree that the issues identified by the Authority are worth addressing?	Yes.
Q3. Are there other issues with the current prudential security settings that we have not identified but are worth addressing?	Small retailers are forced to use cash because of the difficulty in accessing letters of credit or bank guarantees, as lenders often require 100% collateralisation with high fees, effectively limiting the non cash options.
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.	<p>The EA should eliminate the 3 day tender period (Phase 3 - Day 15 to Day 18) for all retailers, permanently reducing the required post default exit period.</p> <p>The EA's own analysis states that the competitive tender process has not been used in any default to date and would be unlikely to do so in the future.</p> <p>Unlike Option 2, which only targets retailers with 1,000 ICPs or fewer, this is a simple amendment that benefits all participants.</p>
Q5. Do you support the transition to a more dynamic adder? If not, what are your concerns?	Yes. A dynamic adder would more closely align with exposure (increasing security during periods of high demand/ volatile prices and freeing up capital during stable periods). If the EA also expects this to reduce the total amount of capital tied up in prudential security over the course of the year then this is a big positive.
Q6. Do you support the proposal to allow reductions in the post default exit period? Why/why not?	<p>As per Q4 we support the proposal to reduce the post default exit period for all retailers.</p> <p>A reduction in total net exposure provides helpful financial relief to all parties,</p>

	regardless of their specific size. This frees up capital for growth, innovation and other customer benefits.
Q7. Do you agree that the threshold for qualifying for a reduced post-default exit period should be 1,000 ICPs?	<p>No. We believe the EA should pursue reducing the post default exit period for all independent retailers. All independent retailers face:</p> <ul style="list-style-type: none"> <li>• High capital constraints and reliance on cash security.</li> <li>• Volatile prudential costs that gentailers can offset.</li> <li>• A need for more efficient use of capital to compete.</li> </ul>
Q8. If broader changes to the trader default process make it feasible to reduce the post-default Improving prudential security arrangements exit period for all independent retailers, should the Authority pursue this? Why/why not?	We believe the EA should pursue reducing the post default exit period for all independent retailers and work to allow this be started without delay
Q9. Do you agree with the proposal to reallocate residual funds to retailers on a scaled basis?	Yes. Reallocation on a scaled basis seems a fair way to provide relief on the prudential burden of retailers.
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>To better achieve policy objectives and promote fair competition, the reallocation of residual funds could be strategically designed to provide direct and targeted relief to those participants most severely impacted by capital restrictions.</p> <p>While reallocation on a scaled basis seems fair, an alternative is that the EA allocate 100% of residual funds exclusively to independent retailers. This allocation could be calculated based on the dollar value of cash prudential security lodged, as this mechanism offers the most effective way to enhance the capital efficiency of independent retailers and support their ability to compete sustainably with larger gentailers.</p>
Q11. Do you support a possible physical and futures offsetting arrangement? Why/why not?	<p>Yes. Currently, we maintain security with the Clearing Manager for spot purchases and with our ASX Clearer for the futures market, tying up capital in both locations.</p> <p>Recognising the net exposure would help reduce total prudential cash required. It could further encourage futures market participation and liquidity.</p>

<p>Q12. Are existing market-based workarounds to physical and futures offsetting arrangements sufficient for managing the issue?</p>	<p>Workarounds are potentially available but are not sufficient for all independent retailers.</p> <p>The key issue remains that retailers must maintain separate prudential security for offsetting positions (spot and futures markets) tying up working capital despite offsetting risks.</p>
<p>Q13. If ASX futures positions could offset spot market prudential requirements, would you be more likely to trade in the futures market?</p>	<p>Being able to directly offset futures positions would make the ASX market a more efficient and attractive place to manage risk. This would help with increasing liquidity, leading to tighter spreads and improved price discovery.</p>