



PO Box 106165,
Auckland 1143, New Zealand
NZBN 9429041132524 | GST 113618701

24 April 2026

Electricity Authority
Level 7, ASB Bank Tower
2 Hunter Street
Wellington 6011

By email: wholesaleconsultation@ea.govt.nz

Tēnā koutou,

Electric Kiwi Submission: Improving prudential security arrangements - Code change consultation paper

Introduction and summary

Thank you for the opportunity to respond to the Electricity Authority's Code change consultation on 'Improving prudential requirements for electricity retailers'. Electric Kiwi is supportive of the overall direction and the consultation's objective to make participation in the electricity market more efficient and competitive, especially for independent retailers.

In this submission, we wish to comment on two key areas of the consultation:

1. The proposed reduction in the post-default exit period for small retailers, and
2. The Authority's response to suggestions regarding the exclusion of GST from prudential security calculations.

Post-default exit period reduction: scope and effectiveness

Electric Kiwi notes the Authority's revised proposal to further reduce the post-default exit period for retailers with fewer than 1,000 ICPs - from the earlier proposed 14 days down to 4 days.

While the intent is to lower capital barriers for new and growing retailers, the narrow eligibility threshold (under 1,000 ICPs) means the benefit extends only to



PO Box 106165,
Auckland 1143, New Zealand
NZBN 9429041132524 | GST 113618701

the very smallest participants. For this group, any capital relief provided is marginal and unlikely to incentivise meaningful competition, innovation or growth in the retail market. Larger independent retailers, who are better positioned to drive competition, remain excluded.

Moreover, the proposal exposes the Authority and the wider market to significant operational and customer switching risks associated with a Retailer of Last Resort (RoLR) event, regardless of the shortened exit period. These risks are not balanced by a material improvement in competitive dynamics.

In summary, the current proposal does not align with the stated objective of supporting retailer growth and market entry. We encourage the Authority to prioritise a broader, more inclusive threshold as soon as operational systems permit, to ensure that competition is enhanced and administrative risks are justified by measurable market benefits.

Response to the Authority's Position on GST Inclusion in Prudential Calculations

Electric Kiwi appreciates the Authority's consideration of our previous submission recommending the removal of GST from prudential security calculations. As noted in the consultation paper, the Authority's analysis concluded that excluding GST would increase counterparty credit risk either to the clearing manager or, ultimately, the Crown, and accordingly does not propose to pursue this change.

While Electric Kiwi acknowledges the credit risk rationale underpinning the inclusion of GST in prudential requirements, we respectfully submit that this approach fails to account for several important considerations, and continues to impose an unnecessary and disproportionate burden on independent retailers.

Key Issues:

1. Prudential calculations are intended to reflect real market risks (such as exposure to volatile spot prices), which participants can actively manage through hedges or offsetting positions. However, GST exposure is a statutory obligation, not a market risk, and cannot be hedged, managed, or offset through any financial instrument. This creates a unique inefficiency for retailers required to collateralise tax liabilities.



2. As discussed in our previous submission, in a non-collateralised regime, the risk associated with GST is largely a timing issue, as bad debt adjustments under the tax system would ultimately allow for its recovery. Under the current prudential framework, this timing exposure is converted into an ongoing working capital requirement for retailers, effectively making independent retailers pre-fund GST for all purchases as a condition of participation in the market. Notably, the consultation (Table 3, section 3.8) omits the scenario where, absent prudential collateral, the clearing manager's true exposure is only the market value (\$100), since the \$15 GST can be recovered via bad debt adjustment. This highlights that GST collateralisation principally protects the tax system, rather than managing actual market risk. Furthermore, prudential payments are generally security deposits, not payments for a taxable supply, so GST deductibility does not arise until a tax invoice is issued, confirming the taxable supply.
3. Vertically integrated participants may be less affected by GST-related prudential requirements due to their net positions across purchase and generation, or their access to alternative financial instruments. By contrast, independent retailers are generally required to meet prudential obligations through cash, meaning capital is tied up funding a non-hedgeable and ultimately recoverable tax component. This reduces capital available for core business activities, growth, and innovation, and increases operational vulnerability during periods of market stress.
4. The current arrangements result in over-collateralisation relative to the actual risk of GST loss in default, particularly when considering the rare occurrence and minor scale of any irrecoverable GST shortfall. This is misaligned with the principle that prudential costs should be proportionate to actual risk exposure.

We accept the Authority's immediate concerns regarding system risk; however, we urge that alternative mechanisms be explored to mitigate the structural inefficiency identified above. Specifically, we request that the Authority:

1. Consider options to reduce or restructure the GST-related portion of prudential requirements, such as:
 - a. Allowing the GST component to be secured differently (e.g., via guarantee rather than cash)
 - b. Introducing a reduced weighting or haircut for the GST portion
 - c. Aligning requirement timing with GST return cycles
 - d. Exploring the feasibility of an IRD-recognised mechanism for GST recoverability in default.



PO Box 106165,
Auckland 1143, New Zealand
NZBN 9429041132524 | **GST** 113618701

2. Recognise, as a matter of principle, that GST collateralisation is a byproduct of prudential design rather than underlying economic risk, and that it disproportionately affects independent retailers to the detriment of competition and market efficiency.
3. Include future work on this issue within the Authority's ongoing review of prudential and settlement arrangements.

We look forward to working constructively to ensure any changes are both beneficial for consumers and workable for retailers, and welcome further engagement on the specific issues raised in this submission.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Huia Burt".

Huia Burt,

CEO, Electric Kiwi