

Retail Price Consistency Assessment Guidance

26 May 2026

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1 Purpose

Overall approach to the RPCA

- 1.1 Clause 13.236W of the Electricity Industry Participation Code 2010 (Code) requires the four large gentailers¹ (gentailers) to undertake a retail price consistency assessment (RPCA) and to provide a RPCA report the Authority. The Code requires the Authority to publish guidance on the RPCA. In accordance with that Code obligation, this guidance is intended to assist the gentailers with undertaking and reporting RPCAs by explaining the intent of the RPCA and setting out the Authority's current expectations on methods.²

Promoting competition through confidence in a level playing field

- 1.2 The purpose of the RPCA is to test whether a gentailer is discriminating on the price of risk management contracts it makes available to independent retailers by, effectively, providing energy at more favourable rates to its own retail internal business unit, and accordingly to assist monitoring and enforcement of compliance with non-discrimination obligation 1(3) and 1(4) (clauses 13.236Q(3) and (4) of the Code).
- 1.3 The RPCA is part of a suite of measures aimed at providing, and building confidence that there is, a level playing field to promote competition between independent retailers and generators and the gentailers. The Authority is committed to increased, regular scrutiny of the hedge market – closely monitoring conduct, disclosures and the overall effectiveness of the package of measures it is implementing to address hedge access and pricing risks.

2 Scope and definitions

A specific regulatory test

- 2.1 The RPCA is conceptually an evolution of the current retail gross margin reporting.³ It provides an indicator of discrimination on the price of hedges or below cost retail pricing, using a margin squeeze-type approach to assess the implicit cost of electricity that each gentailer self-supplies to its retail internal business unit.
- 2.2 A disclosed negative/narrow positive margin RPCA may prompt further questions to a gentailer from the Authority and, in case of unsatisfactory explanations, further assessment and possible referral to the Authority's compliance process.
- 2.3 However, it is not a bright-line pass/fail enforcement tool. An RPCA "fail" will not lead to enforcement action in itself. Rather it is an indicator of price discrimination in hedge pricing used as evidence that will be considered when assessing potential non-compliance with the non-discrimination obligations.
- 2.4 Nor is the RPCA a screening test for broader retail competition issues. The RPCA cannot provide insight into access to risk management contracts, or inappropriate use of market power in the pricing of individual risk management contracts. Other aspects of the non-discrimination obligations and our other monitoring work will cover those areas.
- 2.5 The RPCA conceptually covers similar ground to margin squeeze theories of harm, which could be considered under section 36 of the Commerce Act 1986, but it is not the same.⁴

¹ Contact Electric Limited, Genesis Energy Limited, Meridian Energy Limited and Mercury NZ Limited.

² Under clause 12.236W(4).

³ Electricity Industry Participation Code 2010, Part 13, Subpart 6.

⁴ For example, see p18 of Commerce Commission 2023, [Misuse-of-Market-Power-Guidelines-March-2023.pdf](#).

For example, the RPCA is designed to respond to a specific market power risk, it is forward-looking (using expected costs and retail prices) rather than a typically ex-post review of conduct, and it does not require proof of substantial market power.

- 2.6 Separately the Commerce Commission retains its function of investigating whether conduct may contravene section 36 and taking enforcement action. It may be informed by any outcomes of the RPCA, though problematic conduct under the RPCA does not necessarily mean that the conduct also breaches section 36 of the Commerce Act.⁵

Keeping assumptions and modelling to a minimum

- 2.7 The RPCA is designed to reduce requirements for additional modelling or assumptions by focusing on what a gentailer is likely to know or have to do already, and by focusing on expectations, not gentailer outturns.
- 2.8 A gentailer decides its retail pricing for the next period based on (among other factors) expected demand and costs. As the RPCA relies on these expectations, the assessment avoids having to adjust actual outturns for, say, the effects of demand or supply shocks or other factors outside a gentailer's control, forecast errors, and actual performance of various gentailer internal business units (generation, trading, retail) that could all impact realised margins and may obscure any anti-competitive margin squeezing.
- 2.9 The Authority does not, at this point, intend to test or make any judgment on the accuracy of recorded expectations by looking at outturns, unless there are material doubts about the credibility or good faith of the recorded expectations. We are open to reconsidering this stance in the future.
- 2.10 The approach to the RPCA avoids the need to develop and quantify models of what a reasonably efficient operator might do or what a benchmark cost of supply might be. Instead, the RPCA draws on a gentailer's own assessment of electricity (and other) costs – justified with reference to observed market prices – and its actual retail prices.
- 2.11 This more practical approach gives confidence that an 'as efficient' retailer would not be unduly deterred from operating and competing in the electricity retail market, without assuming that a gentailer must be operating at some benchmark efficiency standard.

Evolution of guidance

- 2.12 The Authority is seeking to quickly increase transparency to deter any price discrimination on hedges. The RPCA is a new regulatory assessment and relatively high level. All interested parties will learn about what further guidance may be desirable from doing and reviewing the initial RPCA disclosures, and how best to understand and respond to the issues that come up. The guidance will likely evolve over time.
- 2.13 As such, the Authority expects that implementation and learning will be the primary focus of the first round of assessments. However, if an assessment reveals strong indicators of potential discrimination, the Authority will respond promptly (see para 8.4). Depending on what is appropriate in the circumstances this may include:
- (a) referring the matter to the compliance function of the Authority to assess whether a potential breach of the non-discrimination obligations may have occurred

⁵ We note that:

If the Authority received information via the RPCA process suggesting gentailers may have engaged in a margin squeeze, it could provide that information to the Commission (under s47A of the Act) to also consider under Part 2 of the Commerce Act.

If the Commission received information in its Part 2 Commerce Act enforcement function which might relate to gentailers' RPCA compliance, it could provide that information to the Authority (s 99AA of the Commerce Act 1986).

- (b) considering whether amendments or stronger rules are needed to better support the purpose of the non-discrimination obligations.

3 The main elements of the RPCA

Guidance

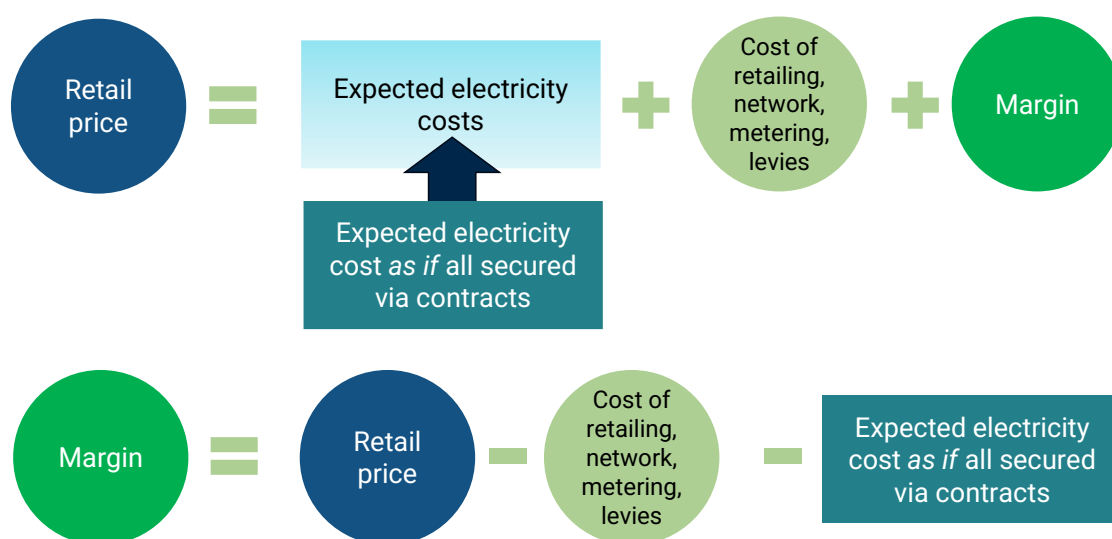
- 3.1 The RPCA margin equals the retail price for the period ahead less expected non-electricity costs and less expected cost of electricity. This RPCA margin is generally expected to be positive.**
- 3.2 The expected cost of electricity is valued at observed market prices as *if* the cost for all that electricity was fixed with risk management contracts at observed market prices.**
- 3.3 All expected prices and costs should be excluding GST and either presented as if they will apply for the year ahead (that is, annualised) or otherwise adjusted for seasonal effects.**

Discussion

- 3.4 The assessment of whether a gentailer's retail prices are consistent with observed hedge prices is a check that a gentailer is not favouring its own retail internal business unit on the cost of supply, compared to what it sells that supply to third parties at, through risk management contracts.
- 3.5 The RPCA seeks to overcome the absence of prices for a gentailer self-supplying its retail internal business unit to allow the Authority to monitor for the presence of price discrimination.
- 3.6 This is done by assuming that observed market prices of risk management contracts are a reasonable shadow price for self-supply.
- 3.7 That is, a gentailer's opportunity cost of self-supply to its own retail customers is the price it could get for selling that supply (or, equivalently, what it would have cost to buy and hedge electricity supply for its retail customers).
- 3.8 If, after subtracting all its costs from its retail prices, including energy costs as if supply was all secured via hedge contracts, a gentailer's margin is negative, then the RPCA indicates that a gentailer may be discriminating in the prices of the risk management contracts it sells compared to what it implicitly charges itself for self-supply, and/or that its retail prices may be set below cost.
- 3.9 As a negative or narrow positive result may indicate competition concerns, it should be accompanied by a clear explanation. If the explanation is insufficient or raises further issues, the Authority may ask follow-up questions and, where appropriate, the matter may be referred to the compliance process for assessment of a potential breach of the non-discrimination principles in the Code.
- 3.10 The Authority acknowledges that the link between retail prices and expected cost to supply (and other costs) is not a simple cost+ relationship. Any firm has many considerations when it sets its retail prices to compete for custom and make profits, including insulating customers from price volatility through price-smoothing. This means the assessment cannot be a bright-line pass/fail assessment. But the assessment is informative, as ultimately a retailer's prices must cover its costs to stay in business.

Overview of the calculation

- 3.11 Gentailers will provide their assessment every six months. To be as current and reflective of expected retail prices as possible, the RPCA should cover all the retail plans that have been agreed with customers or are being offered to (potential) new customers as at the time that each assessment is to be undertaken (at end of the financial year and at the six-month point).
- 3.12 Gentailers' assessments should compare the expected costs per MWh (including the implied electricity costs) and retail prices per MWh over the next 12 months from the time of assessment. We call this period the reporting period. Further guidance is provided in subsequent sections.
- 3.13 A gentailer should report any decision that has a material impact on its calculations to us, and the reasons for it.



- 3.14 For a gentailer to demonstrate (and explain that there is) an economically justifiable link between the expected cost of electricity supply and its retail pricing, the key steps are, for each RPCA segment and for each Network Reporting Region (NRR), to:
- calculate their load profile
 - calculate the average retail price per MWh
 - estimate, using observable market-based prices, the cost per MWh of supplying electricity to the RPCA segment, as if that load was hedged using ASX and OTC contracts (including PPAs) to minimise the risk-adjusted supply cost
 - calculate the expected non-electricity (network, retail, metering, levies) costs per MWh
 - calculate the margin, by subtracting the expected cost of electricity and non-electricity costs per MWh from the average retail price per MWh
 - report the RPCA margin per MWh with objectively justifiable reasons for any implied loss or narrow margin, and disclose the methods used, material judgements made and reasons for them, and any additional data, assumptions, and calculations the Authority may need to assess the results (and that cannot be observed from existing retail or contract data disclosures)
 - calculate and present all prices and costs as if for the year ahead, that is, annualised to control for seasonal effects (and exclusive of GST).

Below is more detail on how gentailers should undertake the RPCA.

4 Coverage and retail segments

Guidance

- 4.1 **The RPCA covers all mass market customers – residential customers and small businesses.**
- 4.2 **Each gentailer should present separate RPCAs for each retail brand it controls, covering margins in relation to the following retail segments:**
 - (a) **offers for new electricity customers**
 - (b) **existing electricity customers.**
- 4.3 **Each gentailer should publish and disclose its results for each segment by network reporting region, and aggregated to a national total for each segment.**

RPCA covers mass market customers

- 4.4 The RPCA covers all gentailers' mass market customers – that is residential customers and small businesses as commonly understood to be mass market customers in accordance with standard industry practice.
- 4.5 For the RPCA, the Authority assumes that small business customers are mass market customers when they are offered or are on retail plans that consist of generic contract terms and served like other retail customers – in contrast to more bespoke arrangements for larger commercial customers.
- 4.6 Larger commercial and industrial consumers are currently not included in the RPCA. The competitive dynamic for these customers appears to differ from the mass market: individualised terms and pricing, more specialised needs and more sophisticated procurement.
- 4.7 The Authority's starting position is that all prices offered to any mass market customers (adjusted for discounts where appropriate) should be captured somewhere in the RPCA, and that all externally traded hedge contracts are relevant to the cost of electricity.
- 4.8 Where a gentailer considers that some end customer prices (eg, staff offers) and some hedge contracts (eg, contracts with social retailers) should be excluded from any RPCA calculations, they should explain this to the Authority, including setting out their internal decision process (how the gentailer goes about distinguishing those offers or contracts in a principled way) and the numerical impact of not including those prices or contracts in the RPCA.

Balancing benefit of transparency with compliance costs and confounding signals

- 4.9 The Authority applied the following criteria, and will continue to do so, in considering the extent of segmentation for monitoring compliance with non-discrimination obligations:
 - (a) accuracy in calculation
 - (b) transparency to support confidence in a level playing field
 - (c) value for money (quality and effectiveness of the signal compared to costs).

- 4.10 To expand, separate RPCA reporting for different groups of consumers can improve transparency, which can help to build confidence that retailers can compete on a level playing field, or otherwise identify issues that may require regulatory attention.
- 4.11 If customer groups are too aggregated, then RPCA measures could obscure issues in particular segments. Conversely, if customer groups are too segmented, the RPCA may effectively mislabel legitimate competition as discrimination. Therefore, in selecting segments the Authority considers accuracy and transparency benefits must be balanced against:
- (a) creating unhelpful information (causing an unwieldy number of measures or misdiagnosing competitive retail pricing as potentially anti-competitive behaviour)
 - (b) adding compliance and administrative costs
 - (c) causing unintended consequences (such as discouraging competition by gentailers, including innovation in retail offers).
- 4.12 As such, the Authority considers that RPCA segmentation should be limited to consumer segments where the benefit of transparency is particularly high. RPCAs should focus on segments which could be informative of an anti-competitive effect and are of a material size.

Segmentation to improve transparency in higher risk retail markets

- 4.13 RPCA disclosures should be presented for a gentailer's main brand and any separate subsidiary brands for plans (in aggregate):
- (a) offered to new electricity customers
 - (b) for existing electricity customers.
- 4.14 Existing electricity customers are those who are already a gentailer's electricity customer at the time RPCAs are calculated.
- 4.15 Separate RPCA disclosure for offers to new electricity customers is to provide assurance to new entrants and other retailers that competition for customers who are considering switching plans or retailers is on a level playing field. This is an important segment as it is where competition is most active. Lower priced offers to new customers were a core concern arising from the complaints we have received.
- 4.16 RPCA disclosure for a gentailer's existing customers also provides assurance that a gentailer is not favouring its retail internal business unit for those customers it has a contract with.
- 4.17 A separate RPCA is required by brand – the gentailer's main brand, and any of its subsidiary brands, to ensure that any reduced 'challenger brand' pricing is separately considered. Noting that there is currently only one remaining separate 'challenger brand' that is owned and actively promoted to the mass market by a gentailer, we will continue to assess whether reporting by brand has ongoing value.

Segmentation to capture geographic differences

- 4.18 The Authority requires RPCA reporting to be segmented by region, given geographic differences in customer load profiles, costs of electricity supply, and non-electricity costs.
- 4.19 A gentailer is required to undertake its calculations by NRR, to accurately capture differences in network costs, load profiles, differences in the cost of hedges in the North and South Island, and more detailed location factors that impact electricity costs. If other non-electricity costs also vary materially by area, then these should also be captured this way.

- 4.20 Gentrailers will also publish and disclose to the Authority the underlying information for each segment at the NRR level, including an explanation for negative outliers, so that the Authority can monitor the detailed results, follow-up with a gentailer on any areas of interest, and comment on any geographic concerns we identify when we publish RPCA results.
- 4.21 The Authority also requires gentailers to report aggregated (national) RPCA results. Aggregated RPCAs for each segment would be calculated as a load-weighted average of NRR-level calculations, based on the volume of electricity expected to be supplied to the segment in each NRR.

RPCA segments may be reviewed as actual or perceived risks change

- 4.22 Segmentation may be reviewed for future rounds of the RPCA, based on experience with initial disclosures, and evidence about the effectiveness of current segmentation or new evidence about potential price discrimination in risk management contracts and margin squeezing in respect of different segments that may justify separate reporting and monitoring.
- 4.23 Future decisions on segmentation would seek to balance the benefits of transparency with cost in terms of compliance and administrative cost and risks, and would require the RPCA Guidance and the Code to be updated.

5 Retail price per MWh

Guidance

- 5.1 For each RPCA reporting segment, a volume weighted-average retail price per MWh should be calculated that covers all the retail plans and customers as at the RPCA assessment date.**
- 5.2 For offers to new customers (as at the RPCA assessment date) an aggregated average retail price can be derived based on expected or budgeted revenues and volumes from new customers (in aggregate or built up by offer).**
- 5.3 The average retail price should be net of discounts, rebates or other promotional offers.**

Forward-looking

- 5.4 As a forward-looking assessment, the RPCA compares expected cost/MWh for the period ahead to average retail price/MWh for the period ahead.
- 5.5 As calculations should be done by NRR, an aggregate measure is derived by taking a load weighted average of retail prices per MWh by location.
- 5.6 There are different ways to estimate the average retail price, eg:
- (a) the conversion of fixed and variable components in retail plans to a per MWh amount, and weighting these by volume to get an average for the segment
 - (b) a forecast of expected revenue for the segment, divided by expected volume of MWh.
- 5.7 The Authority does not see a reason to prescribe this method, as long as it is explained and documented, and consistent with the load profiles assumed for the estimation of the expected cost of supply.

Reference point

- 5.8 The RPCA is a snapshot in time. The average retail price should be based on all the retail plans at the RPCA assessment date.
- 5.9 The Authority acknowledges that retail prices may have been set some months prior to the assessment date, drawing on expectations that were current then, but may no longer reflect expectations now. One perspective is that this would indicate that expectations about costs have not changed materially, otherwise retail prices would be updated.⁶
- 5.10 This seems a reasonable assumption with respect to offers for new customers. But it may be argued that it is not reasonable in respect of plans for existing customers, for example, as a gentailer also has to consider the costs of amending its prices or any understandings with customers about the frequency of price changes.
- 5.11 Gentailers should include explanations of any timing issues regarding updating their retail pricing in their RPCA disclosures.

Discounts and price smoothing

- 5.12 Existing plans and offers for new customers may contain discounts, rebates and other forms of promotional offers that reduce effective retail prices. Reported retail prices should be net of any such discounts.
- 5.13 It would be appropriate to amortise the cost of promotional offers over a commercially appropriate period (eg, the timeframe over which a customer is expected or required to remain with the retailer to obtain the full benefit of the promotional offer).
- 5.14 Discounts or quasi-discounts on bundled sales should be allocated proportional to expected revenue from each bundled service.
- 5.15 Retailers can manage wholesale price risk for their customers, by insulating them from day-to-day price volatility and looking through longer periods of elevated costs through retail price smoothing. This is of value to at least some retail customers and can be consistent with workable competition. Retail price smoothing may be a plausible explanation for negative RPCA margins. The section on assessment sets out guidance on this topic.

6 Non-electricity costs

Guidance

- 6.1 **For the RPCA, a gentailer should subtract expected non-electricity costs per MWh from the retail price per MWh for the RPCA period. These consist of:**
 - (a) retail costs – all costs attributable to the retail operation, including a principled contribution to shared and common costs (separately disclosed)**
 - (b) metering costs**
 - (c) network (distribution and transmission) costs**
 - (d) levies.**

⁶ If a gentailer expects to update retail prices soon, it is able to explain this in its RPCA disclosures, with reference to the specific input cost changes that are impacting its decision making.

Retail costs

- 6.2 A gentailer should identify all relevant retail operating costs attributable to the different mass market RPCA segments as well as a contribution to shared and common costs. The assessment of retail costs that goes into the RPCA should reflect a subsidy free standard.
- 6.3 Attribution should be on a principled basis, that is, using rational cost drivers that reflect a causal relationship or, if this cannot be established, some other reasonable proxy measure.
- 6.4 The approach to cost allocation and the reasons for it should be explained in the gentailer's RPCA methodology. That includes setting out allocation methodologies, actual allocators used and any underlying assumptions.
- 6.5 Retail costs will typically cover cost to serve and cost to acquire and retain customers:
- (a) cost to serve, including billing and revenue collection, call centre and customer information and management costs, bad debt, and regulatory compliance costs
 - (b) cost to acquire and retain customers,⁷ including cost of acquisition channels, cost of retention teams, marketing costs targeted at acquisition or retention
 - (c) retail internal business unit overheads and an appropriate contribution to shared and common costs including electricity trading costs,⁸ general marketing, and corporate overheads.
- 6.6 The Authority assumes that, to identify expected retail costs, gentailers can use the allocation approach they already use for allocating retail operating costs to their retail internal business unit for annual reporting, according to generally accepted accounting standards.
- 6.7 Gentailers should allocate a contribution to shared and common costs to its retail cost. The Authority does not have a fixed view on exactly how these costs should be allocated, but expects gentailers to use a principled cost allocation rule and act consistently with accepted economic principles for recovery of such costs. The gentailer should explain its approach and the reasons for it.
- 6.8 Bundled sales, such as electricity with gas, broadband or mobile phone plans, raise specific issues about how retail costs should be attributed. Consistent with the overall cost allocation approach for the RPCA:
- (a) retail costs attributable to energy services should be allocated to those services, including their contribution to shared and common costs
 - (b) retail costs attributable to other, bundled services including their contribution to shared and common costs should be allocated to those other bundled services
 - (c) costs that apply to more than one service in the bundle should be allocated using rational cost drivers that reflect a causal relationship or, if this cannot be established, some other reasonable proxy measure.
- 6.9 The expected retail cost per MWh may be calculated by dividing a gentailer's total expected retail costs by the amount of electricity they expect to supply to their retail customers.

⁷ To the extent such costs are not already captured in retail prices net of any discounts.

⁸ Noting that trading may include purchasing hedge cover for a gentailer's retail commitments where it is short of generation.

Other non-electricity costs

- 6.10 Cost of metering services and levies attributable to retail customers may be derived by dividing the total amounts by the total amount of electricity supplied to those customers.
- 6.11 If such costs vary materially by location, a gentailer could reflect this in its calculations, with appropriate explanations.
- 6.12 All expected network costs (electricity distribution and transmission) per MWh that are attributable to mass market customers will be calculated by NRR.

7 Expected cost of electricity

Guidance

- 7.1 **A gentailer should estimate its expected cost of supply using observed market prices from ASX and OTC trades, as if it hedged all the load of its retail customers with risk management contracts from these markets.**
- 7.2 **The composition of a gentailer's as if hedge portfolio should be consistent with minimising the risk-adjusted cost of supply (for example, baseload + super-peak hedges) for a given load profile, consistent with rational and prudent risk management practices.**
- 7.3 **Short- and long-dated ASX and OTC risk management products, including offtake contracts, may be used for the RPCA, noting:**
 - (a) **a gentailer would draw on the prices of its own and other OTC trades, alongside ASX prices as appropriate**
 - (b) **the Authority may test the reasonableness of assumed prices for any contracts drawing on the full set of information it holds of trades for similar products including for long-term contracts.**
- 7.4 **The Authority expects a gentailer's method will remain consistent from assessment to assessment.**
- 7.5 **A gentailer may from time-to-time need to adapt its methods to estimate the expected cost of supply but, where that change in method is material, this must be justified with evidence of material shifts in the market or retail strategy.**
- 7.6 **A change in method is material if it has the effect of modifying the expected cost of electricity by an amount in excess of 5% from what would have been calculated under the most recent method prior to the change.**
- 7.7 **When a gentailer adopts a new method it is required to report RPCA results under the old method alongside those under the new method in the first and second year that the new method is used.**

Use observed market prices to estimate the expected cost of supply

- 7.8 The RPCA compares a gentailer's retail prices planned for the period ahead with the expected cost of supply – summarised in terms of \$/MWh.
- 7.9 A gentailer should estimate the expected market value of its supply to its retail internal business unit, *as if* it hedged 100% of the load of its retail customers with risk management contracts from the ASX and OTC markets.

- 7.10 This approach recognises that it may be prudent and rational for a retailer to not hedge all its exposure to spot prices. The RPCA does not require or expect that a gentailer would actually hedge all its load, but for RPCA purposes (where the gentailer needs to price 100% of the electricity needed to supply its retail load) the expected cost of electricity of any unhedged load would still need to be estimated using prices of currently trading risk management contracts for the relevant period at the time that retail prices are being set. A gentailer would explain its approach as part of its documented methodology.
- 7.11 A gentailer may decide on the composition of its *as if* portfolio⁹ of risk management contracts, but:
- (a) this *as if* portfolio must be consistent with minimising the gentailer’s risk-adjusted cost of supply, consistent with rational and prudent risk management practices
 - (b) where the prices of its own risk management contract trades in the same period, and for similar risks, terms and tenor are materially different to those it assumes for pricing its internal supply, the gentailer must be able to provide an objectively justifiable explanation for such differences.
- 7.12 A gentailer’s RPCA report should detail how it estimated the expected cost of supply – the mix of risk management contracts that apply to a segment, market prices used, and how this is credibly consistent with minimising its cost, given:
- (a) the distribution of risk in expected wholesale prices as assessed by the gentailer
 - (b) loss management properties of different risk management tools, and their market prices
 - (c) the gentailer’s risk management policy and risk stance.
- 7.13 The Authority’s Risk Management Review analysis suggested that the cost-minimising mix of hedges to cover a retail load does not need to be complex. It could be a simple combination of baseload and standardised super-peak hedges or combined with some other cost risk management tools. The Authority is open to a gentailer using simple models or rules-of-thumb, but these should come with evidence that such models are reasonable and robust approximations of the cost of supply.
- 7.14 Any adjustments made to market prices for credit and other risk premia and any other costs avoided by self-supply should be objectively justifiable and explained as part of a gentailer’s methodology.

May contain long-term and other thinly traded OTC contracts

- 7.15 A gentailer should draw on the prices of OTC trades, alongside ASX prices, as appropriate.
- 7.16 OTC contracts may include long-term supply contracts and other products that are thinly traded (noting that thin trading potentially impacts on the reliability of these prices as a robust measure of the market value of such contracts).
- 7.17 The Authority may test the reasonableness of hedge prices used by a gentailer in the RPCA, drawing on the full set of information it holds of trades for similar products including for long-term contracts.
- 7.18 The optimal mix of risk management contracts likely has contracts with several different maturities, including long-term contracts.

⁹ Referred to in the Code as a “hypothetical portfolio”.

- (a) For the RPCA, the cost of supply cannot be based solely on long-term contracts, because that would likely not be rational. A mix of short and long durations better enables a generator to:
- manage its own fuel supply risk (including by actively shedding retail customers)
 - trade supply at times of supply constraints when market prices can clear well above the prices that long-term contracts can attract.
- (b) A retailer's demand for long-dated contracts is limited also, as it reduces flexibility to deal with volume risk (future demand is uncertain, customers may leave), and because there are costs to holding long-dated contracts.

7.19 These considerations and the requirement that the expected cost of supply should be based on observed market prices from ASX and OTC trades should address concerns raised that a gentailer could inappropriately include very old or long-term supply agreements at costs that are not reflective of market values.

The use of historic cost of hedges vs current hedge prices

7.20 The RPCA requires a gentailer to explain the ex-ante link between its 'expected cost of supply' and its retail prices for the period ahead.

7.21 Recent ASX and OTC prices for the period ahead provide an up-to-date measure of the expected cost of supply. This is the opportunity cost of self-supply at the time of the RPCA (regardless of when the risk management product was traded).

7.22 In practice, independent retailers in New Zealand and elsewhere build a book of hedges over time to manage their wholesale price risk. The (weighted average) cost of a book built over time may be a reasonable alternative measure of a gentailer's expected cost of supply as if purchased from the wholesale market.¹⁰

7.23 Both measures of expected cost of supply can be used in the RPCA, and their application may differ by RPCA segment.

7.24 The Authority considers that current ASX and OTC prices for the period ahead, observed around the time of the assessment, are a reasonable economic measure of the expected cost of supply 'at the margin'. At the margin, a gentailer has a practical option of either recruiting and supplying a new customer (or retaining price-sensitive customers) vs selling electricity wholesale. Current ASX and OTC prices may therefore be a relevant measure of the expected cost of supply for offers to new customers.

7.25 However, the bulk of existing retail customers are sticky – less likely to switch in the period ahead – and the cost of the book of hedges built over time may be the most relevant measure of the expected cost of supply for this group, given:

- (a) the specific purpose of book-building is to manage the wholesale price risk of supplying these existing customers

¹⁰ At least one gentailer representative at the December 2025 RPCA workshop said this is how they would manage wholesale price risk if they had to put formal arrangements in place.

(b) market frictions mean there is no instantaneous arbitraging that equalises the cost of hedges purchased in the past with current expectations of spot prices (ie, current hedge prices) for the same period.¹¹

- 7.26 The longer-term direction of costs as indicated by longer-dated futures – beyond the period ahead that is covered by the RPCA – may be relevant for retail pricing decisions (such as price smoothing), but not for determining the expected cost of supply during the period covered by an RPCA.
- 7.27 Beyond this general guidance, the Authority does not currently seek to prescribe the approach that a gentailer should adopt to estimate its expected cost of supply. A gentailer can select (with suitable supporting explanation) the approach that best reflects its customer profile and risk strategy and tolerance.
- 7.28 The Authority currently considers that prescribing the gentailers' approach to the cost of supply or creating a cost of electricity benchmark would not be appropriate given the RPCA's focus on price discrimination of risk management contracts, and as it risks limiting competition and innovation. It may revisit this point in future.

Changing methodology for determining gentailers' cost of electricity

- 7.29 The Authority expects that gentailers would only very infrequently make material changes to their methodology to estimate the expected cost of electricity. Consistency between assessments over time promotes confidence in the measure.
- 7.30 However, to stay credible the method should be able to adjust to material changes in the market or retail strategy, such as long-lasting or permanent fuel supply shocks, major changes in customer demand, or changes in the competitive landscape.
- 7.31 A gentailer should set out in its disclosures any changes made to its method and reasons for the changes.
- 7.32 When the change in method is material, to promote transparency, a gentailer is required to report RPCA results under the old method, alongside those under the new method in the first and second year that the new method is used, and should justify the change with evidence of material shifts in the market or in its retail strategy, and its consistency with its risk management policy and risk stance. We would expect the gentailer to set out that justification to the Authority for comment before it implemented any material change in methodology.
- 7.33 A change in method is material if it has the effect of modifying the expected cost of electricity by an amount in excess of 5% from what would have been calculated under the most recent method prior to the change.

¹¹ As in other sectors, there tends to be a lag between changes in wholesale and average retail prices. During a period of falling wholesale prices, the presence of sticky retail customers allows retailers to retain margin on the larger existing book, while reducing retail price offers to compete for new customers. Sticky customers insulate retailers from pressure to drop their average retail prices immediately, but this applies less to customer acquisition retail prices where we expect competition to be strongest.

8 Assessment of results

Guidance

- 8.1 In the case of a negative or narrow positive RPCA result, a gentailer should provide explanations to demonstrate the outcome is economically justifiable – that is, reasonable and supported by evidence.
- 8.2 As the RPCA is not a bright-line test, a negative RPCA result does not in itself indicate a breach of the NDOs.
- 8.3 The Authority will assess gentailers' RPCA results and the adequacy of any explanation or justification. Where information is insufficient, the Authority's monitoring function may seek further details from the gentailer.

First RPCA disclosures – September 2026

- 8.4 The Authority is unlikely to rely on a negative margin RPCA result or report as evidence of a potential breach of the NDOs unless:
 - (a) there is egregious conduct by the gentailer; or
 - (b) the gentailer has not made complete, robust, good faith RPCA disclosures; or
 - (c) the initial RPCA result forms part of a pattern of negative margin RPCA results over time.

Subsequent RPCA disclosures

- 8.5 Following its assessment of gentailers' RPCA results, the Authority may report negative RPCA outcomes to the compliance function as a potential breach of the NDOs, in particular where:
 - (a) the Authority considers that the gentailer has not provided sufficient justification, and the outcome may indicate potential price discrimination or conduct inconsistent with the NDOs
 - (b) the gentailer's published RPCA results show a substantial negative margin, or consistent negative or narrow positive margins over time, notwithstanding the explanations provided.
- 8.6 This means that a single small negative margin RPCA result, with adequate justification, will not in itself ordinarily be reported to the Authority's compliance function as an alleged breach of the NDOs.

Assessment of results

- 8.7 A positive RPCA result (or a negative result with objectively justifiable explanations) indicates there is likely an economically justifiable link between the expected cost of electricity supply and retail pricing.
- 8.8 A gentailer's RPCA for any segment is generally expected to be positive. Over time a gentailer's retail operations must make profits as a matter of commercial necessity.
- 8.9 However, the Authority acknowledges that, as in other markets, firms may price below cost to some customer segments for limited periods of time for pro-competitive reasons, such as:
 - (a) retaining customers through periods of temporarily heightened wholesale costs – price smoothing (see below);

(b) commercially/economically rational short-term promotions (products or tariffs) or customer acquisition.

- 8.10 In other words, a negative margin RPCA outcome in any given year could reflect the outcome of retail competition rather than discrimination, in which case it would likely be objectively justifiable for NDO purposes.
- 8.11 As such, in the case of a negative RPCA margin a gentailer may be able to provide explanations to demonstrate the result is economically justifiable.
- 8.12 We also require an explanation where an RPCA margin is narrowly positive.¹² Noting that gentailers have significant flexibility in deciding their RPCA methodology and an information advantage over other interested parties, we want to better understand the close calls. This explanation will inform any assessment of whether to report a series of negative and narrow positive RPCA outcomes to the Authority's compliance function (see below).
- 8.13 Consistent with any differences in treatment having to be "objectively justifiable", any explanations should be reasonable and should be supported by evidence.
- 8.14 Negative margins may also be justified for a short period where they reflect within pricing year misalignments: where pricing has yet to catch-up with costs.

Promotions and price smoothing

- 8.15 In the case of promotions or price smoothing causing a negative margin RPCA, the Authority expects a gentailer to explain how such retail pricing (or cost raising) decisions are rational – that is, are expected to be profitable over a reasonable period – and to back that explanation up with contemporaneous evidence (such as a commercially reasonable plan and being able to demonstrate reasonable implementation of that plan).
- 8.16 For example, in the case of price smoothing this may be with reference to longer-term expectations about costs and retail profitability of sticky customers over time, such as the two to three year trend in ASX or for longer-term OTC hedges, or evidence of the benefits of not prompting sticky customers to shop around (eg, customer replacement costs avoided).¹³
- 8.17 Such reasons will not automatically be accepted. While factors like price smoothing may explain a negative result in one year and maybe also subsequent years, the Authority would likely seek more detailed justification if this persisted for more than one year, for reassurance that this does not indicate discriminatory hedge pricing.

Authority assessment of RPCA and possible follow-up actions

- 8.18 If the Authority identifies any missed requirements or data issues, it will contact the gentailer in question as soon as possible.
- 8.19 The Authority will assess each gentailer's RPCAs, and its explanations and, if required, ask further questions to clarify any aspects of them. If, following a gentailer's responses, the

¹² Clause 13.236W(4) states that a gentailer's RPCA report must include an explanation as to whether and how all results of the RPCA are economically justifiable. This requirement is fundamentally intended for circumstances where an RPCA shows a negative or narrow positive margin. However, we have elected to not define a (likely arbitrary) boundary for "narrow positive". Instead we leave it to the discretion of the gentailer to decide how much explanation it needs to provide for a positive result. Where an RPCA result is a substantial positive it would in our view be satisfactory for the explanation to simply make the point set out in paragraph 8.7 of the RPCA guidance.

¹³ The Authority does not agree with Sapere's submission for Genesis (p11) that setting retail prices equal to long run marginal cost would be potentially consistent with a gentailer optimising its value, because "...setting the retail price equal to long run marginal cost has the same expected value as setting retail price equal to short run marginal cost period by period". Pricing that reflects short run marginal cost is usually considered to be consistent with profit maximisation (and efficiency), given constraints on inputs and the time it takes to commission new investment (or retire surplus capacity) in practice.

Authority has concerns about a potential breach of the NDOs, it may be reported to the Authority's compliance function for assessment.

- 8.20 The primary purpose of the RPCA is for monitoring and transparency/evidence. The RPCA is not a bright-line test. As noted earlier, short-term losses may reflect vigorous competition rather than anti-competitive conduct. Hence, RPCAs that indicate a negative result do not necessarily indicate a breach of the non-discrimination principles. Similarly, a narrow positive result does not necessarily mean that there is nothing to follow up.
- 8.21 In determining the appropriate follow up for negative or narrow positive RPCA results, the factors the Authority may consider include:
- (a) the magnitude and duration of any loss or period of negative or low implied margins
 - (b) the extent to which the explanations provided demonstrate that the negative or narrow positive results are objectively justifiable including being consistent with an outcome that might be observed in a competitive market
 - (c) the outcome of any follow-up questions and context from other monitoring work
 - (d) whether a gentailers' published RPCA results show a pattern of consistent negative or narrow positive outcomes over multiple reporting periods notwithstanding the justification provided.
- 8.22 Where, after review of the gentailer's explanation and any follow-up information, the Authority considers that the gentailer has not provided sufficient justification and the outcome raises concerns about potential discrimination, the matter may be reported as an alleged breach of the NDOs to the Authority's compliance function. An alleged breach may also be reported where RPCA results show a persistent pattern of negative or narrow positive margins over multiple reporting periods.
- 8.23 The Authority:
- (a) does not generally expect to report a narrow positive RPCA margin, by itself, to its compliance function as evidence of an alleged breach of the NDOs. In the context of a decision whether to seek enforcement action, a narrow positive margin will likely be most relevant where it is part of a persistent pattern of negative or narrow positive margins over multiple reporting periods. In those circumstances, a narrow positive may be more consistent with an ongoing competition problem than with vigorous competition.
 - (b) considers that it is unlikely to seek to take enforcement action in response to a negative margin in the first September 2026 round of disclosures. We have decided to provide a clearer signal of this in paragraph 8.4 of this guidance, which reflects that the RPCA is a new regime that involves significant judgement, and the short time window for gentailers to makes any changes between the RPCA requirement being introduced/RPCA guidance being finalised and the first assessment date. However, that signal is contingent upon there not being any egregious conduct by the gentailer (eg, evidence that the negative margin reflected a deliberate attempt to harm competition) and the gentailer in good faith providing comprehensive and robust disclosures to the Authority.
 - (c) acknowledges that, all other things being equal, for all subsequent RPCA disclosures it is unlikely to report an alleged breach to its compliance function where the negative margin is relatively small, there is clear evidence that the gentailer was implementing retail price smoothing or put forward another justifiable explanation, and the negative margin has not persisted over multiple years. Each assessment will be made on a case-by-case basis, ie, the guidance does not provide any specific safe harbours.

- 8.24 If RPCA results are reported as an alleged breach of the NDOs – whether under the gentailer self-reporting obligation,¹⁴ by the Authority or by an industry participant¹⁵ – the Authority will assess the alleged breach in accordance with the Electricity Industry (Enforcement) Regulations 2010 and its enforcement and compliance policies, which are available on our website.

Authority will publish a summary of RPCA results

- 8.25 The Authority will publish a summary report of RPCA results. These summaries will outline key findings, trends, and any follow-up action taken (but consistent with any permitted withholding of data by the gentailers for confidentiality reasons).
- 8.26 Publishing these summaries provides transparency about how the regime is operating and helps build trust and confidence in the market arrangements.

9 Disclosure and reporting by gentailers

Reporting requirements

- 9.1 RPCA reporting requirements are set out in the Code at clauses 13.236V-13.236X.
- 9.2 Each gentailer must undertake an RPCA for each of its retail brands and each RPCA segment, at each NRR, every six months, assessing price consistency as at 1 July and 1 January, and reporting that assessment within 45 working days.
- 9.3 The first RPCA would be standalone, as the first annual report in which a gentailer is to demonstrate how it has met all the non-discrimination principles will not be required until 2027.

Content of RPCA reports

- 9.4 For each of the retail brands it controls a gentailer must provide the Authority with a RPCA report for each customer segment and by NRR (and exclusive of GST):
- (a) the RPCA margin as dollars per MWh
 - (b) the key components used to calculate the RPCA margin, consisting of:
 - the retail price \$/MWh
 - the expected electricity cost \$/MWh
 - the expected network (transmission and distribution) cost \$/MWh
 - the expected retail cost \$/MWh
 - expected metering costs \$/MWh
 - expected levies \$/MWh
 - (c) the expected load profile and volumes by segment by NRR to the granularity necessary to understand the spot price risk and construct the *as if* hedge portfolio

¹⁴ Clause 13.236Y of the Code.

¹⁵ Regulation 8 of the Electricity Industry (Enforcement) Regulations 2010 requires industry participants who believe, on reasonable grounds, that another industry participant has breached the Code, to report the alleged breach to the Authority as soon as possible.

- (d) the components of the RPCA for each segment as an aggregated nation-wide statistic, using load-weighted averages for the different components, albeit that simple averages may be used for retail costs, metering costs and levies
- (e) in the case of a negative or narrow positive RPCA result, explanations supported by evidence to demonstrate the outcome is economically justifiable
- (f) a clear and full explanation of its methods to calculate the key components of the RPCA, material judgements made, and the reasons for them, including:
 - the description of the *as if* hedge portfolio that underlies the expected electricity cost, and the reason for its selection (ie, how it is consistent with risk adjusted cost minimisation)
 - the methodology and data for the cost of OTC and ASX hedges in the *as if* hedge portfolio used to estimate the expected cost of electricity
 - the approach to identifying and calculating retail costs attributable to the retail operation, including any differences by segment, including a contribution to shared and common costs
- (g) explanations where the gentailer has departed from the guidance or there have been any material changes in methods and the reasons for that
- (h) when there is a change in the method to calculate the expected cost of electricity, such that it modifies the expected cost of electricity by more than 5% from what it would have been under the method just prior to the change:
 - the results under the old method and under the new method for the first and second year (that is, four six-monthly reports) that the new method is used
 - an explanation for the change in method with reference to material shifts in the market or retail strategy
- (i) any additional data, assumptions, or calculations the Authority may need to assess the methods and results that it cannot observe from existing retail or contract data disclosures.

Submitting reports and supporting data to the Authority

- 9.5 The Authority is developing material that specifies the form and manner in which the information is to be provided, consistent with the Code requirements. This will be published and sent to the gentailers prior to 1 July 2026.

Confidentiality of information

- 9.6 When providing information to the Authority gentailers can identify information they consider confidential and the reasons why.
- 9.7 The Authority may publish RPCA information from time to time to increase market transparency, but will do so in a manner that appropriately protects the confidentiality of commercially sensitive information.¹⁶

¹⁶ See the Electricity Authority's [Information Management Policy](#) published in 2024, including any subsequent updates..

Public reporting

- 9.8 A gentailer must prepare and publish public versions of the RPCA (including the aggregated results by segment for each brand, the key components of the calculation, and a full explanation of its approach) on the gentailer's website within five working days of providing the RPCA to the Authority.
- 9.9 A gentailer may redact from its public version information that it reasonably considers commercially sensitive or otherwise confidential, but such redactions should be explained and kept to a minimum to promote transparency.

Reporting by the Authority

- 9.10 The Authority will publish a dashboard of the RPCA results and constituent components from each of the gentailers and will publish commentary on these results, including any follow-up action taken (to the extent permitted by the confidentiality obligations).
- 9.11 We expect to publish values for the following RPCA components by NRR, brand and segment similar to current Retail Gross Margin reporting:
- (a) RPCA margin in \$/MWh
 - (b) retail prices in \$/MWh
 - (c) expected cost of electricity supplied in \$/MWh
 - (d) expected network (distribution and transmission) costs in \$/MWh
 - (e) expected retail costs in \$/MWh
 - (f) expected metering costs in \$/MWh
 - (g) expected levies in \$/MWh.