



To: Hayden Glass, GM Wholesale and Supply, Electricity Authority

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Energy Trading

## **A broader review of the prudential framework is warranted**

Haast Energy Trading (Haast) welcomes the opportunity to comment on the Issues and Options paper *Improving prudential security arrangements* dated 17 October 2025. Haast is an independent trading business with active participation across wholesale electricity markets in the Asia-Pacific region. Our submission focuses on the overall design and purpose of the prudential regime rather than detailed views on the specific options in the paper.

Our central point is that a broader review of the prudential framework is warranted. The consultation is framed around easing requirements for small independent retailers, particularly those with fewer than 1,000 ICPs. In our view, it would be more beneficial for consumers if the Authority took a system-wide look at prudentials, including the role of the Clearing Manager, Hedge Settlement Agreements (HSAs) and Financial Transmission Rights (FTRs).

### **1. Scope of the review and relevance of micro retailers**

The paper is motivated by concerns that current settings constrain small retailers, however, it is not clear that the “micro” retailers the paper is focused on have been, or are likely to be, a key driver of competitive outcomes in the long term interests of consumers.

The independent retailers that have made a genuine dent in competition and consumer choice over the last decade have been firms such as Flick, Electric Kiwi and Pulse. These businesses have demonstrated the financial and operational capability needed to compete at scale, including the ability to arrange banking and credit relationships, manage working capital, and meet prudential obligations. By contrast, many very small retailers have remained niche and have not delivered clear, durable competitive impacts.

Furthermore, capable retailers can already manage the volatility of their prudential exposure by entering appropriate HSAs. This is a highly desirable market incentive, as it encourages appropriate contracting and risk management. Conversely, lessening the volatility and exposure seen by participants for spot risk will reduce the incentive they have to hedge appropriately.

On this basis, we do not think that creating inefficiently low margin obligations on micro retailers, so they can operate without demonstrating basic corporate finance and risk management capability should be a regulatory objective. The priority should instead be to ensure that the prudential regime manages credit risk efficiently and transparently and facilitates a vibrant risk management market. This requires a broader review of the prudential framework rather than a narrow easing for one participant segment.

### **2. Purpose of the prudential regime and role of the Clearing Manager**

Section 3.1 of the paper states that “the prudential regime is designed to reduce the risk of non-payment faced by generators.” This understates the wider role of the Clearing Manager and associated arrangements.



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The Clearing Manager and the prudential regime underpin the settlement of physical purchases and generation, HSAs, and FTRs. Taken together, these arrangements form an important platform on which risk is transferred and credit is managed across the market. A well designed prudential framework is not just a mechanism to ensure generators get paid , it is core market infrastructure that enables a wide range of participants to contract, hedge and invest with confidence knowing that portfolios are margined efficiently and credit risk is managed.

Haast recommends that the Authority re-frame the purpose of the prudential regime explicitly around:

- Efficient management of counterparty credit risk, and
- Enabling a high liquidity, low friction wholesale risk management market.

This broader purpose should then guide a full review of prudential design and calibration.

### **3. Best practice prudential frameworks: risk based and participant neutral**

An efficient prudential regime should have the following features:

- Initial margin requirement to cover potential future exposure over a defined risk horizon.
- Regular variation margin based on market prices to prevent the build-up of large unpaid losses.
- Relief for offsetting risks.
- Participant neutral requirements that are based on positions and risk rather than participant type.

Most large centrally cleared financial markets operate with these features. These features ensure prudential requirements at a portfolio level reflect the current market and a participants positions, and the impact of default is kept low without tying up excessive capital. Such systems are efficient in that they are designed to require prudential that matches the portfolio risk a participant presents to the market. This should be the core focus of the Authority when considering prudential changes.

### **4. Use of market based price curves and internal consistency**

The Authority and market participants have invested significantly in creating transparent forward price curves through ASX baseload futures and OTC super peak products. An efficient prudential framework should make systematic use of those curves to benchmark risk and calculate margin requirements.

At present, prudential is not calculated on spot, HSAs, and FTRs in an internally consistent way. The model based prudential framework for FTRs, for example, can produce outcomes that are disconnected from the way HSA prudentials and spot exposures are calculated and can lead to inefficiently high or low requirements for some portfolios. This creates unnecessary risk and cost, discourages use of hedging products, and is misaligned with the Authority's objective of deepening risk management markets.

A key objective of a broader review should be to develop a single coherent prudential framework across spot, HSAs and FTRs that is based on transparent price curves, and recognises offsetting portfolio risks in an internally consistent way.



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## 5. Default risk and wider access to clearing

We acknowledge that the Authority and some stakeholders may be concerned that enabling broader use of the Clearing Manager for HSA and FTR products could increase default risk if for example a large number of offshore participants started to clear products and the enforceability of the rules was doubted. We believe these risks can be managed effectively if initial margins are set at appropriate levels, variation margin is settled frequently based on market prices, default procedures are clear, and participation is subject to local oversight such as local entities with accountable directors as is currently the case.

If the Authority adopts such an approach, it can safely expand the use of the Clearing Manager as a hub for risk transfer while managing the risk of default. That, in turn, will support greater participation by independent retailers, generators and financial intermediaries, and will strengthen competition with vertically integrated gentailers.

## 6. Recommendations

In light of the above, Haast recommends that the Authority:

1. Undertake a broader prudential review that looks across spot, HSAs and FTRs, rather than focusing primarily on easing requirements for small retailers.
2. Re-state the purpose of the prudential regime in terms of efficient credit risk management and risk transfer.
3. Develop a roadmap to align New Zealand's prudential framework with international best practice including risk based margins, being participant neutral, and referencing market based price curves.
4. Review and reform the FTR prudential methodology and its interaction with HSAs and spot prudentials to achieve internal consistency.

We appreciate the Authority's work in this area and would welcome the opportunity to engage further as it considers a broader review of prudential security arrangements.

Sincerely,

Phillip Anderson, Managing Director, Haast Energy Trading