

Appendix A Format for submissions for Improving prudential security arrangements

Submitter	Mark Hughes of Paua to the People
-----------	-----------------------------------

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?	No. The market is set up with Retailers having all the risk. Generators are covered by Prudential. Distributors are allowed to charge two weeks prudential while retailers have to recover money from consumers to pay everybody else and afford prudential. Collecting from retail customers is becoming much more difficult as the cost of electricity increases, the cost-of-living crisis and as the EA finds more ways to protect and support financially vulnerable customers. Furthermore, if I am unable to collect enough cash to pay prudential and my monthly bills on time you will shut me down and give my customers to a Gentailer (no independent retailer wants more unprofitable customers).
Q2. Do you agree that the issues identified by the Authority are worth addressing?	Yes. Prudential is the handbrake on growth.
Q3. Are there other issues with the current prudential security settings that we have not identified but are worth addressing?	Yes <ol style="list-style-type: none"> 1. Eliminate Distributor Prudential. 2. Fix Customer Compensation Scheme to have generation who are benefiting from the constrained supply fund this. Retailers are not responsible for demand 3. Give generators and distributors some Risk
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.	Have Generators ever not been paid?

Q5. Do you support the transition to a more dynamic adder? If not, what are your concerns?	No. The times I need relief are when the market is very volatile. For example, the winter period had me required to hold over \$300k on a base of around 150 ICP. My invoice for the period was around \$30k.
Q6. Do you support the proposal to allow reductions in the post-default exit period? Why/why not?	Yes
Q7. Do you agree that the threshold for qualifying for a reduced post-default exit period should be 1,000 ICPs?	?
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?	?
Q9. Do you agree with the proposal to reallocate residual funds to retailers on a scaled basis?	Will it really make a difference to me?
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?	
Q11. Do you support a possible physical and futures offsetting arrangement? Why/why not?	Any financial cover needs to offset prudential otherwise it is meaningless. If I had purchased cover from ASX I would have gone under as I get hit with calls from both ASX and the CM at the same time I am under stress from the volatility of the market.
Q12. Are existing market-based work arounds to physical and futures offsetting arrangements sufficient for managing the issue?	No
Q13. If ASX futures positions could offset spot market prudential requirements, would you be more likely to trade in the futures market?	Yes

The NZ electricity code largely eliminates the risk of not receiving 100% of these charges for Generation, Distribution and Metering. All the risk of late or uncollectable payments has been given to Retail. Some thought should be given to how the increasing difficulty of payment collection in light of the rising cost of electricity, cost of living crisis and increasing support required from retailers for vulnerable and medically dependant customers.

This could be partially offset by introducing risk to the other sectors or by requiring them to support retailers grappling with the way to manage customers who are largely returning negative profitability.

He levels of prudential do not reflect the final invoice received.

The need to have financial reserves to supply cash when required for prudential is enough to stop me investing in my business. I lose everything if I do not have cash ready for when the generators feel the need to drive up the spot market some more.

The potential existential impact of the Customer Compensation Scheme would make us default. At the same time that generators are making record profits you require retailers to reduce demand and pay customers to do so. It would kill us. Just another handbrake on small retailers.

I understand how you need to justify any change. But the simple fact for small retailers is that Prudential is the monster in the closet that never goes away. It acts as a handbrake on any growth or development especially as there are currently negative margins for most retail customers. If you want to support small independent retailers you need to

1. Reduce the amount of prudential or calculate it in a different way
2. Reduce the volatility of Prudential to bring it more into line with the invoices we receive at the end of the month – my prudential requirement was 10x the amount of my invoice

As a small retailer the bank requires me to secure any prudential call against my family home. How's that for pressure.

This is heading in the right way but will not in my opinion assist small retailers in any meaningful way. We will still be terrified of Prudential calls caused in large part by the constrained supply manufactured by the Gentailers.