The Electricity Authority - Te Mana Hiko
PO Box 10041
Wellington 6143

25 November 2025

Consultation Paper— Improving prudential security arrangements

To whom it may concern,

Thank you for the opportunity to submit on the *“Improving prudential security arrangements”* consultation.

emhTrade has been an active participant in the New Zealand electricity hedge market for more than a decade, trading across ASX, FTRs, and OTC products. We regularly transact OTC hedges with physical participants and share the Authority’s objective of ensuring prudential security settings promote efficient competition in both the retail and generation markets. We also provide credit facilitation services to both retailers and generators, helping bridge the gap between ASX and OTC hedges for participants who have a strong preference for one over the other.

Our responses to The Authority’s questions are set forth on the following page. None of the information in this response is confidential.

We welcome further discussions with the Authority and the wider market on the points raised.

Yours faithfully,

Stu Innes
CEO & Co-founder – emhTrade

Submitter	emhTrade Markets Limited

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?	N/A
Q2. Do you agree that the issues identified by the Authority are worth addressing?	N/A
Q3. Are there other issues with the current prudential security settings that we have not identified but are worth addressing?	N/A
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.	The Authority should consider a code amendment to allow 2 non-physical participants to be party to an HSA. Any developments that reduce the friction of lodging HSAs and widens the net of participants and organisations that can provide credit facilitation should be pursued. Enhanced competition in credit facilitation can only be a net positive for independent retailers and generators alike. In conjunction with allowing FPVV CFDs to be lodged as HSAs, to the extent other hedge products are being utilised to manage independent retailers' risk, the authority should work to support as many product types as possible to offset prudential requirements.
Q5. Do you support the transition to a more dynamic adder? If not, what are your concerns?	No. The lower prudentials that result in "less volatile" periods seem unlikely to provide benefit to any reasonable and prudent retailer as they will still need to provision working capital to meet the worst-case prudential requirements which, under this option, will be higher and less predictable. We strongly encourage the Authority to actively seek feedback on

	this proposal from the numerous small retailers that have recently exited the market (who may therefore be unlikely to participate in formal consultation). It is unclear how the clearing manager could be expected to predict variations in the uncertainty of future prices. Extensive work was done by MDAG showing the expected breakdown in correlation between demand and price. It is the role of the Clearing Manager to ensure the PLGD is met regardless of market outcomes in such events. If a prudential buffer is to be set dynamically based on some forward view of volatility, this should be a view determined by the market. For an example an implied volatility index of exchange listed options could work, however, to be meaningful there would need to be actively traded monthly contracts. In our view the market is still far too illiquid for the volatility curve/surface to be used for this purpose, but it highlights an excellent example of the wider market benefits from accurate forward curves for energy, shape/capacity and volatility.
Q6. Do you support the proposal to allow reductions in the post-default exit period? Why/why not?	If this is feasible in practice, we support what appears to be an evidence-based iteration of the Code.
Q7. Do you agree that the threshold for qualifying for a reduced post-default exit period should be 1,000 ICPs?	Yes, until such time the issues highlighted around assigning commercial customers are resolved, at which point all retailers should qualify for reduced post-default exit periods.
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?	Yes. As highlighted in the consultation paper, any reductions in prudential requirements that do not increase system risk are sensible and should be adopted to enhance retail competition.
Q9. Do you agree with the proposal to reallocate residual funds to retailers on a scaled basis?	This has the appearance of a cross-subsidy. It is not clear why the residual funds cannot be allocated to the parties that generated them in the proportion they contributed.
Q10. Is there an alternative model by which residual funds could be	Residual funds should be allocated pro-rata to the parties that generated the surplus.

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?	No. Firstly, we are strongly opposed to the suggestion the Authority share deanonymised trading data with the Clearing Manager or any third parties, as referenced in the consultation document as follows: *"[Since 2020], the Authority has begun receiving deanonymised daily trading data directly from the ASX. We are now considering whether it may be possible to deploy this data with the clearing manager to develop a solution to the offsetting issue."* The Prescribed form under clause 13.236AA(2) of the Code allows for deanonymised data to be provided to the Authority, but this does not extend to the Clearing Manager or other third parties. Accordingly, a code change would be required for the data to be shared externally from the Authority. Deanonymised trading data is extremely sensitive and has very high intellectual property values. While we understand and appreciate the benefit of the regulator having access to this data, the threshold for it to be shared any wider must be much higher than simply throwing it to the Clearing Manager on the off chance they find a miracle solution to the problem of physical/future offsets that the Authority, ASX & AEMO have not been able to resolve after a decade of careful consideration. Deanonymised trading data is the last place one would start when tackling the myriad challenges inherent in the problem. Furthermore, for the reasons outlined below, we do not believe this is a worthwhile or efficient use of resource. The Authority has previously conducted extensive research into offsetting but for several reasons decided to not pursue this workstream. That is not to say we don't support the efficiency gains of physical and futures prudential offsetting, but the barriers and challenges that informed the Authority's previous decisions are still in place. There has been no mitigation of the segregation between the ASX & Clearing Manger, questions of legal/regulatory jurisdictions. preferential claims by higher

	priority creditors in the event of default, and limited crossover between physical exit periods and future hedge cover. Before embarking any further along this path, the Authority needs to thoroughly review all the work that it did in 2015/2018. The Authority had considerable engagement with various stakeholders around the costs and benefits of fungibility, but it ultimately proved to be a tantalising yet futile exercise. This was the decision that AEMO & ASX also arrived at in the Australian context. Even if the Clearing Manager could reliably know a Participants ASX position (even that is a questionable assertion from trading data alone which is imperfect), it is of little consequence in the event of default and is no reliable indicator of the likelihood of default, which could occur for any number of commercial reasons. For the spot market to operate with the necessary level of creditworthiness, it is not enough for participants to show the Clearing Manager they have assets, nor is it enough to show the Clearing Manager they have assets that will increase in value in high prudential scenarios. The Clearing Manager must have rights over those assets in the event of default. This is not the case for futures and options positions listed on an exchange domiciled in a different country, which have a queue of prior claims to be resolved (to the exchange, exchange participant/clearing broker or other creditors). All participants must provide to the Clearing Manager a credit rating such that default is not a risk, assets to offset the cost of purchases in the event of default or either of these from some third party on their behalf. It is not possible to remove credit risk without some combination of the above. The Authority has previously recognised in its June 2018 decision paper *“Treatment of prudential offsets in the wholesale market”* that numerous costs/challenges and limited benefits of physical/futures fungibility. We do not believe this topic needs to be revisited, and we strongly object to the suggestion deanonymised trading data could possibly be shared so flippantly.

Q12. Are existing market-based work arounds to physical and futures offsetting arrangements sufficient for managing the issue?	N/A
Q13. If ASX futures positions could offset spot market prudential requirements, would you be more likely to trade in the futures market?	N/A