

4 March 2025

Electricity Authority
By email: policyconsult@ea.govt.nz

Code amendment omnibus #5 – Meridian submission

Meridian appreciates the opportunity to provide feedback on the Authority's consultation paper 'Code amendment omnibus #5: stress test update, back-up pricing, trader default amendment'.

Our responses to the Authority's specific consultation questions are attached as Appendix A. We also attach a report prepared by Carl Hansen on the stress test regime (the "Hansen Report"). Carl was the Chief Executive of the Authority at the time the stress test regime was introduced and holds a deep knowledge of the regime's original intent and design choices. As noted by email, Meridian would be happy to facilitate a discussion between the Authority and Carl Hansen on these further suggested changes if that would be helpful.

Overall, Meridian is supportive of the amendments proposed in the consultation paper subject to some suggestions including on the guidance on the stress test regime and on the proposed method of determining the equivalent trading period for the back-up pricing mechanism.

Furthermore, the Hansen Report identifies additional areas of improvement for the stress test regime that are not addressed in this consultation paper. Meridian strongly urges the Authority to consider these additional amendments which include:

- Investigating how companies are undertaking the stress test, to ensure it is being undertaken correctly. This could include analysing dot plots of the energy test metrics before and after the doubling of the price margin, which should show an impact on cash flow ratios. If it does not show that, then the Authority should appoint an auditor to review a broad sample of participants to understand how they calculate their results.
- Considering how the presentation of results could be improved to make them more useful for journalists and media commentators. Easily digestible information that can be published by journalists assists with efficacy of the regime, as it prevents participants from making opportunistic claims. For this to work well results must be made available to officials and media in a form they can understand.

- Regularly collecting information regarding rejected hedge offers. Timely information on materially under-hedged parties will be useful for officials and the media. The Authority should consider broadening the stress test regime to require materially under-hedged parties to report information about hedges they actively considered but did not purchase.
- Quantifying the ‘swings and roundabouts’ of under-hedging. Publishing estimates of pre-event cash flow gains for a hypothetical under-hedged participant and comparing them with losses during a stressful event would provide a more balanced picture to journalists and officials.

Please contact me if you have any queries regarding this submission. This submission can be published in full.

Nāku noa, nā

Georgina Lomax-Sawyers
Regulatory Counsel

Appendix A: Responses to consultation questions

Feedback on the omnibus format

	Question	Response
1.1	Do you have any comments on the omnibus format or suggestions to improve the omnibus format? Please explain your answer	Meridian is conscious that rolling proposed Code changes together into an omnibus consultation runs the risk of de-emphasising the importance of particular changes. For example, in our view, the stress test regime is critical for ensuring there is a deterrent for spot-exposed wholesale market participants to lobby politicians and regulators during periods of high spot prices. This is an important function. As such, our view would be that proposed changes to the stress test regime warrants a consultation in its own right to ensure the widest possible engagement is encouraged.

Updating the stress test regime to reduce risks to consumers and security of supply

	Question	Response
2.1	Do you support the Authority's proposal to insert the purpose of subpart 5A before existing clause 13.236A? Please explain your answer.	Yes, Meridian supports a purpose statement being inserted into the regime.
2.2	Do you support the Authority's description of the proposed purpose of subpart 5A in a new clause 13.236AB (as detailed in Appendix A)?	Overall, Meridian considers that the proposed purpose clause accurately describes the purpose of the stress test regime. However, Meridian suggests removing proposed new clause 13.236AB(d), as it is unnecessary and circular. Removing this clause will mean that the purpose section more accurately reflects the actual purpose of the regime.
2.3	Do you support the Authority's proposal to amend clause 13.236A of the Code to extend the horizon of the stress test regime from 1 quarter to 12 quarters? Please explain your answer.	Yes, Meridian is supportive of the stress test horizon being extended beyond the current time period. As the Hansen Report notes the additional information will enable the Authority to publish statistics about forward hedge cover, which it can use to better inform decision makers and market participants about forward-hedging activity.
2.4	Do you support the Authority's proposal to introduce a simplified and separate methodology for quarters beyond the next quarter? Please explain your answer.	Meridian is supportive of providing a simplified methodology for the quarters beyond the next quarter. However, we do not support the proposed methodology in the updated guidance notes as it does not actually simplify the methodology.

		Meridian suggests the calculation for target cover ratio beyond the immediate quarter should be aligned with the calculation for actual cover ratio as follows: $\frac{\text{Net [executed] risk management contracts (if net purchases)} + \text{physical resources (generated electricity for actual)}}{\text{Net [executed] risk management contracts (if net sales)} + \text{[projected/actual] purchases of electricity demand}}$ This would produce a similar result but would be much simpler to implement.
2.5	Do you support the Authority's proposal to require the registrar to send disclosing participants 'you are here' reports? Please explain your answer.	Yes, this would provide more meaningful information to allow Meridian and others to understand our relative position compared to other participants. We trust the Authority to ensure that there is appropriate anonymisation of information so that the identity of particular participants could not be reverse engineered. Meridian considers that having a combined generator / gentailer category will provide an appropriate level of anonymisation.
2.6	Do you support the Authority's proposal to change the EMI reporting to provide more information?	Yes, Meridian is supportive as the more information that is available for officials, journalists and members of the public the more effective the stress test regime will be.
2.7	Do you support the Authority's proposal to amend clause 13.236F(1) of the Code to require the board of the disclosing participant to certify that the disclosing participant has complied with clause 13.236E(1)? Please explain your answer.	The Authority has not adequately explained this proposed amendment. The body of the consultation paper states "the disclosure statements make no explicit reference about the representation being made by signatories" but does not provide any explanation beyond this. As such, it is difficult to assess the Authority's intent and thinking behind this specific change. Nevertheless, on the assumption that this change is intended to ensure greater scrutiny from the board of the development of the stress tests disclosure, Meridian would support such a change.
2.8	Do you support the Authority's proposal to amend clause 13.236F(1) to require a disclosing participant to certify that it has complied with the requirement to submit spot price risk disclosure statements in clauses 13.236A and 13.236E as part of the Certificate of spot price risk disclosure statement? Please explain your answer.	Yes, Meridian supports certification of the disclosing participant's risk management policy.
2.9	Do you support the Authority's proposed changes to the stress	Meridian is supportive of the new methodology for calculating the actual cover ratio for the past quarter, as this will assist with simplifying the regime.

	test methodologies? Please explain your answer.	Meridian understands that the guidance, specifically paragraphs 2.15-2.19 of the mark-up guidance, allows participants to rely on the Authority's prices unless the participant's results are materially different from the prices set out in Appendix B. Meridian is supportive of this approach as it will simplify the process significantly. Meridian seeks clarity regarding how hedges should be taken into account when calculating sale and purchases to and from the clearing manager. The Code at 13.236E(1)(c)-(d) states "the disclosing participant's estimate of the value of electricity that it expects to [sell to (c) or purchase from (d)] the clearing manager during the period to which the stress test relates when the stress test is applied, minus the disclosing participant's estimate of the value of that electricity under the base case for that period". Basing this on transactions with the clearing manager suggests that hedging should be excluded as hedges are only financial products not actual changes in the quantities transacted with the clearing manager (unless a HSA applies, which might be implied from 13.236(2)). Further, 13.236(4)(a) and (d) indicate that the Code considers hedging - (a), and sales to and purchases from the clearing manager - (d) as distinct things. Similarly, paragraph 2.39 of the guidance does not mention sales to and purchases from the clearing manager as things that hedges should influence. Paragraphs 2.73 - 2.81 only refer to the target cover ratio, not the inputs into the cover ratio calculation. Paragraph 2.25 considers only Electricity Demand (including Demand Response) as inputs into Electricity Purchase costs, further indicating that hedges should not be considered in that calculation. All of these factors create an ambiguity of whether hedging should be taken into account, and Meridian would like this to be clarified in the guidance. Meridian also wants to clarify why the formula is the same and repeated in paragraphs 2.85 and 2.86 of the guidance; it is unnecessary to repeat it twice and this may cause confusion. Meridian also suggests that a review / audit is undertaken following implementation of the new methodologies to ensure that they being executed correctly, as the Hansen Report identifies there is a concern that currently the calculations are not being undertaken correctly. This would also ensure that there is a built-in mechanism for feedback.
2.10	Do you support the Authority's proposal to require disclosing participants to provide target and actual cover ratios and for the	Yes, Meridian considers that this would be useful information for the Authority to publish.

	Authority to publish this information anonymously? Please explain your answer.	
2.11	Do you agree with the transition plan and a quarter-long transition period? Please explain your answer.	Yes, the transition plan is reasonable.
2.12	Do you agree the proposed amendment is preferable to the alternative options? If you disagree, please explain your preferred option in terms consistent with the Authority's statutory objective in section 15 of the Electricity Industry Act 2010.	Yes, noting Meridian's suggested amendments to the proposals and also the additional suggestions that are raised in the Hansen Report to make the regime as effective as possible.
2.13	Do you agree with the analysis presented in this Regulatory Statement? If not, why not?	Yes, Meridian strongly supports strengthening and simplifying the stress test. As is clear from the Hansen Report, there are issues with the current regime and it is not being used to its full potential.

Extending the trader default provisions to all retailers to protect all consumers

	Question	Response
3.1	Do you support the Authority's proposal to extend the trader default regime to all retailers and prohibit disconnecting consumers during the process? Please explain your answer.	Yes, Meridian strongly supports the proposal to extend the trader default regime to all retailers and prohibit disconnecting consumers during the process. This is a sensible proposal that will help ensure that the Code has appropriate mechanisms to deal with this type of trading activity. The situation that occurred last year between Prime Energy and Manawa Energy risked a reputational impact on the industry, and having a Code process that ensures there is recourse for the trader and protection of consumers will be beneficial for the industry.
3.2	If you think there is a preferable alternative the Authority ought to consider, please explain that alternative in terms consistent with the Authority's statutory objectives in section 15 of the Electricity Industry Act 2010.	Meridian does not consider there is a preferable alternative.

3.3	Do you agree with the analysis presented in this Regulatory Statement? If not, why not?	Yes, Meridian agrees with the analysis in the Regulatory Statement. We would also note that a further benefit of the proposal is the reputational benefits to the electricity industry from having a clear process so that paying consumers are not disconnected due to issues occurring at a trader / retailer level.
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Introducing a back-up means of calculating wholesale prices to improve confidence

	Question	Response
4.1	Do you support the Authority's proposal? Please explain your answer.	Yes, Meridian is supportive of the proposal because it is necessary to have certainty in the market in an emergency type situation, to ensure there is not market manipulation, and to have a process that is relatively fast and simple to apply. We are also supportive of avoiding an undesirable trading situation (UTS) in these situations due to it being a lengthy and costly process. That said, Meridian considers there could be a better mechanism for finding the 'equivalent trading period'. There is a risk that the proposed equivalent trading period takes too narrow a view and does not account for the particular conditions of the event. Meridian proposes that the equivalent trading period is calculated by: • taking an average of the weekday results of the prior week for events occurring during a weekday. • taking an average of the weekend results of the prior weekend for events occurring during a weekend. This would provide a reasonable approximation of prices during the market conditions prevailing at the time of the event. We would suggest that the same exclusion periods apply, so a trading period should be removed if one of the exclusion conditions apply. This proposed approach would still be simple and straightforward to calculate and would not incur additional costs, fulfilling the objective of having a simple and straightforward approach to calculating prices in emergency situations.
4.2	Do you agree the proposed amendment is preferable to the alternative options? If you disagree, please explain your preferred option in terms consistent with the Authority's	As noted above, Meridian proposes an alternative means of determining the equivalent trading period. Our proposed approach would be simple to calculate while providing a more accurate reflection of prices at that time, to

	statutory objectives in section 15 of the Electricity Industry Act 2010.	ensure price certainty and predictability, allowing for efficient decision making for the benefit of the market and consumers.
4.3	Do you agree with the analysis presented in this Regulatory Statement? If not, why not?	Yes, Meridian agrees that there are benefits to providing certainty in the market in emergency situations. Our proposed mechanism for calculating the equivalent trading period would also be simple and would help minimise any associated costs.