28 November 2025

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

Improving prudential security arrangements: issues and options

Meridian appreciates the opportunity to provide feedback on the Authority's consultation paper 'Improving prudential security arrangements: Issues and options'.

We generally agree with the intent of the Authority's proposals. Where it is possible to reduce prudential obligations on wholesale market purchasers without a commensurate increase in the risk of non-payment, it makes sense to pursue this. However, we disagree with the elements of the Authority's proposal which arbitrarily differentiate between independent retailers and integrated generator-retailers. This includes:

- Allocating a portion of the clearing manager's residual funds to independent retailers only (rather than allocating to all retailers on the basis of their proportion of total purchase volumes); and

- Exploring a reduction in the post-default exit period for independent retailers but not for integrated generator-retailers.

In Meridian's view, these approaches seek to advantage one business model over another without clear justification or principled reasoning. We consider that prudential arrangements should be solely focussed on ensuring the efficient management of the risk of non-payment in the wholesale market. They should not be a means to advantage one business model over another or to seek to alter the dynamics of retail market competition. In Meridan's view, these two proposals would set a concerning precedent, indicating a willingness by the Authority to regulate to achieve a wealth transfer to favoured businesses with no consumer benefit. We do not support these proposals in their current form.

Further details on these issues are included in our responses to the Authority's specific consultation questions attached as Appendix A.

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

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Nāku noa, nā

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Appendix A: Responses to consultation questions

	Question	Response
1	Do you agree that the current risk profile of the prudential framework is appropriate? If not, why/how should risk be redistributed?	As the Authority has noted, New Zealand has adopted a Probability of Loss Given Default (PLGD) that is more risk tolerant than that used in comparable jurisdictions, meaning generators here carry a greater risk. While Meridian is comfortable with the current risk profile of the prudential framework, we would strongly oppose any suggestion that the PLGD in New Zealand should be increased.
2	Do you agree that the issues identified by the Authority are worth addressing?	Yes.
3	Are there other issues with the current prudential security settings that we have not identified but are worth addressing?	No.
4	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.	No.
5	Do you support the transition to a more dynamic adder? If not, what are your concerns?	Yes. We agree a more dynamic adder would help mitigate the risk of non-payment during periods of high or volatile spot prices while reducing overall prudential requirements.
6	Do you support the proposal to allow reductions in the post-default exit period? Why/why not?	We support this in principle. However, we are conscious that the proposed 1-day reduction in the timeframes for Phase 2 will impose additional time pressure on customers who may already have been caught by surprise by the default of their retailer. This is likely to worsen the experience from the customer's perspective. While switching within a 6-day timeframe is technically possible, this still represents a condensed timeframe for a customer to be alerted to the situation, undertake appropriate due diligence on their preferred retailer, and initiate and finalise a switch. This is particularly the case considering that most customers will have many other things going on in their lives that may make it difficult to prioritise an unexpected switch of their electricity retailer. In our view it is unlikely that the value of an additional 1 day of prudential savings outweighs the additional pressure and disruption caused to customers from shortening the period for voluntary switching. The proposed reduction to Phase 3 is reasonable on the grounds that the Authority does not intend to use a competitive tender process.

7	Do you agree that the threshold for qualifying for a reduced post-default exit period should be 1,000 ICPs?	This seems reasonable.
8	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?	Meridian's view is that the Authority should not be differentiating between business models when considering these potential changes. Any broader changes should be premised on the feasibility of the Authority shortening the trader default process and this is likely linked to the volume of ICPs served by a retailer rather than the business model adopted by the retailer.
9	Do you agree with the proposal to reallocate residual funds to retailers on a scaled basis?	No, Meridian disagrees. We accept the argument for disbursing residual funds to retailers on the basis that these funds largely arise from the accrual of interest on payments made by retailers.[1] However, the Authority's proposal to exclude major generator-retailers from a portion of the allocation mechanism is simply a selective re-distribution of wealth from one group to another. There is no objective basis for such an approach. Indeed, the Authority's only argument appears to be that "scaling the allocation of residual funds benefits small retailers". This would set a concerning precedent for the fair and equal treatment of all parties under the regulatory framework. While the financial sums in question are modest, our view is that such decisions should be principle-based rather than a means to pursue an arbitrary wealth transfer.
10	Is there an alternative model by which residual funds could be reallocated to retailers in a fair manner that still achieves the policy objectives?	Meridian recommends that either the existing allocation to generators is maintained or that residual funds are allocated to all spot market purchasers by percentage of total purchase volumes. Regarding policy objectives, these can only be inferred from the heading of the relevant section of the issues and options paper which states that "reallocating residual funds to retailers on a scaled basis would increase affordability and promote competition". In Meridian's opinion, the proposal would in fact do neither. The proposal would not increase affordability unless the Authority assumes (incorrectly) that non-integrated retailers are always more affordable than generator-retailers and therefore non-integrated retailers should be favoured by the regulation of wealth transfers to promote them above others. The proposal would also not promote competition on a level playing field and would instead promote specific business models over others.
11	Do you support a possible physical and futures offsetting arrangement? Why/why not?	It is unclear what has changed to warrant a re-examination of this issue since the last time it was reviewed in 2018. We are not opposed to exploring physical and futures offsetting arrangements; however, in our view there should be a high level of confidence in the benefits and effective operation of any arrangements

[1] This is not to say that allocating residual funds to generators to compensate them for the ongoing risk of loss in the settlement process is not an equally valid approach. Rather, we acknowledge a reasonable case can be made for either approach.

		before they are implemented given the potential to impact the integrity of payments across two significant markets.
12	Are existing market-based work arounds to physical and futures offsetting arrangements sufficient for managing the issue?	No comment.
13	If ASX futures positions could offset spot market prudential requirements, would you be more likely to trade in the futures market?	As a regulated market maker, such changes would be unlikely to significantly impact our ASX trading activity.