

# **Code amendment omnibus #5: stress test update, back- up pricing, trader default amendment**

Consultation paper

4 February 2025

## Executive summary

The Electricity Authority Te Mana Hiko (Authority) is constantly reviewing and updating regulation to ensure it supports our evolving electricity sector. We use the omnibus to consult on multiple discrete proposals to amend the Electricity Industry Participation Code 2010 (Code), as this is timelier and more efficient than issuing separate consultation papers.

We have identified some necessary changes to current market settings and policy to protect consumers and support security of ahead of winter 2025. These changes are detailed in this consultation. The Authority will consider submissions and issue a decision by May 2025.

**Section 1** of this consultation paper explains how you can submit feedback on our proposals.

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

**Section 2** proposes changes to Part 13 (subpart 5A) and the supporting stress test guidelines to enhance and update the spot price risk disclosure regime (known as the 'stress tests'). These changes improve incentives to prudently manage risk (through physical or contractual means), reducing risk of financial stress and consumer harm.

A key wholesale market operating principle is that participants manage their own supply risks via physical resources or financial contracts (hedges). Market design recognises that risks and optimal management options vary among participants, and that each participant understands their risks best and therefore the best management tools.

The Authority and the Market Development Advisory Group (MDAG) identified three issues:

- participants may misinterpret the regime as supervisory
- the stress tests covered too short a horizon
- the stress tests, or specifically the presentation of the information, do not inform the disclosing participants of their risks relative to other disclosing participants.

The Authority is proposing to address these issues through six proposals, three of which involve amending the Code:

- extending the time horizon from the coming quarter to 12 quarters, to provide more information about longer term risks. We propose a new methodology for the longer time periods (for assessing volumes and prices)
- if 'you are here' reporting is introduced, requiring directors to certify they have considered their relative position in addition to the existing signoff requirements for the absolute risk position
- requiring participants to disclose target hedge cover for the next quarter and their actual hedge cover for the current quarter, and publication by the Authority of anonymised reporting.

The three stress test enhancements that do not require a Code change are:

- simplifying the methodology used to calculate each of the stress tests. Although no Code change is required, the Authority is consulting on these changes, as they are likely to impose some costs (system/process changes) for participants

- providing the enhanced “you are here” reporting against anonymised results directly to each participant
- changing the existing registrar reporting to provide an additional field to identify participants’ sector (generator/gentailer, non-integrated retailer, industrial purchaser) to enable filtering by sector in the Authority’s published reports.

**Appendices A, B and C** include the proposed Code amendments and updated guidance.

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

**Section 3** proposes changes to Parts 1, 11 and 14 to extend the trader default provisions so all consumers are protected in the event of retailer default.

The current trader default provisions do not cover the situation where a consumer’s retailer buys its electricity supply from another trader and defaults on the payment to that trader. There are no Code provisions to transfer the consumer to another retailer or to protect the trader from wholesale market losses in the event of a retailer default. If the retailer does not reach a suitable payment arrangement, the only way a trader can currently limit their losses is to disconnect the supply — this is an unacceptable outcome for the consumer.

We propose extending the trader default regime to all retailers to protect all consumers from disconnection.

**Appendix D** includes the proposed Code amendments.

## **Introducing a back-up means of calculating wholesale prices to improve market confidence**

**Section 4** proposes changes to the Code to improve market confidence by providing a back-up means for calculating spot prices for energy and instantaneous reserves in the wholesale electricity market when market schedules have not been published for 36 hours or more. This situation could arise during restoration of the power system following a significant island-wide or national loss of supply. As such, we expect these provisions will very rarely be required.

This proposal promotes efficiency by improving price certainty for purchasers and generators when the normal operation of the wholesale market is severely disrupted. This benefits consumers by improving confidence in the wholesale market, by:

- providing revenue certainty for generators when committing resources to power system restoration
- providing confidence for consumers that they will face only reasonable costs for the energy they consume during power system restoration.

**Appendix E** includes the proposed Code amendments.

We welcome feedback on any or all sections of the omnibus by **4 March 2025**. We will consider all submissions before making our final decisions. We also welcome feedback on the format of the omnibus consultation and possible improvements for the future.

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# 1. Background

## What this consultation is about

- 1.1. The purpose of this paper is to consult with interested parties on the Authority's proposals for:
  - (a) updating the stress test regime to reduce risk to consumers and security of supply
  - (b) extending the trader default provisions to all retailers to protect consumers
  - (c) introducing a back-up means of calculating wholesale prices to improve market confidence.
- 1.2. These proposals are being presented in omnibus form to streamline the number and frequency of consultations on Code amendment proposals. This paper is the fifth in the series. We intend to use omnibus consultations to consolidate discrete Code amendment proposals when appropriate to do so.
- 1.3. We have identified some necessary changes to current market settings and policy to better protect consumers and to support security of supply during winter 2025. As such, the Authority intends to release a decision paper on these proposals by May 2025.
- 1.4. Each proposal is set out in a separate section of this paper, along with a regulatory statement for each proposal which includes a statement of the objectives of the proposed amendment, an evaluation of the costs and benefits of the proposed amendment, and an evaluation of alternative means of achieving the objectives of the proposed amendment.<sup>1</sup> The draft wording of each proposed Code amendment, along with proposed changes to the stress test guidance, is included in appendices A to E.

## How to make a submission

- 1.5. The Authority's preference is to receive submissions in electronic format (Microsoft Word) in the format shown in Appendix F. Submissions in electronic form should be emailed to [policyconsult@ea.govt.nz](mailto:policyconsult@ea.govt.nz) with "Omnibus #5 consultation" in the subject line.
- 1.6. If you cannot send your submission electronically, please contact the Authority ([info@ea.govt.nz](mailto:info@ea.govt.nz) or 04 460 8860) to discuss alternative arrangements.
- 1.7. Please note the Authority intends to publish all submissions it receives. If you consider that the Authority should not publish any part of your submission, please:
  - (a) indicate which part should not be published
  - (b) explain why you consider we should not publish that part
  - (c) provide a version of your submission that the Authority can publish (if we agree not to publish your full submission).

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<sup>1</sup> As required under section 39 of the Act.

- 1.8. If you indicate part of your submission should not be published, the Authority will discuss this with you before deciding whether to not publish that part of your submission.
- 1.9. However, please note that all submissions received by the Authority, including any parts that the Authority does not publish, can be requested under the Official Information Act 1982. This means the Authority would be required to release material not published unless good reason existed under the Official Information Act to withhold it. The Authority would normally consult with you before releasing any material that you said should not be published.

### **When to make a submission**

- 1.10. Please deliver your submission by **5.00pm on Tuesday 4 March 2025**.
- 1.11. Authority staff will acknowledge receipt of all submissions electronically. Please contact the Authority [info@ea.govt.nz](mailto:info@ea.govt.nz) or 04 460 8860 if you do not receive electronic acknowledgement of your submission within two business days.

### **Feedback on the omnibus format**

- Q1.1. Do you have any comments on the omnibus format or suggestions to improve the omnibus format? Please explain your answer.

## 2. Updating the stress test regime to reduce risk to consumers and security of supply

### The existing arrangements

- 2.1. The stress tests are a series of financial calculations purchasers and generators are required to perform quarterly. Each calculation is performed using a 'high stress' wholesale market scenario and then compared to the base case calculation to determine the effect of the scenario on a company's cashflow and shareholder equity.
- 2.2. The results are required to be reported to the company's board, so they are aware of the company's risk position and can take conscious decisions about their risk exposure. Companies have different risk appetites and need to determine their own approach to spot price risk exposure, hedging levels and other risk management decisions. Boards are required to certify their compliance with the regime on an annual basis.
- 2.3. Results are sent to an independent stress test registrar. They are processed, anonymised and summary results are sent to the Authority. We publish these anonymised results on our information platform EMI.<sup>2</sup>
- 2.4. The stress test regime also assists security of supply as it encourages appropriate hedging. Sellers of hedges, usually generators, need to ensure prudent fuel management so they can balance their hedge sales with their physical generation.

### Triggers identifying issues with the current stress testing regime

- 2.5. There have been three separate triggers identifying different issues that could be addressed by changes to the Code to ensure a stress test regime more fit for a highly renewable system. These triggers are:
  - (a) MDAG made several recommendations for improving the stress test regime in Appendix C of their 2023 report.<sup>3</sup>
  - (b) Stress test participants were audited in 2019/20. Audits of the stress test regime identified several aspects of the regime that could be changed to make it easier for participants to comply.
  - (c) During the Authority's investigations during and after winter 2024, several improvements were identified that would make the stress test results more useful.
  - (d) The Authority agrees with much of MDAG's assessment of the stress test regime and views their proposed changes as assisting with efficient functioning of the market. The proposed changes allow participants to better manage their risk by showing their relative risk. The extended horizon of the regime better informs participants of longer-term risks, and changes to disclosure statements ensure company management is

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<sup>2</sup> [https://www.emi.ea.govt.nz/Wholesale/Reports/HPUUJB?\\_si=v|3](https://www.emi.ea.govt.nz/Wholesale/Reports/HPUUJB?_si=v|3)

<sup>3</sup> [https://www.ea.govt.nz/documents/4335/Appendix\\_A2\\_-\\_Final\\_recommendations\\_report.pdf](https://www.ea.govt.nz/documents/4335/Appendix_A2_-_Final_recommendations_report.pdf)

appropriately engaged in these processes. The Authority, therefore, considers the proposed amendments will improve efficiency in the electricity industry for the long-term benefit of consumers.

## Problem definitions & proposals to update stress tests for a more renewable system

### Purpose of the stress testing regime

- 2.6. MDAG identified that although the regime is not supervisory in nature, market participants may view it as such. A supervisory regime would move the onus from participants to the Authority and could weaken incentives for participants to proactively manage their risk. Therefore, it is important participants understand the purpose of the stress testing regime is for them to manage their own risk.
- 2.7. The Authority proposes to include the purpose statement drafted by MDAG in the Code, to ensure participants understand the purpose of the stress testing regime. This statement is included in Appendix A.

Q2.1. Do you support the Authority's proposal to insert the purpose of subpart 5A before existing clause 13.236A?

Please explain your answer.

Q2.2 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)?

### The stress test horizon is short-term and does not include longer-term risks

- 2.8. The stress test regime was designed to address risk such as near-term droughts or temporary capacity shortages. In its current iteration the stress test regime does not address longer term issues, such as investment delays or demand growth.
- 2.9. The Authority is proposing to amend the Code to extend the time horizon from the coming quarter to 12 quarters (3 years) to provide more information about longer-term risks, and to ensure disclosing participants are considering these longer-term risks. This includes a separate methodology for the longer time periods (for assessing volumes and prices).
- 2.10. For quarters 2 to 12 of the reporting period, the Authority is proposing disclosing participants report the percentage of projected annual purchase volume for each of the projected years that is hedged by either hedged positions or physical resources. The new methodology will be updated in the *Stress testing regime — stress tests Base case, stress tests and application notes guidance*, published under clause 13.236D of the Code. For the proposed methodology see the updated guidance contained in appendices B and C.
- 2.11. The Authority views this extended horizon as a necessary change to help ensure disclosing participants are considering longer term price risks. This will enable them to better identify, mitigate and reduce risks, leading to greater efficiency in the electricity industry for the long-term benefit of consumers.

Q2.3. 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.

Q2.4. Do you support the Authority's proposal to introduce a simplified and separate methodology for quarters beyond the next quarter?

Please explain your answer.

### **The stress tests do not allow disclosing participants to understand their relative position to the market**

- 2.12. The current stress testing regime does not provide disclosing participants with individual results to assess their risk management position relative to the market, making 'benchmarking' impossible.
- 2.13. The current EMI dashboard only displays summary results from the stress tests as a 'sector aggregate', making comparison with similar businesses impossible. The results include measures for cash flow, shareholder equity and target cover ratio for each test.
- 2.14. Finally, the disclosure statements make no explicit reference about the representation being made by signatories.
- 2.15. In summary, participants are only required to, and only able to, consider their absolute risk. The current data reporting from the registrar and the Authority should be updated to allow disclosing participants to consider their relative risk. The Authority expects to see greater engagement with the regime as a result of these changes.
- 2.16. The Authority is proposing to:
- (a) require the stress test registrar to directly send a disclosing participant their actual results against the anonymised aggregate results
  - (b) change the existing EMI reporting to provide an additional field to identify the sector (generator/gentailer, non-integrated retailer, industrial purchaser)
  - (c) amend clause 13.236F(1) of the Code to require the board of the disclosing participant to confirm that the disclosing participant has complied with clause 13.236E(1).<sup>4</sup>

Q2.5. Do you support the Authority's proposal to require the registrar to send disclosing participants 'you are here' reports?

Please explain your answer.

Q2.6. Do you support the Authority's proposal to change the EMI reporting to provide additional information?

Please explain your answer.

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<sup>4</sup> "I \_\_\_\_\_ being a [director/officer] of \_\_\_\_\_ certify that, having made all reasonable enquiry, to the best of my knowledge, the information containing in this Disclosure Statement in all material respects complies with the requirements of clause 13.236E of the Electricity Industry Participation Code."

Q2.7. 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 current stress test methodology is complex

- 2.17. MDAG stated the stress test methodology is complex and translating risk parameters contained in policy documents into simple numerical ratios can be difficult.
- 2.18. Despite this, the Authority considers these ratios valuable, and many participants have stated they see value in this information, as it provides industry information on risk in the market and allows participants one way in which to quantify their risk. The Authority believes this contributes to efficient functioning of the market.
- 2.19. Therefore, the Authority is proposing to require disclosing participants to continue to disclose target hedge cover for the next quarter and to introduce a new obligation to disclose their actual hedge cover for the current quarter. The Authority will publish anonymised reporting on EMI. The calculation methodology for actual cover ratio is in appendices B and C.
- 2.20. The Authority is proposing to amend clause 13.236F(1) to require a broader qualitative disclosure about company risk management policy, which would be facilitated by the 'you are here' reporting, and to ensure the Board actively monitor compliance with the policy. These disclosures would be contained in the *Certificate of spot price risk disclosure statement* issued under clause 13.236F(1).
- 2.21. The Authority is also proposing to simplify the methodology used to calculate each of the stress tests. See the updated guidance set out in appendices B and C.

Q2.8. 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.

Q2.9. Do you support the Authority's proposed changes to the stress test methodologies?

Please explain your answer.

Q2.10. Do you support the Authority's proposal to require disclosing participants to provide target and actual cover ratios and for the Authority to publish this information anonymously?

Please explain your answer.

### Transitioning to the new stress test regime

- 2.22. To ensure disclosing participants have time to adjust systems to the new stress testing regime, the Authority is proposing allowing disclosing participants to use either the old or new tests in their reporting for the 2025 third quarter. The old tests will be completely phased out for 2025 fourth quarter reporting.

Q2.11. Do you agree with the transition plan and a quarter-long transition period?

Please explain your answer.

## Regulatory statement

### Objectives of the proposed amendments

- 2.23. The objective of the proposed amendment is to ensure the stress testing regime is fit for purpose in a renewables-based system. The proposed Code amendments and supporting changes seek to do so by:
- (a) ensuring all participants are aware of the purpose and intent of the stress test regime
  - (b) extending the horizon of the stress test to incorporate more risks associated with renewable energy
  - (c) providing participants with more information to understand their relative risk position and to ensure participants are pro-actively monitoring their position
  - (d) reducing the complexity and burden of compliance where appropriate.

### Evaluation of the costs and benefits of the proposed amendment

#### Benefits

- 2.24. The primary benefit of each proposal is to clarify incentives of risk management, leading to more efficient investment and ultimately lower prices for consumers.
- 2.25. Efficient risk management will also assist with, though not guarantee, market participants are more resilient to shocks.

#### Costs

- 2.26. The primary costs of implementing this proposal are any business processes that must be changed to calculate the new stress tests. The Authority expects this to be minimal, as the tests are set to be simplified. There are also ongoing costs as the changes will slightly increase regulatory burden for boards/directors.
- 2.27. The registrar will incur costs to establish internal processes to send 'you are here' reports to disclosing participants.
- 2.28. The Authority will incur negligible costs to change the EMI dashboard reporting.

### Evaluation of alternative means of achieving the objectives of the proposed amendment

Alternative considered	Reason not preferred
The Authority has not identified any alternatives to achieve the objective	N/A

## Assessment of the proposed Code amendment against section 32(1) of the Act

- 2.29. The Authority considers that the proposed amendments are consistent with section 32(1) of the Act because ensuring the stress test regime is fit for purpose will promote the following limbs of the Authority's main objective:
- (a) competition in the electricity industry by clarifying incentives and driving efficient investment decisions
  - (b) the reliable supply of electricity to consumers through incentivising disclosing participants actively monitor their absolute and relative risk positions.
- 2.30. The Authority also considers that the proposed amendments will affect the third limb of its main objective, efficiency. The proposed changes aim to ensure participants engage more closely with their risk management processes. The Authority's view is that efficient risk management, whatever that may mean for a participant, will improve their efficiency, and therefore the operation of the market as a whole. The proposed amendments do not relate to dealings between participants and domestic consumers or small business consumers and therefore the Authority's additional objective (to protect the interests of these groups) is not engaged.

## Assessment of the proposed Code amendment against Code amendment principles

- 2.31. The Authority is satisfied the proposed Code amendments are consistent with the Code amendment principles. In particular, the proposed Code amendments:
- (a) address a problem created by the existing Code requiring an amendment.
  - (b) provides an efficiency gain in the electricity industry for the long-term benefit of consumers.

Q2.12. 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.

Q2.13. Do you agree with the analysis presented in this Regulatory Statement? If not, why not?

### 3. Extending the trader default provisions to all retailers to protect all consumers

#### The existing arrangements

- 3.1. The wholesale market relies on purchasers to pay their settlement and prudential security amounts by the times specified in the Code.<sup>5</sup> This permits the clearing manager to pay generators.
- 3.2. If a trader does not pay the clearing manager, then the trader is in default.<sup>6</sup> If the trader is responsible for ICPs in the registry, the Authority starts the 'trader default' process in Schedule 11.5 of the Code to transition all the ICPs to other non-defaulting traders. As these ICPs are still incurring debt in the wholesale market for the electricity the consumers are using, this process minimises any losses and ensures no consumers are disconnected.
- 3.3. The trader default regime also includes a provision for distributors to request the Authority invoke the trader default process where a trader has not paid their lines invoices.<sup>7</sup>

#### Problem definition — no provision for retailers defaulting to other traders

- 3.4. There is a type of retailer that buys their electricity from another retailer rather than from the wholesale market. These retailers are known as 'type 2 retailers' and the retailer they buy their electricity from is known as a 'type 1 retailer'. The advantage of this arrangement is the type 2 retailer does not need to set up the complex processes to trade in the wholesale market or manage the spot price risk. This allows the type 2 retailer to concentrate on product development and growing their customer base.
- 3.5. The type 1 retailer has the responsibilities and obligations for the wholesale market purchases and is responsible for the ICP in the registry.
- 3.6. If a type 2 retailer does not pay their invoices to the type 1 retailer, the type 1 retailer is still responsible for paying the wholesale market for the electricity consumed at the ICP. However, the consumer is likely paying their invoice to the type 2 retailer unaware the type 2 retailer is in default to the type 1 retailer.
- 3.7. The type 1 retailer can incur considerable losses, especially if it takes some time to pursue the debts through the courts. Under the Code the type 1 retailer's only recourse is to disconnect the ICP to prevent further losses. This is likely to be a shock for the consumer.
- 3.8. There is no provision in the Code to prevent these disconnections or to permit the type 1 retailer to invoke the trader default provisions to exit the defaulting retailer.

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<sup>5</sup> Part 14 (settlement) and Part 14A (prudential) of the Code

<sup>6</sup> Clause 14.41(1)(a) and (b) of the Code. See also cl 14.41(f) which applies to traders subject to prudential requirements that are unable to pay their debts as they fall due

<sup>7</sup> Conditions apply — clause 14.41(1)(h) and the definition of serious financial breach in Part 1 of the Code

## Proposal

3.9. The Authority is proposing two Code amendments to resolve these issues.

### Extend trader default to type 2 retailers

- 3.10. We propose to introduce provisions for type 1 retailers similar to those in place for distributors. We propose to introduce a new definition — “serious financial breach (trader/retailer)” with similar thresholds as for a distributor serious financial breach. To avoid potential confusion, we also propose renaming the current definition of serious financial breach to “serious financial breach (distributor/trader)”.
- 3.11. The event of default provisions in clause 14.41(1) will be extended to include serious financial breach (trader/retailer), and the trader default provisions in clause 11.15C will be extended to include serious financial breach (trader/retailer) as a trigger for the Schedule 11.5 provisions to transfer the ICPs.
- 3.12. Type 1 retailers offer a valuable service to the retail market and in doing so allow niche and innovative retailers to enter the market when the barriers to becoming a full type 1 retailer are too substantial.
- 3.13. The Authority acknowledges type 1 retailers are consciously accepting a business risk when accepting a type 2 retailer as a customer. However, type 1 retailers cannot accept unlimited losses otherwise they may price their type 2 service too high to cover the risk or withdraw this service entirely.

### Preventing disconnection of consumers

- 3.14. The consumer at the ICP is paying their invoice to the type 2 retailer, and often is unaware their retailer isn't paying the type 1 retailer. Permitting the type 1 retailer to disconnect such a consumer is not acceptable.
- 3.15. The Authority proposes to prohibit a type 1 retailer from disconnecting a type 2 retailer's ICPs while the trader default process is in progress.

Q3.1. 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.

## Regulatory statement

### Objectives of the proposed amendment

- 3.16. The objective of the proposed amendment is to give traders rights to limit potential losses at defaulting ICPs while ensuring consumers electricity supply is maintained.

### Evaluation of the costs and benefits of the proposed amendment

#### Benefits

- 3.17. The primary benefit of the proposal is to reduce costs for traders and increase reliable supply for consumers.
- 3.18. The proposal will reduce costs for traders by limiting the maximum potential losses if a type 2 retailer defaults. These costs could include legal fees and court action to obtain injunctions, statutory demands and orders to wind up the retailer. A trader is

more likely to recover any outstanding debts if the size of the debt is limited to the short period it takes to action the Authority's trader default process.

- 3.19. The primary benefit to consumers is to ensure the electricity supply is maintained while their retailer is exited from the market, and the process appoints a replacement retailer. There is a secondary benefit to consumers by encouraging type 1 retailers to keep the type 2 service available, increasing retail competition.

### Costs

- 3.20. The primary cost of implementing this proposal is negligible as there is no change needed for participants' systems. There is a one-off cost for type 2 retailers to make a change to their terms and conditions with their customers to permit the Authority to assign the contract in the case of a retailer default (serious financial breach (trader/retailer)). There is a one-off cost to make the necessary changes to the registry to allow a specified set of ICPs from a non-defaulting trader to enter the automated trader default process. This cost is to be confirmed, but likely to be less than \$50,000.

### Evaluation of alternative means of achieving the objectives of the proposed amendment

Alternative considered	Reason not preferred
The Authority has not identified any alternative means of achieving the objective	N/A

### Assessment of the proposed Code amendment against section 32(1) of the Act

- 3.21. The Authority considers that the proposed amendment is consistent with section 32(1) of the Act because extending the trader default provisions will promote:
- (a) competition in the electricity industry by encouraging traders to continue to offer services to type 2 retailers
  - (b) the efficient operation of the electricity industry by reducing costs for traders faced with defaulting type 2 retailers
  - (c) the reliable supply of electricity to consumers and protect the interests of domestic and small business consumers regarding the supply of electricity to those consumers by preventing disconnection of a consumer that is complying with their contract with their (type 2) retailer.
- 3.22. The Authority considers that the proposed amendment will have no effect on reliability of the power system as a whole.

### Assessment of the proposed Code amendment against Code amendment principles

- 3.23. The Authority is satisfied the proposed Code amendment is consistent with the Code amendment principles. In particular, the proposed Code amendment:
- (a) addresses a problem created by the existing Code requiring an amendment
  - (b) provides an efficiency gain in the electricity industry for the long-term benefit of consumers.

- Q3.2. 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.
- Q3.3. Do you agree with the analysis presented in this Regulatory Statement? If not, why not?



## 4. Introducing a back-up means of calculating wholesale prices to improve market confidence

### The existing arrangements — calculation of spot prices

#### The system operator produces schedule prices and sends these to the clearing manager

- 4.1. Prices and quantities for buying and selling electrical energy and instantaneous reserves (reserves) are determined on the wholesale electricity spot market for each half-hour trading period of every day.<sup>8</sup>
- 4.2. The system operator produces prices for energy and reserves from its market schedules and sends these to the wholesale information and trading system manager for publication on their platform (commonly known as WITS).
- 4.3. The system operator is required to create 'dispatch schedules' at least once every trading period. Dispatch schedules are used to determine how much participants are required to generate, consume, or provide spare capacity for instantaneous reserve in 5 minutes time.
- 4.4. The system operator is required to create Price-responsive schedules (PRSs) on two timescales:
  - (a) 'Short' schedules are produced every 30 minutes and forecast dispatch and prices for the next 4 hours
  - (b) 'Long' schedules are produced every 2 hours and forecast dispatch and prices for up to 36 hours ahead.
- 4.5. The clearing manager calculates spot prices based on market prices from dispatch schedules or PRSs, as described in the following section.
- 4.6. Prices in market schedules indicate the cost of meeting demand at around 220 pricing nodes across the country (known as the marginal cost of supply). This is typically based on bid and offer prices submitted by market participants. However, if demand is greater than the offered supply, market prices are determined using default, or 'scarcity' prices defined in the Code.

#### The clearing manager calculates spot prices based on schedule prices

- 4.7. As soon as practicable after the end of a trading period, the clearing manager is required to determine interim prices for energy and reserve by:
  - (a) if at least one dispatch schedule has been made available on WITS for the trading period, calculating the time-weighted average of prices made available on WITS from dispatch schedules for the given trading period

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<sup>8</sup> Reserves are flexible generation or consumption made available to quickly rebalance supply and demand following a sudden and unexpected loss of generation or transmission. Reserves are procured to ensure a continuous supply of electricity to consumers.

- (b) if no dispatch schedule has been made available on WITS for the trading period, using the forecast price from the most recent PRS run for the given trading period that was made available on WITS.
- 4.8. Interim prices for energy and reserve become the final spot prices the following business day if no pricing error has been claimed.<sup>9</sup> If a pricing error is claimed, this could lead to a delay of several days in determining final spot prices.<sup>10</sup> Pricing errors are, however, rare.
- 4.9. Final prices may also be subject to change should the Authority determine an undesirable trading situation (UTS) has occurred.<sup>11</sup> UTS investigations are also rare.

**Problem definition — there is no means for pricing if dispatch and PRS prices are not available**

- 4.10. Under the existing Code, there is no process for calculating spot prices for energy or reserves for a given trading period if there are no dispatch schedule or PRS prices made available on WITS. This could only occur in extreme circumstances that disrupt the publication of schedule information on WITS for longer than 36 hours.
- 4.11. Publication of schedule information on WITS may be disrupted for more than 36 hours following an island or nation-wide power outage, for example. This could occur because:
- (a) the system operator may not produce market schedules as their attention would be focused on managing the restoration of the power system using backup scheduling tools
  - (b) the delivery of schedule information from the system operator to the WITS manager may be compromised due to an internet service provider outage
  - (c) the WITS manager may not be able to publish market schedules due to a power or internet outage.
- 4.12. Should this happen, the lack of market settlement pricing for generators and purchasers would threaten confidence in the wholesale market. Under current arrangements, the Authority expects it would need to declare an Undesirable Trading Situation (UTS) to determine settlement prices.

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<sup>9</sup> Under the Code, a pricing error occurs if the clearing manager has failed to follow its required process under the Code

<sup>10</sup> If a pricing error has been claimed, then the clearing manager may investigate the claim and advise the Authority of its findings. The Authority must then decide whether a pricing error has occurred and advise the clearing manager. This process must be completed by 5pm on the 5th business day after the trading period for which interim prices were calculated.

If the Authority determines no pricing error occurred, then interim prices become final prices. If the Authority determines a pricing error has occurred, then the clearing manager must recalculate interim prices. People then have opportunity to claim another pricing error before prices are finalised.

<sup>11</sup> Under the Code, a UTS is a situation that threatens the confidence in, or integrity of, the wholesale market and cannot be resolved using current mechanisms under the Code. The Authority must commence investigation of a possible UTS within ten days of when it suspects the UTS may have occurred. The Authority has no time limit, however, on deciding whether and what corrective action is required for a potential UTS.

- 4.13. A UTS would include consultation with stakeholders and may take some weeks or months to resolve (depending on complexity). This would create additional costs for the Authority and stakeholders and could significantly delay market settlement. The lack of price certainty during the disruption may also influence the decisions consumers, generators and ancillary service providers make in providing resources to restore the power system.

## Proposal

- 4.14. The Authority is proposing to amend the Code to provide the clearing manager with a back-up means of calculating interim energy and reserve prices if the two existing means (using prices from dispatch schedules or PRSs) are not available. In such cases, the clearing manager would be required to use the final prices for energy and reserve from an 'equivalent trading period'.
- 4.15. Under our proposal, an equivalent trading period is determined by looking back week by week until no exclusion conditions apply to the candidate period for that week. The exclusion conditions, however, are likely to only apply rarely. The equivalent period, therefore, would typically come from the previous week.
- 4.16. Specifically, an 'equivalent trading period' is the most recent previous trading period:
- (a) that has the same start time as the trading period for which an alternative means of pricing is required, and:
    - (i) if the trading period for which an alternative means of pricing is required is not a national holiday, falls on the same day of the week
    - (ii) if the trading period for which an alternative means of pricing is required is a national holiday, falls on a Sunday (as Sundays have a similar demand profile to national holidays)
  - (b) that does not include any period:
    - (i) for which a final price for energy or reserve (as the case may be) is not available to the clearing manager, eg, due to a pricing error claim that has not yet been resolved
    - (ii) that falls on a national holiday (as the demand profile of national holidays are different to normal days)
    - (iii) in respect of which the Authority has decided to investigate, and is yet to resolve, a potential UTS
    - (iv) for which scarcity values were not assigned in determining any of the schedule prices that were used in calculating the interim price for energy or reserve (as the case may be).

### Example 1 — when an alternative means of pricing is required for a period that does not fall on a national holiday

- 4.17. If an alternative means of pricing is required for the trading period starting at 5.00am on Friday 31 January, the equivalent trading period would be the trading period starting at 5.00am on Friday 24 January unless one of the exclusion conditions in paragraph 4.16(b) applied to that period. If an exclusion condition applied, the trading period starting at 5.00am on Friday 17 January would be used instead, unless an exclusion condition also applied to that trading period. This process of

looking back to the next most recent Friday would continue until a 5.00am period was found that did not meet any exclusion condition.

### **Example 2 — when an alternative means of pricing is required for a period that falls on a national holiday**

- 4.18. If an alternative means of pricing is required for the trading period starting at 7.00pm on Thursday February 6 (Waitangi day), the equivalent trading period would be the trading period starting at 7.00pm on Sunday 2 February unless one of the exclusion conditions in paragraph 4.16(b) applied to that period. If an exclusion condition applied, the trading period starting at 7.00pm on Sunday 26 January would be used instead, unless an exclusion condition also applied to that trading period. This process of looking back to the next most recent Sunday would continue until a 7.00pm period was found that did not meet any exclusion condition.

### **Daylight savings**

- 4.19. The proposed amendment accounts for potential daylight savings issues in cases where the pricing period started at 2.00am or 2.30am, as follows:
- (a) Days when New Zealand transitions to daylight savings time would not be included in the set of equivalent periods because there is no 2.00am or 2.30am on such days. The price for such pricing periods would therefore be taken from the most recent prior week that did not include the daylight savings day (subject to the exclusion conditions in paragraph 4.16(b)).
  - (b) Days when New Zealand transitioned away from daylight savings time would have two potential equivalent periods because 2.00am or 2.30am occur twice. Where none of the exclusion conditions under paragraph 4.16(b) apply for either occurrence, prices from the second occurrence would be preferred because they are more recent.
- 4.20. The proposed Code amendment is in Appendix E.

Q4.1. Do you support the Authority's proposal?

Please explain your answer.

## **Regulatory statement**

### **Objectives of the proposed amendment**

- 4.21. Overall, the Authority's proposal aims to enable:
- (a) consumers that respond to spot prices to make more efficient decisions on how much electricity to consume and when
  - (b) a more affordable supply of electricity to consumers by reducing the costs of operating the market, including by enabling generators and ancillary service providers to make more efficient decisions about providing resources to restore the power system
  - (c) a shorter disruption of consumers' power supply during system restoration by enabling generators to make their plant available earlier.

- 4.22. This section provides the detailed objectives of the proposal and how they reduce costs for operating the market or enable faster and more efficient decisions.
- 4.23. The Authority seeks to address the issue of there being no means of calculating interim prices if the two current means (using prices from dispatch schedules or PRSs) are unavailable, by providing for a back-up means of pricing that:
- (a) **helps avoid a UTS.** This helps avoid costs to the Authority and participants associated with consulting on, determining and administering prices under a UTS.
  - (b) **uses a simple process for the clearing manager.** This ensures the cost of required upgrades to service provider tools and processes are relatively low. We consider this is appropriate for a process that would very rarely be used.
  - (c) **results in price certainty.** Along with helping prevent a potential delay in settlement due to a UTS, this helps minimise disruption to wholesale market participants' financial processes. This helps them save on administrative costs as well as potentially preventing costs for small generators to attain additional financing to manage short term cash flow requirements.
  - (d) **results in prices that are a reasonable reflection of the marginal cost of supply.** This ensures generators and ancillary service agents are reasonably compensated for their services. Along with providing price certainty, it also allows generators, consumers and ancillary service providers that are exposed to spot prices to make faster and more efficient operational decisions. For example, a large industrial consumer can decide whether to consume electricity based on whether they would make a profit from the sale of their product when paying for electricity at the given price.
- 4.24. The table below provides detail on how specific aspects of our proposal meet these objectives.

Aspect of proposal	Rationale
Using previous <i>final</i> prices (as opposed to using prices that are still interim) from a period that is not subject to a UTS investigation.	This helps ensure price certainty.
Not using scarcity prices.	This helps ensure that prices are a reasonable reflection of the marginal cost of supply. Scarcity prices can be significantly higher than the marginal cost of supply in near scarcity situations. A scarcity price in a recent week is unlikely to be a reasonable reflection of the marginal cost of supply because scarcity prices are expected to be rare in a competitive market.
Using the most recent available prices.	We consider recent prices are a reasonable reflection of the marginal cost of supply because supply and demand vary depending on seasonal weather and annual climate conditions.
<p>If the pricing period is not a national holiday, using the price from a day that is on the same day of the week and is not a national holiday.</p> <p>If the pricing period is a national holiday, using the price from a Sunday.</p>	<p>We consider these aspects of our proposal will help ensure prices are a reasonable reflection of the marginal cost of supply. This is because daily supply and demand profiles vary depending on the day of the week and whether the day is or is not a national holiday. It is also because the profile of demand on a national holiday is typically similar to that on a recent Sunday.</p>

### Evaluation of the costs and benefits of the proposed amendment

4.25. We consider our proposed amendment provides operational efficiency benefits that outweigh the low cost of clearing manager tool and process upgrades required to implement our proposal.

#### Benefits

4.26. We have evaluated the benefits of our proposal by comparing against the expected status quo scenario. Under the status quo, we expect prices would be determined by the Authority following a UTS investigation if the existing means of pricing were unavailable. While these prices would likely be a reasonable reflection of the marginal cost of supply, participants would not be able to predict them when making decisions to consume, generate, or provide ancillary services.

4.27. The Authority considers its proposal would provide direct benefits to consumers that respond to spot market signals. This is because they would be able to make efficient decisions, based on predictable prices, on whether and how much electricity to consume.

- 4.28. We consider our proposal would also enable indirect benefits to consumers by providing for a reduction in the costs of operating the market, which could potentially lower their retail bill compared to the status quo. This is because our proposal enables generators and ancillary service agents to make efficient operational decisions, helps save on costs associated with a UTS and minimises disruption to participants' financial processes.

### **Costs**

- 4.29. The primary cost of implementing this proposal results from the changes required to the clearing manager's tools and processes. We expect these costs to be low because our proposal provides for a simple process, by design.

## Evaluation of alternative means of achieving the objectives of the proposed amendment

Alternative considered	Reason not preferred
<p>Determining back-up prices based on system conditions. This could either be by creating a market model or by finding a price from a previous day based on some similarity in supply and/or demand conditions.</p>	<p>We consider this could be complex and costly, and therefore may not adequately meet our objective of using a simple process.</p>
<p>Different ways of finding an equivalent period from which to base prices. For example, instead of basing it on the same day of the week, it could be based on the most recent day of a similar type — eg, weekday or weekend. This may result in prices that better reflect the marginal cost of supply because in most cases it would result in more recent prices being used.</p>	<p>It is not clear whether this method would result in prices that more accurately reflect the marginal cost of supply compared to our proposal. While it would typically result in more recent prices being used, our proposal uses prices from a more similar type of day (the same day of the week).</p> <p>Our proposal, however, uses a simpler method to determine prices, allowing for greater price certainty and a simpler process for the clearing manager.</p> <p>We therefore consider our proposal provides a better balance between our objectives.</p>
<p>Different ways of finding an equivalent period in cases where the corresponding period of the previous week had scarcity prices, occurred during a UTS period, still had interim prices, or did not exist due to transition to daylight savings (ie, because there is no 2.00am or 2.30am on the transition day). In these cases, our proposal would use prices from the next most recent week for which these conditions did not hold. An alternative method that found an equivalent period not so far in the distant past could result in prices that better reflect the marginal cost of supply in such instances.</p>	<p>We consider that this would add complexity to the process of determining prices, compromising on our objective of having a simple process. We do not consider this is justified given the additional process would only be required when rare conditions hold.</p>



### **Assessment of the proposed Code amendment against section 32(1) of the Act**

- 4.30. The Authority considers that the proposed amendment is consistent with section 32(1) of the Act because it would promote the efficient operation of the electricity industry. This is because the proposal
- (a) enables efficient operating decisions by providing predictable prices that are a reasonable reflection of the marginal cost of supply
  - (b) avoids the costs and disruption to market operations associated with a UTS.
- 4.31. The Authority considers that the proposed amendment will have no effect on competition, reliability, or protecting the interests of domestic and small business consumers regarding the supply of electricity to those consumers.

### **Assessment of the proposed Code amendment against Code amendment principles**

- 4.32. The Authority is satisfied the proposed Code amendment is consistent with the Code amendment principles. In particular, the proposed Code amendment:
- (a) addresses a problem created by the existing Code requiring an amendment
  - (b) provides an efficiency gain in the electricity industry for the long-term benefit of consumers.

Q4.2. 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 statutory objectives in section 15 of the Electricity Industry Act 2010.

Q4.3. Do you agree with the analysis presented in this Regulatory Statement? If not, why not?

# Appendix A Proposed Code amendment: Updating the stress test regime to reduce risk to consumers and security of supply

## Part 13 Trading arrangements

### Subpart 5A Spot price risk disclosure

#### **13.236AB Purpose of spot price risk disclosure**

The purpose of this subpart is:

- (a) to promote awareness by each **disclosing participant** of its exposure to spot price risk:
- (b) to encourage each **disclosing participant** to take active steps to prudently and proactively manage its exposure to spot price risk:
- (c) to emphasise that each **disclosing participant** is responsible for the extent to which it is exposed to spot price risk:
- (d) to set out reporting requirements that ensure the stress testing regime is fit for purpose in a renewables-based system:
- (e) to provide the **Authority** with more information on which to assess long-term issues and risks for the purposes of its objectives in section 15 of the **Act** and its functions in section 16 of the **Act**.

#### **13.236A Disclosing participants must prepare and submit spot price risk disclosure statements**

- (1) Each **disclosing participant** must prepare a **spot price risk disclosure statement** for each quarter beginning 1 January, 1 April, 1 July, and 1 October in each year.
- (2) Each **participant** who will be a **disclosing participant** in the next quarter must prepare a **spot price risk disclosure statement** for the next quarter and the following 11 quarters ~~that quarter~~ in accordance with this subpart.
- (3) The **disclosing participant** must submit the **spot price risk disclosure statement** to the person appointed by the **Authority** to receive **spot price risk disclosure statements** no later than 5 **business days** before the beginning of the quarter to which the statement relates.
- (4) A **participant** is not required to comply with this clause for a quarter if it is a **disclosing participant** in relation to the quarter only because it is subject to a **wash-up** in that quarter.

...

#### **13.236F Certification of spot price risk disclosure statement**

- (1) A **disclosing participant** who has submitted a **spot price risk disclosure statement** in accordance with this subpart must certify to the **Authority**—

- (aa) that the board of the **disclosing participant** confirms that the **disclosing participant** has complied with the **spot price risk disclosure statement** requirements in clauses 13.236A and 13.236E; and
- (a) that the board of the **disclosing participant** has considered—
- (i) every **spot price risk disclosure statement** submitted under this subpart by the **disclosing participant** in the period to which the certification relates; and
  - (ii) the projected change in net cash flows from operating activities of the **disclosing participant** as a result of applying the **stress test** or **stress tests** that relate to each period to which each **spot price risk disclosure statement** relates; and
- (b) that the **disclosing participant** has provided to each of the **disclosing participant's** customers who, in the period to which the certification relates, has entered into or renewed a contract with the **disclosing participant** that results in any **electricity** supplied to the customer being determined directly by reference to the **final price** at a **GXP**, information to enable the customer to consider the outcomes of applying the **stress test** or **stress tests** to the customer-; and
- (c) if the **disclosing participant** has an explicit risk management policy in respect of its exposure to the **wholesale market**, that the board of the **disclosing participant**—
- (i) has approved the policy; and
  - (ii) considers the policy to be appropriate for **disclosing participant's** requirements, having regard to all the relevant factors, including the nature of price volatility in electricity spot markets, the **disclosing participant's** business scope, physical assets and financial resources; and
  - (iii) actively monitors the **disclosing participant's** compliance with the policy; and
  - (iv) has reviewed the policy in the last 3 years.

## **Appendix B Amended stress testing regime guidance (redline version)**

This Appendix is attached separately

## **Appendix C Amended stress testing regime guidance (clean version)**

This Appendix is attached separately

## Appendix D Proposed Code amendment: Extending the trader default provisions to all retailers to protect all consumers

NOTE: The Authority has proposed some changes to clauses 11.5B and 11.15C, and to Schedule 11.5 as part of its Code Review Programme #6 (CRP#6). The Authority has not yet made a decision on these proposed changes. The proposed amendments below are written on the Code as it is on the date the Code Amendment Omnibus consultation was published (ie, without the changes proposed in CRP#6). If the Authority makes the changes as part of its decision on CRP#6, then the below proposed amendments will be integrated with those changes, as those changes are not material to the intent of this Omnibus proposal.

### Part 1 Preliminary provisions

#### 1.1 Interpretation

(1) In this Code, unless the context otherwise requires,—

...

**serious financial breach (distributor/trader)** means a failure by a **retailer**—

- (a) to pay to a **distributor** an amount due and owing that exceeds the greater of \$100,000 or 20% of the actual charges payable by the **retailer** for the previous month, unless the amount is genuinely disputed by the **retailer**; or
- (b) to pay to a **distributor** 100% of the actual charges payable by the **retailer** for the previous two months, unless the amount is genuinely disputed by the **retailer**; or
- (c) to comply with the prudential requirements under a **distributor agreement** between the **retailer** and a **distributor**.

**serious financial breach (trader/retailer)** means a failure by a **retailer**—

- (a) to pay to a **trader** an amount due and owing that exceeds the greater of \$100,000 or 20% of the actual charges payable by the **retailer** for the previous month, unless the amount is genuinely disputed by the **retailer**; or
- (b) to pay to a **trader** 100% of the actual charges payable by the **retailer** for the previous two months, unless the amount is genuinely disputed by the **retailer**; or
- (c) to comply with the prudential or security requirements under the agreement for the supply of **electricity** between the **retailer** and a **trader**.

...

### Part 11 Registry information management

#### 11.1 Contents of this Part

This Part—

...

- (h) prevents **traders** from **electrically disconnecting** an **ICP** within 25 days of the termination of an agreement with a **retailer** relating to the supply of **electricity** at that **ICP**.

...

### 11.15B Trader **and retailer** contracts with customers to permit assignment by Authority

- (1) Each **trader or retailer** must at all times ensure that the terms of each contract under which a customer of the **trader or retailer** purchases **electricity** from the **trader or retailer** permit—
  - (a) the **Authority** to:
    - (i) assign the rights and obligations of the **trader** under the contract to another **trader** if the **trader** commits an **event of default** under paragraph (a) or (b) or (f) or (h) of clause 14.41(1); **or**
    - (ii) assign the rights and obligations of the **retailer** under the contract to a **trader** if the **retailer** commits an **event of default** under paragraph (j) of clause 14.41(1); and
  - (b) the terms of the assigned contract to be amended on such an assignment to—
    - (i) the standard terms that the recipient **trader** would normally have offered to the customer immediately before the **event of default** occurred; or
    - (ii) such other terms that are more advantageous to the customer than the standard terms, as the recipient **trader** and the **Authority** agree; and
  - (c) the terms of the assigned contract to be amended on such an assignment to include a minimum term in respect of which the customer must pay an amount for cancelling the contract before the expiry of the minimum term; and
  - (d) the **trader or retailer** to provide information about the customer to the **Authority** and for the **Authority** to provide the information **provided by**:
    - (i) the **trader** to another **trader** if required under Schedule 11.5; or
    - (ii) the **retailer** to a **trader** if required under Schedule 11.5; and
  - (e) the:
    - (i) **trader** to assign the rights and obligations of the **trader** to another **trader**;  
**or**
    - (ii) **retailer** to assign the rights and obligations of the **retailer** to a **trader**.

...

### 11.15C Process for trader **or retailer** events of default

- (1) This clause applies if the **Authority** is satisfied that a **trader** has committed an **event of default** under paragraph (a) or (b) or (f) or (h) of clause 14.41(1).  
(1A) This clause applies if the **Authority** is satisfied that a **retailer** has committed an **event of default** under paragraph (j) of clause 14.41(1).
- (2) The **Authority** and each **participant** must comply with Schedule 11.5.
- (3) This clause ceases to apply, and the **Authority** and each **participant** must cease to comply with Schedule 11.5, if the **Authority** is advised under clause 14.41(2), 14.41(3), 14.43(3B), or 14.43(4A) that the relevant **participant** considers that the **event of default** has been remedied.

...

### Restrictions on electrical disconnection

#### 11.37 Restrictions on electrical disconnection

- (1) This clause applies if:
  - (a) a **retailer** has a contract to supply **electricity** to a **consumer** at an **ICP**; and
  - (b) the **retailer** is not the **trader** recorded in the **registry** as being responsible for the relevant **ICP** (the responsible **trader**).
- (2) The responsible **trader** must not electrically disconnect the **ICP**:

- (a) if its agreement with the **retailer** for the supply of electricity to the relevant **ICP** has not been terminated; or
- (b) earlier than 25 days after the date the agreement for the supply of **electricity** to the relevant **ICP** is terminated if the responsible **trader** terminates its agreement with the **retailer** for the supply of **electricity** to the relevant **ICP** for **serious financial breach (trader/retailer)**.

...

## Schedule 11.5 Process for trader or retailer event of default

### 1 Purpose

The purpose of this Schedule is to set out the process that the **Authority** and each **participant** must comply with when the **Authority** is satisfied that a **trader or retailer** has committed an **event of default** under paragraph (a) or (b) or (f) or (h) or (j) of clause 14.41(1).

### 2 Notice to trader or retailer who has committed event of default

- (1) If the **Authority** is satisfied that a **trader** ("defaulting trader") or retailer ("defaulting retailer") has committed an **event of default** under paragraph (a) or (b) or (f) or (h) or (j) of clause 14.41(1) the **Authority** must give written notice to a the defaulting trader or defaulting retailer that—
  - (a) the defaulting **trader or defaulting retailer** must—
    - (i) remedy the **event of default**; or
    - (ii) for a trader that has committed an event of default under clause 14.41(1)(a) or (b) or (f) or (h), assign its rights and obligations under every contract under which a customer of the defaulting **trader** purchases **electricity** from the defaulting **trader** to another **trader**, and assign to another **trader** all **ICPs** for which the defaulting **trader** is recorded in the **registry** as being responsible; or
    - (iii) for a retailer that has committed an event of default under clause 14.41(1)(j), assign its rights and obligations under every contract under which a customer of the retailer purchases electricity from the retailer to a trader; and
  - (b) if the defaulting **trader or defaulting retailer** does not comply with the requirements set out in paragraph (a) within 7 days of the notice, clause 4 will apply.
- (2) The **Authority** may give written notice to the defaulting **trader or defaulting retailer** requiring the defaulting **trader or defaulting retailer** to provide to the **Authority**, within a time specified by the **Authority**, information about the defaulting **trader's or defaulting retailer's** customers.
- (3) The defaulting **trader or defaulting retailer** must provide the information requested by the **Authority** under subclause (2) within the time specified by the **Authority**.

...

### 3A Authority may require notifying trader to provide information

- (1) The **Authority** may, by notice in writing to the **trader** that notified the **Authority** under clause 14.41(1)(j), require the **trader** to provide to the **Authority** the information



specified in the notice about the defaulting **retailer's ICPs** within the period specified in the notice.

- (2) If the **trader** holds the information, the **trader** must provide the information to the **Authority** within the time specified by the **Authority**.

...

## Part 14 Clearing and settlement

...

### 14.41 Definition of an event of default

- (1) Each of the following constitutes an **event of default**:

...

- (h) termination of a **trader's distributor agreement** with a **distributor** because of a **serious financial breach (distributor/trader)** if—
- (i) the **trader** continues to have a customer or customers purchasing **electricity** from the **trader** on the **distributor's local network** or **embedded network**; and
  - (ii) there are no unresolved disputes between the **trader** and the **distributor** in relation to the termination; and
  - (iii) the **distributor** has not been able to remedy the situation in a reasonable time; and
  - (iv) the **distributor** gives notice to the **Authority** that this subclause applies:

...

- (j) termination of a **trader's** agreement with a **retailer** for the supply of **electricity** at an **ICP** because of a **serious financial breach (trader/retailer)** if—
- (i) the **retailer** continues to have a customer or customers purchasing **electricity** from the **retailer**; and
  - (ii) there are no unresolved disputes between the **trader** and the **retailer** in relation to the termination; and
  - (iii) the **trader** has not been able to remedy the situation in a reasonable time; and
  - (iv) the **trader** gives notice to the **Authority** that this subclause applies:

...

- (3) If a **trader**, having given notice under subclause (1)(j)(iv), considers that an **event of default** no longer exists, the **trader** must advise the **Authority** that it considers that the **event of default** has been remedied.

## Appendix E Proposed Code amendment: Introducing a back-up means of calculating wholesale prices to improve market confidence

### Part 13 Trading arrangements

...

#### 13.134A Methodology for calculating interim prices

The **clearing manager** must calculate **interim prices** and **interim reserve prices** for a **trading period** in accordance with the following formula:

$$I = \frac{\sum_{t=1}^n P_t \times (T_{t+1} - T_t)}{1800}$$

where

- I is the **interim price** or **interim reserve price**
- t is the sequential number of a **dispatch price** or **dispatch reserve price** in the set n in the **trading period**
- n is the total number of **dispatch prices** or **dispatch reserve prices** that apply during the **trading period**
- P<sub>t</sub> is the **dispatch price** or **dispatch reserve price** as made available on WITS that applies for the **trading period** at time T<sub>t</sub>
- T<sub>t</sub> is the start time of the sequential numbered t **dispatch price** or **dispatch reserve price** for the **trading period**, as made available on WITS

but

- (a) if there is no **dispatch price** or **dispatch reserve price** for t = 1 in a **trading period**, the **dispatch price** or **dispatch reserve price** (as the case may be) for the t = 1 period is the **forecast price** or **forecast reserve price** in the most recent **price-responsive schedule** received by the **clearing manager** prior to the start of the **trading period**; and
- (b) if there is also no **forecast price** or **forecast reserve price** under paragraph (a), the **dispatch price** or **dispatch reserve price** (as the case may be) for the t=1 period is the **final price** or **final reserve price** (as the case may be) from the equivalent trading period determined in accordance with clause 13.134B.

#### 13.134B Equivalent trading periods for interim prices where there is no forecast price or forecast reserve price

- (1) Subject to subclauses (2) to (4), the equivalent trading period will be the **trading period** that falls on the same day of the week and starts at the same time of the day as the t=1 period, in the week before the t=1 period, provided that **trading period** is not a **trading period**—

- (a) that falls on a **national holiday**; or
  - (b) that has no **final price** or **final reserve price** (as the case may be); or
  - (c) in respect of which the **Authority** has decided to investigate, and is yet to resolve, a **potential undesirable trading situation**; or
  - (d) for which the calculation of the **interim price** or **interim reserve price** (as the case may be) under clause 13.134A used a **dispatch price** or **forecast price**, or **dispatch reserve price** or **forecast reserve price** (as the case may be) from a **dispatch schedule** or **price-responsive schedule** that the **system operator** assigned price and quantity values to under clause 13.69AA or 13.58AA, respectively.
- (2) If subclause (1)(a) to (d) applies, the equivalent trading period will be the **trading period** that falls on the same day of the week and starts at the same time of the day as the t=1 period, in the week before the week before the t=1 period, and so on, until an equivalent trading period is arrived at that meets the requirements of subclause (1).
- (3) If the t=1 period falls on a **national holiday**—
- (a) the equivalent trading period will be the **trading period** that starts at the same time of day as the t=1 period on the closest previous Sunday to the **national holiday** in respect of which subclause (1)(a) to (d) does not apply; and
  - (b) if subclause (1)(a) to (d) applies to that Sunday, the equivalent trading period will be the **trading period** that starts at the same time of the day as the t=1 period on the next closest previous Sunday to the **national holiday**, and so on, until a Sunday is arrived at in respect of which subclause (1)(a) to (d) does not apply.
- (4) Where, due to daylight savings, the same time of the day does not exist or two such times exist—
- (a) if the same time of the day does not exist, the next most recent week's **trading period** must be used instead; and
  - (b) if more than one same time of the day exists, the most recent time must be used.

## Appendix F Format for submissions

<b>Submitter</b>	
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### Feedback on the omnibus format

Questions	Comments
Q1.1. Do you have any comments on the omnibus format or suggestions to improve the omnibus format? Please explain your answer.	

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

Questions	Comments
Q2.1. Do you support the Authority's proposal to insert the purpose of subpart 5A before existing clause 13.236A? Please explain your answer.	
Q2.2. 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)?	
Q2.3. 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.	
Q2.4. Do you support the Authority's proposal to introduce a simplified and separate methodology for quarters beyond the next quarter? Please explain your answer.	
Q2.5. Do you support the Authority's proposal to require the registrar to send disclosing participants 'you are here' reports? Please explain your answer.	
Q2.6. Do you support the Authority's proposal to change the EMI reporting to provide	

<p>additional information? Please explain your answer.</p>	
<p>Q2.7. 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.</p>	
<p>Q2.8. 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.</p>	
<p>Q2.9. Do you support the Authority's proposed changes to the stress test methodologies? Please explain your answer.</p>	
<p>Q2.10. Do you support the Authority's proposal to require disclosing participants to provide target and actual cover ratios and for the Authority to publish this information anonymously? Please explain your answer.</p>	
<p>Q2.11. Do you agree with the transition plan and a quarter-long transition period? Please explain your answer.</p>	
<p>Q2.12. 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.</p>	

Q2.13. Do you agree with the analysis presented in this Regulatory Statement? If not, why not?

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

Questions	Comments
Q3.1. 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.	
Q3.2. 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.	
Q3.3. Do you agree with the analysis presented in this Regulatory Statement? If not, why not?	

### Introducing a back-up means of calculating wholesale prices to improve market confidence

Questions	Comments
Q4.1. Do you support the Authority's proposal? Please explain your answer.	
Q4.2. 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 statutory objectives in section 15 of the Electricity Industry Act 2010.	
Q4.3. Do you agree with the analysis presented in this Regulatory Statement? If not, why not?	