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Submissions
Electricity Authority
Level 7, AON Centre
1 Willis Street
Wellington 6011

Via email: policyconsult@ea.govt.nz

SUBMISSION ON THE “OMNIBUS #5” CONSULTATION PAPER

The Electricity Retailers' Association of New Zealand ('ERANZ') welcomes the opportunity to provide feedback on the Electricity Authority's consultation paper 'Code amendment omnibus #5: stress test update, back-up pricing, trader default amendment' from February 2025.

ERANZ is the industry association representing companies that sell electricity to Kiwi households and businesses. Collectively, our members supply almost 90 per cent of New Zealand's electricity. We work for a competitive, fair, and sustainable electricity market that benefits consumers.

Executive summary

ERANZ strongly supports the proposed enhancements to the stress testing regime, as robust stress testing is fundamental to a well-functioning electricity market.

The events of August 2024, where wholesale electricity prices were elevated for several weeks, demonstrated the need for greater visibility and stronger engagement with the stress testing regime. Some industrial consumers were not adequately hedged and faced significant financial exposure despite stress-testing mechanisms being in place. The Electricity Authority did not explicitly reference the stress testing regime during the heightened political and media attention, which could have provided a clearer understanding of the known risks and market dynamics at play.

While ERANZ supports the Authority's proposals, we recommend additional steps to strengthen the impact of the stress testing regime. We encourage the Authority to:

- Be more vocal in communicating stress test results and their role in market stability.
- Be more rigorous in publishing compliance with stress testing requirements.
- Ensure stronger disclosure mechanisms are in place to highlight participants who risk failing to hedge appropriately.

ERANZ supports greater public communication during market events, including the Authority actively referencing stress testing results in public statements during price spikes to provide transparency and counteract misinformation.

ERANZ considers participants who consistently underperform in stress tests should be highlighted by the Authority and questioned as to what remedial actions the organisation plans to take.

Finally, the Authority should work proactively to educate Ministers, policymakers, and the media on the role of stress testing in ensuring market stability.

ERANZ appreciates the opportunity to provide feedback and looks forward to ongoing collaboration with the Authority to strengthen New Zealand's electricity market resilience.

We provide detailed responses to the Authority's consultation questions below.

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

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

Yes. Clearly articulating the purpose of the stress testing regime reinforces that participants are responsible for managing their own risk. This helps prevent misinterpretations that the Authority is providing a supervisory role over risk exposure.

Q2.2. Do you support the Authority's description of the proposed purpose of subpart 5A in a new clause 13.236AB?

Yes. ERANZ supports including a purpose statement to ensure participants understand that stress testing is a tool for their risk management, not a regulatory safety net.

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?

Yes. A longer time horizon is essential for identifying and managing long-term risks, particularly in a market increasingly reliant on renewable energy. This extension will help ensure that participants consider future price risks more comprehensively.

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

Yes. Simplification reduces compliance while ensuring meaningful risk assessment over the extended horizon.

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

Yes. Providing participants with their relative position compared to anonymised peers strengthens risk awareness and encourages prudent risk management.

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

Yes. Enhanced reporting with sector-based filtering will allow for better benchmarking and more informed decision-making.

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)?

Yes. Board-level engagement is crucial to ensuring that organisations take stress testing seriously.

Q2.8. Do you support the Authority's proposed changes to the stress test methodologies?

Yes. The proposed changes simplify calculations while maintaining their effectiveness, reducing compliance costs without sacrificing accuracy.

Q2.9. 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?

Yes. Requiring both target and actual hedge cover increases transparency and prevents under-hedging from being hidden until a market event occurs.

Q2.10. Do you agree with the transition plan and a quarter-long transition period?

Yes. The transition period provides enough time for participants to adapt while ensuring timely implementation of improvements. If any change to the timeline were to be made, we would support speeding up the implementation of these changes, given the importance of this work to a well-functioning market.

Q2.11. Do you agree the proposed amendment is preferable to the alternative options?

Yes. The proposed amendments strike a balance between improving market efficiency and minimising compliance costs.

Q2.12. Do you agree with the analysis presented in this Regulatory Statement?

Yes. The analysis correctly identifies current stress testing regime issues and outlines reasonable solutions.

Conclusion

ERANZ would like to thank the Authority for considering our submission.

Yours sincerely,

Kenny Clark
Policy Consultant