

# Update from the Chair

August 2024

## Reviewing wholesale electricity prices

Are wholesale prices higher than necessary and efficient, given the cost of generation?

Last month, we mentioned work MEUG was looking to scope on wholesale electricity pricing, focused on the causes of high prices and potential solutions. The intention is to look at the wholesale market holistically, rather than pre-determining any one element or factor and just looking at that. We had a lot of interest in the work and have spent time engaging with people throughout the wider industry and within government, in the hope that the end product informs debate and ultimately leads to better market outcomes for consumers. I would like to thank everyone who has contributed to date; your contributions have really helped us scope the work.

The key question is whether wholesale market prices are higher than necessary and efficient, given the cost of electricity generation (including the cost of capital). We won't be looking at whether retail pricing reflects wholesale fundamentals, partly because we understand others are commissioning work looking at that.

In looking at whether wholesale prices (both contract and spot) are higher than necessary, what explains any inefficiency, and what might be done to help bring wholesale prices down, the work will consider the changes in prices over the last ten years against changes in costs, demand and supply, and market structure over the same period. The work can then unpack factors which relate to market design and competition within that context. The work will be forward-looking, considering options that will address future expected conditions.

We cannot cover everything the work will look at in a single update, but some things include:

- The interaction between the spot and contract markets, which should provide useful insights into market performance and competitiveness
- The correlation between higher wholesale prices and tight reserve margins
- The interaction between competition and market design, e.g., prices in New Zealand are set at each node. Does this break New Zealand into a series of local sub-markets, with more limited competition in each submarket than may appear to be the case on the national basis
- Changes in costs, whether fuel prices, ETS prices, interest prices, etc., and the impact these have. The value of water is clearly an important consideration here
- The cost of both firming renewables and the extent that this drives the wholesale price and the market long-run marginal cost.

Once the work is underway, we expect it to take around three months or so to complete, meaning the final report should be available late this year. If you'd like to engage in or support this work, please feel free to reach out to Karen Boyes, our Executive Director at [karen@meug.co.nz](mailto:karen@meug.co.nz)

## Key dates

What's on	Who	When	Notes for members
<b>Conference:</b> ACCC regulatory conference	ACCC	1 – 2 Aug	Australian-based <a href="#">conference</a> that brings together industry participants, policy makers, academics and regulators from around the world
<b>Release:</b> Electricity allocation factor	Electricity Authority	2 Aug	The Authority has published its <a href="#">report</a> documenting the calculation of the electricity allocation factor. The electricity allocation factor is the estimated impact of the ETS on the price of electricity.
<b>Webinar:</b> 2024 emissions reduction monitoring report	Climate Change Commission	2 Aug	Public webinar on the Climate Change Commission's first-ever <a href="#">monitoring report</a> on New Zealand's emissions reduction efforts.
<b>Cross-submission:</b> DPP4 reset for EDBs	Commerce Commission	2 Aug	Consultation on the Commerce Commission's draft decision for the 2025 reset of the electricity default price-quality path ( <a href="#">DPP4</a> ). MEUG's submission and cross submission are available <a href="#">here</a> .
<b>Submission:</b> Proposed regime for CCUS	MBIE	6 Aug	<a href="#">Consultation</a> on the proposed regulatory regime for Carbon Capture Utilisation and Storage (CCUS). MEUG to prepare short submission.
<b>Submission:</b> Draft decision on Transpower opex	Commerce Commission	9 Aug	The Commission is <a href="#">consulting</a> on its draft decision on non-recurrent amount for Incremental Rolling Incentive Scheme (IRIS), a technical element of its RCP4 process for Transpower.
<b>Workshop:</b> Innovation workshop for DPP4	Commerce Commission	14 Aug	The Commission is holding an online workshop as a part of the <a href="#">DPP4 reset</a> process for EDBs to discuss the implementation design and application process for the innovation and non-traditional solutions allowance (INTSA).
<b>Submission:</b> Information disclosure review for EDBs	Commerce Commission	15 Aug	<a href="#">Consultation</a> on the Commission's draft decision – Information Disclosure (Input Methodologies Amendment Determination 2024). Submissions are due 15 August, with cross submissions by 3 September.
<b>Cross-submission:</b> Transpower ID requirements	Commerce Commission	15 Aug	<a href="#">Consultation</a> on amendments to Transpower information disclosure requirements 2024. MEUG submission <a href="#">here</a> with cross submissions due by 15 August.
<b>Submission:</b> Out of zone tree risks	MBIE	15 Aug	Consultation on the Ministry's proposal to amend the <a href="#">Electricity (Hazards from Trees) Regulations 2003</a> to address 'out-of-zone' tree risks.
<b>Submission:</b> Common quality requirements	Electricity Authority	20 Aug	<a href="#">Consultation</a> on the Authority's review of common quality requirements in the Code, with feedback sought on three consultation papers addressing frequency, voltage and harmonics.
<b>Submission:</b> Draft ERP2	Ministry for the Environment	21 Aug	<a href="#">Consultation</a> on draft proposals to inform the second emissions reduction plan on 17 July; submissions due 28 August, with webinars running during July / August.
<b>Meeting:</b> MEUG Executive Committee meeting	MEUG members	21 Aug	Online meeting of MEUG Executive Committee
<b>Submission:</b> Instantaneous reserve cost allocation	Electricity Authority	23 Aug	<a href="#">Consultation</a> on the Authority's proposal to update the way instantaneous reserve procurement costs are allocated to generators. Submissions due 23 August and cross submissions by 30 August.
<b>Event:</b> NZ Energy Excellence Awards	Freeman Media	28 Aug	Annual <a href="#">New Zealand Energy Excellence Awards</a> which will be held in Auckland. MEUG members Fonterra and NZAS are both finalists.
<b>Event:</b> SEANZ conference 2024	SEANZ	29 – 30 Aug	SEANZ two-day <a href="#">conference</a> , to be held in Auckland.