

20 December 2024

Sarah Gillies
Chief Executive
Electricity Authority
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Sent via email: rmr@ea.govt.nz

Dear Sarah

Risk management options for electricity retailers

1. This is a brief submission from the Major Electricity Users' Group (MEUG) on the Electricity Authority's (Authority) Issues Paper *Reviewing risk management options for electricity retailers*¹ published on 7 November 2024.
2. This submission does not contain any confidential information and can be published on the Authority's website unaltered. Members may lodge separate submissions. Given resourcing constraints, we have only provided high-level comments and seek to engage with the Authority in the New Year.

Welcome opportunity to comment on risk management review

3. MEUG welcomes the Authority undertaking this Risk Management Review. Access to affordable electricity, be it through spot prices or hedges, is a critical issue for the sector, as highlighted through the Commerce Act complaints made by non-integrated retailers in 2023 and was a driver for the establishment of the Energy Competition Task Force, following the extremely high prices in winter 2024.
4. We support the Authority seeking feedback on its preliminary findings, particularly given that *"the risk management review will provide an important evidence base for that first Task Force work package, allowing quicker progress and better targeting of that work."*² It is also reassuring that the Authority has sought input from the Commerce Commission to assist it with framing the issues and the type of competition analysis that would be most appropriate.
5. MEUG supports the preliminary findings from this review, that identifies that the market for shaped cover is *"neither deep or liquid"*. We endorse the Authority being open and transparent regarding where there are key uncertainties in the review:

"...it did not definitively show why some gentailers sometimes elected not to respond to requests for proposals for shaped hedges, or why some gentailers provided non-conforming responses...."

¹ https://www.ea.govt.nz/documents/5980/Reviewing_risk_management_options_for_electricity_retailers_issues_paper.pdf

² Page 5 of the Issues Paper.

Nor could we determine from evidence whether the prices of OTC super-peak hedges were consistent with competitive prices, and whether the increase in OTC super-peak prices (as a percentage of ASX baseload prices) that we observed over the assessment period is justified.”³

6. MEUG welcomes the acknowledgement that “some level of market power could have been in play” and therefore, there is a risk that the Authority should respond to. We agree that any actions or interventions need to avoid distorting the development and investment in other risk management options, which may be a partial substitute for the Over the Counter (OTC) contracts considered in this review. We look forward to discussing how these findings inform and shape the Energy Competition Task Force, and the Authority’s broader work programme.

Scope of the review was too narrow

7. While we welcome this Issues Paper, MEUG is disappointed that the scope of review was set too narrow to provide greater insight into the issues facing the electricity sector. By limiting the focus to the OTC market for independent retailers and the barriers to entry and expansion in the retail market, the Authority has not gained broad and robust insight or evidence from the other relevant players in the market, including industrial customers. This fragmented approach which doesn’t gather all the necessary information may, by consequence, limit the development of solutions to address the underlying problems.

Hedges and industrial consumers

8. MEUG welcomed the opportunity to discuss the review with the Authority earlier this year and we appreciate that some individual members were able to provide input into the Authority’s work. However, it seems a missed opportunity to not fully explore the issues facing industrial customers when seeking risk management contracts, alongside the independent retailers.
9. As much discussed with officials and through media, access to hedges at a competitive price was a significant issue for several businesses (including MEUG members) during the winter 2024 energy crisis and led to the closure of some large businesses such as Winstone Pulp International. The Authority has undertaken some analysis of the market options available during Winter 2024, as summarised in its October 2024 *Eye on Electricity* article.⁴ While this article unfortunately provided very little context for readers, we understand that the Authority will be releasing its section 16 review of Winter 2024 imminently. We look forward to reviewing these findings and what insights the Authority has identified. This section 16 review also provides valuable input for the Energy Competition Task Force work.

Need to look at state of competition across the market

10. We are also concerned that the review only considers a narrow segment of the electricity market. MEUG believes that it is critical that the Authority consider if there is a workably competition market in both the wholesale and retail electricity market. As outlined in several prior submissions and engagements with Government, MEUG states that:
 - Wholesale prices have more than doubled since 2018 with an increase in volatility, significantly impacting businesses. These high spot prices exceed Long Run Marginal Cost (LRMC), leading us and many others to question if this reflects the outcomes of a workable competitive market.

³ Page 3 of the Issues Paper

⁴ [Market options were available to large energy users in winter 2024 | Electricity Authority](#)

- There is already ample evidence that undermines confidence in the wholesale market and points to enduring issues with competition and market rents. Rather than repeating the detail here, we refer the Authority to our submission to MBIE on the consultation paper *Advancing New Zealand's energy transition*.⁵
 - Consequently, the Authority has incorrectly assumed that spot prices and ASX prices are efficient and placed over-reliance on the trading conduct rules to provide a safeguard.
 - The electricity market has failed to evolve significantly since its establishment, leading to issues with both affordability and security, alongside limited investment in new generation in prior years.
11. When considering market issues, we encourage the Authority to start its review with a principled-based focus on the wholesale market and the setting of spot prices. As outlined in our July and August 2024 Chair updates,⁶ market participants need to understand what is driving high prices, with a focus on future prices rather than just looking at historic pricing. Market participants need to understand whether wholesale market prices are higher than necessary and efficient, given the cost of electricity generation (including the cost of capital). Only then can the Authority understand how these prices flow through to the ASX and OTC contracts (and whether these are efficient and available), and ultimately the prices that consumers face in the retail market.
12. The Government's review of electricity market performance⁷ announced last month will hopefully provide greater insight into the state of competition in the market, including the "*impact of market design and market rules on competition, market entry and expansion*".⁸ We encourage the Authority to incorporate the findings of this review into its work programme when available, and for it to inform the interventions it pursues through the Task Force and future work programmes. A robust body of evidence gathered from across the sector, alongside insights and learnings from other jurisdictions, will ensure the best policies and interventions are pursued to deliver an affordable and secure electricity supply for all consumers.

Welcome opportunity to discuss our comments further

13. We would welcome the opportunity to meet with Authority staff in the new year to discuss our comments in more detail. If you have any questions regarding our submission or to set up this meeting, please contact MEUG on 027 472 7798 or via email at karen@meug.co.nz.

Yours sincerely



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⁵ https://meug.hotdev.co.nz/assets/Documents/MEUG-submission-to-MBIE_Energy-transition-NZIER-report_-Nov-2023-FINAL.pdf

⁶ <https://meug.hotdev.co.nz/assets/Documents/MEUG-Chair-update-July-2024.pdf> and <https://meug.hotdev.co.nz/assets/Documents/MEUG-Chair-update-August-2024-FINAL.pdf>

⁷ <https://www.beehive.govt.nz/release/government-launches-review-ensure-electricity-market-fit-purpose>

⁸ <https://www.beehive.govt.nz/sites/default/files/2024-11/Terms%20of%20Reference%20for%20review%20of%20electricity%20market%20performance.pdf>