12 June 2020

Dr Brent Layton
Chair
Electricity Authority
Wellington
marketoperations@ea.govt.nz

SUPPLEMENTARY SUBMISSION RE HEDGE MARKET DEVELOPMENT

Dear Brent,

Ecotricity is a signatory to and supports the joint submission from ourselves, Electric Kiwi, energyclubnz, Flick Electric, Pulse and Vocus. We are writing to provide our perspectives in addition to the joint submission.

The consultation paper on market making highlights a lack of confidence in the ASX market as a key driver to improving market making.

> *"A lack of confidence in the market is ultimately detrimental to consumers because it may result in participants underutilising ASX contracts and the forward price curve, resulting in less efficient outcomes to the detriment of the market as a whole"* paragraph 1.8

Putting in place enduring arrangements for market making on the ASX is, in our view, only one of a range of improvements we consider are critical to providing a transparent robust future price curve, improving confidence in the ASX market and improving confidence in the wholesale market more generally.

A level playing field for independent investment in new generation capacity

As discussed previously, Ecotricity believes there must be a way to contract new renewable generation capacity in long-dated contracts to support the renewable generation investment required to meet New Zealand's legislated ambition of net zero carbon emissions.

Once again vertical integration is a distinct advantage in financing new generation projects – gentailers have controlled the development of new generation capacity into the market with the gentailers' retail base provides an internal hedge for the new generation volumes. This means the market for generation investment is an oligopoly and consumers face the cost of these parties delaying new generation investment to maximise the value of their existing plant.

The current options for independent investors in new generation capacity are barriers to this investment, being the options of:

- contracting via the ASX at the maximum term of 3 years, and paying margin calls for the duration of that contract. This length of contract is not bankable, that is a bank would not be prepared to lend money for investment in an asset with a life of 20+ years based on a 3-year contract; and the margin calls would be prohibitive[1]

- finding a counterparty for a Power Purchase Agreement (PPA) – which is likely to be a vertically integrated gentailer as they have the highest level of certainty about their level of demand for electricity but are also a competitor in the generation market.

A person with expertise in investment in new generation (which has a lower long-run marginal cost) should not be forced into having to also be an electricity retailer because of the market constructs.

Ecotricity submits that the Authority should be working with independent developers of renewable generation to facilitate / implement arrangements as new renewable generation investment by new entrants will improve competition in the generation investment and dispatch markets for the long-term benefit of consumers.

As well as our recommendation for longer dated contracts on the ASX of at least 8 - 10 years, our 5 December 2019 submission[2] included the following suggestions:

- feed-in tariffs
- traded green certificates
- reverse auctions

In addition, other options could be a:

- separate market that supports independent investment in new renewable generation, for example guarantees for a portion of the output of this plant that makes the investment bankable;

- pro-forma long dated PPA contracts that reduce the transaction costs for investors and opens up the market for PPA contracts with other electricity consumers. This would include reduced prudential requirements for long dated PPA's beyond 3 years in term;

- requirement for retailers to show their carbon component per kwh on all invoices to their customers based on their PPA contracts, and residual carbon component on the spot market. This is already a requirement in some overseas markets and would be simple to deliver.

A level playing field for independent retailers

We reiterate our view that immediate banning of transfer prices and introduction of the requirement for gentailers' retail operations to purchase only from the ASX in a transparent way are interventions that must be implemented urgently to improve confidence in the ASX and wholesale markets.

[1] Our 5 December submission on the Authority's prior hedge market enhancement consultation includes more details about how margin call should be amended (page 5-6). https://www.ea.govt.nz/dmsdocument/26513-ecotricity-hedge-market-enhancements-submission
[2] See pages 4-5. https://www.ea.govt.nz/dmsdocument/26513-ecotricity-hedge-market-enhancements-submission

It is only when all retailers transact in the same markets and face the same wholesale input costs that real competition is achieved and all retailers will be on a level playing field.[3]

Gentailers would also then be hedging their generation output in the same way as independent generators – improving competition in the generation investment and dispatch markets as well.[4]

Best regards
Al Yates

CEO
Ecotricity

[3] More detail on why and how this should be implemented is in the Ecotricity, Electric Kiwi, energyclubnz, Flick Electric, Pulse and Vocus submission dated 2 December https://www.ea.govt.nz/dmsdocument/26514-ecotricity-electric-kiwi-energyclubnz-flick-electric-pulse-and-vocus-hedge-market-enhancements-submission

[4] While the margin call requirements for large generators might be substantial – the requirements will be equal across all generators (and everyone will be equally incentivised to review / amend the requirements.

www.ecotricity.co.nz 09 309 8444 bring.change@ecotricity.co.nz