

Advisory Group proposing new rules for wholesale market trading behaviour

At the Electricity Authority’s request, the Market Development Advisory Group (MDAG), an Advisory Group to the Authority, has reviewed the rules in the Code that require wholesale market participants to ensure their conduct is “consistent with a high standard of trading conduct”.

The MDAG is proposing changes to better achieve the Authority’s objective of driving more efficient electricity prices for consumers.

The MDAG are seeking your feedback on the proposed rule changes and encourage you to respond to the consultation.

Why is the MDAG reviewing the existing rules?

The Authority introduced the ‘high standard of trading conduct’ rules about wholesale market trading behaviour in 2013.

The MDAG considers the main problem with these rules is that they lack certainty – from a legal point of view and whether they are effective in promoting efficient prices.

Of particular concern is when parties are pivotal

An electricity generator or instantaneous reserve provider is pivotal when its supply is required to meet demand.

This matters because it means these suppliers have market power and could charge higher prices than would occur in a competitive market, meaning consumers have to pay higher prices.

For example, a generator can often be pivotal in the South Island because there are few generation companies, and one company accounts for more than half of South Island generating capacity.

Figure 1 shows the size of this potential problem.

Who’s affected by this proposed change?

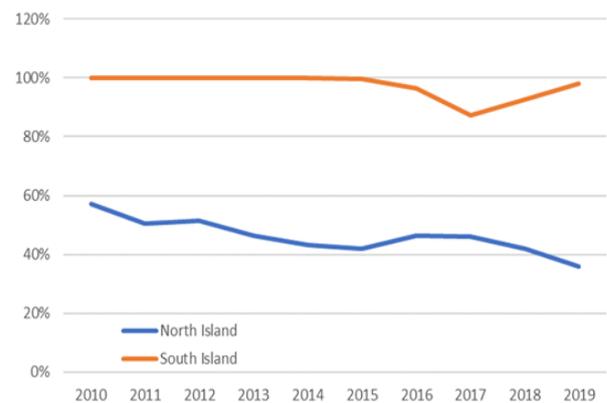
The proposed set of rules would apply to all parties making offers in the wholesale market, including generation and instantaneous reserve.

The rules would apply at all times and at all nodes.

Make a submission

The MDAG are interested to hear your thoughts and we encourage you to respond to the consultation **by 5pm, Monday 6 April 2020**. You can read the full consultation paper and find details of public briefings you can attend on the Authority’s website — www.ea.govt.nz.

Figure 1: Proportion of time a single company’s supply is needed to meet demand in the North and South Islands



Source: Electricity Authority

The MDAG are now proposing a new set of rules

The proposed set of rules would require participants to always offer as if no one has significant market power.

If asked, participants would also be required to explain how their behaviour supported outcomes such as efficient investment, consumption, production or risk management signals.

The advantages of this approach are that it would better target the underlying policy objective, link to a more established legal test and provide participants with more clarity on how the Authority would review their offering behaviour.

Rules that better address abuses of market power will drive more efficient electricity prices for consumers by better limiting high prices to situations reflecting genuine supply shortages.