

7 May 2025

Electricity Authority  
Consultation on Level Playing Field Initiatives

Via email: [levelplayingfield@ea.govt.nz](mailto:levelplayingfield@ea.govt.nz)

**Lodestone Energy submission on Level Playing Field proposals**

Dear EA,

The current EA proposals on Level Playing Field initiatives represent the most important development in the electricity market since its creation. The electricity market is on the cusp of delivering the energy transformation the country needs, with greater energy security and lower consumer prices.

These proposals will unleash the market's competitive potential by ensuring the market is fair and equitable between all participants. Requiring large vertically integrated generator-retailers to sell electricity to independent retailers on exactly the same terms as they sell to their own retail operations will be transformational in terms of transparency, liquidity and a much more dynamic and effective electricity hedge market.

It will unlock significant innovation, drive a much-needed wave of investment in new generation and drive consumer prices down. The proposals also achieve the right balance between ensuring fairness, while protecting the fundamentals of the electricity market and investor confidence in it.

The proposals are timely, but there is no time to waste.

Lodestone commends the proposals and encourages the EA to implement them rapidly and with robust monitoring to hold participants accountable for compliance as well as the spirit of the reforms. The EA cannot afford to wait to implement a much more prescriptive, mandatory approach to achieving the desired outcomes if there is anything less than full and immediate compliance.

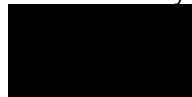
A more robust regulatory intervention needs to be designed in parallel with the introduction of these reforms so that it can be immediately deployed if required.

Our attached submission provides detailed responses on the consultation document but we want to take this opportunity to stress how important this consultation is for the electricity market, for consumers, and for the country.

We look forward to this work being rapidly advanced and to working with the EA to ensure the success of these important proposals.

Please feel free to contact me directly and at any time on any element of this submission.

Yours sincerely,



**Gary Holden**  
Managing Director

*Attachments: Submission - Level Playing Field Measures Consultation*

## LEVEL PLAYING FIELD MEASURES CONSULTATION

<b>Submitter</b>	<b>Lodestone Energy</b>
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<b>Questions</b>	<b>Comments</b>
<b>Problem definition – competition concerns from Gentailer vertical integration</b>	
Q1. What are the benefits of vertical integration between generation and retail? Do you have any evidence to better specify and quantify these benefits? In particular, we are interested in benefits that would be realised by New Zealand's electricity consumers.	<p>From our perspective, the observable benefits of vertical integration between generation and retail ("Gentailer") are:</p> <ol style="list-style-type: none"> <li>1. <b>Portfolio diversity:</b> a large number of customers, with diverse consumption profiles. Vertical integration will reduce risk and may allow for sharper pricing as the risk premium can be reduced.</li> <li>2. <b>Risk offsetting:</b> Independent retailers take on the risk of customers' demand not matching the shape of hedges, and pure generators take on the same (but opposite) risk as hedges sold don't perfectly match generation profiles. Vertical integration allows for sharper pricing as the risk premiums on each side are offset.</li> <li>3. <b>Prudential savings:</b> Independent retailers must post prudentials to the clearing manager for their market purchases (up to 60 days of spot forecast). The large gentailers have a strong balance sheet to not be required to post prudentials and are able to offset the purchases against the generation revenue to deliver a pure reduction in prudential requirements.</li> <li>4. <b>Longer term outlook:</b> Independent retailers can only forecast for as long as the tenure of the hedge market. This nearly eliminates them from selling longer term products. Gentailers can take as long a view as they like given the generation is largely a sunk asset. This is particularly true for renewables, who do not have a fuel cost to worry about.</li> <li>5. <b>Marketing advantage:</b> Independent retailers have difficulty when generators imply that there is an advantage in dealing with a retailer backed by generation – the false belief that the power is somehow more 'firm'. The marketing advantage associated with having physical generation is something an independent has to overcome.</li> </ol>

Q2. Do you agree with our description of the competition concerns that can arise from the combination of Gentailer vertical integration and market power? Why/why not? Do you have any evidence to better specify and quantify the competition risks of vertical integration?

We agree that vertical integration is good for consumers, but must also be respectful of the following principles:

- 1) **Independent Retailers are essential:** Vertical integration only works well if there is competitive tension applied by independent retailers, over long periods of time.
- 2) **Regulatory enforcement:** We believe a vertical integration model will provide a lower cost to consumers as long as the market is accompanied by rigorous regulatory oversight to avoid using market power to implement predatory pricing, enact unfair win-backs, or withhold hedges to independent retailers.
- 3) **Remove the incentive to allow the market to be under-built:** Advantages to gentailers are enhanced in constrained market conditions. A constrained market will impact independent retailers (and their customers) before it affects a retail subsidiary of a Gentailer. In these conditions, independent retailers face the risk of incremental hedges rising to 'scarcity pricing' levels, at the same time a retail subsidiary remains on a pre-established (and completely opaque) transfer price.
- 4) **Discriminatory transfer prices can impede the building of generation:** Discriminatory transfer prices are not only unfair to independent retailers and its customers, but generators protecting their retail impedes generation from being built. If all retailers, including generator subsidiaries, are equally affected by scarcity pricing, the impetus to build generation would be more urgent. In other words, a short market should be felt by all retailers at the same time, with the same intensity, to maximise the signal to build.
- 5) **Consumer confidence levels are important:** All consumers need to know that the electricity price they are paying is fair and that the choice of an independent retailer does not carry a real or implied disadvantage. Eleven per cent of the market has chosen an independent retailer, therefore a Level Playing Field that is well advertised will materially improve consumer confidence and expand the competitive effectiveness of independents.

In summary, without equal access to hedges, competitive tension will erode, generation additions are impeded and consumer confidence in the market is impacted.

Q3. To what extent does vertical integration of smaller gentailers, such as Nova and Pulse, raise competition concerns? Should these smaller gentailers be subject to any proposed Level Playing Field measures?

We believe that:

- 1) **Independent retailers have proven to be sources of market innovation:** It can be observed that small retailers are more likely to use innovation to obtain market share, and the large retailers are more likely to use market power to protect market share. This is important when considering the degree to which the small player is free to enact the competitive tension they wish to apply.
- 2) **Independent retailers need the market to reinforce consumer confidence:** The key to creating a level playing field is to have regulations that ensure 100% of customers have the confidence that their retailer can acquire electricity at a competitive price and tenure. With this confidence secured, the competitive tension applied by a few will ensure fair retail pricing for the entire market.
- 3) **Level Playing Field needs to apply to the large retailers:** We believe if 89% of the market participants (gentailers) are providing the necessary transparency on price and term, that will be enough to gain consumer confidence to engage with any retailer, and the regulations will be doing their job. Conversely, if 11% of the market participants (Independents) are able to put competitive tension on the 89%, in any way possible (including using innovative generation technology), then it is likely 100% of the market will get the benefit of that disruptive technology through better pricing and longer tenures, including the 89% wanting to protect their market share.

For a customer wishing to choose, knowing the price and tenure was fairly derived, they would be equally free to choose the small player or the large player and then able to decide based on intangibles e.g. 100% renewable, the retailer app, customer experience, product innovation etc, without fear or regret from a pricing point of view.

A rule where a small retailer with generation is designated to be a gentailer, say after 10% market share, would be reasonable as well. At this point, they could be required to disclose their transfer price to the market like the original gentailers. Specific provisions to exclude long term commercial contracts would likely be needed as well.

<p>Q4. Are there other specific areas (other than access to hedges) where Gentailer market power and vertical integration are causing competition concerns?</p>	<p>The other important hedge standards details to consider are:</p> <ol style="list-style-type: none"> <li>1. Ensure the transparent hedges have a defined specification price, time of use and tenure;</li> <li>2. Ensure that 24X7 hedges and Peak Period (6 to 10 pm) hedges are defined and tradable. A tradeable night-time period hedge would also be useful;</li> <li>3. To the extent a System Load Shape hedge is part of the transfer price of a gentailer, that should also be available with price and tenure; and</li> <li>4. Establish standard length of tenure: monthly, quarterly, annually and 2, 3, 4, and 5 years.</li> </ol>
<p>Q5. Do you agree with our preliminary view that the evidence indicates there may be good reasons to introduce a proportionate Level Playing Field measure to address the competition risks in relation to hedging/firming? Why/why not?</p>	<p>Yes.</p> <p>We believe the solution needs to be comprehensive and enduring; the market cannot afford to go through the uncertainty of continual review.</p> <p>We believe option 2 will effectively deliver this and can be implemented quickly. Speed of implementation is important and we would favour action with the opportunity to amend as required.</p>
<p><b>Level Playing Field options we have identified</b></p>	
<p>Q6. Have we focused on the right Level Playing Field options? Are there other options that we should add or remove to the list in paragraph 4.1?</p>	<p>Yes, and we do not think any other options are required. Option 2 is Lodestone's preference.</p> <p>As per the comment in Q5, we believe the regulatory change here needs to be as simple as possible and as immediately effective as possible.</p> <p>Option 2 provides the appropriate change that the market badly needs without damaging the ongoing fundamentals of the market. It is a significant and important market improvement.</p> <p>We believe the change in Option 2 will immediately start to stimulate significant investment across the sector without confusing or unsettling potential investors with unnecessary uncertainty.</p>

Q7. Are there any other important factors we should consider when identifying options (see paragraphs 4.2 to 4.5)?	No, we think the problem is defined and the solution proposed should be effective, with appropriate monitoring.
Q8. Are there other key features, pros or cons we should consider in our description of the four Level Playing Field options?	No. The analysis is adequate and getting to implementation is important.  Table two on page 38 of the consultation document accurately assesses the pros and cons.
<b>Our assessment of Level Playing Field options</b>	
Q9. Have we identified the right criteria for assessing Level Playing Field options (Figure 6)? Is there anything we should add or remove?	Yes. We agree with questions posed in Figure 6.  We believe Option 2 delivers against these criteria, while preserving the integrity of the market and confidence in it.  Robust monitoring of the implementation of Option 2 will need to be a priority and there should be no hesitation in moving to the more prescriptive approach if concerns arise.
Q10. Do you agree with our application of the assessment criteria (Table 5)? Are changes needed to the colour coding or reasoning?	Yes, this is a good analysis. We offer the following comments: <ul style="list-style-type: none"> <li>- The possibility for 'lost efficiencies' for gentailers is a small cost given the consumer benefits;</li> <li>- We think option three should be developed in parallel with Option 2;</li> <li>- We would like to understand the approximate quantum of the cost differential between Options 2 and 3;</li> <li>- We do not think these measures will affect the natural investment incentives gentailers have to build, and it will unlock greater investment from other market participants; and</li> </ul> We believe the DG pricing and TOU pricing should be read in conjunction with these measures to quantify the benefits of the overall framework in totality.
Q11. Are there any other material benefits or risks that should be considered (but are currently not) in our assessment of options?	No.

<p>Q12. Do you agree with our selection of non-discrimination obligations as our preferred Level Playing Field measure? Why/why not?</p>	<p>Yes, we support Option 2, for the reasons already set out in this submission. This reform is critically important for the long-term health of the electricity market and its ability to drive competition, investment, and lower prices for consumers.</p>
<p><b>Roadmap for implementing non-discrimination obligations</b></p>	
<p>Q13. What are your views on our proposed roadmap for the implementation of non-discrimination obligations?</p>	<p>It seems sensible, with a logical progression through to a potential mandatory approach if initial steps do not deliver. We support the three goals of more supply, more transparency and more trading.</p> <p>Given the scope for different models of gentailer compliance in relation to meeting the non-discrimination requirements, we think there is need for clear escalation processes and strongly support their parallel development.</p>
<p>Q14. Which products should any non-discrimination obligations apply to? Should all hedge contracts be captured, or should the rules be focused on super-peak hedges only? Are there are other interactions between gentailers and their competitors which would benefit from non-discrimination rules?</p>	<p>Ideally, it applies to:</p> <ol style="list-style-type: none"> <li>1. 24X7 blocks of monthly, quarterly, annually and 2, 3, 4, and 5 years.</li> <li>2. Peak Period (6 to 10 pm) for same term lengths.</li> <li>3. A night time period, and</li> <li>4. A System Load Shape hedge or 144-part pricing.</li> </ol>

Q15. Do you have any feedback on the indicative draft non-discrimination principles (and guidance) set out in Appendix B? Without limiting your feedback, we would be particularly interested in your views on the following questions:

a. Have we got the level of detail/prescription right? For example, do you consider that the principles and guidance will lead to economically meaningful Gentailer ITPs being put in place? What would be the costs and benefits of instead applying a more prescriptive ITP methodology?

b. How far should the allowance in the principles for different treatment where there is a "cost-based, objectively justifiable reason" extend? Do you agree with the guidance that this allowance should not be extended to volume (at paragraph 13 of Appendix B)?

Yes. We support the analysis and recommendations. We cannot offer any improvements at this stage.

We will rely on the possibility of any mid-course corrections if problems arise over time or if loopholes, that offset the intent, are revealed.

For question b) specifically, we can support a 'cost-based justification' requirement in the first instance.



<p>Q16. Do you agree that escalation options are needed if principles-based non-discrimination obligations are implemented initially? Why/why not?</p>	<p>Yes. See comments above.</p>
<p>Q17. Are prescribed non-discrimination requirements and mandatory trading of Gentailer hedges via a common platform suitable escalations given the liquidity, competitive pricing and even-handedness outcomes we are seeking? Why/why not? What alternatives would you suggest (if any)?</p>	<p>Yes, we think this would be a good outcome that is manageable.</p> <p>The future of the market depends on the success of the chosen option, and an appropriate backstop option is required.</p> <p>Being very clear about what is <b>not</b> allowed is important to avoid the pursuit of loopholes.</p>
<p>Q18. What costs and benefits are likely to be involved in setting more prescriptive regulatory accounting rules which detail how ITPs should be calculated? What would be appropriate triggers for introducing more prescriptive requirements for ITPs?</p>	<p>Transparency is one of the three goals in the Market Performance Roadmap and this depends on consistent, robust accounting around ITPs.</p> <p>Clarity of rules is quite critical in our view. Monitoring of Option 2 may be difficult if there is ambiguity and lack of clarity around ITP accounting.</p>

<p>Q19. Do you have any views on how the non-discrimination requirements should best be implemented to ensure that gentailers are no longer able to allocate uncontracted hedge volumes to their own retail function in preference to third parties? What are the key issues and trade-offs?</p>	<p>A specific requirement to clearly identify the uncontracted (unmatched) volumes should illuminate any manipulations. "When in doubt, more disclosure" should be the underlying mantra.</p>
<p>Q20. Do you have any views on the triggers for implementing the stronger regulation proposed in our roadmap?</p>	<p>We don't have detailed or technical views other than an extremely clear trigger point must be set and the EA must be prepared to move to this option quickly if required.</p> <p>This trigger point should be relatively conservative as the major gentailers are well incentivised to fully and quickly comply with the Option 2 requirements.</p> <p>Any suggestion that the spirit of this intervention is not being honoured, or the requirements of it met, should kick off the escalation process.</p>
<p><b>Our current thinking on virtual disaggregation</b></p>	
<p>Q21. Does our proposed approach to implementing non-discrimination obligations (as set out in the roadmap in Figure 7) sufficiently address the underlying issue that originally led to MDAG recommending virtual disaggregation?</p>	<p>We support the idea of virtual disaggregation and believe the EA roadmap is workable. Any additional concern will be revealed along the journey, and we are confident that deeper measures can remedy any shortcomings.</p>

Q22. Do you have any views on whether virtual disaggregation provides a useful response to the competition risks we have identified (relative to the proposed roadmap) and, if it does, how it should be best applied?

We think it is a useful response and will rely on mid-course corrections to solve any problems or deficiencies in the plan.