

16 March 2022

Submissions
Electricity Authority
Level 7, Harbour Tower
2 Hunter Street
Wellington

Via email: mdag@ea.govt.nz

SUBMISSION ON RENEWABLE ELECTRICITY SUPPLY MDAG ISSUES DISCUSSION PAPER

The Electricity Retailers' Association of New Zealand ('ERANZ') welcomes the opportunity to provide feedback on the consultation paper 'Renewable Electricity Supply MDAG Issues Discussion Paper' from February 2022.

ERANZ is an industry association representing companies that sell electricity to kiwi households and businesses. Our members supply over 90 per cent of New Zealand's electricity. We work for a competitive, fair, and sustainable electricity market that benefits consumers.

Electricity retailers support the Government's emissions reduction objectives, consistent with New Zealand's international climate change obligations. We want to do our part to help ensure our energy system is sustainable with as minimal environmental impact as possible.

ERANZ acknowledges the valuable work the Market Development Advisory Group ('MDAG') is doing to investigate how the wholesale electricity market might operate (including price discovery) under a 100 per cent renewable electricity supply. MDAG poses fundamental questions about the market's future that will affect all electricity consumers.

ERANZ broadly supports the work MDAG has completed so far, identifying issues and assessing that the wholesale electricity market will get us to 100 per cent renewable electricity.

Multiple agencies are working on the future of energy, and this work must be coordinated and complementary. The MDAG work should align with the Electricity Authority's work programme, particularly the energy roadmap, the future reliability and security project and any further work following the wholesale market review. In addition, this should align with the work of the Climate Change Commission, the Ministry for the Environment and the Ministry for Business, Innovation and Employment.

To aid this coordination, ERANZ welcomes the government's indication it will develop an overarching 'energy strategy' which sets a clear direction for energy policy and manages the transition to a net-zero emissions economy. It is hoped this strategy will bring much-needed clarity and investment certainty to the sector.

If price volatility does increase, it introduces political risks. Price fluctuations, particularly in the first half of 2021, were within an acceptable range and managed within the existing market structure. Yet, some players and stakeholders loudly asked for political intervention to set the price closer to a level that suited them. In an environment of 100 per cent renewable energy, all

stakeholders need to accept a higher level of price volatility. There needs to be widespread and sustained acceptance of a wide price range reflecting variable renewable fuels.

In a more volatile wholesale market, it is the role of retailers to stand between residential and small business consumers and the wholesale market. This smoothing function allows customers to manage their costs while, over time, sustainably funding the market to produce the infrastructure upgrades and additional generation capacity required by a lower emission economy. This is a role retailers play well and have successfully managed for years.

Demand-side response will play a more significant role in successfully managing the 100 per cent renewable electricity system of the future. Lowering demand for the right price can balance supply while giving consumers greater choices. Retailers are already innovating to improve consumer participation in the market in ways that require minimal effort or disruption to the day-to-day life of consumers while lowering energy costs. An open and highly competitive market to facilitate consumer demand response should be encouraged, and any attempts to monopolise that emerging market will not be in the long-term interests of consumers.

ERANZ members look forward to further engagement with MDAG and the Authority as we work together to manage New Zealand's transition to a 100 per cent renewable electricity system.

ERANZ thanks the Authority for its work on this issue and is happy to provide any further information on this submission as required.

Yours sincerely

A handwritten signature in black ink, appearing to read 'K. Clark', with a long, sweeping horizontal stroke extending to the right.

Kenny Clark
Policy Consultant