



25 January 2022

Electricity Authority
P O Box 10-041
Wellington 6145

By email: Consult-2021DryYearReview@ea.govt.nz

Dear team

Re: Consultation Paper – 2021 Dry Year Review

Flick appreciates the opportunity to submit on the MartinJenkins Report (MJ Report) prepared for the Electricity Authority's (Authority) on the 2021 Dry Year Event (January to June 2021).

Flick's submission covers two points, namely the:

- very limited stakeholder engagement for preparation of the MJ Report; and
- MJ Report commentary and conclusions on market prices when this is clearly out of scope.

Very limited stakeholder engagement

Flick is concerned that the MJ report is based on information gleaned from interviewing only generators and central government. We note this current consultation reflects the Authority's "want to give retailers, consumers, and other stakeholders the opportunity to respond and give us their thoughts".¹²

Flick submits the MJ Report would have been more robust if the "thoughts" of this wider group of stakeholders had been taken into account when MJ was reaching its report conclusions. How is the Authority going to reconcile or use the thoughts of other important stakeholders from this consultation with the MJ Report? Is the MJ Report going to be rewritten?

¹ Paragraph 1.2 of Consultation paper

² Executives from the generation activities of the gentailers were interviewed. To the extent they commented on the impact on their retail business their experiences are different from independent retailers.

MJ commentary and conclusions on market prices is out of scope

Paragraph 1.4 and 1.5 of the Authority's consultation paper clearly describes what is in and out of scope for the MJ Report.

"The review scope did not include overarching suitability of market structure or trends within wholesale prices, except in the context of the acute impact of wholesale pricing on securing the outcomes sought by the security of supply regime."

However, some of the MJ findings were as a direct result of price levels.

Flick submits it is beyond the scope of MJ's analysis to propose that the "market was working exactly as intended".

"As the media and the public began to pay more attention, there was an opportunity for the regulatory system to take a stronger voice in reassuring people that both the market was working exactly as intended to preserve resources and ensure security of supply – and that the impact of high wholesale pricing was unlikely to be felt by them."

Flick suggests MJ does not have the resources available to it to conclude "*the market was working exactly as intended*". At the same time the Authority was undertaking its detailed Wholesale Market Competition Review (WMR). This Review identified that prices have been \$39/MWh higher on average than explained by underlying supply and demand conditions since the 2018 Pohokura outage. One of the possible explanations for this increment is the sustained exercise of market power by one or more suppliers.³ Flick submits that wholesale prices during January to June 2021 and market outcomes cannot be considered separately from the analysis and conclusions in the Authority's WMR – as they clearly are at the moment.

It is also incorrect for MJ to say "the impact of high wholesale pricing was unlikely to be felt by" people. There are numerous businesses exposed to wholesale prices as well as Flick's Freestyle customers. Flick's regular communication to these customers is factually based on publicly available information. Further, consumers are impacted when high prices or the risk of high prices are taken into account when setting retail prices.

Other comments

Flick queries whether the wholesale market information disclosure regime is operating to ensure efficient outcomes when the Authority is issuing s.46 notices to gain information during this Dry Year Event. The Authority could usefully analyse whether information it gleans from s.46 requests and informal enquiries meets the threshold of "information that is about and held by a participant, and that a participant expects, or ought reasonably to expect, if made available to

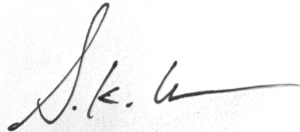
³ Submissions on the WMR may provide additional insight into incentives and behaviours during dry inflow sequences.

the public, will, or is likely to, have a material impact on prices in the wholesale market".⁴

Flick suggests the usual approach to naming a period of low inflows as a 'Dry Year' is unhelpful to the understanding of the situation by politicians and the public. The low inflows occur during a particular calendar Year but a 'Dry **Year**' implies a period of low inflows for 12 months. More specific names for dry / low inflow periods could help manage the understanding of the impact of any of these events. Further, there may be other sources of energy that are in low supply (eg gas, intermittent fuel) that impact security of supply which makes 'dry' the wrong explainer.

We welcome the opportunity to discuss our information in this submission with you in more detail.

Yours

A handwritten signature in black ink, appearing to read 'S. Unka', with a long horizontal flourish extending to the right.

Sunil Unka
Interim Chief Executive

⁴ A more recent example is the significant increase in ASX prices between 7 January 2022 and 18 January 2022 of \$87/MWh (+75%) and \$47/MWh (+29%) for Mar22 and Sept22 OTA contracts respectively without any specific disclosure of new information.