

25 January 2022

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

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

SUBMISSION ON DRY YEAR REVIEW

The Electricity Retailers' Association of New Zealand ('ERANZ') welcomes the opportunity to provide feedback on the Electricity Authority's consultation paper '2021 Dry Year event review' from December 2021.

ERANZ is the 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.

Introduction

New Zealand's electricity market is a complex system with wholesale prices responding to many factors - including transmission capacity. We experienced a period of higher than usual wholesale power prices over the early part of 2021 due to low hydro inflows, low lake levels and gas supplies being fully committed, as this review notes. This has been challenging for some businesses exposed to wholesale energy prices. Since then, rainfall has helped significantly ease both water shortages and electricity spot prices.

These elevated wholesale prices came off a relatively low base. New Zealand industrial customers pay the seventh-lowest price in the OECD for their electricity, beating Canada, the United Kingdom and Germany.

This review is a useful exercise. The electricity sector is performing well, but this is a good opportunity to look at what we can do to improve and continue to deliver robust, reliable, and affordable electricity for New Zealanders.

We note the difference in findings and tone between this consultation paper and the Authority's earlier Wholesale Markets Review document. Our view is that this consultation paper more accurately describes the New Zealand electricity market over the first half of 2021.

Security of supply

ERANZ supports the operation of a market-based electricity supply regime in New Zealand. In particular, we support the Authority's characterisation of the market on pages three and four of the consultation paper. Security of supply is enhanced through relevant price changes to encourage consumers to make informed choices about electricity use, and to signal the need for efficient investment in new generation or demand management.

ERANZ agrees with the Authority's description of the factors in-play during the first half of 2021 as stated in paragraphs 2.4 and 2.5. Gas supplies were constrained at the same time as hydro inflows dipped and wind generation was lower than normal.

Overall, the security of supply regime during 2021 fulfilled its purpose, performed within expected parameters, and demonstrated the resilience of current policy settings. As explained in the consultation document, there are always improvements to make, but fundamentally the regime is sound. This is contrary to some market participants and commentators who, unfortunately, took advantage of changing prices to advocate for policy settings more favourable to their own interests.

Martin Jenkins report

ERANZ supports the overall Martin Jenkins findings that “the system worked as intended” and that, “larger market participants were prepared for a dry year and had plans in place to manage the risk.” The resilience of our market was demonstrated even under multiple stresses of reduced hydro and wind generation and limited sources of additional gas. The report states, “The 2021 dry year demonstrated the resilience of New Zealand’s electricity market mechanisms ... water was preserved appropriately through use of alternative generation mechanisms.”

Martin Jenkins highlights the performance of the market to respond as expected to the various factors facing it. It finds industry participants were well prepared – in fact, further preparation would be uneconomic and cost consumers – and responded in a way that demonstrates a strong system. This aligns with our members’ view that they have dedicated substantial time and effort over a period of years to ensure dry years, such as last year, are well managed. Commercial management of lower-than-normal hydro inflows ensures supply of electricity remains secure while shielding retail customers from substantial price increases.

Policies underpinning the regime

The potential need for an official conservation campaign did weigh on the thinking of our members and provided an adequate incentive. ERANZ has no suggested changes to this policy.

The paper discusses the subjective trigger on the system operator to begin daily reporting on risk in the event they believe that lake levels are likely to reach the 1% risk curve. While this subjective trigger did not lead to any harm in 2021, it is not best policy practice. Therefore, we support the report’s recommendation for the Authority to determine an absolute value at which point Transpower begins to provide daily reporting.

Factors undermining confidence in the risk curves

The risk curves are based on a model, which in turn is based on assumptions. These assumptions and their limitations are understood by market participants. While our members understand the underlying uncertainty that naturally accompanies these assumptions, we can see how those less familiar with the models could misinterpret them. No one should assume the risk curves are a perfect crystal ball which can accurately capture future risk at any point in time.

Some stakeholders say the introduction of new risk curves did confuse them; this is an undesirable situation. Now, with the benefit of hindsight and time to refresh the suite of risk curves, they should be rationalised and consolidated into a single set that is widely understood. Following this work, all decision-makers and stakeholders can have a common understanding around a shared set of indicators.

While ERANZ has no insights into how the various risk curves and their underlying assumptions were communicated to the Minister, we do submit there is value in extending consistent communication to wider stakeholders and the public. Such clear communication and consistent messaging would go some way to improving understanding and avoiding some of the misinformation about the operation of the electricity market that was put forward during 2021. This point is expanded further in the following Communications section.

Communications

ERANZ strongly endorses the Martin Jenkins findings that government agencies should take a larger role communicating to the public the performance of the electricity market. As discussed earlier in this submission, some actors took advantage of rising wholesale prices in 2021 to cast aspersions about how the market was performing, the drivers of this performance, and trying to scare retail customers about their future electricity bills.

In situations where the market is not performing for the long-term benefit of customers, then it is the role of regulators to protect consumer interests. This was not the case in 2021. The market did perform within expected parameters, yet no agency in a position of authority took responsibility to help maintain public confidence in the market by communicating clearly what was happening and why.

Martin Jenkins concludes that public-facing communications could be undertaken by the Authority. If this role is delegated to the Authority, then we expect the Authority to adjust its capability and capacity in order to adequately fulfil this function.

Overall readiness

ERANZ supports Martin Jenkins' comments around the overall readiness of market participants, the system operator and the Electricity Authority. Our members have undertaken extensive preparation for dry year events and utilised their toolkit throughout 2021 to manage their commercial and supply risks. The upstream market for gas is not within our remit so we will leave others to comment on that.

The system operator was well prepared. Our comments on consolidating the set of risk curves have already been made above.

ERANZ agrees with the comments on the communications improvements that the Authority can make. A proactive media strategy could have better informed the media and commentators about what was happening and why. The suggestion of the Authority running desktop "trial runs" to test preparedness is a good idea.

Thank you again for undertaking this review on dry year issues. We are available to discuss our submission further if required.

Yours sincerely

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

Kenny Clark
Policy Consultant