

COMPETITION IN THE WHOLESALE ELECTRICITY MARKET

The Electricity Authority launched a review into competition in the wholesale electricity market in March 2021 after sustained high electricity prices since Spring 2018. The review focuses on the period from the start of 2019 to June 2021.

Background

The review has been carried out in stages. The first stage was the publication in October 2021 of two papers for consultation:

- Market monitoring review
- Inefficient price discrimination

The market monitoring review concluded that elevated prices over the review period did not always match underlying supply and demand conditions and there was some evidence that generators may have exercised market power. It also found that the pipeline of new renewable generation was thin.

The inefficient price discrimination paper found that very large electricity contracts that have the ability to shift market prices, such as the Tiwai contract, could have adverse impacts for consumers.

Promoting competition in the wholesale market – October 2022

The Authority has followed its initial review with a forward-looking assessment of what changes to market settings are required to promote competition for the long-term benefit of consumers in the transition towards 100% renewable electricity generation.

We have released an issues paper *Promoting competition in the wholesale electricity market in the transition toward 100% renewable electricity* that puts forward a number of options for feedback.

We found:

- Competition in the wholesale electricity market cannot be perfect and there are no silver bullets
- More and faster investment in generation and focus on monitoring and enforcement is currently the best strategy to promote competition in the wholesale electricity market
- High prices in recent years have reflected gas supply uncertainty and other market conditions, but there was also some evidence of market power being exercised
- The transition to 100% renewable electricity generation may increase market power of some generators during extended periods of cold weather with little wind and sun
- The new trading conduct rule and more monitoring is making a difference
- There is now a substantial pipeline of intended investment in new renewable generation, which will help to promote competition
- Uncertainty around the 100% renewable electricity aspiration and the Gas Transition Plan, the NZ Battery project, and Energy Strategy causes delays in investment
- Evidence is currently lacking for structural interventions to address market power

Proposed actions

For the Authority

- continue proactive monitoring and enforcement of trading conduct
- investigate ways to accelerate the development of the demand response market
- explore better information sharing processes and obligations with the Commerce Commission on concerns about, for example, the misuse of market power
- carry out regular monitoring of the investment pipeline and impediments
- build the evidence base about the nature and scale of current and emerging issues about access to offtake contracts reported by developers of new generation

MBIE

- improve disclosure of information on availability of gas for electricity supply
- bring forward the completion of the Gas Transition Plan, Energy Strategy, and NZ Battery project to reduce uncertainty for new investment in generation
- look at the merit of providing a one-stop shop for overseas investors in renewable electricity generation
- produce an annual electricity generation investment opportunities report

MBIE and MfE

- bring forward work to strengthen national direction for renewable electricity to inform local planning and resource management consenting
- investigate merits of pro-competitive conditions on consents for renewable generation

Overseas Investment Office

- publish guidance for overseas investors in renewable electricity generation

Transpower

- publish connection enquiries, connection studies and streamline the application processes

Other papers released

Post implementation review of trading conduct provisions

- Participants must ensure their offers reflect the offers that would be made in a competitive market
- New provisions appear to be having the desired impact on generator offer behaviour
- Prices offered by generators over a 13-month review period tend to reflect underlying conditions more closely than in previous years
- Weekly monitoring during the 13 months, covering over 19,000 trading periods, identified just 22 potential issues for further analysis

Generation investment survey 2022

- Investment is being slowed by impediments – uncertainty around NZ Battery, Energy Strategy and Gas Transition Plan and resource consent/overseas investment restrictions
- Around 2,600GWh/year of investment has been committed for completion by 2025
- Around 8,000 GWh/year of potential generation could technically be completed by 2025
- Another 14,000 GWh/year could be completed post 2025
- Solar makes up 78% of actively pursued projects that could be completed by 2025
- Wind projects typically take more than 3 years to gain resource consents
- Resource consents for solar can currently be obtained in 6-12 months, but Overseas Investment Act seen as an impediment to faster development

Inefficient price discrimination

In our preliminary work on competition in the wholesale electricity market we identified the potential for very large electricity contracts to have an adverse impact on other electricity consumers. It was estimated that the impact enabled a wealth transfer from consumers not party to the contract to generators of as much as \$850 million a year. We moved to make an urgent Code amendment to prohibit Materially Large Contracts unless certain conditions are met, requiring disclosure of such contracts, and providing a voluntary clearance process.

Consultation on a proposed permanent Code amendment is ongoing.

Next steps

Consultation on *Inefficient Price Discrimination in very large contracts* closes on 31 October 2022

Consultation on *Promoting competition in the wholesale market in the transition toward 100% renewable electricity* closes on 30 November 2022.

The Authority's role

The Authority regulates the electricity industry for the long-term benefit of consumers. We oversee the operation of the electricity system and markets, making and enforcing the rules participants must follow.