



Submissions

Electricity Authority

PO Box 10041

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22 November 2021

Consultation on the Market Monitoring Review of structure, conduct and performance in the wholesale electricity market

Thank you for the opportunity to cross submit on this important topic.

No part of this submission is confidential and I am happy for all of it to be published.

The Authority is to be congratulated on a very thorough review of offering behaviour over the period concerned.

Concerns About Generation Investment to Achieve Emissions Reduction Plan

This submission expresses concern around the observed lack of commitment to new (firmed) renewable generation investment highlighted by this report. Significant investment in firmed renewable generation will be required to decarbonise our industry and achieve our emissions reduction plan.

If barriers to entry do exist it would be good to understand these more before committing to any major regulation of contracting arrangements (for long term contracts with large loads). Otherwise the proposed regulation could further exacerbate the highlighted problem with lack of committed generation investment. Therefore I fully support the proposal to further investigate these barriers to entry next year, and suggest finalising the design of any intervention in the contracts market should be delayed till the barriers to entry investigation is complete. I also suggest the investigation of barriers to entry should include consideration of firming requirements for renewable generation and how flexible load contracts can support firming arrangements. This may include consideration of whether take or pay provisions in contracts discourage provision of such firming services.

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More Detail on Barriers to Entry Needed

Cost versus price comparisons are inherently difficult and will always suffer from information asymmetry. Competitive price discovery is always more accurate but requires low barriers to entry to be confident it is truly competitive.

There seems to be a gap in the analysis around the issue identifying specific barriers to entry for any new generation. Sections 5.2 and 5.3 hypothesise that vertical integration could be providing some form of barrier but then go on to say this seems to be reducing. Without detailing what the specific barriers are, how material they are, or how they could be addressed, if needed. It is pleasing to see the proposal to investigate these in more detail next year.

It is possible that vertical integration is one valid way of obtaining sufficient long term contract certainty necessary to fund new generation investment. Attempts to regulate this, without understanding the reasons for lack of current committed investment, risk disrupting the investment cycle at a critical time.

Achieving ERP Needs Dynamic Investment Market for New (firmed) Renewable Generation

I share the Authorities concerns that “*The total quantity of definitely committed projects is 566 MW (see Table 6), which is not enough to replace existing thermal generation.*” (5.188). And that this falls vastly short of what is needed to support the proposed emissions reduction plan (ERP). (as implied in para 5.185 and 5.186).

Prioritise Understanding Barriers to Entry over Regulating Existing Contracts

The Authorities proposed response to the observed prices is focussed on options for regulating existing contract forms, particularly for contracts with large consumers. Whereas a full competitive market with low barriers to entry would soon compete away any attempts to increase retail prices by withholding quantities (from retail consumers via contracts with large consumers).

I therefore suggest the Authority urgently investigate whether there are any inefficient barriers to entry for new (firmed) renewable generation. Inefficient regulation of the long term contract market may risk (unintentionally) placing further barriers to efficient competition in supply and further endanger our ability to successfully implement the proposed emissions reduction plan to meet our Nationally Determined Contribution to climate change.

Conclusion

The proposed regulatory action to regulate large contracts risks undermining our ability to successfully implement the Emissions Reduction Plan. This increases the long term cost of meeting our Nationally Determined Contribution to Climate Change. I therefore suggest the Authority delays such regulation until it has completed the proposed investigation into whether any barriers to entry exist for new (firmed) renewable generation. If there are barriers they need to detail what the barriers are, whether they are material, and how they could be best addressed. The investigation should include the role flexible load contracts can contribute to firming and whether take or pay provisions in contracts are detrimental to such firming services.

Response to specific consultation questions

Responding to the specific consultation questions raised in your paper:

- **the structure, conduct and performance approach to assessing competition in the market;**

This seems reasonable.

- **the indicators we have used under this approach;**

They seem reasonable.

- **whether we have left out any important indicators and;**

Not particularly but see comments below about greater emphasis on barriers to entry.

- **any other issues you think we should consider.**

As noted above it would be good to understand more about barriers to entry and the role of flexible load in firming renewable generation.

5.225 In addition, the Authority is seeking specific feedback on the following questions related to the Information Paper:

(a) What are your views on the structure, conduct, performance approach used to assess competition in the wholesale market?

Seems reasonable.

(b) Is there any other methodology or framework that the Authority should be using instead of structure, conduct, performance? (If so, please describe.)

It would be good to understand how this framework works with a framework of minimising barriers to entry to maximise efficient price discovery.

(c) Are the indicators used in this information paper appropriate to inform the Authority's assessment of wholesale market competition?

As above it would be good to understand how this works with assessment of barriers to entry.

(d) Do you agree with the Authority's interpretation of the indicators presented in the information paper. (If not, please explain.)

It is difficult to assess any price based assessment without confidence in the competitiveness of the overall price discovery process, including understanding barriers to entry.

(e) What other indicators should the Authority use to inform its assessment of wholesale competition?

It will be good to see the results of the barriers to entry investigation to put some context on the assessment of wholesale competition.

(f) Are there any additional competition issues that the Authority should consider?

I still have concerns about how competitive the market for firming new renewable generation is and how this work ties in with the GIC work on the settings for the gas market, and how these support our low carbon transition. As noted in Concepts paper on "Potential benefits for large-scale flexible hydrogen production in New Zealand" flexible load contracts can supplement or even compete with gas for firming new renewable generation investment. But it would be good to fully understand how these markets (flexible gas, flexible load, new renewable generation investment) all interact.

(g) Are there any interventions that the Authority should consider, to improve

competition in the wholesale market?

I am reluctant to see too much intervention until we better understand the situation regarding barriers to entry for new renewable generation investment, and how this interacts with gas supply flexibility and flexible load arrangements.

(h) Are there any future workstreams that the Authority should develop to transition red and orange indicators outlined in Table 2 of the Information Paper to green?

It might be good to see a bit more coordination between this work and the issues raised by the GIC's investigation into gas market settings. In particular the interaction with flexible gas provision for provision of firming services to support new renewable generation investment.

(i) How should any proposed interventions be monitored and evaluated?

Some measure of the level of new renewable investment against that required to meet our emissions reduction plan would be useful as a longer term success measure.

Regards

Neil Walbran

Managing Director NWCL