



22 December 2021

Consultations
Electricity Authority
Wellington

reviewconsultation2021@ea.govt.nz

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

NZ Steel has engaged in discussions and comments on what we see as the ongoing sub optimal performance of the electricity wholesale market. This has included provision of information and meetings with Authority staff on what we consider to be the dysfunctional futures market.

The review papers contain extensive and valuable market information and analysis which confirms a number of short-comings NZ Steel and other major electricity market buyers have pointed out consistently over many years. It is frustrating and disappointing much of the analysis had not been undertaken in the past and is not embedded as part of the continuous monitoring regime of the Authority. Equally disappointing is the lack of tangible insights and actions arising from the review's conclusions. We acknowledge the analysis is complex¹, but if the designer and regulator of the market is not across the underlying dynamics who is? It does lead one to question - Is the market and its structure and settings too complex or manageable?

Since the publication of this material NZ Steel has taken the opportunity to be part of three discussions with Authority representatives. Unfortunately post these meetings we are not confident the Authority is on the pathway to lead the energy sector to deliver what NZ needs to become the country and society we all aspire to, ie reliable, affordable and abundant supply of renewable electricity and to move at the pace we need to meet New Zealand's Net Zero carbon goals via electrification

What is absent from the review is recognition of the holistic role of electricity in NZ. While this may stray beyond the boundaries of the Authority's mandate, there is responsibility to take a leading role in the discussion. The electricity market is a dynamic part of NZ business and society. Energy pricing during the period of the review report has contributed to the closure of one large business and scheduled closure of another. Were it not for the changed dynamics within the world commodity prices due to COVID, the situation for NZ's other industrial businesses may also have played out differently. Vertical integration of the gentailers has meant mass market consumers have not seen

¹ Review paper page v.

any increases of significance. While good for those consumers, this is really a further sign of a market that is not functioning appropriately.

The Authority is the governing body of the market and has overseen operation and design enhancement for over a decade now. The report has identified a number of areas that are not what we believe would be expected in a properly functioning market, nor the lack of detailed analysis around the cause and effect of these areas.

The opportunity to provide feedback on the analysis and indicators is appreciated, but we suggest the responses that will be received will be skewed to those organisations within the industry who have the resources and expertise to engage in the finer nuances of economic theory and tools.

While we all want to avoid the risk of unintended consequences from hasty decisions, we remind the Authority of its statutory objective to act for the long-term benefit of consumers. Lack of action also has consequences as may be the case with the business closures mentioned above.

The review report identifies a number of areas where there is a slanting of market outcomes to generators. This is certainly the outcome of the EVA work MEUG has undertaken to date². The current generator retailer vertically integrated settings and/or model are likely not fit for purpose.

The Authority's statutory objective is to work for the best long-term benefit of consumers. If doubt remains as to the underlying causes of the issues identified in the review paper, then there is an obligation on the Authority to act in the interests of consumers, even where this may influence shorter term outcomes when the longer-term situation remains opaque.

NZ Steel has engaged in preparation of the MEUG submission, which includes a more detailed analysis by NZIER. This submission should be read in conjunction with those documents.

As always, we remain open to on-going engagement as we all strive for an electricity system and market that will deliver an abundance of clean, reliable and importantly affordable energy. We would like to see the Authority work with a group of consumer representatives to progress this analysis and improve the market functioning for the short, medium and long term through an ongoing working group, rather than through a single submission's input. We would be very happy to participate in such a group.



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