



Inefficient Price Discrimination in the Wholesale Electricity Market – Issues and Options

Response from Sustainability Trust

Sustainability Trust (ST) is pleased that the Electricity Authority (EA) has provided some robust review options to address the issues of market power and resultant cost impacts on electricity consumers. As a community-focused not-for-profit our main concerns lie with any system impacts that lead to elevated electricity costs for households in energy hardship. We are also concerned with systems that create barriers to access for innovative retail operations that aim to serve this client base.

Due to our tight focus, we have provided some brief broad responses to the consultation rather than specific answers to the questions posed.

Background to Sustainability Trust's role as a retailer

ST has recently established (November 2021) a Tier 1 retailer which will focus on developing and providing services to low-income householders. Over the past 12 months we have become acutely aware how wholesale price volatility, availability of financially sustainable hedge contracts, and vertical integration of large incumbents have impacted on our ability to enter the market.

We strongly believe that the delivery of essential services to vulnerable households can best be managed by organisations who understand the issues faced by these households. Large gentailers with shareholder accountabilities, high executive salaries, majority owned by government will always struggle to connect directly with low-income households. The glaring conflict between offering competitive hedges from the wholesale division and the impact of these prices on the retail division are all too obvious. However, larger gentailers can assist by using their market power and ability to provide hedged support to innovative mission-based retailers such as Sustainability Trust. Whether this is through regulation or the establishment of a voluntary industry standard is moot, but the industry and EA have the power and opportunity to address this issue for all vulnerable New Zealanders.

A" Social Hedge" Market for Retailers focussed on Energy Hardship Alleviation

In our view, a separate market of longer term (at least 1-2 years) hedge contracts priced at or below the cost of production that is only available to not-for-profit (NFP) retail or mission-locked organisations provides a solution. In our discussions with a number of large gentailers, there is a genuine desire to find simple models that assist vulnerable households. We think that this solution satisfies these aspirations. It would not remove the need for NFP retailers to carefully manage their unhedged/overhedged risk but would provide external security while managing a client base that are higher cost to serve.

Such a hedge market should be transparent and open to scrutiny. Especially important would be to validate why the prices offered were either below market or "subsidised" and by what extent. This would also have the effect of validating the open market hedge pricing in relation to any "subsidised pricing". Access to the social hedge market would likely be through an open tender process to



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determine the fit or the applicants, outcomes, and other regulatory and risk criteria. We imagine that the pricing would be set by agreement between the generators, EA and community, but would be binding on all parties.

The role of smaller retailers

Finally, smaller independent retailers due to their flexible and nimble nature are well placed to innovate and provide original solutions to industry challenges (including carbon emissions reductions) and retail client needs. An electricity system that supports the financial sustainability of new entrants and smaller operations is essential to the sustainability of the whole industry and positive outcomes for all New Zealanders.

We also note that community-level retailers will generally have much lower-cost structures due the nature of the people attracted to work in these organisations and lack of external investors requiring returns. They will also have much higher credibility and connection with vulnerable households and will thus create products and services that meet community needs. While lower pricing of retail electricity may not be the direct outcome, surpluses will be reinvested in innovation, research, and products/services for this population. Social entrepreneurship flourishes in these kind of settings.

The current situation in the UK of the collapse of over 28 smaller retailers due to rampant gas prices and underhedging is a salient example the risks smaller retailers take to survive. Their capacity to weather sustained high spot prices is limited compared to the larger incumbents. Market reforms in the UK are underway to strengthen retailer compliance and conduct regular stress tests. However, if the UK (and NZ) wants a competitive market with a variety of players, some structural changes in the market system to provide more transparency and certainty around future pricing is needed.

ENDS

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