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Submissions
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SUBMISSION ON WHOLESALE MARKET COMPETITION REVIEW

The Electricity Retailers' Association of New Zealand ('ERANZ') welcomes the opportunity to provide feedback on the Electricity Authority's consultation paper 'Promoting competition in the wholesale electricity market in the transition toward 100% renewable electricity' from November 2022.

ERANZ is an 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.

Executive Summary

ERANZ makes the following points in summary:

- Agree with the Authority's conclusion that structural change is not currently required.
- Agree that more and faster investment in generation will promote competition as well as deliver emissions reductions.
- Agree with the Authority's steps it is taking to improve the market's operations.
- Agree with the Authority's recommended steps for other agencies to undertake, especially the work to strengthen national direction for renewable electricity to inform local planning and resource consenting.
- Support Resource Management and Overseas Investment Act changes to accelerate approvals of new renewable electricity generation projects.

ERANZ agrees with the Authority's characterisation of the electricity market in the decade prior to 2018. The Authority observes the market delivered "increased retail competition and stable prices, secure and reliable supply, and in 2017 reached ~86% renewable electricity sources based on capacity."

In the period since 2018, the track of wholesale electricity prices and the drivers of it are well rehearsed. As the Authority notes, the Pohokura gas field outages left gas supplies low, but other fuel types were restricted too. La Nina left hydro lakes lower than average.

Together, these supply shortages lead to prices rising – an expected outcome in a responsive marketplace. This dynamic is best expressed in paragraph 1.5 of the paper, citing the WMR, which found that "demand was up, supply down, and fuel costs were rising."

Importantly, this period of higher-than-average wholesale prices together with robust demand forecasts are prompting multiple large players to enter the electricity generation sector. The recent Boston Consulting Group report shows a large pipeline of generation, together with the Authority's own stock take completed by Concept Consulting. Encouraging this generation build should be a key objective of policy makers. ERANZ supports the Authority in championing the need for RMA reform to boost renewable electricity and aid our transition to lower emissions.

When asked, generation players cite government policy and regulations as key roadblocks for more construction, including economic and regulatory uncertainty, and long lead times due to obtaining the necessary consents and investment approvals.

Overall, ERANZ agrees with the Authority's key conclusion:

“The Authority's current assessment is that more fundamental structural options are currently not justified by the available evidence. Further, they would: take considerable time and cost to implement and may not be available during the transition, may or may not be effective in fundamentally improving competitive conditions, and would add uncertainty that would stymie investment.”

Main Submission

Drivers of past wholesale market prices

New Zealand's electricity market is serving us well. It generates predominantly renewable electricity with stable supply in an unsubsidised yet still affordable way. This makes us stand out internationally as illustrated by our performance in the 'energy trilemma'.

While the Authority's previous report 'Market Monitoring Review of Structure, Conduct and Performance in the Wholesale Market' stated, "prices over the review period had, at least to some extent, reflected underlying supply and demand conditions – a sign of a competitive market", the Authority's model was unable to account for every condition in the market. This is understandable with any model and does not necessarily lead to conclusions on market power. As the Authority itself states, some drives could be due to "some other factor not accounted for in the model."

Recent fluctuations in the wholesale price are driven by well-known factors: shortages in gas supply, dry La Nina conditions impacting hydro lakes, and rising carbon prices successfully making fossil fuels more expensive and rewarding zero-emissions energy.

Competition is best for consumers

ERANZ strongly supports the starting point that competition is most likely to get the best outcome for consumers. The underlying settings of New Zealand's wholesale electricity market are robust, as illustrated by around ten years of relatively flat to falling real retail prices underpinned by generation and transmission investments in the 2000s resulting in a decade of flat wholesale prices.

Strong pipeline of new generation

ERANZ supports the drive towards a 100% renewable electricity system and therefore supports the Authority's desire to remove potential barriers. Consumers need to have confidence greater amounts of electricity will be generated to meet increasing demand.

Previous Authority work has warned the pipeline of new supply “was thin”. This is no longer the case. The Boston Consulting Group’s recent report ‘The Future is Electric’ demonstrates a large pipeline of renewable generation projects coming. This pipeline is comprised of current players and many additional new players, particularly for solar and offshore wind projects. The Authority goes on to substantiate this finding with its newly commissioned survey of the investment pipeline. The issues paper also notes a variety of factors contributing to slower construction of renewable generation, many relating to government regulations including economic and regulatory uncertainty, and difficulties securing consents and grid connections.

As the paper concludes in paragraph 4.41, competition is strong: “Neither the scale of new investment being actively pursued as indicated by the new data discussed above, nor the majority of qualitative comments from interviews, are suggestive of anti-competitive behaviour to discourage entry.”

Role of thermal generation

The discussion of thermal generation in paragraphs 4.14 to 4.18 underlines that thermal generation is more than just supplying electricity, it is a flexible peaking and dry-year risk mitigation tool. The role of thermal is diminishing over time. Still, until enough reserve generation, battery capacity, demand flexibility, or green peakers are available, then traditional thermal will continue to have a niche role.

Additionally, replacements for thermal generation continue to face a range of uncertain risks including the future of Tiwai Point and its vast consumption of electricity, together with the government’s consideration of the NZ Battery Project in Lake Onslow. The paper canvasses other risks including the time required for network connections, particularly when such connection enquiries are increasing dramatically.

ERANZ agrees with most of the Authority’s proposals to strengthen settings to promote wholesale market competition. However, there is no consensus amongst ERANZ members in respect of the proposals to improve thermal fuel information disclosure. Some members would support increased thermal fuel information disclosure while others would caution the Authority about the property rights of gas owners when thinking about disclosure of information on the availability of gas for electricity supply.

Government regulatory factors

The paper identifies three key regulatory elements which can alleviate barriers to generation:

- Reforming the Overseas Investment Act to make it easier for capital to invest in renewable generation.
- Reforming the Resource Management Act to make it easier and faster for development of renewable generation projects.
- Allowing skilled labour to enter New Zealand to design and build new renewable generation.

In line with New Zealand’s climate change objectives, the government should prioritise resolving these three barriers. The Commerce Commission flagged the competition implications of poor consenting processes in 2009, thirteen years ago, as per paragraph 4.46.

ERANZ supports the concerns expressed in paragraph 7.35 that the current RMA reforms risk not getting the balance right to facilitate new renewable generation. The government has strong and

clear policies on tackling climate change, yet they are not adequately reflected in the RMA process. In particular, ERANZ is sympathetic with the Authority's view that:

“The risk is that the regulatory environment could stand in the way of the large amount of investment in renewable generation that is projected to be required to meet climate change objectives and bring electricity prices down toward the cost of new supply.”

The paper notes this issue has been previously considered by the Ministry for the Environment, MBIE, the Productivity Commission and the Interim Climate Change Commission, who all note the challenges and barriers to renewable electricity generation.

Ultimately, ERANZ supports MBIE and MfE strengthening the national direction for renewable electricity to inform local planning and resource management consenting. This work will have competition and climate change benefits.

Improving the OIA is another priority. ERANZ supports the consideration of a class exemption for renewable energy projects.

When improving the environment for overseas investors, such improvements should be for the benefit of everyone – any MBIE resourced helpdesk for facilitating energy projects through regulatory hurdles should help all new generation projects, regardless of which country their owners reside.

Implications of Authority's findings

ERANZ supports the overall findings, in particular:

“In light of the apparent effectiveness of the new trading conduct rule and increased investment in monitoring, compliance and enforcement, as well as the scale of actively pursued new investment by independent developers, the Authority currently considers that reliance on the current conduct-based measures plus entry by new supply to mitigate the exercise of market power remains broadly appropriate in the transition toward 100% renewable electricity.”

ERANZ agrees with the Authority's objective and five evaluation criteria for interventions: effective, efficient, timely, durable and valuable.

Price caps

ERANZ agrees with the reluctance to implement price caps for the reasons laid out in the paper's paragraphs 6.14 to 6.22. Price caps end up causing more problems than they solve and are neither efficient nor effective. In fact, caps distract from the core issue of stimulating the construction of more generation into the system.

It is the role of retailers to stand between their customers and the volatility of the wholesale market. This is one of the key roles retailers play and is a valuable service for customers and the market.

Structural options

ERANZ recommends the Authority proceed with utmost caution in discussing and contemplating structural options to market participants. New Zealand is undergoing an enormous energy

transition and the required infrastructure totals many billions of dollars. Boston Consulting Group estimates \$43 billion between now and 2030. In this context, considering radical structural reforms would chill private sector investment and run counter to New Zealand achieving its climate change goals.

Table 1. Consultation Questions

Consultation Questions	ERANZ submission points
1. Do you agree that a key competition issue in the transition is that it weakens competition in extended times when intermittent generation cannot run?	No. The nature of competition will change with the addition of more intermittent generation being built (including some overbuild) plus more demand flexibility able to compete. These market developments will be a hedge on intermittency, as discussed in section 4, particularly the MDAG forecasts contained in paragraph 4.6
2. Do you have any comments on the contents of this chapter?	No further comments.
3. Do you have any comments on the impediments to generation investment?	ERANZ recommends the government reform the Overseas Investment Act, reform the Resource Management Act and allow entry to New Zealand for the necessary skilled labour required to design and build new renewable generation.
4. Do you agree that the lag in investment is not due to anticompetitive behaviour to slow down investment and discourage entry, or can you provide instances or other evidence to the contrary?	Agree.
5. Do you have any other comments on the role and impact of carbon pricing on investment and wholesale market competition or the other content of this chapter?	The ETS appears to be working as designed by favouring low-emissions energy generation at the expense of high-emissions energy generation. This is not a “windfall”, but the regulatory system working as intended by the government.
6. Do you agree with the Authority’s overall conclusion that it currently considers that continued reliance on the current conduct-based measures and (the threat of) entry of new supply to mitigate the exercise of market power remains broadly appropriate in the transition toward 100% renewable electricity?	Yes.

7. Do you agree with the objective and evaluation criteria set out in this chapter?	Yes.
8. Do you have any comments on the contents of this chapter?	Any support and assistance MBIE officials provide to overseas investors in renewable electricity generation to navigate the RMA and OIA should also be offered on the same basis to New Zealand-based investors.
9. Are there any other options that would promote wholesale electricity market competition in the transition that you consider would be more effective and efficient?	Facilitating and enhancing competition between market participants is key. Discussing structural reforms of market participants risks chilling investment in our electricity system at the very time such investment is vital to a successful transition.
10. Do you have any comments on the contents of this chapter?	No further comments.
11. Are there any other options that would better facilitate efficient investment in renewable generation to promote wholesale electricity market competition in the transition?	Any support and assistance MBIE officials provide to overseas investors in renewable electricity generation to navigate the RMA and OIA should also be offered on the same basis to New Zealand-based investors.
12. Do you have any comments on the contents of this chapter?	No further comments.

Conclusion

ERANZ thanks the Authority for its work on this issue and is happy to provide any further information on this submission as required.

Yours sincerely



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