

14 December 2022

**SUBMISSION TO ELECTRICITY AUTHORITY REGARDING PROMOTING
COMPETITION IN THE WHOLESALE ELECTRICITY MARKET**

**Stronger competition and more affordable electricity is
needed**

Entrust has been very supportive of the Electricity Authority's (the Authority) work on the wholesale market review and inefficient price discrimination. A well-functioning and competitive market is needed to make electricity more affordable for Kiwis, and to put New Zealand businesses on a stronger footing.

As a consumer trust representing both commercial and residential consumers, i.e. the demand-side of the market, we are concerned by the very clear evidence electricity consumers are paying far too much for electricity.

Unfortunately, while we consider the Authority has done a good job in identifying problems in the market, the Authority hasn't been strong enough in its proposed policy reforms.

We see a parallel with the Commerce Commission's supermarket review. The Commerce Commission identified major competition problems but the reforms it recommended were inadequate, and the Government ended up having to develop its own reform package.

Summary of Entrust's views

- Entrust considers that the Authority has provided clear evidence of substantial competition problems.
- The Authority's findings confirm Entrust's long-held concern that market outcomes are inconsistent with a healthy competitive environment. Entrust remains of the view that the underlying problem is that Meridian and the other large generators are too big and have substantial market power.
- Entrust doesn't consider that the Authority should be concerned about "uncertainty" about the problem. Even if the Authority over-stated the problem, the scale of the problem would still be very large. If the Authority doesn't have the conviction to back its own findings, then it should get an independent international expert to provide it support and review its work. The Authority used Duignan Munro to review the last wholesale market consultation.
- It is important that the reforms are proportionate to the problems the Authority has identified and don't allow market power and competition issues to persist.
- We remain of the view that wholesale structural reform needs to be considered given the scale of the problems the Authority has identified. The Authority should evaluate the likely price and competition benefits before ruling out particular options.

Entrust's submission

The underlying problem is a market power problem

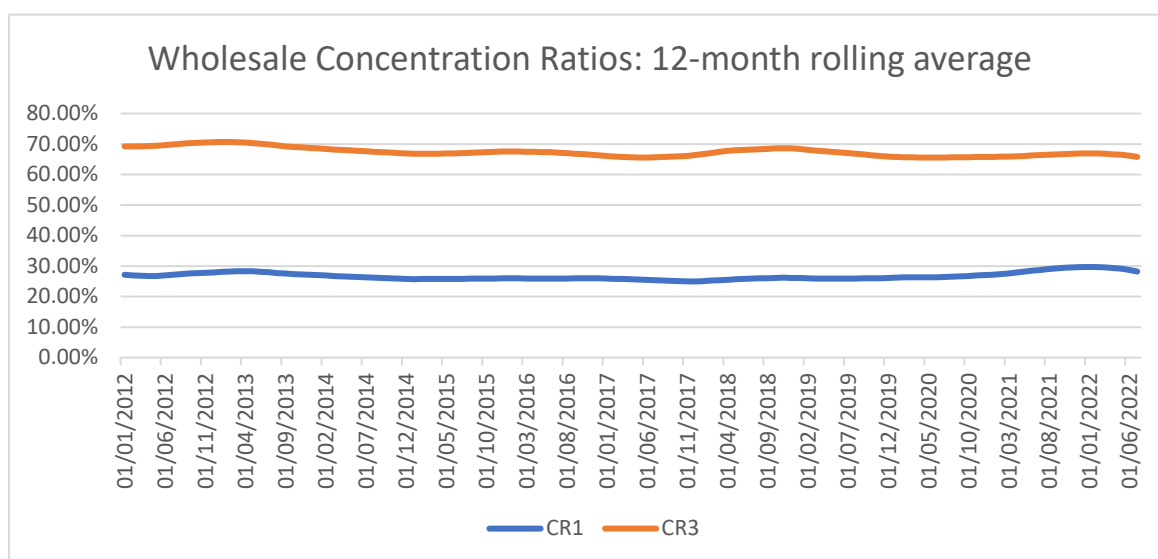
Entrust considers the underlying problem to be that Meridian and other large generators have substantial market power.¹ Meridian controls 30% of the market (Concentration Ratio 1 (CR1)) which is too big for a competitive market. The Authority proposals won't change that.

Our concerns about market power are supported by the thresholds the Authority and the Commerce Commission use to determine whether a market is concentrated.

The Herfindahl-Hirschman Index [HHI] for generation is around 2,000. The Authority's latest wholesale market review consultation indicates the HHI could potentially increase over the next decade and could end up around 2,300 by 2030. This is well above the 1,500 threshold the Authority uses to determine whether a market is concentrated.

The wholesale market also meets the Commerce Commission's definition of a concentrated market as a market where the three largest firms have a total market share of 70% or more (Concentration Ratio 3 (CR3)).

The following graph confirms the Authority's observation that, other than seasonal fluctuation, market concentration has remained largely flat since 2012.²



We agree "Prices remain persistently higher than the cost of new supply"

We consider the competition problems the Authority has identified are of a magnitude that incremental reform, and reliance on trading conduct regulation, will not be sufficient to protect or promote the long-term interests of consumers. We agree with and are concerned by the Authority's principal findings:

- "... the pipeline of new supply is thin ..."
- "The Authority has not changed its initial conclusion that generators may have been exercising market power during the review period."

¹ Entrust has conveyed these views in the initial wholesale market review consultation and in the inefficient price discrimination consultation.

² Electricity Authority, The Authority's response to submissions on the 2021 Market Monitoring Review of Structure, Conduct and Performance in the Wholesale Electricity Market, released 12 October 2022.

- "The transition toward 100% renewable electricity may increase market power of generators with storable fuel ..."
- "Industry structure is relatively concentrated"
- "... the updated HHI charge shows that ... it ... has ... flattened out. HHI still remains around 2000 as at 31 May 2002."
- "The persistence of high spot and forward prices, well above the cost of new renewable supply raises questions about whether there are impediments (including anticompetitive barriers) to entry ..."
- "Spot and forward prices have remained above price levels that prevailed before the period covered by the WMR."

Concluding remarks

Entrust wants to ensure electricity is supplied in an efficient and affordable way to all consumers and its beneficiaries, including the 351,000 households and businesses in central, east and south Auckland.

We reiterate, from our submission last year, that the wholesale market review is likely to be the most important part of the Authority's work programme since it was established in 2010.

The Authority has taken firm and decisive action to resolve the issues with 'Tiwai' type inefficient price discrimination but has been shy about tackling the underlying structural problems in the wholesale market. New Zealand's small size and scale means that if we accept higher levels of concentration, then stronger wholesale regulation will be needed to curb the behaviour of incumbent gentailers with substantial market power.

If the competition issues are not resolved market concentration could worsen and wholesale prices could remain artificially higher than they should undermining the transition to a lower emissions economy and provision of affordable energy for Kiwi households and businesses.

Kind Regards,



Alastair Bell
Chair of Regulation and Policy Committee

About Entrust

Entrust (formerly Auckland Energy Consumer Trust) is a consumer trust that owns the majority of Vector on behalf of its 351,000 beneficiaries.

Entrust owns 75.1% of shares in Vector. The shares are held in trust for energy consumer beneficiaries in the Entrust District of central, east and south Auckland who are paid a cash dividend each year.

The organisation was created in 1993 to make sure power lines remained in the control of electricity consumers and was established under a trust deed on behalf of electricity consumers in the area previously served by the Auckland Electric Power Board.