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## Promoting competition in the wholesale electricity market in the transition toward 100% renewable electricity

We appreciate the opportunity to respond to the Authority's issues paper *Promoting competition in the wholesale electricity market in the transition toward 100% renewable electricity* published 12 October 2022.

### Response to Authority made in context of MDAG<sup>1</sup> papers

The Authority's consultation window coincides with the release of MDAG papers. We have responded to the Authority's paper taking account of MDAG thinking specifically on monitoring, its competition analysis and most importantly, the sense of urgency from realising that the transition is happening *now*.

We support competition as the process for the wholesale electricity market to meet demand efficiently. We agree that there is a risk of market power for those entities with flexible generation in a high renewables-based system, absent other means of firming provision. We also consider energy price risk is likely to be asymmetric: the risk to consumers from waiting for unequivocal evidence of a realised competition problem could be greater than the risk of acting too soon.

### General support for the proposed actions but missing prioritisation

Both the Authority's emerging conclusion and MDAG analyses indicate a likely competition problem. MDAG's finding was that "*larger generators with substantial flexible resources may*

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<sup>1</sup> Market Development Advisory Group

*well have greater means and incentive to exercise market power in the supply of shaped products (such as contracts to complement intermittent generation sources) in the future.”<sup>2</sup>*

Following its analysis of submissions the Authority will need to identify those actions which should be prioritised with urgency.

### Continued conduct monitoring a good start

We support the proposal to *continue proactive monitoring and enforcement of trading conduct in the spot market*, but we consider the monitoring could need “beefing up” as identified by MDAG.<sup>3</sup>

We also consider that the Authority should consider whether monitoring should be undertaken by an independent third party. Monitoring from the same party that created the rules to be monitored could risk optimism bias into what is being observed. Confidence in the monitoring could be improved through the use of an independent service provider.

### Proposals to constraint the exercise of market power

For the proposal to *investigate mechanisms to accelerate the development of the demand response market* we consider these are market mechanisms to accelerate the uptake of flexibility services. Transpower can offer advice on the practicalities of flexibility services through its learnings from previous and current flexibility programme deployments.

### Proposals to facilitate investment in new renewable generation

We comment on some of the Authority’s proposals for facilitating investment in renewable generation.<sup>4</sup>

Relevant to the proposal *undertake regular monitoring of progress on generation investments, and an annual update of the investment pipeline and impediments* Transpower will publish its connections pipeline for generation and storage projects from mid-December. Transpower also publishes a quarterly update of our monitoring against Whakamana i Te Mauri Hiko scenarios indicators: for our September publication we concluded “*we are entering the early phases of a new period of electrification growth consistent with the Accelerated Electrification trajectory.*”<sup>5</sup>

We also support the Authority proposal to *regularly collect information on offtake and ‘firming’ agreements (and if feasible declined requests)...* Concept’s analysis projected the cost of new renewable supply as a price range 76-92 \$/MWh (2022 dollars) on a (financially) firm basis.<sup>6</sup> However, its analysis was based on “*energy requirements and excluding firm capacity issues. It was not practical to undertake an equivalent analysis based on capacity requirements within the time and resource available for this study.*”<sup>7</sup>

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<sup>2</sup> [Price discovery in a renewables-based electricity system: OPTIONS PAPER 2022 \(ea.govt.nz\)](#) para 3.54

<sup>3</sup> Ibid para.11.18.

<sup>4</sup> All proposals quoted are from the [consultation paper](#) pages v and vi.

<sup>5</sup> [Whakamana I Te Mauri Hiko monitoring report](#) September 2022.

<sup>6</sup> Concept Consulting July 2022 [Generation investment survey 2022](#) slide 13.

<sup>7</sup> Ibid, slide 13.

The Authority's information gathering will support understanding of whether lack of access to firming agreements is a barrier to renewables development and whether firming products should be developed for the market.

Proposed actions that depend on other agencies

Transpower has experienced a significant increase in enquiries for connecting new renewable generation. We have developed information about the connection process to support enquirers:

- we have refreshed our Envision tool<sup>8</sup> (our geospatial interface to transmission network information) to help parties understand the opportunities and constraints on the transmission network; and
- our new Connections Management Framework<sup>9</sup> is now live.

An action proposed by the Authority is for *Transpower to publish connection enquiries and connection studies...* However, these Customer - funded connection studies contain commercially sensitive information about generation projects and we sign non-disclosure agreements with the enquiring party. An alternative approach could be for the Authority to use its Code amendment powers to compel these specific outcomes that the Authority has concluded may help promote competition.

We support the proposal to invite MBIE to collaborate with other agencies to produce an *"Annual Electricity Generation Investment Opportunities"* report.

We also agree with the Authority's view that *"a whole-of-system view [is] critical when considering options to enable electrification and the connectivity of generation capacity."*<sup>10</sup> For renewable generation investment (grid and distribution level) we consider investor confidence will be enhanced by understanding that the grid is capable of transporting their output to demand. In our submission to MDAG<sup>11</sup> we stated, *"a key issue for Transpower is making timely and least regrets investment...there is a real risk that investment in the grid may not keep pace with a goal of 100%RE...Transpower will continue to support rapid, easy connection of distributed and renewable generation and load to the grid and ensure we stay ahead of the game..."*.

To this end, Transpower provided its first major capex proposal to the Commerce Commission under our strategic investment programme [Net Zero Grid Pathways](#). Net Zero Grid Pathways is a multi-year programme of work through which Transpower will investigate, plan, consult on and seek investment approval for large projects to deliver the transmission system New Zealand needs to electrify our economy and meet decarbonisation targets in the future.

The first stage of the programme, which our proposal encompasses, is to deliver three key projects to get more out of existing grid assets in the central North Island, around the

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<sup>8</sup> [Envision \(arcgis.com\)](#)

<sup>9</sup> [Connect to the grid | Transpower](#)

<sup>10</sup> [Consultation paper](#) para. 4.30.

<sup>11</sup> [Transpower - Price discovery under 100% Renewable Electricity Supply - Issues Discussion paper.pdf](#)

Wairakei area, and the High Voltage Direct Current (HVDC) link between the North and South Islands.

Our view is that the transmission grid remains the key platform for enabling competition in the wholesale market.

We have responded to the Authority's questions in the appendix.

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'Joel Cook', written in a cursive style.

Joel Cook  
Head of Regulation

## Appendix A – Response to questions

Question	Transpower response
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?	Yes. As the market becomes more dominated by intermittent generation then consumers needs firming / balancing products for physical supply. Those products in the immediate term may be the preserve of a few participants.
2. Do you have any comments on the contents of this chapter (chapter 2)?	We support the Authority sharing relevant information it collects that could aid any Commerce Commission competition investigation under section 36.
3. Do you have any comments on the impediments to generation investment?	<p>Yes. We agree with the Authority's view ..." a <i>whole-of-system view (is) critical when considering options to enable electrification and the connectivity of generation capacity.</i>"</p> <p>We consider an impediment is any lack of confidence that new generation cannot be accommodated by existing transmission capacity.</p> <p>Transpower provided its first submission to the Commerce Commission under our strategic investment programme <a href="#">Net Zero Grid Pathways</a>. The proposed investment aims to enable efficient dispatch of existing and new renewable generation plus ensure a reliable supply for future demand growth over the interconnected grid from now to 2050.</p> <p>In our view the transmission grid remains the key platform for enabling competition for the wholesale market.</p>
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?	No comment.
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 (chapter 4)?	No comment.
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	Yes. The Authority could consider whether there are additional benefits, for public and government confidence in the market, that the monitoring function is separated from the party that created the rules. This approach would create independence from the party responsible for the market settings.

Question	Transpower response
appropriate in the transition toward 100% renewable electricity?	
7. Do you agree with the objective and evaluation criteria set out in this chapter?	We consider the analysis could show how the criteria were applied to each action, to help understand relative efficacy of each action.
8. Do you have any comments on the contents of this chapter?	No further comment.
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?	No comment.
10. Do you have any comments on the contents of this chapter (chapter 6)?	No further comment.
11. Are there any other options that would better facilitate efficient investment in renewable generation to promote wholesale electricity market competition in the transition?	Yes. We note MDAG has also raised (in its competition paper) <sup>12</sup> the structural option to “ <i>Reduce market concentration via virtual break-up of major flexibility sources</i> ” while noting the idea would need careful consideration beforehand to avoid unintended consequences.
12. Do you have any comments on the contents of this chapter (chapter 7)?	<p>Yes.</p> <p>Transpower is already taking action to support renewable generation connections:</p> <ul style="list-style-type: none"> <li>• we have refreshed our Envision tool<sup>13</sup> (our geospatial interface to transmission network information) to help parties understand the opportunities and constraints on the transmission network, and</li> <li>• our new Connections Management Framework <sup>14</sup> is now live.</li> </ul>

<sup>12</sup> [Competition-analysis-FINAL-v3.pptx](#) slide 23.

<sup>13</sup> [Envision \(arcgis.com\)](#)

<sup>14</sup> [Connect to the grid | Transpower](#)