

20 March 2023

Tony Baldwin  
Chair  
Market Development Advisory Group  
Electricity Authority

Dear Tony

## **Wholesale and retail competition is of paramount importance for the energy transition**

2degrees has seen how robust competition has benefited and broadened investment in the telecommunications industry and therefore welcomes MDAG's emphasis that "Competition is a vital ingredient to successfully shift to a renewables-based system".

Thriving competition with a fair and level playing field will be a key driver for:

- a) ensuring efficient and diversified investment in renewables; and
- b) customer level innovation that enables the decarbonisation of New Zealand homes and businesses.

2degrees' entry to the telco market has been estimated to be worth more than \$10 billion to the New Zealand economy, when you consider direct investment, indirect investment (like the suppliers and vendors we use), and the value of competition to New Zealanders.<sup>i</sup> We remain committed to bringing the Fight for Fair to electricity and clearly putting consumers front and centre of the market.

Consumers benefit from the innovative products and billing models that come from independent retailers; and New Zealand Inc will benefit from diversified investors into renewable energy. Innovations such as Electric Kiwi's Hour of Power both improve consumers' access to better pricing and control, while supporting demand shifting. These benefits extend to the customers of incumbents as they are replicated throughout the market through competition – exactly as happened to mobile prices when 2degrees arrived! Recent years have seen headwinds to these innovations in electricity as independent retailers have stepped back from fully engaging the market.

A better and more efficient wholesale market, and regulatory settings that address barriers to competition for independent electricity suppliers, will help deliver the confidence needed for broader investment decisions rather than over reliance on the investment and trading decisions of a few.

MDAG recognises in its paper the imperative for the sector to think not only of the energy sector's transition itself, but also the role the electricity sector plays in New Zealand's wider decarbonisation. The ambitious move to a low-emissions economy requires bold steps away from the status quo. A competitive market will help drive wider investment in new generation and support affordable electricity for consumers and businesses.

### **The ACCC has captured the essence of the issue**

The Australian Competition and Consumer Commission (ACCC) has articulated well the importance of competition, including at both the wholesale and retail levels, for successfully managing the energy transition, for example:

“Maintaining and developing competition in electricity markets throughout the transition to renewable energy is of paramount importance. Well-functioning competitive markets are critical to delivering the investment needed for new electricity generation and storage capacity at an efficient cost to consumers.

“The energy-only structure of the National Electricity Market is designed to allow for temporary price volatility to incentivise new investment and innovation through a market response. However, we recognise that the market is in transition, and that government is currently considering changes to the market design to support a smoother transition.

“To maintain and promote competition during periods of temporary price volatility, it is essential that market participants can appropriately manage financial risks. Our analysis indicates that retailers are finding it increasingly difficult to manage their exposure to prices in a volatile spot market. This, in turn, increases the likelihood of retailer failure, declining competition, and higher bills for consumers.

“Preserving competition in retail markets is the best way to deliver benefits to households and businesses over the longer term. ...

...

“Access to exchange-traded and over-the-counter hedging contracts is critical to allow electricity retailers and generators to manage their exposure to price and volume risk.”

## **Wholesale market settings are key to the promotion of competition**

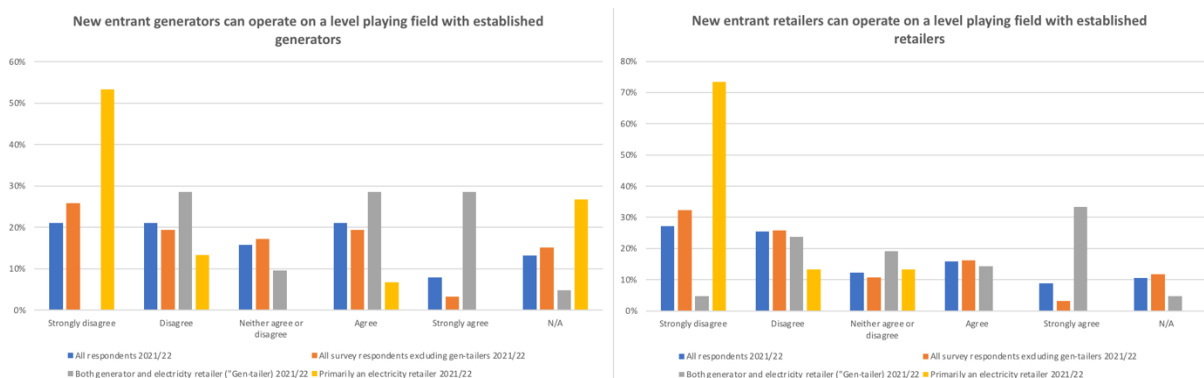
Given the Authority’s commentary that “the presence of market power is – and will continue to be – a reality in the New Zealand wholesale electricity market” it is critically important to get wholesale regulatory settings right, and to ensure independent generators and retailers can compete on a level playing field against the incumbent gentailers.

One of the principal barriers to competition in the electricity market is the inadequacy of hedging for independent suppliers, which leads to low margins and therefore significant business risk. The success of wholesale regulation in the telco market shows what effective regulation, combined with a strong challenger(s), can do. We consider it would be worth exploring initial measures such as operational separation and access rules for risk management tools (with arms-length rules) that have been applied in telecommunications, as well as access rules for risk management tools e.g. regulatory requirements for the gentailers to provide access to risk management tools on terms and conditions (including price and shape) that are consistent with those terms and conditions on which they provide the service to themselves and/or requirements that they make a specific amount of their generation capacity (for example 15%) available on reasonable price equivalent terms.

## **There isn’t a level playing field for new entrants and independent suppliers**

The independents’ joint submission cited evidence from the Electricity Authority that, other than incumbent gentailers, most market participants disagree or strongly disagree that there is a level playing field in the electricity market.<sup>ii</sup>

Interdependence between wholesale and retail markets, and retailer reliance on wholesale positions, naturally amplify efficiency concerns on generation barriers to entry into growth concerns for entrant retailers. This is mirrored in our own experience as an entrant to retail electricity, and contrasts with our competitive moves (Slingshot and Orcon)<sup>iii</sup> into the broadband market once clear wholesale access rules were established. In the telco market new structural boundaries and wholesale rules unlocked value for consumers, and 2degrees would like to similarly see consumer value maximised in the electricity market.



While the Electricity Authority should not necessarily be concerned about the well-being of any single market participant, the lack of confidence in how well competition is working is evidenced in the large number of electricity retailers that have exited the market. From 2003 to 2017 only two retailers exited the market. This ballooned out to 23 since then, with 21 retailers exiting the market in the last 5-6 years.<sup>iv</sup> Even more significantly it appears that many of the established independent retailers remaining have taken steps to limit their growth to manage their wholesale price risk. This throttles flourishing innovation, reduces thriving competition, and limits consumer benefit.

**We are of the view that structural reform needs to be kept on the table**

We note that although MDAG do not consider structural reform should be adopted at this stage, it considers that it would be desirable to explore how structural change would be optimally configured, and is exploring virtual separation as a potential less heavy-handed regulatory intervention.

We agree with MDAG that “If structural solutions are ultimately required, they should be put in place with the least possible delay. That means some initial scoping work would make sense as a precautionary step, even if it turns out structural options were not ultimately needed”.

**Concluding remarks**

Up until the early 1990s, the country relied exclusively on Telecom to make the right investment decisions, right down to what telephones people were allowed to use. Now we have a thriving telecommunications market with competition and choice at both the infrastructure and retail levels. While recognising the important role different market participants play, the electricity industry is still in a position where we have been too reliant on the incumbents to ensure the right investment is made in the right places and at the right time. As a country we can’t just rely on a small number of market participants if we are going to successfully navigate the path to a low emissions economy. We need a large, diverse number of participants making individual choices and competing fiercely to meet customer needs. Individually, not all market participants will get it right but, in a thriving competitive market, collectively we can.

Whether achieved through initial wholesale access regulation or ultimately structural separation, a healthy, competitive wholesale market is critical to fostering competition and innovation in the downstream retail market. Bold wholesale market steps will bolster innovation and investment decisions that will bring us all closer to renewable energy targets.

2degrees intends to deliver continued increasing value to consumers from its entry into the electricity market and anticipates working with the industry to evolve the market to that end. We look forward to being part of a journey with the Authority and other participants to a low-emissions economy while continuing to better serve New Zealand consumers.

Yours sincerely



Mark Callander  
Chief Executive

---

<sup>i</sup> <https://www.imsc.nz/> and [https://sccceconomics.weebly.com/uploads/1/1/3/6/11360975/1\\_eco\\_13-1-1\\_2\\_degrees\\_case\\_study.pdf](https://sccceconomics.weebly.com/uploads/1/1/3/6/11360975/1_eco_13-1-1_2_degrees_case_study.pdf).

<sup>ii</sup> 2degrees, Electric Kiwi, Flick Electric, Haast Energy Trading (Haast) and Pulse Energy, There is a substantial 'risk of unintended consequences' if the transition to greater reliance on renewables isn't well managed, 3 March 2023.

<sup>iii</sup> e.g. see <https://www.stuff.co.nz/technology/it-telcos/215594/Orcon-says-unbundling-world-first>, <https://www.nzherald.co.nz/business/orcon-fires-first-shot-in-fast-fibre-war/WJJPZ7E22EVTXMC5Z4CMYASHYJQ/>

<sup>iv</sup> [https://www.emi.ea.govt.nz/Retail/Reports/3CL0V1?\\_rsdr=ALL&seriesFilter=T,I,X&\\_si=v|3](https://www.emi.ea.govt.nz/Retail/Reports/3CL0V1?_rsdr=ALL&seriesFilter=T,I,X&_si=v|3)