

6 March 2023

Submissions  
Electricity Authority  
Level 7, AON Centre  
1 Willis Street  
Wellington 6011

Via email: MDAG@ea.govt.nz

## **SUBMISSION ON THE MDAG OPTIONS PAPER: PRICE DISCOVERY IN A RENEWABLES-BASED ELECTRICITY SYSTEM**

The Electricity Retailers' Association of New Zealand ('ERANZ') welcomes the opportunity to provide feedback on the MDAG options paper 'Price discovery in a renewables-based electricity system' from December 2022.

ERANZ is the industry association representing companies that sell electricity to kiwi households and businesses. Our members supply almost 90 per cent of New Zealand's electricity. We work for a competitive, fair, and sustainable electricity market that benefits consumers.

### **Summary**

ERANZ supports the work of MDAG and the Electricity Authority. The options paper is a valuable contribution to discussions on evolving New Zealand's electricity system and the operations of the market.

The options paper puts forward a large number of recommendations which places a significant workload on policy makers, especially the Authority. ERANZ suggests that the Authority needs to prioritize the initiatives based on their importance, with the help of basic cost and benefit information.

ERANZ supports the strengthening competition section's ideas, which align with the recommendations of the BCG report 'The Future is Electric.' However, ERANZ does not support one of the recommendations, "D7 - Virtual disaggregation of flexible generation base," because it is premature to investigate it. ERANZ submits that it is a theoretical and not a present problem in the current market.

ERANZ also strongly supports measures aimed at increasing public confidence in the electricity system, such as building a better understanding of the wholesale market by political and policy decision-makers. ERANZ believes that increased understanding will lead to better quality policy debates and that publishing more information for the public and media to see will improve their understanding of the market.

## **Workload implications for the Electricity Authority**

The MDAG recommendations total some 38 initiatives, which results in a large downstream workload for policy makers, especially the Electricity Authority. Given the Authority already has a full work programme, the industry needs to provide a clear sense of prioritisation for these items.

The Authority has core regulatory functions covering many pressing issues as the electricity sector rapidly transforms. ERANZ recommends the industry has the opportunity to provide the Authority with greater granularity on the importance of each of the 38 initiatives so policy makers can prioritise accordingly. Basic cost and benefit information could aid this ranking process.

In turn, the Authority will need to examine its resources, expertise, and capacity to effectively manage and implement such a large number of initiatives in a timely and effective manner. The Authority will need to make trade-offs with its existing policy development workstreams in line with its overall strategic goals and objectives.

To assist with the development of multiple policy initiatives, ERANZ welcomes MDAG's encouragement of government co-design with industry. This addresses some of the capacity issues highlighted here and harnesses the industry's skills and experience from the start of the development process.

## **Strengthening competition**

The section on strengthening competition contains a set of worthwhile ideas that align with the recommendations of the BCG report 'The Future is Electric'. ERANZ supports further work to progress analysis on the Options Paper's recommendations D1 through to D5.

However, one recommendation ERANZ does not support is "D7 – Virtual disaggregation of flexible generation base". The case for beginning to investigate virtual disaggregation has not been made. So far, the problem definition is theoretical, not an observed problem present in the current market. The Authority's recent in-depth review of wholesale market performance did not conclude there was a demonstrable problem requiring action.

The Options Paper's own commentary points out significant costs and shortcomings:

*"...it is important to note that implementing a virtual break-up would still be a significant undertaking and require substantial effort. There would be a need to consider the detail of the contracting mechanisms, the potential need for transitional arrangements, and how contracts were to be allocated and valued. Finally, it would be important to avoid any adverse effects on investment confidence."*

Given these material costs, it is premature to expect market participants to start working on tackling a hypothetical issue. If work begins this year, it may become outdated quickly, as possible market developments such as the government green-lighting Lake Onslow, the development of large grid-scale batteries, and proliferation of distributed energy resources ('DER') may offer better solutions. Starting work on a solution prematurely may create an environment where sector leaders wait for this chosen solution, rather than continuing to consider and analyse superior alternatives.

Economic analysis ERANZ commissioned in 2021 from TDB Advisory demonstrated the economic efficiency of vertically integrated 'gentailers'. Therefore, the costs of virtually breaking up gentailers are more than just transactions costs – there are real and lasting economic inefficiencies which are borne by consumers.

ERANZ recommends MDAG and the Authority instead continue to monitor the market as it evolves. If there is evidence of a problem occurring, this can be tackled on its merits at the time.

### **Increasing public confidence**

ERANZ strongly supports the measures aimed at increasing public confidence in our electricity system. Building a better understanding of the wholesale market and its complex characteristics by political and policy decision-makers is very worthwhile. Increased understanding will, over time, lead to better quality policy debates about where effective improvements can be made. Additionally, publishing more information for the public and media to see will, in turn, improve their understanding of the market.

A key example of this phenomenon will be the increasing volatility of the spot market as intermittent renewable generation makes up more of New Zealand's electricity supply. Volatility is not, itself, bad. The role of retailers is to stand between their customers and the wholesale market. However, to outside observers, this increased volatility could be interpreted as a sign the market is not functioning well.

To overcome this concern, market participants will benefit from greater efforts by the Authority to monitor, report and educate decision-makers. Decision-makers able to have better informed conversations about the market's performance will lead to more meaningful improvements. Consumers will then benefit from a well performing and efficient market.

### **Conclusion**

ERANZ would like to thank MDAG for its ongoing work on this issue. We are happy to provide any further information on this submission as required.

Yours sincerely

A handwritten signature in black ink, appearing to read 'K. Clark', with a long, sweeping horizontal line extending to the right.

**Kenny Clark**  
Policy Consultant