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## Improving Hedge Disclosure Obligations – Preferred options – Vector response to consultation paper

Vector Limited (Vector) appreciates the opportunity to provide comment on the Electricity Authority's (the Authority) *Improving Hedge Disclosure Obligations – Preferred options* Consultation paper.

This submission is not confidential and can be published in full on the Authority's website.

### *Transparency is critical to trust and confidence*

Vector supports any initiative by the Authority to increase transparency, especially so if it has the potential to improve confidence in New Zealand's wholesale electricity market. We have been concerned for some time about the Authority's commitment and ability to proactively evaluate and monitor the competitiveness and efficient operation of the market, so any improvement in this regard is a step in the right direction.

We support the Authority taking a balanced approach between collecting and publishing more information and ensuring appropriate protection of commercially-sensitive information, provided it does not hinder the Authority's ability to perform its monitoring responsibilities to a high standard.

### *Monitor contract prices and new-generation costs more closely*

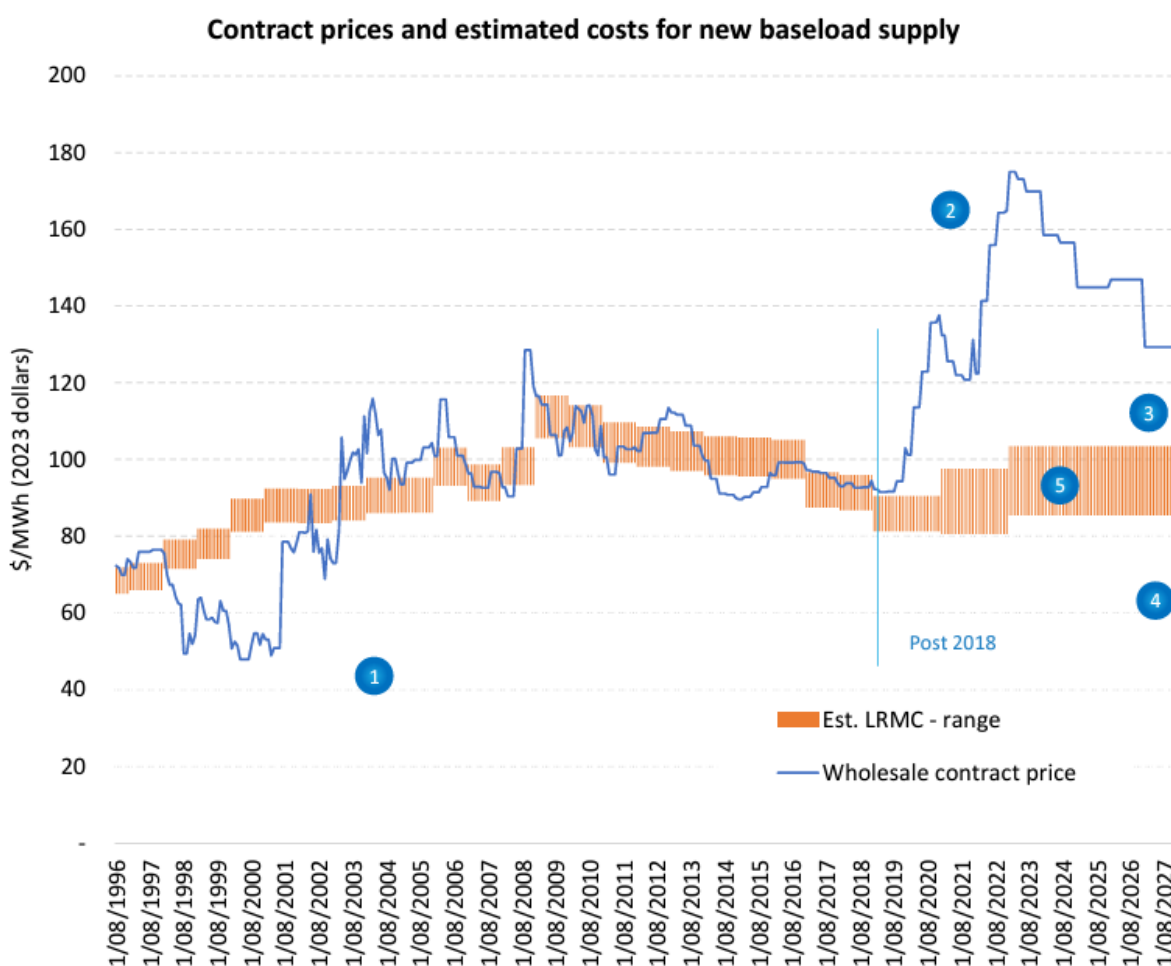
The final report of the Electricity Price Review, published in May 2019, included the following recommendation (D4):

*The Electricity Authority should expand its monitoring of the wholesale market to include periodic comparisons of wholesale contract prices with new-generation costs. The first comparison should be completed within 12 months.*

*As with the previous recommendation, this is intended to clear up a perception held by some of excessive profits – in this case by generator-retailers inflating wholesale contract prices. Again, periodic comparisons will fill the information gap that fosters suspicion and undermines market confidence, and may also uncover a genuine competition problem.<sup>1</sup>*

To date, we have not seen any obvious evidence of the Authority analysing and reporting on the comparison between wholesale contract prices (OTC and/or ASX) and long-run investment costs, nor have we seen any explanation by the Authority as to why it cannot carry out such analysis.

We noted that while the recent publication of Concept’s survey into generation investment<sup>2</sup> did demonstrate this differential on slide 6 (graphic pasted below), it did little to explain why the differential exists or whether it is acceptable from a competitive perspective. This is the Authority’s responsibility, rather than its consultant’s.



<sup>1</sup> Page 46 of [Electricity Price Review final report](#)

<sup>2</sup> Available online at [https://www.ea.govt.nz/documents/4414/Generation\\_Investment\\_Survey\\_-\\_2023\\_update.pdf](https://www.ea.govt.nz/documents/4414/Generation_Investment_Survey_-_2023_update.pdf)

We acknowledge there are many different potential explanations for the high level of ASX prices, including reduced availability and flexibility in upstream fuel supply, elevated fuel and carbon prices, increasing peak demand, and heightened concern about capacity margins. These risks have all been exacerbated over the past five years – after the blue line in Concept’s chart. However, in the absence of an authoritative voice in this area, competing explanations will fill the vacuum.

We are hopeful that, with the benefit of the proposed improved hedge disclosure obligations, the Authority can finally implement recommendation D4 above and regularly provide clarity on long-held market concerns. The Authority needs to provide the definitive word on the state of play.

Yours sincerely



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