

CHAIR'S ANNUAL REPORT JULY  
2020 TO JUNE 2021

MARKET  
DEVELOPMENT  
ADVISORY  
GROUP

**Note:** This paper has been prepared for the purpose of reporting on the activities of the Market Development Advisory Group. Content should not be interpreted as representing the views or policy of the Electricity Authority.

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# 1. Introduction

- 1.1.1 The Market Development Advisory Group (MDAG) was formed by the Electricity Authority (Authority) in October 2017. The MDAG provides independent advice to the Authority on the development of the Electricity Industry Participation Code 2010 (Code) and market facilitation measures.
- 1.1.2 The MDAG focuses its advice on matters relating to the evolution of the ‘machinery’ of the electricity market. Specifically, under its terms of reference the MDAG can advise on:
- a) initiatives to promote efficient pricing in markets and for monopoly services
  - b) initiatives to promote efficient management of capacity and energy risks
  - c) any other policy matters that the Authority considers appropriate.
- 1.1.3 The MDAG’s terms of reference require the Chair to report annually to the Authority Board on the MDAG’s progress against its work plan. This is the MDAG’s fourth annual report, covering its activities from July 2020 to June 2021 (reporting period).
- 1.1.4 The two projects on the MDAG’s work plan in the reporting period were *Review of spot market trading conduct provisions*, and *price discovery under 100% renewables*.

## 2. Work plan overview

### 2.1 Review of spot market trading conduct provisions

- 2.1.1 The MDAG review of the High Standard of Trading conduct provisions continued through the 2020/21 reporting period with a series of evaluation panel sessions. These sessions tested MDAG’s proposed trading conduct provisions with a selection of hypothetical case studies. The evaluation panel results were published by the Authority and MDAG invited submissions on the results.
- 2.1.2 Final recommendations were presented to the Board in December 2020. The Authority followed up with a Code Amendment consultation in February 2021 and the amendment was published in June 2021.
- 2.1.3 Table 1 sets out MDAG progress on the project in this reporting period.

**Table 1: MDAG progress on Review of spot market trading conduct provisions**

Activity	Dates	Status
Trading conduct panel review process	July – August 2020	Complete
Consultation on amended trading conduct proposal	22 October – 5 November 2020	Complete

Presentation of final recommendations paper to the Authority Board	December 2020	Complete
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## 2.2 Price discovery under 100% renewables

- 2.2.1 For its next project, MDAG is interested in contributing to core questions relating to the wholesale electricity market in a decarbonised economy. MDAG is proposing to undertake a project to describe how price discovery would work in the New Zealand wholesale electricity market (spot and hedge) under a 100% renewable electricity system.
- 2.2.2 The Project's objective is to develop sound recommendations on how the wholesale electricity market should function with 100% renewable supply to meet the statutory objective of promoting competition in, reliable supply by, and the efficient operation of the electricity industry for the long-term benefit of consumers.
- 2.2.3 For the avoidance of doubt, the New Zealand wholesale electricity market includes the spot and hedge markets (which includes both over-the-counter hedges and exchange-traded futures, as well as FTRs).
- 2.2.4 It is proposed that that the project would consist of the following four stages:
- a) Problem definition: This would consist of:
    - a literature review
    - discussions and input from academics and industry experts with a deep understanding of wholesale electricity market design
  - b) Option identification: This would involve identifying options to address the problems identified in step 1.
  - c) Options analysis: This would involve analysing options identified in step 2.
  - d) Recommendations/proposal: This would involve developing a recommendations paper to the Authority's Board, which would also go the NZ Battery Project and the market as a whole.
- 2.2.5 A project proposal was presented to the Authority in June 2021 and accepted by the Chief Executive. The problem definition stage started 1 July 2021.

## 3. Chair's brief commentary

- 3.1.1 MDAG's review of the Code's "high standard of trading conduct" provisions raised a range of complex and challenging issues relating to competition, economic efficiency, how the market works, how the law works, and the intersection of these elements with real world trading decisions. To these issues, MDAG sought to apply an approach that was both rigorous and consultative.
- 3.1.2 We innovated in our process by adopting more agile and interactive methods of consultation, and we pioneered the use of independent expert panels to act as proxies for the courts. Each panel comprised a retired Judge of the Court of Appeal with two other members highly experienced in economics or competition

policy and law<sup>1</sup>. The purpose of this exercise was to establish on a more empirical and expert basis how the existing and proposed codes would likely be interpreted in practice, and in the process learn more of the qualitative and quantitative costs and benefits of the two alternatives.

- 3.1.3 In addition to producing three reports, two rounds of formal submissions and four stakeholder workshops, we also innovated in carrying out three rounds of bilateral consultations with each stakeholder party, including a round in June and July 2020 to discuss the proposed case studies for the evaluation panels process.
- 3.1.4 We also invested considerable effort and expertise in developing the legal wording of our proposed replacement Code provisions, which we also had reviewed by two of our expert panel members.
- 3.1.5 This was all reflected in our third and final report<sup>2</sup> to the Authority in December 2020<sup>3</sup>.
- 3.1.6 It is pleasing that the Authority adopted MDAG's unanimous recommendations and, following a further round of stakeholder consultation, made the proposed code change.
- 3.1.7 MDAG will follow with interest the Authority's implementation of MDAG's three supporting recommendations<sup>4</sup>.
- 3.1.8 MDAG was also pleased to provide a report<sup>5</sup> to the Authority on how to approach the design of Code arrangements for new generating technologies. We recommended a principles-based approach, which MDAG believes will require a substantive programme of work for the Authority over the coming years.
- 3.1.9 MDAG is looking forward to taking on its next topic – how the wholesale market should work assuming 100% renewables in electricity supply. We were slower than we would have liked in getting under way in 2021, however our work plan and organisation are now fully engaged.
- 3.1.10 Thank you to MDAG's members, observers and secretariat. It has been an excellent effort by all. The industry is fortunate to have such a group working together to keep improving the design of the wholesale market for the benefit of New Zealand as a whole.

**Tony Baldwin**

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<sup>1</sup> Panel ABD members were Hon Raynor Asher QC, former Judge of the Court of the Appeal, Dr Alan Bollard, Chairperson of the Infrastructure Commission, and Pat Duignan, Finance and Economics Expert Lay Member of the High Court. Panel HBR members were Hon Rhys Harrison QC, former Judge of the Court of Appeal, Dr Mark Berry, former Chair of the Commerce Commission, and Iain Rennie, former State Services Commissioner

<sup>2</sup> <https://www.ea.govt.nz/development/work-programme/pricing-cost-allocation/review-of-spot-market-trading-conduct-provisions/development/mdag/>

<sup>3</sup> which included relatively detailed commentary on stakeholders' views

<sup>4</sup> Namely, to (i) put in place a more active monitoring regime of market performance, complemented by frequent 'please explain' notifications; (ii) better resource the Authority's monitoring, enforcement and compliance and (iii) engage with the Ministry of Business, Innovation and Employment (MBIE), as the Ministry responsible for administering the Electricity Industry Act 2010, to consider raising the maximum penalty applicable for breaches of the recommended replacement provisions

<sup>5</sup> <https://www.ea.govt.nz/development/work-programme/evolving-tech-business/participation-of-new-generating-technologies-in-the-wholesale-market/development/>



Chair  
Market Development Advisory Group

## 4. Membership and meetings

### 4.1 Membership

- 4.1.1 Short biographies of all MDAG members can be found on the Authority's website at <https://www.ea.govt.nz/development/advisory-technical-groups/mdag/membership/>.
- 4.1.2 **Table 2** below sets out the affiliation, term of appointment and meeting attendance record of current MDAG members for the reporting period.
- 4.1.3 During the reporting period, the terms of two MDAG members elapsed, details are set out in **Table 3**.
- 4.1.4 Tony Baldwin at the 15 June Electricity Authority Board Meeting was reappointed as Chair of MDAG for the period of one year from 1 June 2021 to 31 May 2022.

**Table 2: MDAG membership information for July 2020 to June 2021**

Member	Affiliation	Membership term			Meeting attendance
		Start	End	Length	
Tony Baldwin (Chair)	Independent	December 2018	May 2022	3 years 5 months	8 of 8
Paul Baker	Commercial and Regulatory Manager, Nova Energy	September 2019	September 2022	3 years	7 of 8
Stu Innes	<i>Chief Executive</i> , emhTrade	October 2019	September 2022	3 years	7 of 8
Rebecca Osborne	<i>Regulatory Affairs and Pricing Manager</i> , Transpower	October 2017	September 2023 <sup>6</sup>	6 years	7 of 8
Andrew Kerr	Regulatory and Pricing Strategy Manager Powerco	September 2019	September 2022	3 years	7 of 8
Ann Whitfield	Partner, HoustonKemp Economists	September 2019	September 2022	3 years	8 of 8
Al Yates	Chief Executive Officer, Ecotricity	September 2019	September 2022	3 years	8 of 8
Murray Henderson (Observer)	Principal Market Analyst	N/A	N/A	N/A	7 of 8

<sup>6</sup> Rebecca was extended an additional 3 years from 1 October 2020. Reason being that she scores highly against all assessment criteria, has provided considerable value to the group to date, has relevant and varied industry perspective and brings strategic and operational knowledge of Transpower that is expected to be of continued value to MDAG's work.

**Table 3: MDAG membership information (former members)**

Member	Affiliation	Membership term		Length	Meeting attendance
		Start	Term Ended		
James Flannery	<i>Manager Fuels Trading, Contact Energy</i>	October 2017	September 2020	3 years	2 of 8
James Flexman	<i>Wholesale Markets Manager, Mercury Energy</i>	October 2017	September 2020	3 years	2 of 8

## 4.2 Meetings

4.2.1 The MDAG met eight times in the reporting period, detailed in Table 4 below.

**Table 4: MDAG meeting dates**

#	Date	Notes
1	4 August 2020	At the Authority's offices in Wellington and via Zoom
2	20 September 2020	At the Authority's offices in Wellington and via Zoom
3	14 October 2020	At the Authority's offices in Wellington and via Zoom
4	30 November 2020	At the Authority's offices in Wellington and via Zoom
5	11 February 2021	At the Authority's offices in Wellington and via Zoom
6	31 March 2021	At the Authority's offices in Wellington and via Zoom
7	6 May 2021	At the Authority's offices in Wellington and via Zoom
8	17 June 2021	At the Authority's offices in Wellington and via Zoom

4.2.2 At the MDAG Chair's invitation:

- a) Concept Consulting Rachel Holden attended 4 August meeting. David Hunt from Concept Consulting attended 2 September and 14 October.
- b) Iain Rennie (job description not noted), attended 4 August MDAG to discuss Trading Conduct Evaluation Panel debrief.
- c) Andrew Millar (Manager Energy Projects and Programmes, MBIE), Conrad Edwards (Principle Policy Advisor, NZ Battery Project, MBIE),



Mark Pickup (Principal Advisor, MBIE) attended 6 May MDAG to discuss the MBIE battery project.

4.2.3 Meeting papers from all MDAG meetings can be found on the Authority's website at <https://www.ea.govt.nz/development/advisory-technical-groups/mdag/meeting-papers/>

## APPENDIX 1

MDAG's innovations in consultation and testing our proposals are reflected in the summary of our process set out in a timeline below

