

Back pocket talking points on the review of risk management options for electricity retailers

This note provides 'back pocket' information and talking points on the Authority's review of retail risk management if required during your meeting with the Minister of Energy on Wednesday 10 April at 10:50am. The Minister of Energy met with Section 9(2)(b)(ii) last week and may ask about competition / the risk management review at your meeting this week.

Relevant context to the Authority's work on retail risk management

- New Zealand is building lots of new renewable generation (which is good), but most of that is intermittent.
- Flexible generation by contrast is likely available at any time, so ensures the lights stay on during still winter nights (subject to outages, potential fuel availability issues, etc.)
- Flexible generation will become scarcer as gas and coal fired power plants retire.
- It's this flexible generation that backs up the shaped hedge contracts that the non-integrated retailers want (that protect those retailers from spot price spikes, eg, during still winter nights).
- All retailers need to manage this pricing risk, though OTCs are not the only option – the gentailers just do much of their risk management in-house.
- We are looking at the OTC question now, and it's important. If we find that the gentailers should be doing more or different now, we're willing to make that happen (within our powers of course).
- But that question sits within the context of a broader transition picture that includes:
 - Needing to continue to encourage more generation build, at speed.
 - Needing retailers and aggregators to accelerate their demand side flexibility development, including as another risk management option.
 - At some point (noting the costs are coming down) likely needing more investment in batteries to provide flexibility, ie, because there's a finite supply of flexible generation to support the increasing solar and wind generation.
- These various drivers may not be aligned – some balancing may be required.

Purpose of the retail risk management review

- The Authority commenced the review of risk management options for electricity retailers in late 2023.
- This was prompted by our own questions about the adequacy of electricity price risk management options as well as in response to non-integrated retailers' concerns.
- The review seeks to test whether the availability and pricing of OTC contracts, in the context of other risk management options, is creating a barrier to entry or expansion in the retail electricity market, and therefore harming competition.
 - Effective competition is where there are diverse products and services that meet consumers electricity needs and offers real choice.
- Where the evidence indicates that there is a problem, the review will consider the policy options available in response.

State of play

- We have received data from non-integrated retailers to build a picture of the state of the hedge market, including details of OTC risk management contract requests and responses to those requests.

- We have also requested data from gentailers to better understand their responses to OTC contract requests, and their perspective on OTC accessibility and pricing. We expect to receive this data later in April.
- We are engaging with the Commerce Commission on this review, drawing on their competition analysis approach and staff expertise.
- To date we have not committed to a timeframe for the conclusion of the review or any potential regulatory changes. This is to allow sufficient time for evidence gathering and analysis to reach meaningful conclusions. We are keeping all stakeholders regularly updated on the review's progress.

Section 9(2)(f)(iv) Confidentiality of advice

Back pocket Q&As

- **S 9(2)(b)(ii) indicated that they have concerns about the scope / approach to the review – how are you addressing this?**

We understand that there are different perspectives on the scope of this review. The Authority's approach to the analysis reflects our focus on whether any policy intervention relating to risk management options is justified in terms of better consumer outcomes across the whole market.

The Authority's work is covering broadly the same areas as the Commission would have if it was investigating the complaints – we have tested this with Commission staff.

- **Margin squeeze: why are you not committing to doing this work?**

We are considering whether gentailer internal relativities raise competition concerns. We understand the importance of this point to non-integrated retailers. We have not ruled margin squeeze analysis in or out, and we expect this will remain the case for the first investigative phase of the review.

But there is other work that needs to happen before deciding whether a margin squeeze analysis would be useful – we are progressing that work.

Section 9(2)(f)(iv) Confidentiality of advice

- **When do you expect to provide an update on the findings?**

To date we have not committed to a specific timeframe for the conclusion of the review or any potential regulatory changes. We have updated stakeholders on key milestones as the review has progressed and will continue to do so as we work through the investigative phase.

- **How does this work relate to the report provided to the Authority by MDAG?**

The review is independent of MDAG's work for Authority. MDAG was tasked with giving us wide-ranging advice on how the wholesale electricity market might operate with an electricity supply that is renewables-based. However, the review is mindful of MDAG's recommendations on risk management, which potentially overlap with the RMR work. We will ensure that our work on both is well sequenced and consistent.