

Energy Competition Task Force Level Playing Field measures

Q&As from the Wellington, Auckland, Christchurch in-person events

The following questions and responses were discussed at the in-person events in Wellington, Auckland and Christchurch on 24, 26 and 27 March 2025 following release of the Electricity Authority's [Level Playing Field measures – Options paper](#).

This record of questions and responses is not verbatim and focuses on questions that were directly related to the Authority's Options paper.

We thank stakeholders for sharing their questions and insights through this process.

Investment incentives

Q: Do you think this proposal, if implemented, will get more generation to market? Don't we need international as well as domestic capital?

A: The level of new generation investment needed is very substantial, so we need both. Gentailers are investing significantly, but other domestic investment and international investment will also be important.

Our conversations suggest that there is a real interest in New Zealand generation investments from international investors. We need to get the regulatory settings right to (appropriately) facilitate that investment. That includes ensuring the competition settings are right, such that new investors consider they will have a fair chance to compete with existing generation.

There is no silver bullet, but rather a number of different options to facilitate. We want more firming generation, more batteries, more demand response.

Q: If we try to change the gentailer business model that has been working for years, is there the possibility of negative consequences we are not currently seeing?

A: We consider that more competition will lead to better outcomes for consumers. From a long-term perspective more competition is expected to deliver more choice and downward pressure on prices. There's a significant body of work (academic, other sectors, other countries) that shows competition achieves these outcomes. Telecommunications reform in New Zealand is a good example of this.

However, there may be some risk in the short run as we transition, as acknowledged in the Options paper. We have carefully tailored our proposal to best manage these risks, eg, by continuing to allow the gentailers as much decision-making freedom as possible under proposed step 1: principles-based non-discrimination obligations.

Q: You want downward pressure on prices. Given the perverse incentives to keep supply tight, can we expect increased competition alone to double generation in next 25 years?

A: New Zealand has generally been well placed in international comparisons of electricity prices.

We don't believe that competition is the only answer to meeting New Zealand's generation needs. But competition is an important part of the answer – as proven in several infrastructure industries. It has a positive impact on price, choice and innovation.

Q: Is there a cross-subsidisation problem or not? Specifically, if the gentailers run their retail operations at a loss, does that undermine these measures?

A: All parties appear to agree that the gentailers' internal transfer prices (ITPs) aren't useful for assessing competition at present – that's the first thing to address.

Once the gentailers' ITPs are robust, we don't expect their retail arms to be consistently running at a loss. The draft guidance supporting the draft non-discrimination principles in the Options paper says this.

Q: There's a chance overall profit margins might shrink. And what about shifting margins between generation and retail? Should we think about separate regulation between renewables and thermal?

A: There has been quite a bit of discussion about separate spot markets for renewables and thermal generation, particularly in the UK. The spot market is meant to incentivise new generation of whatever type through price and is intended to be agnostic. Any substantial change would need to ensure that it didn't undermine this core purpose of the market. There is no simple answer to this.

If the gentailers shift profits to generation and reduce the margin between hedge prices and retail prices, this could lead to retail margin squeeze, ie where other retailers don't have enough margin to compete. The Authority would be concerned if that occurred and would likely consider more prescriptive regulation of ITPs.

Q: For ITPs to be meaningful, they would need to be higher though?

A: Because the current ITPs aren't robust for competition purposes, that's difficult to respond to. We believe greater competition will do better things for consumers in the long run. The Options paper notes there is a risk of price increases in the short run. However, we have heard nothing to date that suggests the gentailers are earning subnormal profits overall. Given that, we would be surprised if a regulatory requirement to simply treat third parties the same as they treat their retail functions (in terms of supply of hedge contracts) would justify gentailer retail price increases and increased profitability. We would want to closely analyse any such suggestion.

New generation

Q: Do you expect the measures to lead to more generation?

A: We have talked to new generation investors, both onshore and off-shore. We repeatedly hear that competitive conditions in the market need to be fair – that is, not tilted in the favour of some participants. If that is not the case, international investors will put their capital elsewhere. The initial informal response from investors to the level playing field proposal has been positive.

Q: There's a supply and demand issue – if you build more generation, prices would drop, and we probably wouldn't be having this discussion?

A: Everyone agrees more generation needs to be built. Level playing field measures is not the only answer and not the only work we are undertaking to improve the conditions for generation investment. But level playing field measures are an important part of the package.

Q: You mentioned the concern about the flexible generation base. Is it your expectation that only hydro will be covered?

A: We haven't defined the proposed non-discrimination measures based on type of asset. Rather, they apply when gentailers supply hedges. It's the flexibility of their generation base that supports gentailers to supply hedges (particularly shaped hedges). While the proposal is not asset based, the assets we are most wanting to capture are the big mainframe generation assets, eg, the big hydro dams. If submitters consider that we should exclude some assets or investments from the proposal, we'd be interested to hear about that.

We understand that fuel scarcity can be a problem. But a lot of the time there is plenty of fuel in (say) the hydro lakes. This proposal is all about even-handedness – we accept that this regime can't create fuel, but when hedges are available they need to be allocated fairly.

Mechanics of non-discrimination

Q: How is the huge generation margin going to be dealt with? Won't gentailers just shift profit back into their generation arm?

A: More generation competition is the best response to any concerns about generation margins. Amongst other things we are considering whether the proposed non-discrimination requirements should more specifically address firming for power purchase agreements (PPAs) that support new generation.

Non-discrimination requirements, more robust ITPs and better retail pricing data (through the Authority's retail data project) will better allow the Authority to detect and respond to any retail margin squeeze (both a competition problem itself, and an indicator of gentailers shifting profits into their generation arm).

Q: What is the relationship between proposed non-discrimination obligations/ITPs and trading in the standardised flexibility product?

A: These initiatives together will allow us to make more robust comparisons between gentailer supply of hedges to their own retail functions, and to third parties.

Q: It would help to understand what you want gentailers to do differently and why? You've pointed to ITPs. At the end of step 1, what would you say would be a success?

A: More robust ITPs allow a better assessment of whether discrimination between gentailer retail functions and third parties is occurring. We are proposing in the first instance that gentailer directors will need to certify compliance with any non-discrimination requirements. Part of success is those directors being comfortable certifying this. In addition, we will do our own monitoring.

We will put more prescription in place if needed. But success for us is not going to step 2 or 3 of the proposal.

Q: The paper mentions a robust ITP methodology. It's not clear what is the methodology and how to implement it.

A: If we were to go ahead with principles-based non-discrimination we would expect the first thing gentailers would do is set robust ITPs.

They would need to think about a portfolio of hedges, eg, from shorter term cover (over the next 3 years) to longer (10-year) strips.

If we are satisfied that the gentailers have developed reasonable internal hedge books, then we can use that to assess compliance with any non-discrimination obligations.

If the internal hedge books don't look reasonable, then we could consider tightening the requirements through step 2.

Q: Has thought been given to whether non-discrimination obligations should apply to both sides of the gentailers (generation and retail)?

A: We have considered this, and are interested in any submitter views on how level playing field measures could better enable new generation investment.

Our level playing field work to date has been more focused on buy side, but feedback on PPAs paper (Task Force initiative 1A) has also raised this question. (That feedback has now been [published](#).) The level playing field proposal could better address new generation if you expanded some of the parameters.

One of the key drivers of the proposed level playing field measures is the fact that the generation arms of the four larger gentailers together have control of vast majority of New Zealand's flexible generation base. There is no obvious equivalent on the retail side of the four large gentailers.

Q: In terms of the small gentailers – why consider capturing them in the non-discrimination rules?

A: The proposal does not capture small gentailers, but we do openly ask the question and welcome feedback. Given their size, it was not clear to us that small gentailer conduct raised the same competition risks as the four large gentailers.

Q: What sort of information asymmetry will there be between gentailers and regulators – in the future tense, once the regulation is in place?

A: The Authority going to have a lot more data in the next year. While we won't fully overcome the asymmetry, we'll be in a much better position.

Workability of proposals

Q: Given the proposed approach is principles-based, how do you see it coming together? Gentailers might take different approaches? Will you look at the different approaches of the gentailers and compare?

A: We think that there could be benefit from allowing different approaches in the early stages. In the early stages of the proposed requirements we aren't saying, "you must do it this way". There may well be different ways to comply that all work. If that's the case we don't want to unnecessarily tie the gentailers' hands.

Q: What's to stop gentailers hoovering up all the hedges on offer?

A: We will continue to pay careful attention to hedge trading. Trading between gentailers is not problematic per se. But the non-discrimination principles are intended to ensure even-handed allocations, and to ensure trading is not biased towards the four large gentailers, eg, the proposed guidance does not allow volume discounts for gentailer-supplied hedges.

Q: You've got these gentailers with massive retail arms who don't necessarily have a hedge book now. They are going to have to roll everything off at some point. What's to stop them trying to buy a chunk of load from another gentailer for example?

A: Gentailers trading with each other would create more liquidity and better price discovery, so could be a sign of a well-functioning market. But we would expect gentailers' initial hedge books to be created in a commercially rational way, ie, that didn't leave them substantially unhedged on a particular day.

Q: Is there going to be a requirement for an initial hedge position for the gentailers?

A: There is no specific requirement for how gentailers set their initial hedge book in the proposal now.

Q: When the measures come into place, the gentailers will need to assume something about what they have contracted with their retail arms. How do you think the measures might be phased in? How long might this take?

A: The Task Force has been operating with significant urgency. Let's assume the step 1 proposal is what the decision makers settle on – we would want that to take effect ASAP. That requires ITPs to be constructed robustly, quickly.

Q: How will the Authority ensure major industrials get better access to hedges?

A: Both the standardised flexibility product and the level playing field measures will contribute to better access for industrials. We will then develop a monitoring framework that is fit for purpose, and assess outcomes (noting that the outcomes of principles-based non-discrimination will not be perfectly measurable).

Q: What thought has gone into pricing fairness to household solar generators with respect to both the price they receive for generation to the grid and the price paid for taking supply from the grid?

A: The Task Force is considering a range of initiatives to improve the performance of the electricity market. These include initiatives aimed at:

- enabling new generators and independent retailers to enter, and better compete, in the market
- providing more options for consumers.

There are two initiatives in package two of the Task Force work programme that are relevant to your question:

- 2A. Requiring distributors to pay a rebate when consumers supply electricity at peak times
- 2C. Requiring large retailers to better reward consumers for supplying power.

Both of these initiatives seek to ensure that consumers that sell electricity back into the system at peak times are appropriately rewarded for the benefits of doing so.

We consulted on these initiatives in February and March. The consultation materials are on our website here: [New ways to empower electricity consumers | Our consultations | Our projects | Electricity Authority](#). While the formal consultations are now closed, please let us know if you'd like to have a conversation on this topic.

Q: Is there is sufficient resource in the regulatory agencies to combat these issues?

A: There is an opportunity cost for everything we do. But we're aware of the need to follow through and resource this work properly. There is clear benefit in the Authority and Commerce Commission working together. We steadfastly believe in the goals of this hedge related work – more liquidity, competitive pricing, even-handedness.

Virtual disaggregation

Q: What is the interrelationship between MDAG's recommendations and the Task Force initiatives? What is the problem being addressed by Task Force 1D (level playing field measures), and how does this relate to 1C (virtual disaggregation of the flexible generation base)? Is 1D intended to address all the problems?

A: Work on MDAG's 2023 recommendations continues. What the Task Force is specifically seeking to do is really increase competition in generation – including bringing more investors in – and retail.

We think the competition risk is more proximate than MDAG thought based on the findings of our [Risk Management Review](#). But the purpose of the level playing field work closely overlaps with some of what MDAG was driving at.

Q: Why have you proposed a rollout of progressive obligations when vertical separation has been threatened for years. How do you see the timeframes rolling out? When will you know if step 1 is working?

A: The level playing field proposal has been progressed at pace, working quickly across agencies. We will however take whatever time we need to make sure we have tested the proposal against the feedback we receive.

We are confident we can get Step 1 in place quickly, if the Authority Board decides to do this. It would though need a Code consultation first.

Other jurisdictions

Q: State Governments of NSW and Victoria decided the market wasn't working. They want a lot of new renewable generation. Every year they have auctions for new generation. Why don't we go down that path?

A: We agree that we want a lot more generation investment in New Zealand. But the question of whether Government should get involved is not for the Authority to answer.

Outcomes

Q: What does success look like?

A: At a high level, the purpose of these initiatives is to increase competition. Competition ultimately provides consumers with more choice, and puts downwards pressure on prices.

One immediate marker of increased competition would be increased retail offerings, reflecting more retailers looking for customers, seeking to grow their share.

Another marker could be increased flexibility investment.
