SLOWJAM
ELECTRIFYING IDEAS

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Dear Rob and the Electricity Authority Team

Level Playing Field: Consultation Response

We thank the Electricity Authority (EA) for considering whether 'levelling of the playing field' is required in respect of access to New Zealand's flexible generation base and its ability to provide protection against price volatility, and for the opportunity to respond to your consultation paper on the subject.

Problem statement: We agree with the EA that lack of access to flexible generation poses a real threat to competition in both the generation and retail sectors, and thereby a threat to New Zealand's electricity system meeting long-term demand growth in the most efficient way.

Assessment of proposed solution: However, the non-discrimination obligation proposed by the EA may have limited impact in addressing this problem. Specifically, the hedge products required by many new market participants are likely to be so fundamentally different from any hedge products that gen-tailers deploy internally, that an obligation for gen-tailers to offer other parties hedges resembling their internal hedges is of little value to those third parties.

This concern is especially focused on the hedges required to support new renewable generation (such as wind and solar); other parties will be better placed to comment on the merits of the EA's proposal in supporting retail sector development.

The EA's consultation paper states that the level playing field measures are intended to (amongst other things) help *market participants manage financial exposure to volatile wholesale electricity* and help *new generation investors access stable revenue streams through long-term PPAs*. To be more specific, we assert that if the level playing field measures worked, then efficiently priced hedges would be available in the two following situations:

A. The most meritorious generation development in the market at a given time would be able to obtain a long-term price hedge, regardless of whether the promoter of that development was an incumbent gen-tailer or an independent party.
B. A major user seeking to purchase from a new generation project, whose load profile was not a perfect half-hourly match to the generation, would be able to obtain a long-term hedge to manage this mismatch, thereby facilitating price certainty for user and generator.

Notably these hedges are fixed price variable volume, where the volume is variable in respect of a weather-dependent intermittent generator (or potentially a small portfolio with strongly weather-dependent character). In case A specifically, the efficient PPA duration is typically 10-20 years (being most but not all an asset's technical life), and the PPA terms often reflect that the generation entity is a project financed special purpose vehicle.

These features are likely inconsistent with hedges that a gen-tailer might write internally. A gen-tailer managing large and diverse portfolios of generation and retail does not necessarily need to internally acknowledge an FPVV price for each new generation asset. Or if it does, the duration ascribed could be different to what makes sense in the PPA market, and the allocation of risks could be quite different.

Our point is that when an independent electricity user or generator approaches a gen-tailer seeking one of the hedge instruments described at A or B above under a non-discrimination regime, the gen-tailer may simply respond that it has not written a sufficiently similar internal hedge. Or the gen-tailer might respond that it did write an equivalent internal hedge in relation to its own generation development, but that because this was an historic transaction, and the market has since moved, its pricing and terms are no longer valid. It appears the independent user or generator is not materially more likely to obtain hedging than they are today.

If helpful I would be glad to discuss these matters further with the EA.

Regards

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