

9 February 2026.

Energy Competition task Force
Wellington

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Re: Energy Competition task Force work programme

We reference your Open Letter of 15 December and thank you for the opportunity to comment on this work programme.

As the Task Force progresses the work programme, we ask that it reflect on what we see as four key aspects from 2025 and in-turn the impact on large industrial energy users:

1. **Affordability.** Within the energy trilemma, affordability has become the key issue for consumers¹. What has been an issue for large industrial consumers since 2018, has in more recent years also impacted smaller industrial and larger commercial consumers. During 2025 increasing electricity prices and resulting energy hardship has become and continues to be an issue for many small businesses and households². This in-turn has impacted the economy and wellbeing of New Zealanders³.
2. The **Frontier Economics study**⁴. This review of the electricity system and the Government response to it in the form of the 1 October Energy Package presented several initiatives to address issues with New Zealand's energy system. However, major users in general agreed more is needed to address the current issues. One of the more significant initiatives is LNG to support generation. This may prove to be technically achievable, but with current market settings could exacerbate the affordability issue for electricity.
3. **Risk premiums.** A long-standing message from major users is the sustained risk-premium built into the futures prices. Cabinet papers released in December show the Energy Ministers confirming a \$50/MWh risk premium built into forward prices⁵.
4. **Market failure.** Speaking to a parliamentary committee on 4 December⁶, the chair of the Commerce Commission identified "market failure". His comments included high prices being a serious problem, and the market's inability to manage systemic risk, in particular hydro dry year risk, and these issues go beyond simple competition flaws⁷.

¹[250514-BEC-Country-Issues-map-PR.pdf](#)

² [Latest insights on energy hardship in New Zealand | Ministry of Business, Innovation & Employment](#)

³ <https://www.mbie.govt.nz/dmsdocument/31665-government-response-to-review-of-electricity-market-performance-enhancing-new-zealands-security-september-2025-proactiverelease.pdf>. Para 10:

"These sustained cost increases have had damaging effects on the economy and households. By 2025, higher energy prices are estimated to have reduced New Zealand's Gross Domestic Product by \$5.2b (1.25%), lowered real wages by 1.4%, cut household spending by 1.65%, and worsened the trade balance by \$275m."

⁴ [Review of Electricity Market Performance by Frontier Economics](#)

⁵ [Government Response to Review of Electricity Market Performance - Enhancing New Zealand's Security September 2025](#), para 16.

⁶ <https://vimeo.com/showcase/10758044?video=1143242170>

⁷ Business Desk, 5 Dec 2025, "Commerce Commission chair declares electricity sector a 'market failure' amid budget scrutiny".

Energy road-map

NZ faces unprecedented energy challenges. These have been building since 2018 without any apparent pathway to address these challenges.

In the absence of an energy roadmap for NZ, and limited outcomes from implementation of the Frontier Economics work, we respectfully suggest it rests with the Task Force to take a leadership role much wider than that currently proposed relating to electricity competition issues.

The Electricity Authority and Commerce Commission are bound by enabling legislation, however, working with MBIE the combined group could identify the wider issues facing NZ electricity consumers. It could then set about implementing solutions, which may involve recommendations to the Government. GIC should be included in this group because of the integral part reticulated gas will play in electricity generation and the overall energy mix for the foreseeable future.

We suggest the seriousness of the situation means the issues that need to be addressed are much broader than the specific market issues set out in the draft work programme. A broader approach has a better chance of measurably moving the dial in assisting consumers. Namely affordability, and security of supply at times of system stress.

The current market mechanisms continue to perform well as a transactional system. Nodal pricing and a robust reconciliation and settlement process function well. The SPD system is also generally accepted as dealing with the scheduling, pricing and dispatch, including during periods of short-term stress.

What the current industry structure and system has failed to do is bring sufficient appropriate generation to the market. The result is a market consistently facing stress relating to assurances as to availability of generation and/or fuel when it will be required. This means continual upward pressure on futures prices and real risk of system brownouts at times of prolonged hydro issues, and increasing reliance on the availability of the aging coal-fired units at the Huntly power station.

Market competition areas the Task Force should at a minimum consider:

1. **Risks faced by gentailers related to the ownership split of generation** and control of fuel, namely hydro, and how this impacts risk premiums.

The NZ electricity system - generation and the transmission grid - was established last century as a coordinated generating system. In particular, extensive hydro generation was supported by thermal generation. What changed in the 1990s was generation assets were basically divided into four, and the owners of those assets made to compete.

Geothermal generation has been built and complements base requirements. Other renewable generation is increasingly being installed with grid-scale batteries starting to be connected to the grid.

However, much of the risk continues to relate to hydro availability. This is exacerbated by aging and reducing capacity, and fuel availability, for thermal plants. Each of the major generators price this in these risks. Lack of market pressure sees these risk premiums extend into future pricing (\$50/MWh as outlined above).

These premiums continue to have a significant impact on affordability for consumers, yet have not resulted in corresponding new dispatchable generation coming into the market.

2. **The marginal megawatt sets the spot price.**

In NZ the bid price for the marginal megawatt of generation dispatched in real time to meet demand sets the price for all megawatt hours dispatched. Under normal conditions this works well and provides a premium over marginal cost for most of the megawatt hours, which is an important part of meeting investment criteria.

However, since 2018 we have seen this equilibrium being increasingly distorted to where the market is under stress for a significant amount of the time necessitating extended use of thermal generation units. This has extended what would be considered reasonable market premiums for gentailers.

Specifically the Frontier report concluded:

“Non-emitting generators earn a windfall due to the presence of the ETS. Generators earn the benefit of the difference between their own operating costs and the cost of the highest cost generation required to meet demand. Where the ETS artificially inflates the electricity spot price, it also means a larger benefit is given to renewable generators (recognising they do not incur an ETS cost). This is, effectively, a \$1 billion plus transfer of wealth every year from New Zealand electricity consumers to renewable generators with no meaningful impact on generator output or investment decisions.”⁸

3. **Cost of carbon.** This point is related to the marginal megawatt setting the market price. When thermal generation is on the margin, or sets the opportunity value for other fuels, the cost of carbon is reflected in the market price for all MWh in that time period. The Frontier report captures the essence of the issue.

“What the ETS does do, however, is substantially increase the price consumers pay for electricity. Using analysis undertaken by the Electricity Authority when determining the Electricity Allocation Factor, and based on approximately 41TWh of electricity use in 2024, the ETS caused New Zealand electricity consumers to pay almost \$1.5 billion more for electricity in 2024. In contrast, MBIE data provided to us shows that the Crown collected only \$223 million in ETS revenue from the electricity sector that year.”⁹

It is important carbon emitted from generation is costed into the energy produced, and the generator is recompensed in the price received. However, we encourage the Task Force to look at ways the carbon cost does not set the price for the marginal MW dispatched and in so doing is reflected in the price for all energy sold in that dispatch period.

4. **Firming capacity** - The market is unlikely to deliver. The essence of a reply from the Commerce Commission Chair to a question from a parliamentary committee was that the

⁸ Page 44.

⁹ Page 44.



market is unable to handle systematic risk¹⁰. The issue, the Chair said, went beyond simple competition flaws; it was a clear “market failure” that the industry could not solve on its own, necessitating government and regulatory involvement - “It is clear there is a market failure that cannot be solved by industry alone.”¹¹

The Task Force must explore what is required to address this.

We recognise the large amount of work the Authority, the Commission, and ministries are doing in relation to NZ's energy system. However, the issues the Country faces necessitate a holistic look at what is being achieved that will benefit consumers, and in-turn the economy. Work programmes such as level the playing field, demand-side management, and information disclosure, all make a contribution to an improved market, but these are incremental changes that do not get to the core of the issues – affordability and security. The risk is the resulting initiatives of these work programmes only impact a small cross section of consumers.

The Task Force has the opportunity to look more broadly, identifying the core underlying issues with the market, and from this analysis take a focused and joined up approach that has greater long-term impact.

We look forward to engaging with the Task Force as it's work proceeds.

Regards



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¹⁰ <https://vimeo.com/showcase/10758044?video=1143242170>

¹¹ Business Desk