

6 March 2023: SUBMISSION TO ELECTRICITY AUTHORITY REGARDING FUTURE RENEWABLE POWER SUPPLY

Stronger competition needed for a successful energy transition

Entrust welcomes the ongoing work by the Electricity Authority's (EA) Market Development Advisory Group (MDAG) on the cost and impacts of the energy transition on the wholesale electricity market.

A highly competitive market that delivers cost-reflective and affordable pricing is critical for the successful transition to a lower emissions economy, and to help the electricity sector play its part in tackling climate change.

As a consumer trust representing both commercial and residential consumers, i.e. the demand-side of the market, we are concerned by the clear evidence that electricity consumers are paying too much for electricity.

Summary of Entrust's submission

- Entrust is very supportive of the EA and MDAG wholesale market reviews. It is important that the potential cost and impacts of the transition to greater reliance on renewables is clear and transparent to all parts of the market, including consumers.
- If the energy transition is managed well it should result in lower wholesale prices and lower prices for consumers.
- Entrust agrees with MDAG that competition issues are not just problems for the future. They need to be dealt with urgently.
- The electricity industry needs stronger competition and a much higher proportion of new generation to be built by new and independent generators.
- The EA's wholesale market review, and review of the Tiwai pricing arrangements, highlight substantial existing competition problems which MDAG has shown could get a lot worse.¹
- Entrust considers it important MDAG assess and quantify the extent to which reform options could improve competition. This would help prioritise options to fast-track for implementation.
- Entrust does not support proposals that could weaken the Undesirable Trading Situation (UTS) rules; including MDAG's suggestion an incident should not be able to be both a UTS and breach of trading conduct rules.

¹ Given the interrelationship with the MDAG renewable energy futures review, Entrust's most recent submission on the EA's wholesale market review should be treated as part of our MDAG submission: Entrust, SUBMISSION TO ELECTRICITY AUTHORITY REGARDING PROMOTING COMPETITION IN THE WHOLESALE ELECTRICITY MARKET, 14 December 2022: <https://www.entrustnz.co.nz/media/m0qpf3xy/submission-on-review-of-competition-in-the-wholesale-market-14-december-2022.pdf>.

- Entrust welcomes MDAG’s stated intention to explore further the optimal design for structural reform. We also support MDAG’s proposal that virtual disaggregation options be considered.

Entrust’s submission

It is very important that consumer electricity prices do not increase because of the energy transition

Entrust considers that if the energy transition is managed well it should result in lower wholesale prices and lower prices for consumers.

Our views align with the Parliamentary Commissioner for the Environment’s recent comments about the energy transition.² We also welcome the EA’s expectation “more renewable generation should act to depress spot prices in the long run, as they produce cheaper electricity”.³

It is possible spot prices could become more volatile, as MDAG expects, but increased volatility should result in periods of low prices as well as high prices. We have commented previously that increased volatility should not result in higher average prices if the market is working well.

There are widespread concerns about how well the market is working

Entrust remains of the view the underlying problem is that Meridian and the other large generators are too big and have substantial market power. Based on market concentration statistics there has been no improvement over the last decade.⁴ There hasn’t been enough new generation built by new and independent generators to weaken the incumbents’ market power. New generation build continues to be dominated by the incumbent generators.

Our concerns are supported by the EA’s wholesale market review, which confirmed “Industry structure is relatively concentrated” and “The persistence of high spot and forward prices, well above the cost of new renewable supply raises questions about whether there are impediments (including anticompetitive barriers) to entry ...”

The EA’s survey of electricity industry participant perceptions also provides evidence that Entrust’s concerns are shared by most industry participants e.g.:⁵

- Only 33% of industry participants agree “Electricity market settings will support an efficient transition of the energy sector to low emissions”.
- Only 29% of industry participants agree (52% disagree) that “New entrant generators can operate on a level playing field with established generators”.

² <https://pce.parliament.nz/publications/letter-to-minister-woods-regarding-system-wide-energy-strategy/>

³ Electricity Authority, Market Insights, New ZEALAND’S electricity future: generation and future prices, 14 February 2023.

⁴ See, for example, Entrust’s SUBMISSION TO ELECTRICITY AUTHORITY REGARDING PROMOTING COMPETITION IN THE WHOLESALE ELECTRICITY MARKET, 14 December 2022, available at: <https://www.entrustnz.co.nz/media/m0qpf3xy/submission-on-review-of-competition-in-the-wholesale-market-14-december-2022.pdf>.

⁵ ak research & consulting, Survey of electricity industry participant perceptions 2021/22, July 2022, available at: https://www.ea.govt.nz/assets/dms-assets/31/Copy-of-Survey-of-electricity-industry-participant-perceptions-2021_221377243.1.pdf.

- Only 36% agree (39% disagree) competition between electricity generators ensures they build the most efficient power stations. The number of participants that disagree has increased from 31% in 2020/21 to 39% in 2021/22.
- Only 32% agree (46% disagree) competition between electricity generators ensures wholesale market prices are set at an efficient level.

Potential reform options should be prioritised

Entrust considers it important MDAG assess and quantify the extent to which the “library” of reform options could improve competition. This would help prioritise options to fast-track for implementation.

Entrust does not support MDAG’s proposal to limit the scope of the UTS rules

Entrust would not support any change that could weaken the UTS rules.

The UTS rules are important for protecting confidence in the market, which can be undermined by market abuses. Entrust considers it entirely appropriate that a trading incident could be both a UTS and breach the trading conduct rules. It is not unusual that conduct could cause multiple violations of different rules and regulations.

Structural reform options need to remain on the table

Entrust remains of the view wholesale structural reform is the first-best solution for promoting competition and what are fundamentally structural problems. Entrust considers structural reform would be proportionate to the problems that have been identified.

We welcome that MDAG considers further work should be undertaken on potential structural reform options, even if MDAG does not support their adoption at this stage. It is important incumbent market participants understand structural reform is a ‘live’ option if they abuse their market power and harm consumers.

We also support MDAG’s suggestion that virtual disaggregation options be considered.

In submission to the Electricity Price Review we commented that the biggest improvements in competition over the past decade were driven by the Ministerial Inquiry into the Electricity Industry’s asset swap reforms. We provided evidence that the physical and virtual asset swaps reduced market concentration in different parts of the country; particularly in the South Island where the physical asset swap between Meridian and Genesis occurred.⁶

The Ministerial Inquiry into the Electricity Industry shows the benefits of even modest changes.

Concluding remarks

Entrust wants to ensure electricity is supplied in an efficient and affordable way to all consumers and its beneficiaries, including the 351,000 households and businesses in its area of central, east and south Auckland.

⁶ Entrust, Electricity Price Review submission, including consumer concerns about retailers’ power pricing, 24 October 2018, Appendix 4, available at: <https://www.entrustnz.co.nz/resource-library/submissions/submissions-to-ministry-of-business-innovation-and-employment/>.

If the competition issues are not resolved market concentration could worsen and wholesale prices could remain artificially higher than they should, undermining electrification of the economy and provision of affordable energy for Kiwi households and businesses.

Kind Regards,



Alastair Bell
Chair of Regulation and Policy Committee