Electricity sector is reviewed quite often

- 2009 Ministerial Review
  - Abolished Electricity Commission & created Electricity Authority
  - Virtual asset swaps between gentailers to improve w/s competition
  - EDBs allowed back into retailing
  - Consumer compensation for electricity savings campaigns

- 2019 Electricity Price Review (EPR)
  - Multiple recommendations covering w/s market, TX, distN2 retail & consumer voice

- 2021-22 Wholesale Market Review
  - Currently underway by the EA – focus on w/s market competition
EPR – consumer focus

• This is historically unique
  • Electricity industry is almost entirely focused on supply-side issues
    • w/s market demand curve is vertical ⇔ passive price takers
  • Consumer voice generally absent from regulatory analysis
    • Submissions primarily from sophisticated firms & their hired experts

• EPR recommended creating
  • Consumer Advocacy Council ✔
  • Energy Hardship Expert Group & Reference Panel ✔
  • Prohibiting prompt payment discounts ✗
EPR – retail market competition

• Two main concerns
  • Barriers to expansion for independent retailers
  • Two-tier retail market a.k.a. loyalty tax

• Key recommendations
  • Prohibit “saves and win-backs” to reduce customer acquisition cost ✓
  • Standardise distribution network access terms ×
  • Merge the 2 main price comparison websites ✓
  • Pilot scheme to promote switching ×
    • Bulk tenders for vulnerable non-switchers
EPR – wholesale market competition

• Found that w/s spot prices broadly in line with LRMC
  • Couldn’t assess w/s profits due to lack of information

• Mainly concerned about
  • contract market fragility
  • Information disclosure/availability

• Recommended
  • EA to ensure (compulsory or commercial) market-making is effective
  • Disclosure of internal transfer prices by gentailers
EPR – transmission

• Review happened in shadow of TPM wrangle: over whether
  • “beneficiaries” should pay for new grid investment & if so, how; and
  • The costs of previously sunk investments should be reallocated

• EPR recommended a GPS that would
  • Endorse beneficiaries-pay for future investments; and
  • Require a high degree of confidence that consumers would benefit from any sunk cost reallocation

• Outcome
  • No GPS.
  • EA confirmed beneficiaries pay and reallocation of HVDC and 7 major sunk investments
EPR - distribution

- Concerns were about
  - Efficient pricing for active consumers (rooftop PV and EV charging)
  - Balance between residential & commercial/industrial user pricing
  - Information requirements for network planning

- These were rolled up into a recommendation for a GPS
  - Which seems not to have happened
  - So all of this remains in the EA’s in-box
Wholesale market competition review

• Currently underway at the EA, prompted by
  • “sustained elevated electricity prices since an unplanned outage at the Pohokura gas facility in Spring 2018 and the announcement in January 2021 of the arrangements to extend operation of the New Zealand Aluminium Smelter (NZAS) at Tiwai by four more years”

• Uses the well-established structure-conduct-performance paradigm
  • Structure ➔ Conduct ➔ Performance
EA Findings

• Structure
  • highly concentrated
  • significant vertical integration
  • Meridian is (gross) pivotal about 90% of the time

• Conduct
  • Offer prices higher since 2018 Pohokura outage – role of gas uncertainty
  • 20% of southern hydro offers (excl Tekapo) are above op cost & clearing price
  • Little price separation when hydro storage is high

• Performance
  • Supply curves have got steeper
  • Meridian profitability increased materially post Pohokura outage
  • Retail profits are reasonably flat
Tiwai contract

- EA produced separate paper on “inefficient price discrimination”
  - Found Tiwai contract a possible example of IPD
  - Wondered about risk of future contract like this
  - Floated some options for managing this risk
Current state of play

• Decarbonisation context
  • How to double generation capacity
  • Price setting with 100% renewables

• Given this how to address competition concerns?
  • Role of independent retailers?
  • Do gentailers have inside running on renewable investment?
  • Impact of a bigger battery on investment plans & (later) operations?
  • Is vertical integration helping or hindering?
  • Is Meridian too big?