

Update from the Chair

December 2024

Looking forward to the Competition Review

Shaping Market 2.0

The Government has released the scope for its [competition review](#) of the electricity market. It's an opportunity to look at the market to test whether it is achieving the outcomes that are in the best interests of NZ Inc.

In the 1990s, New Zealand developed a world-leading electricity market. Other countries and jurisdictions copied what we did. The difference is that the rest of the world has moved on, evolving their markets based on the experience of outcomes produced, changes in regulatory best practice, etc. New Zealand has stood still, focusing on improving market efficiency but not asking if our market best serves NZ Inc. Arguably, some of the Electricity Authority and Commerce Commission's [Taskforce](#)'s work falls into that category.

The concern with the competition review is that the reviewer(s) have just two months to start and complete the review. Frankly, that is a joke. Professor Wollack took three years for his [review](#). With all their undoubted expertise, the Commerce Commission takes a year or more to do a market study.

That time pressure makes two things absolutely critical. One is that the review starts by asking what are the objectives for the energy system (not just electricity). Too often, people (including MEUG in the past) go to design questions rather than properly framing the issue, first thrashing out the objectives and principles of the market.


We need whole-system thinking, trying to understand whether resources are being optimised for the best use across the whole system overall. The market design we have, held up and defended by regulators as being leading practice, relies critically on thriving competition to deliver benefits for New Zealand. If we don't test how market performance lines up with actual real-world experience, the review may be terminally hamstrung from delivering to its objectives.

The second thing is the choice of the reviewer(s). Proposals must be in by 11 December, so we should soon see who has submitted. The two-month timeframe means the reviewer(s) needs to have a deep understanding of the New Zealand market, because there simply isn't time to learn the long history. Ideally, the reviewer would have familiarity with the creation of the market, and have exposure to different perspectives on market performance over the last 30 years (and be free of perceptions that they have any bias). It is also critical the reviewer(s) have deep familiarity or expertise with international best practice, if we are going to see best-practice market design resulting from the review.

In order to get close to a durable Market 2.0 design, we should:

1. Start at the level of objectives. What do we want our energy system to deliver?
2. Are there specific features of the New Zealand system that are set in stone and need to be considered in any design conversation, for example our isolation as a country, lack of interconnection, our long and stringy geography, volatile weather, etc., that we need to design for?
3. Do we need a design that accounts for the fact we have just four large gentailers?
4. What features of the market design do we think have the most significant long-term benefit to consumers (LTBC)? Put another way, in what parts of the system is it most important that we have thriving competition? For example, does competition to build new generation, at the lowest possible WACC and cost, have greater LTBC than retail competition? Or vice versa? No system can equally account for, or promote, all outcomes equally.
5. What do we believe the role of government needs to be in the energy system? What would be ideal? It would be great to arrive at a general bipartisan understanding of this between the major political parties, notwithstanding minor differences in policies and priorities.
6. What needs to be true for deregulated market design to maximise LTBC? For example, competition, liquidity, depth, sophistication in participants, risk appetite, accountability for system outcomes, limited barriers to entry, etc.
7. What do we actually see in practice, as opposed to theory? What impacts do these discrepancies have?
8. Pragmatically, can we fix any or all of the issues we identify in number 6 above? Or will some endure and need to be accounted for?
9. If we can get all those preconditions right, what would we need to augment in the Market 2.0 design proffered by [MDAG](#) (noting it just covered electricity, not energy), to deliver whole-system optimisation for the LTBC?

That is a lot to cover before getting to designing solutions. But if we don't take a principles-first approach, we will almost certainly just get more of the same that delivered the crisis this year.



**MEUG would like to wish all
our stakeholders a very
Merry Christmas and a
Happy New Year**

MEUG's offices will be closed from midday 23 December 2024,
re-opening on Monday 6 January 2025.

We look forward to working alongside you all in the New Year.

Best wishes,

John and Karen

Key dates

What's on	Who	When	Notes for members
Event: ETS Auction	MfE	4 Dec	Last ETS auction for 2024, which partially cleared with 4 million NZUs selling at NZ\$64.
Event: Northern Infrastructure Forum	Auckland Chamber of Commerce	4 Dec	Auckland based workshop to discuss the energy challenges and opportunities facing the upper North Island. MEUG's Chair spoke on the panel.
Event: Energy Trader Forum	Freeman media	5 Dec	Last Energy Trader forum for 2024 held in Wellington. Included a panel discussion on developing new flex products.
Meeting: MEUG meeting	MEUG members	5 Dec	MEUG Executive Committee meeting in Wellington. Guest speakers included Hon Shane Jones and Vector CEO Simon McKenzie.
Submission: Diesel resilience	MBIE	6 Dec	The Ministry is consulting on options to improve New Zealand's diesel resilience, by increasing reserves.
Submission: NZ's international climate change target	Ministry for the Environment	8 Dec	The Ministry is seeking feedback to inform the Government's decision on its international climate change target for 2031–35. This emissions reduction target will be set under the Paris Agreement and be New Zealand's second Nationally Determined Contribution.
Submission: 2025 SoSA assumptions	Transpower	9 Dec	Transpower is seeking feedback on its three credible event review reports completed in 2024.
Submission: Low residual review	Transpower	9 Dec	Transpower is consulting on the reference case assumptions and sensitivities for its 2025 Security of Supply Assessment .
Submission: National Infrastructure Plan	Infrastructure Commission	10 Dec	The Commission is seeking feedback on its approach to developing a National Infrastructure Plan .
Submission: Low residual review	Transpower	11 Dec	Transpower is seeking feedback on its Low Residual review . Submissions are due 11 December, with cross-submissions by 18 December.
Event: Energy sector Christmas function	Energy sector	11 Dec	Wellington panel event and Energy Sector Christmas function.
Event: Quarterly update	Electricity Authority	11 Dec	Quarterly online update from the Authority, providing an update on the Authority's priority projects and focus for the first quarter of 2025.
Release: NZ Energy Quarterly	MBIE	12 Dec	The Ministry will release its next quarterly NZ energy update .
Webinar: Consumer Care Obligations	Electricity Authority	12 Dec	Industry webinar to discuss the Consumer Care Obligations, which are being made mandatory.
Submission: Authority's 2025/26 levy-funded appropriations	Electricity Authority	13 Dec	The Authority is consulting on its levy-funded appropriations for 2025/26, as well as its draft regulatory strategy and indicative work programme for 2025/26.
Submission: Risk Management Review	Electricity Authority	18 Dec	The Authority is seeking feedback on its report – risk management options for electricity retailers.
Meeting: MEUG meeting	MEUG members	18 Dec	Last online MEUG Executive Committee meeting for 2024.
Submission: Distribution connection pricing	Electricity Authority	20 Dec	The Authority is consulting on a package of proposals that aim to make significant progress towards efficient connection pricing. Submissions due on 20 December 2024, with cross-submissions by 24 January 2025.
Submission: Network connections project	Electricity Authority	20 Dec	The Authority is consulting on Code changes that aim to remove barriers and create efficiencies in the application process for connecting distributed generation and large load to networks. Submissions due on 20 December 2024, with cross-submissions by 24 January 2025.
Decision: Contact / Manawa merger	Commerce Commission	24 Dec	The Commission has extended the deadline for making its final decision on the clearance application for Contact Energy Limited to acquire up to 100% of the shares in Manawa Energy Limited.
Submission: National Climate Change Risk Assessment 2026	Climate Change Commission	Up to 31 March 2025	The Commission is calling for evidence to inform its work on the second national climate change risk assessment. This risk assessment is due to be delivered to the Minister of Climate Change by August 2026.
Deadline: Stress test disclosure	Electricity Authority	31 Dec	The next stress test disclosure for applicable market participants is due by end December.