

7 May 2025

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Sent via email: levelplayingfield@ea.govt.nz

Dear Rob

Level Playing Field measures

1. This is a submission from the Major Electricity Users' Group (MEUG) on the Electricity Authority's (Authority) options paper "*Level Play Field measures*"¹ published on 27 February 2025.
2. MEUG members have been consulted on the approach to this submission. This submission does not contain any confidential information and can be published on the Authority's website unaltered. Members may lodge separate submissions.
3. As part of our submission, we have provided a report from the New Zealand Institute of Economic Research (NZIER). A copy of this report is provided in **Attachment A**.

Addressing the affordability and security issues facing the sector

4. MEUG has well documented concerns with the state of the electricity market, seeing issues with both affordability of electricity for consumers and security of supply. These issues were felt acutely in winter 2024, where fuel security issues, low lake levels and the resulting high market prices impacted many businesses that were exposed to the spot market (including some of our members), dampening confidence in the New Zealand market.
5. In addition, we are concerned about the possible exercise of market power in the electricity sector. Since 2018, wholesale prices have more than doubled² and we have been seeing a growing disconnect between contract prices and the estimated cost for new baseload supply.³ There has been limited movement in the large market share collectively held by the four main gentailers and the Market Development Advisory Group (MDAG)⁴ has also warned that market concentration and, as a result, pricing will get worse under a more renewable future – not less.

¹ https://www.ea.govt.nz/documents/6605/Level_playing_field_measures_options_paper.pdf

² <https://www.ea.govt.nz/documents/2243/Promoting-competition-in-the-wholesale-electricity-market.pdf>

³ See Figure 4, page 30 of the Options paper.

⁴ https://www.ea.govt.nz/documents/1006/MDAG - Price discovery in a renewables-based electricity system - options_paper.pdf

6. Electricity prices continue to increase this year, with the approved increase in both transmission and distribution charges now being passed through to all consumers. The wholesale electricity prices have also continued to increase this year, as we face another possible dry year and generators are bringing on more thermal generation early, to try and conserve water. These increases across numerous fronts are impacting the bottom line of our members and businesses and households across the country.
7. Given these concerns, MEUG endorsed the establishment of the Energy Competition Task Force (ECTF), with its focus on enabling new generators and independent retailers to enter and better compete in the market; and provide more options for consumers. MEUG has been actively involved with several of the ECTF initiatives and has welcomed the extensive engagement and discussion on this Level playing field measures paper. We recognise that several stakeholders have been advocating for changes in this area, which should address the hedge -related competition risks arising from control of the New Zealand's flexible generation base by, and vertical integration of, the four large gentailers.

Support for proposed intervention but doesn't address key market issues

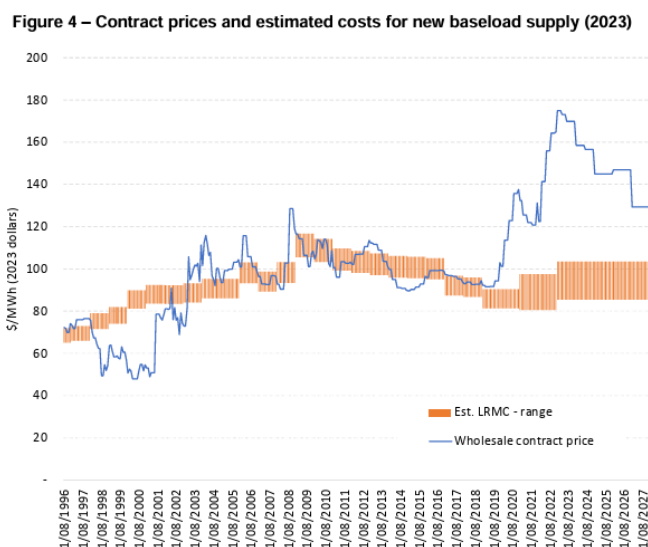
8. MEUG generally supports the proposed intervention (Option 2) that will give other market participants (including a number of our members) access to hedge products on substantially the same terms as the gentailers supply themselves internally. The intervention should address many of the concerns raised primarily by independent retailers and independent generators and hopefully address issues around transparency of pricing and liquidity. We consider that it is an intervention that should have ideally be introduced around the establishment of the current market, to set the foundation for better competition.
9. However, we do not consider that this intervention will have substantial and material impacts on the market, nor materially improve outcomes for consumers. This intervention is targeted at concerns "around the edges" – that being, it looks to ensure non-discriminatory prices for all buyers of hedges – it does not look at if these prices are "fair and justifiable and reflect the underlying drivers of supply" in the wholesale market. We are also concerned that this intervention in isolation will do very little to increase the supply of flexible firming generation – something that is urgently needed in the market. We discuss this further in the sections below.
10. MEUG considers that greater interventions are needed in the electricity market, alongside the ECTF, to drive material change. We are hopeful that the final report from Government's review of market performance will recommend the bold steps which we consider are needed for a more competitive market, with affordable and security electricity supply.
11. MEUG recommends that the Electricity Authority, and the broader sector, need to focus on:

- **The urgent need for more flexible firming generation to support the growing proportion of intermittent renewable generation in the mix.** The Government and the market are strongly focused on increasing the level of renewable (and primarily intermittent) generation entering the system, with policies such as Electrify NZ, fast track consenting, the reform of the *Resource Management Act* and increased monitoring of the generation pipeline. However, until recently there has been limited focus on the importance of firming (primarily thermal) generation.⁵

Flexible generation is necessary to firm against dry-year risk and this increasing level of intermittent renewable electricity generation we have in New Zealand (wind/solar). However, New Zealand's flexible thermal generation that primarily plays this important firming role is aging, with some plants close to retirement. The uncertainty around the available level of ongoing thermal firming is leading to increased volatility and an overall increase in electricity prices.

⁵ See [MEUG Chair update for March 2025](#).

- **Addressing the growing disparity between wholesale prices and new base load supply or Long-Run Marginal Cost (LRMC), alongside the doubling in wholesale prices.** We have replicated Figure 4 from the Options paper which clearly shows this issue. This issue has been occurring since 2018, yet we consider that no real assessment has been undertaken leading to actions to close the gap.



Source: Concept Consulting²⁸

- **Reducing the considerable risk premium** that is built into the ASX futures market and therefore impacting hedge contract offer to buyers. From our perspective, there seems to be a considerable premium factored into each quarter of a hedge to reflect the chance of a dry year; yet is unlikely for these conditions to continue for three years out.
- **Retail profitability and internation transfer pricing:** Recent analysis of retailer profits and ITP has shown ITP behaviour by some market participants has been an issue and that many gentailers run their retail business at a loss. We consider that this warrants closer attention and assessment of how could affect retail competition going forward.

Impact on market affordability and security

12. Of the options presented in the paper (1 – 4), MEUG agrees with the Authority's conclusion that Option 2 is likely to be the most effective option. However, we are uncertain about the scale of tangible impacts this intervention (option 2) will have on market outcomes. The Authority has only provided a qualitative assessment and comparison of all the options – there is no quantitative analysis (at this stage) on how this would support the long-term benefit of consumers – i.e. through lower prices, improvements in liquidity.
13. The Authority states that it “*expect[s] non-discrimination principles would result in immediate changes in behaviour that would promote competition*”.⁶ MEUG is unconvinced by this statement and would like to see further evidence to demonstrate this. Gentailers behaviour will change due to the obligations placed on them, but this does not address the underlying concerns with wholesale pricing (which drive hedge offers), and it is unclear whether this will lead to acceptance of more hedges, more competition and importantly lower prices for customers.

⁶ Page 56 of the Options paper.

14. We were party to discussions at some of the in-person workshops, where other stakeholders queried whether this intervention might see prices actually increase. This was based around the current observations of how gentailers balance profits across their wholesale and retail books, and the retail businesses have been running at a loss in recent years. MEUG encourages the Authority to look at how it can fully assess this intervention to ensure that it tangibly supports businesses, and all types of consumers.
15. From our reading, the Authority also consider that this intervention will support greater generation entry and expansion. MEUG can see how it would support independent generators, and bring more competition to the supply side, but does not see how this would support parties to build the more flexible firming generation that is urgently needed. This intervention does not “grow the pie” (of flexible firming generation), rather it looks at how to get fairer access to existing resources.

Scope of hedges covered by intervention

16. MEUG recommends that this proposed intervention (option 2) cover all hedges traded in the market by a full range of participants, to ensure the best outcomes for consumers.
17. From our reading of the paper, it was not clear who would be covered through the proposed design of the intervention. There is a heavy focus on super peak / peak products, and the involvement of primarily gentailers, independent retailers and independent generators. We discussed this issue with Authority staff during an individual session, where we were advised that the proposed design is intended to cover those who purchase directly off wholesale market – which, in addition to independent retailers and generators, would also include customers who buy directly off the wholesale markets and possibly banks / intermediaries.
18. MEUG supports a broad approach. We recommend that the Authority amend its proposed design to make this clearer and make this more explicit in the definition of a buyer. To help assess the full benefits of this proposal (and subsequent monitoring), it would be useful to see a summary of the number of parties who buy off the wholesale market and the level of participants who are actively looking to buy hedges.
19. MEUG recommends that the proposed design covers all types of hedges to be fully beneficial. Peak and particularly super-peak products are not a priority or suitable product for many of our members, who have traditionally sought baseload contracts to meet the energy needs of their operations. We recognise this broadens the scope beyond what other parties may seek but would ensure this measure was beneficial for large industrial and commercial participants.

Summary of NZIER report

20. MEUG commissioned NZIER to undertake a review of the options paper (see **Attachment A**), with a focus on the following areas:
 - The Problem definition with respect to quantifying the risk allocation methods currently used by gentailers and comparing these to the price and volume gaps that the options papers seem to be attempting to address.
 - Assessment of the current and projected demand for firming capacity (over the next 5 years) based on comparing the forecast for flexible generation capacity and output with the forecast increased requirement.
 - Assessment of the likelihood that current market settings will encourage any material investment in flexible firming generation, and whether the proposed Option 2 would make a material difference to the business case for that type of investment or investment in wind and solar.

21. The NZIER report concludes that:
- **The Authority’s problem definition does not quantify the scope or price effects of the non-discrimination obligations.** The options paper needs to provide more clarity on whether the scope of the non-discrimination obligations is limited to mass market Fixed Price Variable Volume (FPVV) or extends to hedging arrangements for the remaining generation. It also needs to clarify that hedging instruments would need to be used for generation covered by non-discrimination provisions to give the EA confidence that it could detect non-compliance with non-discrimination provisions.
 - **More wind and solar will exacerbate the shortage of ‘dispatchable’ firming capacity,** with NZIER analysis investigating the level of dispatchable capacity needed to firm load. NZIER estimates the projected increase in wind and solar generation by 2030 could require an increase in dispatchable generation of 370 MW to 1,010 MW.
 - **Increased non-dispatchable generation will not drive prices down.** The market is currently short of dispatchable generation and increasing the proportion of system generation from wind and solar without increasing the supply of dispatchable generation proportionately makes the spot market more prone to price spikes.
22. We are happy to discuss this analysis further with the Authority as this work progresses.

Implementation and monitoring

23. MEUG welcomes the Authority’s observations that this type of intervention (option 2 with a principle-based approach) could be introduced relatively quickly and ideally before winter 2025. Given the persistent concerns with the state of competition, the increasing issues with affordability and the Government’s focus on the sector, it is encouraging to see actions being developed at pace.
24. While a principles-based approach will be quicker to develop and implement, MEUG is concerned about the ambiguity this approach could create, where gentailers could undertake a multitude of approaches to comply with the obligations. Given the small number of players in this sector, we query whether this is appropriate. We recognise that a principles-based approach would reduce the development time and resources required by the Authority, but this needs to be balanced against the resourcing and time required by gentailers (and all other parties) that have obligations under the proposed intervention.
25. MEUG strongly recommends that the Authority set up robust monitoring and guidance, to ensure that this obligation is rolled out as intended and meets the policy intent. This involves adequate resources, guidance for participants, alongside clear criteria and guidance for Authority staff who will monitor and assess compliance. There needs to be timely channels to escalate any concerns, and we query whether the Authority should undertake monitoring on a three-monthly basis, for at least the first year. In addition, it would be helpful for the Authority to publish the expected triggers for moving along the escalation pathway, as set out on page 5 of the options paper.

Welcome opportunity to discuss our comments further

26. MEUG has appreciated the numerous avenues for engagement on this options paper– through webinars, in person workshops, and the opportunities for individual meetings with Authority staff and Board members. It was also encouraging to hear that Authority staff are open to any other ideas that stakeholders may put forward to address the underlying problems. We consider that it has been a helpful process to gain greater input and insight into the proposed approach and let stakeholders explore their questions prior to preparing submissions.

27. If you have any questions regarding our submission, please contact MEUG on 027 472 7798 or via email at karen@meug.co.nz.

Yours sincerely



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