

Fortnightly report to the Minister for Energy 15 February 2024

This report summarises items that may be of interest to the Minister for Energy but not necessarily require a formal briefing. Further information on any topic can be provided on request. Substantive items and decision papers will be provided to the Minister in the form of briefings.

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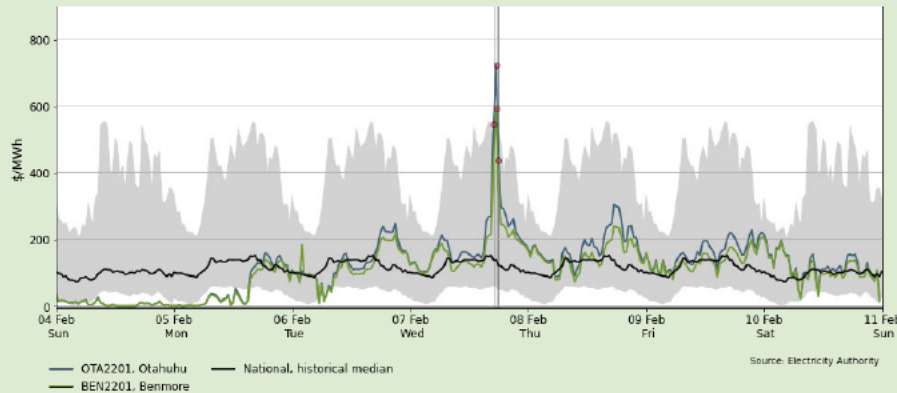
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1. Current and upcoming publications and advice

Strategic priority	Title	Purpose	Action and timing
Organisation development	Updates to the Consultation Charter the Code amendment request process and advisory groups	Decision on changes made to the Charter, CAR process and advisory groups	For noting BR-24-0008 sent 26/01/24 Decision published 20 Feb 2024
Organisation development	Commercial Market-Making Scheme: New provider from 1 July 2024	Decision to procure a new commercial market maker from 1 July 2024 for 2 years.	For noting Briefing to be sent w/c 19 Feb
Improving security of supply	TPM amendment (simple method calculation)	Decision on amendment to the transmission pricing methodology to address a charge allocation issue for new generation.	For noting Briefing to be sent w/c 19 Feb
Organisation development	Annual levy funded appropriations	Decision on Authority's annual levy process including request for \$14.2m more money.	Requires Minister decision BR-24-0010 sent 9/02/24
Improving security of supply	Future system operation	Consultation on future of New Zealand's system operation.	For noting BR-24-0003 sent 23/01/24 Consultation released 15/02/24
Data for better performance Consumer protection and understanding	Options to support consumer plan comparison and switching.	Consultation on eight options to improve consumer plan comparison and switching.	For noting BR-24-0007 sent 19/01/24 Consultation released 01/02/24
Improving security of supply	Potential solutions for peak electricity capacity issues	Consultation on additional rules to support security of supply during winter peaks.	For noting BR-23-0049 sent 04/12/24 Consultation released
Data for better performance Consumer protection and understanding	Improving retail monitoring	Consultation on increasing retail data transparency and monitoring.	For noting BR-23-0052 sent 27/10/23 Consultation released

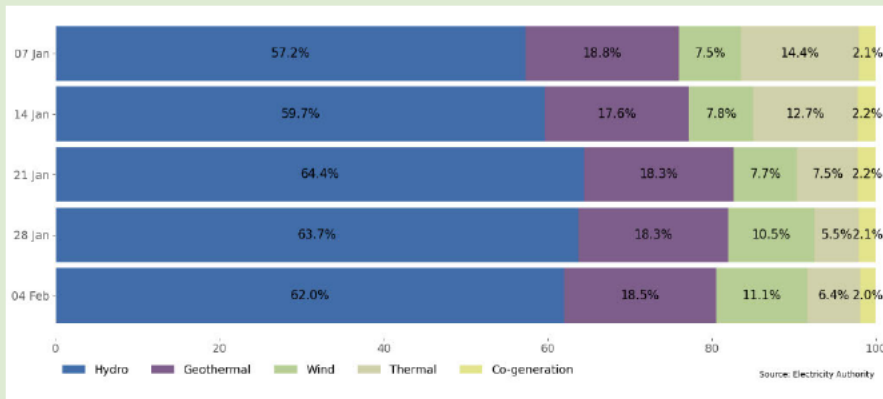
2. What's happening in the market?

Spot prices for 4 – 10 February 2024



The average spot price for the week was \$114/MWh, an increase of around \$10/MWh compared to the previous week. The middle 50% of prices were between \$40/MWh and \$158/MWh.

Generation breakdown



Between 4 - 10 February, total weekly hydro generation was 62.0%, geothermal 18.5%, thermal 6.4%, wind 11.1%, and co-generation 2.0%.

- **National storage decreased slightly this week and is ~103% of mean as of 10 February.**
- Daily demand was similar to the previous week, though it dropped on Tuesday due to the Waitangi Day public holiday.
- Future prices for short and mid-dated contracts increased, while prices for long-term contracts remained stable.
- Total capacity on outage between 4 - 10 February ranged from 1412MW to 1990MW, which was around the long-term average for February (1673MW). A large share of this came from hydro and thermal outages.
- [Eye on Electricity – The levelised cost of electricity](#) Read an insight into the levelised cost of electricity, why it is important and how it is calculated.

3. Upcoming Electricity Industry Participation Code Amendments

Electricity Industry Participation Code Amendments that need to be presented to the House **within 20 working days** following the date on which it is made. The Minister's office must ensure the established procedure for presentation is followed and the amendments presented.

Name	Date made	Date of Gazette Notification	Date in force	Due date for presentation to the House
EIPCA (Dispatch Notification Enhancement and Clarifications) 2024	16 January 2024	30 January 2024	1 March 2024	On or before 15 February 2024
EIPCA (Part 6A Dispensation for Specified Persons) 2024	16 January 2024	30 January 2024	1 March 2024	On or before 15 February 2024
EIPCA (Transmission Pricing Methodology Amendments) 2024	16 January 2024	30 January 2024	1 March 2024	On or before 15 February 2024
EIPCA (Code Review Programme) 2024	23 January 2024	30 January 2024	1 March 2024	On or before 21 February 2024

4. Proposed additional verbal briefings

Name	Purpose	Indicative date*	Authority attendees
Market 101 briefing	Support understanding of the electricity market	February 2024	Sarah Gillies, Andrew Miller, Chris Otton, Doug Watt
Authority project into risk management in the retail market*	Understanding of Authority work underway to respond to complaints from independent retailers about competition in the market	March 2024	Sarah Gillies, Andrew Millar, Rob Bernau
Update on security of supply	Update on security of supply ahead of Winter 2024	April 2024	Sarah Gillies, Doug Watt, Chris Otton, Airihi Mahuika

*Included in this briefing is the background to this project and status

5. Deep dive: risk management review

What this review is about

Risk management, in this context, refers to how electricity retailers manage the financial risk arising from the difference between wholesale electricity prices, which are volatile and can spike to high levels,¹ and the stable prices offered to their mass market customers –generally a daily charge and a fixed volume rate.

The Authority’s risk management review is considering whether the availability of risk management options to retailers is effectively creating a barrier to entry or expansion in the retail electricity market, and therefore harming competition. The review is particularly focussed on “over the counter” (OTC) risk management contracts – a type of financial hedge that can provide cover to retailers at times when they are likely to be most exposed to high wholesale prices, for example morning and evening peaks. Non-integrated retailers² have raised concerns about both the availability and pricing of OTC contracts.

Background

Non-integrated retailer concerns about competition in the electricity wholesale, hedge and retail markets initially came to prominence in 2018, in the context of the Government’s Electricity Price Review (EPR), and the Pohokura gas field outage. That outage contributed to elevated and more volatile wholesale electricity prices, and to availability and pricing concerns regarding hedge contracts traded on the ASX (a complementary risk management product to OTC contracts).

Both OTC and ASX traded hedge contracts are primarily provided by the four large generator-retailers, Contact, Genesis, Mercury and Meridian. These gentailers therefore play a dual role in relation to non-integrated retailers – they are a core supplier of a key risk management product to non-integrated retailers, and also their most significant retail competitors.

The EPR panel recommended, and the Authority implemented, a stronger regulatory regime for ASX traded hedge contracts, and new disclosure obligations for the internal transfer pricing (ITP) between the generation and retail arms of the four large gentailers, to better understand the risk of these trading arrangements impacting on retail competition.

¹ For example, on a cold, still winter night where consumer demand is substantial, but supply is tight as solar and wind generation are not operating.

² Retailers that do not also own generation; often referred to as “independent” retailers. Retailers that also own generation effectively have their own natural hedge.

The Authority then worked through a review of competition in the wholesale market, amid concerns about the level of wholesale prices, before we returned our focus to risk management, and particularly the pricing and availability of OTC contracts.

The Authority facilitated an OTC industry work group in 2023, to give participants the opportunity to resolve/narrow any issues, and is now addressing its own questions about the adequacy of electricity price risk management options (in the context of non-integrated retailers' concerns, and their complaints to the Commerce Commission).

Scope of the Authority's review

The risk management review is considering the following:

Accessibility of risk management options – whether retailers have access to efficient risk management options

- Focussing on the availability and pricing of OTC contracts, but also considering alternative risk management options (eg, demand response, batteries, generation/quasi-integration/power purchase agreements, ASX traded hedges).
- Specifically testing whether the pricing makes sense given external relativities (price of substitutes) and costs. OTC contracts should reflect the costs of their components – wholesale price, volatility, shape, locational factors, volume, credit risk.

Impact on retail market competition – providing context for assessing risk management options. This includes:

- Forming a clearer view on what workable retail competition looks like, and the role of different retailers in the market?
- Considering whether the transition to a low-emissions economy in any way impacts our expectations of retail market competition.

Market structure – considering whether any competition concerns arise from the dual role of gentailers in this context. This includes considering:

- What market power the four large gentailers have in the wholesale, hedging and retail markets [builds on previous work]
- What the role of internal gentailer trading arrangements (whether ITP or other) should be.

The scope of the Authority's work has been informed by non-integrated retailers' concerns, including their complaints to the Commerce Commission. Non-integrated retailers are however, seeking a greater immediate focus on market structure, and particularly on what they say is a "margin squeeze".³ We understand this margin squeeze concern, but consider that the Authority's review will ultimately be more robust and timely if we confirm the next stage of our work programme after we have analysed the initial data are collecting (ie, ensuring the work programme is evidence driven), rather than prioritising this specific test.

Next steps

We have collected substantial OTC contract information from non-integrated retailers, and will shortly send initial information requests to the four large gentailers. We have also met with many of the non-integrated retailers this year to discuss the scope of this work and their specific concerns. We intend to provide regular updates to interested parties as the review progresses, including regular updates to your office. We are happy to provide a verbal briefing on this issue soon.

Finally we note:

- The Commerce Commission has decided not to investigate non-integrated retailers' complaints regarding the same issue, and is instead supporting the Authority's review work with their economic and investigative expertise.
- The Australian Competition and Consumer Commission (ACCC) has recently considered similar risk management issues in the Australian National Electricity Market. We are in contact with ACCC, and intend to share learnings with them.
- While it is outside of the scope of the risk management review, the Authority also continues to closely monitor wholesale electricity market offers against its trading conduct rules, ie, testing whether, regardless of any market power held by the offering generators, the market offers reflect offers that would be made in a competitive market.

³ The non-integrated retailers say that the market power of the gentailers is being exercised through a combination of wholesale electricity prices, hedge availability and prices, and suppressed retail prices, to leave non-integrated retailers with an inadequate margin to compete.

6. Key external engagements

- March 2024 – Consumer and industry hui (ERANZ, ENZ, CTU, ComCom – led by the Electricity Authority)
- 5-6 March 2024 – Downstream conference
- Minister and Authority CE/SLT meetings:
 - 20 March 10.50am – 11.10am
 - 10 April 10.50am – 11.10am
- Minister and Authority Chair meeting:
 - 3 April 10.30am-10.50am