

## **Fortnightly report for the Minister for Energy 15 March 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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## 1. Current and upcoming publications and advice

Strategic priority	Title	Purpose	Action and timing
Organisation development	Commercial Market-Making Scheme: New provider from 1 July 2024	Operational decision to procure a new commercial market maker from 1 July 2024 for 2 years.	Public release of decision 21 March
Improving security of supply and enabling innovation	Code amendment omnibus two: Decision paper	Three unrelated minor Code amendments including: <ol style="list-style-type: none"> <li>1. Ensuring the distributor arm's length and corporate separation rules apply for all generation technology.</li> <li>2. Requiring distributors to advise the market and system operator the amount of available controllable load for a grid emergency.</li> <li>3. A general update to Part 6A (Separation of distribution from generating and retailing) to align the wording with the Code drafting standards.</li> </ol>	Pending Board decision on 19 March we intend to publish: the decision on 29 March 2024

## 2. Consultations underway

Strategic priority	Title	Purpose	Action and timing
Enabling innovation & investment	Transmission Pricing Methodology (TPM) – two consultations on amendments	Minor amendments to ensure TPM performs in the best interests of consumers and industry.	Consultations close 26/03/24
Improving security of supply	Future system operation	Consultation on future of New Zealand's system operation.	BR-24-0003 sent 23/01/24 Consultation closes 11/04/24

### 3. Upcoming Electricity Industry Participation Code Amendments

Electricity Industry Participation Code Amendments that need to be presented to the House by the Minister's office **within 20 working days** following the date on which it is made.

Tracking number	Name	Date made	Date of Gazette Notification	Date in force	Due date for presentation to the House
EIPCA-24-0005	Benefit-based Charge Adjustment Event: New Customer	26 February 2024	4 March 2024	10 April 2024	On or before 25 March 2024

### 4. Proposed additional verbal briefings

Name	Purpose	Indicative date*	Authority attendees
Security of supply update	Provide information on outlook for Winter 2024 and activities underway	20 March 2024 – as part of CE/Minister meeting	Sarah Gillies, Andrew Miller, Chris Otton, Doug Watt
Supercharging EVs: Authority's work in connection pricing	Update on Authority work in the EV connection space	10 April 2024	Sarah Gillies, Tim Sparks
Authority project into risk management in the retail market	Briefing of Authority work underway to respond to complaints from independent retailers about competition in the market	8 May 2024 - as part of CE/Minister meeting	Sarah Gillies, Andrew Millar, Rob Bernau

### 5. Key external engagements

- Minister and Authority CE/SLT meeting: 20 March 3.50pm – 4.10pm
- 26 March 2024 – EA / EECA board
- 27 March 2024 – Consumer and industry hui (ERANZ, ENZ, CTU, ComCom, MBIE and consumer advocacy groups facilitated by the Electricity Authority)
- Minister and Authority Chair meeting: 3 April 10.30am-10.50am

## 6. Deep dive: Monitoring competition in the wholesale market

### Background

- 6.1. Recent commentary in the media and at the Downstream Conference focused on consumer outcomes, including electricity affordability, and the role of competition in enabling innovation and keeping downward pressure on prices. Some participants consider a redesign of the wholesale market is required to ensure consumers have access to affordable electricity.
- 6.2. The Authority recently released its new vision and intended outcomes for all New Zealand consumers. The vision is for consumers to have choices in accessing the energy they need now and in the future, to ensure they and New Zealand prosper. For people to have access to energy it must be affordable. A competitive electricity market is essential for people to have choice and to keep the prices down. All aspects of the Authority's work programme strive to realise the vision.

### We monitor the electricity markets

- 6.3. The Authority closely monitors the wholesale electricity market to ensure anomalies are identified and investigated as appropriate. In addition, we interrogate existing settings to ensure they continue to be fit for purpose. This includes our current work underway to respond to complaints from independent retailers about competition in the market. We will provide a detailed update on this work at our meeting with you on 8 May.<sup>1</sup>
- 6.4. The Authority carefully monitors activity and outcomes in the wholesale market to ensure that trading reflects competitive conditions. We regularly dig deeper into activity over certain periods (either short or longer term) if we identify cause for concern.
- 6.5. In a competitive market we expect to see swings in profitability over the medium to long term. Participants in the electricity market, like other markets, need strategies in place to manage market cycles and buffer against systemic shocks.
- 6.6. In 2021, the Authority introduced a new wholesale electricity market trading conduct rules to address any trading on the spot market that reflects use of market power. The Authority uses a range of indicators to test spot market prices against underlying supply and demand conditions. If we cannot explain a spot price using this information or by interrogating our tools (such as pre-dispatch prices and offers, dispatch compliance and real time dispatch and demand), we ask generators to explain the outcomes we are observing. We publish a weekly report that includes the results of our monitoring, including any trading periods identified for further analysis and a record of questions and responses from generators.
- 6.7. We also monitor trading on the hedge markets, including the ASX, the Over-the-Counter market and the market for Financial Transmission Rights. The market makers on the ASX are four regulated market makers and one commercial market

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<sup>1</sup> This 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.

maker. The regulatory and contractual provisions these market makers must comply with are the same. The Authority monitors market making performance of all the market makers.

- 6.8. Last year the Authority, in collaboration with industry participants, introduced a voluntary code of conduct for the Over-the-Counter market. The Authority monitors whether behaviour is consistent with this new code of conduct using data collected quarterly.

### **We initiate and complete in-depth reviews of market settings**

- 6.9. In 2021 the Authority published the review of structure, conduct and performance of the wholesale market. This review focused on the spot market. Since that report was published, the Authority repeats the analysis and publishes the results twice a year.
- 6.10. From this analysis, we have observed a change in behaviour in the spot market since the introduction of the trading conduct provisions in July 2021. We have found prices tend to reflect underlying conditions and economic costs more closely compared to during the years before the trading conduct provisions were implemented.
- 6.11. The Authority also monitors the Financial Transmission Rights market from a conduct and information asymmetry perspective (publishing the results twice a year) and we will investigate further if the need arises.
- 6.12. The Authority has put in place other initiatives to improve the transparency of information for all participants with the intent to reduce any information asymmetry. These include the wholesale market information disclosure regime and the current work underway to improve hedge market disclosures.
- 6.13. Investment in generation is critical for the transition to a renewable power system, and for disciplining spot market prices. For the last two years the Authority has surveyed generation developers, whether they are incumbents or entrants, to understand investment intentions. We are planning to continue to monitor the investment pipeline and development costs. We are also thinking about how to continue to collect information on potential impediments to generation investment.
- 6.14. As well as reviews assessing the consistency of outcomes with competition at various points in time in the different wholesale markets, we also conduct post implementation reviews to assess whether the Authority's interventions are having the intended outcomes.
- 6.15. We are happy to provide more information on any aspect of this deep dive including aspects of our monitoring function and our work on risk management including the current tools available.