

Fortnightly report for the Minister for Energy 24 May 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.

Electricity Authority contact: Sarah Gillies, Chief Executive

Mobile: s9(2)(a)

1. Current and upcoming publications and advice

| Strategic priority | Title | Purpose | Action and timing |
|---|---|---|---|
| System security and resilience | Review of forecasting provisions for intermittent generators in the spot market | Sets out the Authority's policy decisions to support more accurate intermittent generation forecasts and offers to support security of supply. | Board considered: 21 May 2024. Intended publication date: 4 June 2024. |
| Monitoring, compliance, education and enforcement | Authority's decision paper on amending hedge disclosure obligations in the Code | Sets out the Authority's decisions on improving hedge disclosure obligations. This will increase transparency and access to information and support the Authority's monitoring functions. | Board considered: 21 May 2024. Intended publication date: 6 June 2024. |
| System security and resilience | Review of Common Quality requirements in the Code | As part of the Future Security and Resilience programme we are publishing a suite of three consultation papers that address five of the seven identified issues with Common Quality requirements in Part 8 of the Code. | Board to consider: 21 May 2024 Intended publication date: 25 June 2024 |
| Enabling investment and innovation | Briefing on wholesale market competition and connection pricing. | Minister's office requested briefing to communicate how this EA work contributes to the coalition agreement and should detail: <ul style="list-style-type: none"> • work underway • timeframes, especially for key decisions. | Due 29 May 2024 |
| s9(2)(f)(iv) | | | |
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| Enabling investment and innovation | Guidance on distributor involvement in flexibility markets | This draft guidance aims to support a competitive flexibility services market by setting out the Authority's expectations around distributors' involvement. Flexibility helps keep network and electricity prices down. The guidance aims to minimise the risk of distributors' advantage from their distribution monopoly inhibiting others from competing in the flexibility services market. | Board considered: 30 April 2024 Intended publication of draft guidance: 24 May 2024 Workshop: late June 2024 |
|------------------------------------|--|---|--|

2. Additional key notes

The Authority has stood up its Incident Management Team on the back of the electricity shortfall during the week commencing 6 May, as well as the solar storm event. The IMT is focused on reviewing actions, and if need making recommendations for the system operator and/or taking any additional actions. We will update the Minister's office accordingly.

3. Consultations underway

| Strategic priority | Title | Purpose | Action and timing |
|------------------------------------|---------------------------|---|----------------------------------|
| Enabling investment and innovation | Code amendment omnibus #3 | We are seeking feedback on two discrete amendments to the Code on distributed generation. | Consultation closes 4 June 2024. |

4. 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-24-0009 | Transmission Pricing Methodology | 8 May 2024 | 14/05/2024 | 17/06/2024 | 6/06/2024 |

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| | Related Amendments | | | | |
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5. Proposed additional verbal briefings

| Name | Purpose | Indicative date* | Authority attendees |
|------|---------|------------------|---------------------|
| N/A | | | |

6. Key external engagements

- CE meeting with Business Energy Council: 27 May
- CE meeting with EROAD: 27 May
- EA Quarterly update (webinar): 27 June

7. Deep dive: Spotlight: Electricity Authority workstreams directed at addressing electricity affordability

- 7.1. Residential electricity prices have been relatively stable in real terms over the last 15 years and increased by 0.2% per annum over this period in real terms. However, pressure on electricity prices is expected in the near term arising from the Commerce Commission's draft distribution price-quality path decision for most electricity distributors (DPP4) and for Transpower (RCP4). These draft decisions are due on 29 May 2024.
- 7.2. The Authority is undertaking work to keep consumer prices as low as possible by creating conditions and incentives for participants to develop least-cost solutions over time. To achieve this, we are focusing on promoting competition, reliability, and efficiency in the electricity system, all of which drive more affordable electricity. The right price signals in the right place at the right time will encourage:
- (a) Innovation where industry participants introduce new technologies and business models to provide better, or more cost-effective services
 - (b) efficient market decisions to make sure investments in new generation, transmission and distribution do not add extra and unnecessary costs to consumers—while keeping the lights on.
- 7.3. With more renewable generation, increased participation and more choice comes more affordable electricity as industry players vie to attract customers with competitive plans and prices.
- 7.4. This briefing is focused on current and upcoming work. It builds on foundational work we have delivered over the last year including:
- (a) implementing real-time pricing to make wholesale spot prices more certain, more accurate, and more efficient, putting downward pressures on prices
 - (b) reviewing the effectiveness of the Consumer Care Guidelines for retailers and implementing these as mandatory requirements in the Code
 - (c) winter 2023 enhancements to security of supply to improve market information and incentives
 - (d) changes to unlock the flexibility, including Code changes to allow owners of battery energy storage systems to participate in the wholesale energy and reserves markets.
- 7.5. As we work to improve the rules, we are enabling trials and alternative solutions working on delivering more affordable electricity by considering and granting exemptions. The Authority is also focused on an uplift of education – for consumers and industry- which will drive behaviour change through awareness, understanding and action.

Affordability programme overview

- 7.6. Outlined below is the work we have underway to encourage greater competition and efficiency, which puts downward pressure on prices throughout the supply

chain of wholesale market (generation), transmission and distribution, and retail. This includes the status of these work streams and when consumers can expect to realise benefits. We have summarised these projects' start and completion dates into a table at the end of this commentary. In addition, the following discussion notes areas where other agencies' work programmes can further support more affordable residential electricity prices.

Wholesale market: promoting greater competition

Monitoring the wholesale market helps ensure energy prices are as low as possible

- 7.7. When our two-year review into competition in the wholesale electricity market concluded, we found the best way to promote competition was to enable more and faster investment in generation and focus on monitoring and enforcement. Along with monitoring the pipeline of new generation, we continue our work on getting the right wholesale electricity price signals to investors – which will promote greater generation investment, reduce risks, and lead to downward pressure on prices. This approach aligns with our objectives for an efficient and affordable electricity system as it leads to the right level of investment in generation – and lower-cost generation – meaning lower prices for consumers.
- 7.8. Our monitoring and enforcement role includes monitoring compliance with trading conduct rules that were amended in 2021. Participants must ensure their offers reflect those made in a competitive market, which will put downward pressure on prices for consumers.
- 7.9. In 2023, the independent Market Development Advisory Group (MDAG) released its report on price discovery in a renewables-based electricity system. This report contains 31 recommendations to strengthen aspects of the wholesale market, and ultimately lead to better prices for consumers. We have committed to implementing the first tranche – the most urgent recommendations – as a coordinated package of actions to improve competition. Our work on some of these recommendations is included below.

Promoting competition and affordability in the wholesale market

- 7.10. The Authority has a number of work programmes underway to promote competition and affordability in the wholesale market. These include:
- Improving hedge market disclosures. They currently require parties engaged in certain risk management contracts to disclose specific details like price, quantity, grid zone, trade date, and effective date. The Authority's assessment indicated the current requirements do not provide enough information on contract shapes and prices, making it difficult for some participants to assess prices and negotiate contracts. **Implementation October 2024 – Benefits from late 2024**
 - Reviewing the availability and pricing of risk management products for retailers. The review is assessing whether availability is effectively creating a barrier to entry or expansion in the retail electricity market for retailers, and therefore harming competition. **Implementation is ongoing – Benefits are ongoing**

- Developing a dashboard of competition indicators for the flexibility segment of the wholesale market. The dashboard will provide a framework to assess the impact previous actions (such as improving disclosures and introducing standardised flexibility products) on competition and ensuring good outcomes for consumers. **Implemented 2025, Benefits from implementation**

7.11. Improving disclosures and ensuring participants have access to contracts will help to ensure accurate and efficient prices – which will flow through to lower prices for consumers.

Enabling demand response to reduce the need for costly infrastructure and reduce prices at peak times

7.12. Demand response will be key to maintaining security of supply by helping reduce demand during peak periods. In turn, demand response will contribute to lower prices by reducing the need for network infrastructure that is required to cover peaks. We are improving the regulatory environment for demand and supply side flexibility required for this, including enabling the full potential of distributed energy resources (DER). This work includes:

- Monitoring the provision and uptake of demand-side flexibility rewarding activity (including tariffs). **Commenced. Survey results published mid-2024, new monitoring in place 2025 – Benefits from publication and ongoing**
- Developing standardised flexibility products in the hedge market, including for demand-side flexibility. **Ongoing improvements from 2024, fully implemented 2025, Benefits ongoing**
- Improving visibility of demand-side flexibility for the system operator and removing barriers in the Code to demand-side flexibility offering ancillary services. **Implementation 2024-25, Benefits from 2025**

Distribution and transmission: Promoting improved network investment and efficiency

7.13. Our distribution and transmission networks work programme aims to achieve more efficient electricity network usage and investment. We want to encourage greater adoption of new technologies to improve electricity network usage. These measures are expected to lower distribution and transmission costs from what they would otherwise be by getting more out of the existing network and avoiding the need for costly network upgrades and extensions. To achieve this, our work programme includes:

- Promoting improved connection pricing to encourage greater electrification, which spreads network costs across more customers and will ultimately lower average electricity costs. **Implementation 2024-25, Benefits from 2025**
- Reviewing non-price related connection regulations to better enable network connections, including access to network data for improved planning and pricing, and to unlock non-network solutions: batteries and solar panels. **Implementation 2024, Benefits from 2024**

- Ensuring cost-reflective distribution pricing to encourage consumers to shift consumption from peak periods to off-peak, reducing the need for network infrastructure investment. **Implementation is ongoing, Benefits are ongoing**
- Encouraging distributors to review their allocation of common costs between domestic and commercial customers to ensure costs are appropriately shared. **Implementation 2025-26, Benefits from 2025-26**
- Improving distributors' access to metering data will promote improved network planning and performance, and reduce the amount spent on distribution network assets. **Implementation 2024-25, Benefits from 2025**

Retail: Empowering consumers and promoting competition

- 7.14. Our electricity retailing measures are designed to address affordability through empowering consumers to switch retailers, promoting retail competition and enabling innovation and investment in technology.
- 7.15. To achieve this, we are evaluating the best tools to support mobility including how immediate improvements can be made to the existing service, Powerswitch to improve user experience and get them the best deal for their household (refer: Fortnightly Report 26 April 2024). Consumer NZ estimates Powerswitch users save on average around \$400 a year, but uptake is relatively low. **Tender in June 2024. New contract from 1 July 2025, Benefits ongoing**
- 7.16. We are currently examining Code amendments to allow multiple trading relationships where consumers can 'import' electricity with one retailer and 'export' it with another. This may see consumers get better prices for their export electricity and reduce their power bills. **Trial commenced 2024. Implementation 2025, Benefits from 2025**
- 7.17. We are collecting more data to enhance our monitoring of prices and competition in the retail market to allow us to assess barriers and promote retail competition. We will be requesting that electricity retailers provide their customers with information about the support they offer for managing their bills and energy hardship. **Implementation 2025, Benefits from 2025**
- 7.18. The Consumer Care Guidelines will become mandatory **from 1 January 2025**. These guidelines will offer greater clarity and clear expectations to electricity retailers on how they deliver consistent and supportive care to consumers, including what power companies should do when consumers are struggling to pay their bills.

What other agencies could consider

- 7.19. Other agencies also have a role in setting regulations, and there are other short-term interventions that can help keep prices down. For example:
- The Commerce Commission has indicated changes to its regulatory regime could drive greater scrutiny of electricity distributors' spending decisions. This could involve setting individual revenues for the larger electricity distributors, like it does for Transpower.

- NZTA could continue its review of traffic management regulations to reduce compliance costs. Rising traffic management costs have been a significant contributor to increased maintenance costs for lines companies.
- MBIE could continue reviewing the Trees Regulations to reduce compliance costs. Trees Regulations also contribute to distributors' costs.

7.20. Available short-term measures to soften the impact of higher bills for vulnerable consumers could include other Government mechanisms, including the Winter Energy Payment and other lump sum payments to low-income consumers. Such measures can offset the impact on vulnerable consumers and would also avoid distorting price signals and so avoid causing higher investment costs in the long term.

7.21. The Authority also has a programme of work to bring together industry, government agencies, regulators and community and consumer groups to explore what sector-led initiatives could be initiated and amplified to support struggling households. In March, we held a forum/wānanga with 30 representatives. The Authority is tracking implementation of the initiatives raised at the wānanga and looking at how they can be aligned with the Authority's work to increase competition and improve affordability.

Current and Future work

| Project | Expected start date | Expected completion date | Realisation of consumer benefits |
|--|--------------------------------|---|----------------------------------|
| Wholesale market: promoting greater competition | | | |
| Improving hedge market disclosures | Commenced | October 2024 | From late 2024 |
| Reviewing the availability and pricing of risk management products for retailers | Ongoing work | Ongoing work | Ongoing |
| Developing a dashboard of competition indicators for the flexibility segment of the wholesale market | Late 2024 | 2025 | From completion |
| Monitoring the provision and uptake of demand-side flexibility | Commenced | Survey results published mid-2024, new monitoring in place 2025 | From publication and ongoing |
| Developing standardised flexibility products in the hedge market | Ongoing improvements from 2024 | Fully implemented 2024 | Ongoing |
| Improving visibility of demand-side flexibility and removing barriers to demand-side flexibility | Commenced | 2024-25 | From 2025-26 |
| Distribution and transmission: promoting improved network investment and efficiency | | | |
| Promoting improved connection pricing | Commenced | 2024-25 | From 2025 |
| Reviewing non-price related connection regulations | Commenced | 2024 | From 2024 |
| Ensuring cost-reflective distribution pricing | Commenced | 2024-25 | From 2025-26 |
| Encouraging distributors to review their allocation of common costs | 2024-25 | 2025-26 | From 2025-26 |
| Improving distributors' access to metering data | Commenced | 2024-25 | From 2025 |
| Retail: empowering consumers and promoting competition | | | |
| Improving consumer mobility: procure comparison and switching service | Tender in June 2024 | New contract from 1 July 2025 | Ongoing |
| Code amendments to allow multiple trading relationships | Trial commenced 2024 | 2025 | From 2025 |
| Increased retail data collection and monitoring of prices and competition | Commenced | Introduction in 2025 | From 2025 |
| Consumer Care Guidelines to become mandatory | Commenced | January 2025 | From January 2025 |