

At a glance: Risk management review

What is the risk management review?

Risk management essentially insures retailers and major industrial users against wholesale electricity price volatility.

The review has been looking at whether the availability and pricing of a particular risk management option, hedge contracts, was creating a barrier to retail competition

We decided to undertake the review in a background of increasing wholesale spot market volatility and increasing investment in intermittent generation – wind and solar, which are not always available – both of which will increase demand for risk management options. The review also takes account of concerns raised by some retailers about the availability and pricing of certain hedge contracts.

What did it find?

The review has made initial findings that while there are a range and combination of solutions available to retailers to manage their risk, questions remain about the pricing and availability of a specific type of contract which provides morning and evening price cover, when residential demand is highest and wholesale electricity prices can get very high.

While the evidence was not definitive, the review has provided a good indication of the risks to retail competition. The Authority is now responding to develop better system for offering hedge contracts to ensure more are available.

Why does risk management matter to consumers?

Risk management matters because it helps enable competition in the retail electricity market, especially for those retailers focused on domestic consumers and small business customers.

Competition benefits to consumers in the form of more choice and it puts downward pressure on prices.

What next?

The review provides an important input into the Energy Competition Task Force's work which is focused on competition.

It includes enabling new generators and independent retailers to enter, and better compete, in the market.

The review's work confirms that the Task Force is focussed on the right things, and allows the Task Force to work faster.

We are inviting stakeholder feedback by 18 December 2024 and will then decide on any update to the Task Force's work or if any further policy response is needed.