

Kia ora koutou

We are writing to provide you with an update on the Electricity Authority's risk management review.

At the heart of the review is the Authority's commitment to a competitive retail electricity market where all consumers have more choice and more access to affordable electricity. Any barriers to retail competition are not in the interests of consumers. The review is testing whether the availability and pricing of risk management options, particularly OTC contracts, creates a barrier to entry or expansion by retailers, and therefore harms competition.

We have appreciated your engagement with the review to date, and we are committed to keeping you informed and continuing to listen to your views.

Process update

As you know, the Authority sent out substantial information requests to non-integrated retailers in late December 2023. This was followed by substantial information requests to generator-retailers at the beginning of March 2024. The final responses to these requests were received in mid-April 2024.

The information provided to the Authority was comprehensive, detailed and helpful, but does not by itself answer the questions posed in the risk management review. As well as seeking clarification and further follow-up information, we have been performing complex analysis:

- Across a number of dimensions relating to specific OTC RFPs and responses – currently 18 separate tables
- Using a range of tools, eg, regression modelling, optimization modelling over different scenarios, modelling of OTC contract prices based on underlying conditions (such as volatility)
- Across a broader range of OTC related questions that span multiple disciplines, eg, gentailer pricing methodologies and credit requirements, broader risk management options and practices for retailers
- Drawing on the expertise of the Commerce Commission to complement our internal analysis.

However, the Authority is now satisfied that it has sufficient information to progress the investigation phase of the risk management review, ie, to perform the analysis necessary to form initial views on whether risk management availability and pricing is creating a barrier to retail competition.

Our intended timeline is to publish those initial views for stakeholder feedback early in the last quarter of this calendar year.

Post-implementation review

There is an overlap between the risk management review, and the post-implementation review of the internal transfer price (ITP) and retail gross margin (RGM) information

disclosure regime – both are considering ITPs in the context of electricity market competition.

We have heard criticisms about the efficacy of ITP. We have been working on a post-implementation review of the disclosure regime and intend to publish at the same time as we release our initial views for feedback on the risk management review. We consider that it will be most useful to release the two reviews together – to provide a complete picture of the Authority’s views on these issues, the potential impact on consumers, and any initial thinking on responses, which will then give stakeholders the opportunity to provide us with comprehensive feedback.

Prior to that, we will be publishing the ITP and RGM disclosure data for the 2023 financial year on our website on 18 June 2024.

We appreciate your patience as we complete our comprehensive analysis – we are progressing this important and complex work as quickly as possible, while ensuring that it is robust, and we remain open to any further stakeholder perspectives.

We continue to work closely with the Commerce Commission and are keeping the Minister for Energy and MBIE informed.

Ngā mihi

Andrew Millar