

## **FN-25-01 Fortnightly report 17 January 2025**

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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**Mobile:** s9(2)(a)

## 1. Current and upcoming publications and advice

The Authority has appointed three ordinary members and the Chair to the Security and Reliability Council	
<b>Strategic outcome</b>	Secure and resilient: <i>Effective risk management</i>
<b>Purpose</b>	<p>These appointments fill three existing vacancies in the SRC. They will commence on 1 April 2025 and have a term of three years.</p> <p>The appointees are:</p> <ul style="list-style-type: none"> <li>• Hon. Heather Roy (independent Chair, reappointed)</li> <li>• Chris Ewers (reappointed)</li> <li>• David Binnie</li> <li>• Steve Duggan</li> </ul>
<b>Action and timing</b>	We will announce the members and the independent Chair via our <i>Market Brief</i> on February 4, 2025.
Consultation: Improving access to thermal fuel information: clause 2.16 information notice	
<b>Strategic outcome</b>	Secure and resilient: <i>Security of supply</i>
<b>Purpose</b>	<p>The Authority is improving its information gathering on a range of thermal fuel information (including coal, gas and diesel) to inform security of supply and competition monitoring. We will shortly consult on:</p> <ul style="list-style-type: none"> <li>• an information notice (clause 2.16 notice) to achieve this outcome</li> <li>• a proposal to publish a subset of the information received, to increase participant awareness of thermal fuel availability and inform their risk management decisions.</li> </ul>
<b>Action and timing</b>	<p>Intended publication: 28 January 2025</p> <p>Subject to consultation, we intend to implement the notice pre-winter 2024.</p>

## 2. Consultations underway

Distribution connection pricing proposed Code amendment	
<b>Strategic outcome</b>	Efficient: <i>Accurate and efficient pricing</i>
<b>Purpose</b>	The Authority is developing rules to make it easier to get electrified businesses and infrastructure up and running.

<b>Action and timing</b>	<p>Consultation closed: 20 December 2024</p> <p>Cross-submissions due: 24 January 2025</p>
<b>Network connections project - stage one</b>	
<b>Strategic outcome</b>	Efficient: <i>Innovation and distributed energy</i>
<b>Purpose</b>	<p>This project is designed to address the barriers to efficient network connections. We will achieve this by ensuring the Code supports fit-for-purpose application processes and standards, so networks operate efficiently, competitively and reliably.</p> <p>The Authority has extended the consultation period for both of its network connections and pricing consultation papers and informed the industry of this.</p> <p>We granted a 2-week extension for all submitters at ENA's and EEA's request. Submissions closed at 5pm on Monday 20 December. Cross submissions will close on Friday 24 January 2026.</p>
<b>Action and timing</b>	<p>Consultation closed: 20 December 2024</p> <p>Cross-submissions due: 24 January 2025</p>
<b>EIEP4A Medically dependent consumer information</b>	
<b>Strategic outcome</b>	Affordable: <i>Consumer care and affordability</i>
<b>Purpose</b>	The Authority is seeking feedback on a new Electricity Information Exchange Protocol (EIEP). This feedback will support retailers' upcoming obligations under the Consumer Care Obligations to share information with distributors about medically dependent consumers on their networks.
<b>Action and timing</b>	Consultation closes: 28 January 2025
<b>Energy Competition Task Force Initiative 1A Working paper</b>	
<b>"Entrant generators – context, headwinds and options for power purchase agreements"</b>	
<b>Strategic outcome</b>	Affordable: <i>Effective competition</i>
<b>Purpose</b>	<p>The working paper tests the scope and focus of Initiative 1A, which is premised on the potential for PPAs to support business models that would intensify competition to build new generation and sell electricity.</p> <p>The working paper is a key input into developing and evaluating options for consultation in April 2025.</p>

**Action and timing**

Consultation closes: 28 February 2025

### 3. Upcoming Electricity Industry Participation Code amendments

The following table has 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
	NA				

### 4. Key external engagements

- Energy Competition Task Force meeting: 17 January
- Tonkin and Taylor meeting: 24 January
- Hirianga meeting: 27 January
- Transport Accident Investigation Commission meeting: 27 January
- Lodestone Energy meeting: 30 January
- Energy Competition Task Force meeting: 31 January
- Indian Energy Regulator meeting: 3 February
- BEC Breakfast: 10 February
- MEUG Executive Committee: 11 February
- Downstream 2025: 20 March

### 5. Ministerial engagements

- Minister for Energy monthly meeting: 29 January

## 6. Deep dive: The case for an extended trading horizon on the futures market

### **Australian Stock Exchange (ASX) futures products are an important risk management tool providing a valuable forward indication of electricity prices**

1. New Zealand exchange traded electricity futures (currently only available on the ASX) perform two key functions:
  - electricity market participants use the futures market to manage spot price risk
  - interested parties use the forward price curve created by the futures market to inform a wide range of investment and operational decisions.
2. These market functions promote the long-term interests of consumers by enabling efficient decision making and fostering competition and transparency.
3. Exchange traded electricity futures are one tool available to participants to manage their exposure to spot market volatility. Participants can also trade contracts bilaterally through 'over the counter' (OTC) trading. The Authority also administers an auction and secondary market for 'financial transmission rights' (FTRs). Participants can use this to manage locational price risk. Many participants use a combination of these tools to assist them to manage risk.

### **Market-making is vital for a robust forward price curve**

4. The Authority has enhanced access to, and liquidity of, exchange traded electricity futures over the past decade. This includes working with ASX to extend the range of futures contracts available on the ASX platform (ie, business day peak and option contracts), and ensuring that market-making services are provided for key contracts (ie, baseload).
5. Market-making services ensure that contracts are always available to trade, for those participants who want to do so. Enhancing market-making in baseload products has been an Authority focus in recent years and included the introduction of a commercial market maker in 2022.

### **Longer-dated futures would increase the horizon of the forward price curve and assist future-focused investment decisions**

6. Electricity futures are currently available by quarter over the next three to four years. For example, in September 2025, futures can be bought and sold for quarterly periods up until December 2028. This is considered sufficient for most parties in the New Zealand electricity market who undertake hedging over a business planning cycle of 3 financial years. This includes independent retailers.
7. On the other hand, developers of new generation would benefit from a longer forward price curve to support investment decisions. These participants normally need to have a degree of revenue certainty over a 10-year horizon, largely to secure project finance. They may seek a power purchase agreement (PPA) from another party to increase their revenue certainty. Without a longer forward price curve they may have no reference price from which to compare the offered price. A PPA is a long-term agreement for a retailer, consumer, or other generator to purchase the energy produced by a particular generation asset from a developer

and is an increasingly common way to support investment in new generation in New Zealand.

8. The longer-dated futures would have very little utility without the liquidity provided by market-making.

### **The Energy Competition Task Force's Package One includes improvements to hedge market arrangements to support competition and investment**

9. The Task Force is investigating ways to improve the performance of the electricity market, including improvements to hedge market arrangements to enable participants to better manage price volatility in the spot market and support investment in new generation. Initiative 1A is focused on PPAs as a mechanism to support investment in new generation. The working paper for this initiative will be published on 17 January 2025, with decisions taken in the first half of 2025.
10. The paper does not consider the impact of longer-dated futures as it relates to the PPA market. However, longer-dated futures could be considered complementary to proposals to strengthen the PPA market as it enhances price discovery and in turn supports renewable investment.
11. Initiative 1B is focussed on development of standardised flexibility products. These products are expected to act as insurance for firming of intermittent generation and therefore support investment in new generation. Standardised flexibility products are expected to begin trading in January 2025.

### **The Authority's Market Development Advisory Group (MDAG) considered longer-dated futures in their options paper**

12. MDAG considered that longer-dated futures would help parties facing investment and retirement decisions. However, in their [final recommendations paper](#), they placed the recommendation in Tranche 3 as a contingent recommendation. This reflected that the measure should be undertaken only if previous actions have not been sufficiently effective. MDAG's core concern related to the cost effectiveness of this measure and concluded that recommendations related to flexibility, including consideration of market-making of standardised flexibility products, had a greater priority.

### **The Authority considered longer-dated futures in our wholesale market competition review in 2022-2023**

13. The Authority undertook to recommend changes to market settings to promote competition for the long-term benefit of consumers.
14. The review noted that longer-dated futures could particularly assist investors with credible price signals as well as products to manage long term risk. The issues paper noted that the longer-dated curve would be a public good – and that PPA pricing could be referenced against it. It also noted that there are costs associated with forward trading, and those costs rise with duration. It also recognised that the over-the-counter market did provide for longer-term contracting. The review concludes that the option was a lower priority than other work and should be progressed as resources permit.

### **The ASX determines the contracts on the exchange.**

15. The ASX determines the types of contracts that trade on its exchange. The Authority has no jurisdiction over the ASX but has some ability to influence the contracts it makes available by making rules that can affect trading liquidity. The ASX could be encouraged to make longer term futures contracts available, if confident there would be sufficient trading (liquidity) of those contracts. This confidence may be increased if market-making was deemed to be beneficial for the forward market.

### **Longer-dated futures clearly have merit to support the entry of new generation, but the benefits may not exceed the costs**

16. Longer-dated futures have been considered by a number of reviews in recent years. Longer-dated futures target efficiency (price information for better investment decisions), which could result in increased competition (future generation investment decisions). It is likely to have merit for supporting the entry of generation.
17. However, provision of liquidity (ie, market-making) is necessary for a robust forward price curve and these costs may be substantial. The costs of the initiative need to be assessed against the benefits. This work remains front of mind for the Authority, particularly as it is MDAG's recommendation 28. The Authority will continue to update the Minister on the MDAG work programme on a regular basis.
18. The Task Force initiatives are the Authority's top priority in 2025 and include initiative 1A to improve the PPA market and 1B to develop and trade new standardised flexibility products. These will also support the entry of new generation. The Task Force will be publishing a working paper on initiative 1A in January 2025, with decisions taken in the first half of 2025.

## 7. Deep dive: Improving retail market monitoring decision

1. The Authority will soon publish a final decision on improved retail market monitoring. This decision supports our statutory function to monitor the industry and electricity markets, and make data, information and tools available to improve participation and understanding by consumers and industry participants. We will use our information gathering powers (clause 2.16) to do this.
2. The new information notice will replace several existing mandatory and voluntary information requests, easing some regulatory burden.
3. With mandatory monthly reporting, we will build a comprehensive and reliable set of data that we will use to proactively identify trends and issues; inform policy decisions; and respond to questions as they arise, reducing the need for future one-off requests.

### **We are strengthening our retail market monitoring**

4. The Authority develops insights based on accurate information and quality data. Increased visibility of the retail market will enable the Authority to:
  - identify potential issues
  - make well informed policy interventions as New Zealand transitions to a dynamic, distributed electricity system, and
  - effectively monitor retailer compliance with the law to ensure the most vulnerable are protected.
5. Improving monitoring of the retail electricity market will:
  - empower us to make more effective regulatory interventions to deliver long term consumer benefits
  - effectively monitor the Consumer Care Obligations and key outcomes for small consumers
  - deliver a fundamental change in retail market transparency and accountability, benefiting all parties, including the Authority, retailers and consumers
  - monitor prices and competition in the retail market to assess barriers and promote retail competition, and
  - facilitate innovation and competition by providing data for new ideas and investment decisions.
6. Using this new data, we will be able to publish important metrics and insights that facilitate more meaningful participation by consumers and participants in the policy making process. This will boost consumer choice by improving information available to them and holding retailers to account.
7. The benefits of enhanced retail market oversight and transparency will increase over time as New Zealand electrifies. This is a multi-year project that will ensure informed, data-driven and effective oversight as New Zealand transitions to a dynamic, electrified and distributed electricity system.



## Our final decision has been developed through rigorous engagement and analysis

8. The Authority has completed two formal consultations:
  - [Improving retail market monitoring: clause 2.16 information notice](#)
  - [Improving retail market monitoring: amended information notice and updated analysis](#)
9. Public consultations have attracted interest from retailers, industry participants, consumer advocacy groups and individuals, providing wide-ranging feedback. Most feedback has been positive. However, some retailers expressed concern that the benefits do not justify the costs.
10. **s9(2)(f)(iv)** [Redacted]
11. The Authority has engaged with stakeholders through several sector engagements, including industry participant workshops, to improve the information notice and ensure it supports our aims while also being technically workable and cost effective for the retailers supplying the information.
12. The Authority is mitigating the privacy and information security risks associated with the collection of such a significant volume of granular consumer data. We have engaged with, and sought advice from, the Office of the Privacy Commissioner throughout the process.

### Next steps

13. **s9(2)(f)(iv)** [Redacted]
14. We expect to publish retail market data and insights in the second half of 2025.
15. The Authority continues to work closely with the Ministry of Business, Innovation and Employment on a potential Consumer Data Right (CDR) to ensure relevant aspects of our data collection align.
16. The information notice will be regularly reviewed to ensure it remains cost effective, is not collecting more information than necessary, and accommodates the Authority's ongoing policy work.

## 8. Energy Competition Task Force update

1. The Task Force will release six policy/Code amendment consultation papers for feedback in January and February:

- 17 January 2025: Working paper released for Initiative 1A - Consider requiring gentailers to offer firming for Power Purchase Agreements.
- 12 February 2025: Consultation paper released for Initiative 2A - Requiring distributors to pay a rebate when consumers export electricity at peak times, and a combined consultation paper for 2B - Require all retailers to offer time-of-use pricing and 2C - Require retailers to better reward consumers for supplying power.
- s9(2)(f)(iv)

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## Package One progress update and next steps

Initiative	Progress to-date	Next steps	Implementation
<p><b>1A: Consider requiring gentailers to offer firming for PPAs:</b> Gentailers would be required to offer a minimum volume of flexible electricity in the form of long-duration contracts that could be used to firm (or ‘sleeve’) new generators’ PPAs</p>	<ul style="list-style-type: none"> <li>Working paper on PPA context, headwinds and options to be published on 17 January 2025.</li> </ul>	<ul style="list-style-type: none"> <li>s9(2)(f)(iv)</li> </ul>	Q2, 2025
<p><b>1B: Introduce standardised flexibility products:</b> Developing over-the-counter flexibility products that provide retailers and industrials buying on the wholesale market with protection against high spot prices at specific times</p>	<ul style="list-style-type: none"> <li>Standardised flexibility product (super-peak hedge contract) recommended by co-design group and launched to stakeholders in December 2024.</li> </ul>	<ul style="list-style-type: none"> <li>s9(2)(f)(iv)</li> </ul>	Initial trading begins in January 2025
<p><b>1C: Prepare for virtual disaggregation of the flexible generation base (backstop measure):</b> Designing rules that would require gentailers to offer a share of their flexible generation base to buyers on the wholesale market in the form of risk management contracts</p>	<ul style="list-style-type: none"> <li>s9(2)(f)(iv)</li> </ul>	<ul style="list-style-type: none"> <li>s9(2)(f)(iv)</li> </ul>	Publish outline in February 2025
<p><b>1D: Investigate level playing field measures (backstop measure):</b> Investigating what measures are appropriate, risks and possible triggers</p>	<ul style="list-style-type: none"> <li>s9(2)(f)(iv)</li> </ul>	<ul style="list-style-type: none"> <li>s9(2)(f)(iv)</li> </ul>	Publish options paper in February 2025

## Package Two progress update and next steps

Initiative	Progress to-date	Next steps	Implementation
<p><b>Consumer-focused initiatives:</b></p> <p><b>2A: Cost-reflective distribution export tariffs:</b> Distributors would be required to pay a rebate when consumers export surplus energy back into the system at peak times</p> <p><b>2B: Time-varying retail pricing:</b> Requiring retailers to offer time-of-use pricing plans to shift electricity demand to times when it is cheaper and more abundant</p> <p><b>2C: Time-varying retail feed-in pricing:</b> Better rewards for consumers who export electricity onto the network at peak times</p>	<ul style="list-style-type: none"> <li>Two consultation papers (for initiatives 2A and 2B/C) drafted and considered by the Authority Board in December</li> </ul>	<ul style="list-style-type: none"> <li>Provide both consultation papers to the Minister's office in week of 20 January 2025</li> <li>Release papers for consultation on 12 February 2025</li> </ul>	<p>Decision on Code change in mid-2025</p>
<p><b>2D: Reward industrial consumers for providing short-term demand flexibility:</b> Financial incentives for short-term industrial demand flexibility, identifying gaps in existing arrangements</p>	<ul style="list-style-type: none"> <li>We have engaged with industry, including MEUG and flexibility providers, to better understand their perspectives on what demand response they can offer, and why the wholesale market, ancillary services and bilateral contracts might not be offering the rewards they consider are needed to activate demand response.</li> <li>We are investigating a new last resort scheme that rewards additional demand response scheme, similar to a scheme operating in Australia, as an extra tool for the System Operator.</li> </ul>	<ul style="list-style-type: none"> <li>s9(2)(f)(iv) [REDACTED]</li> </ul>	<p>Decision in mid-2025</p> <p>Implementation to be negotiated with System Operator</p>

s9(2)(f)(iv)