

15 March 2022

Tony Baldwin
Chair
Market Development Advisory Group
By email to MDAG@ea.govt.nz

Dear Tony

Price Discovery under 100% Renewable Electricity Supply – Issues Discussion Paper

1. This is a submission from the Major Electricity Users' Group (MEUG) on the Market Development Advisory Group (MDAG) issues discussion paper "Price Discovery under 100% Renewable Electricity Supply" published 2 February 2022.¹ The consultation package included nine separate experts reports and detailed modelling results to date.
2. Attached and to be read along with this cover letter as part of the submission by MEUG is a report by Mike Hensen, Senior Economist NZIER, dated 10 March 2022.
3. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Members may lodge separate submissions.
4. MEUG welcomed discussing the consultation materials with MDAG, EA and advisors to MDAG. We look forward to considering other party's submissions. Having multiple layers of engagement has worked well. There may be value in an all-of-sector-forum as project milestones are reached. Reading the submissions of others and conclusions reached by MDAG is a poor substitute for MDAG and submitters being accountable for arguments advanced and conclusions reached being subject to questioning from sector peers.
5. Comments on three other broader aspects of the project follow:
 - a) The modelling for this project is impressive as is the summary material to assist understand results and trade-offs. MDAG's work is the part of multiple models across government to assist decision makers. MEUG's preference is for models and assumptions used by decision makers to be public thereby allowing interested parties to test the robustness and sensitivities of the models. Open source rather than proprietary models better facilitate debate and resultant decision making. MEUG recommend MDAG consider how to ensure as much transparency for models relied upon and to ensure a level playing field for other models to be developed.

¹ Document <https://www.ea.govt.nz/assets/dms-assets/29/01-100-Renewable-Electricity-Supply-MDAG-Issues-Discussion-Paper-1341719-v2.4.pdf> at <https://www.ea.govt.nz/development/work-programme/pricing-cost-allocation/100/consultations/#c19134>

- b) MEUG's measure of success for this project is to assist identify barriers to the market organically developing solutions over time. It is not, in our view, the role of MDAG to recommend a preferred design. There is considerable uncertainty now and that will persist beyond this year. Hence it would be premature for MDAG to recommend a preferred design. The identification of issues and developing various analytical techniques is the most valuable output of this project this year. The list and relative priority of issues identified may need continuous updating as the environment changes. For example, contemporary issues may emerge, or priorities change with implementation of the Energy Strategy by MBIE starting second half of the year following over-arching policy decisions in the Emission Reductions Plan announced by end of May.
- c) There is a risk of rent-seeking by incumbent large wholesale and line suppliers in market designs they seek the EA or government to implement. Those oligopolies and monopolies are incentivised to persuade government and regulators to foreclose the organic development of the market by imposing a market design that suits their incumbency. Incumbents are less likely to innovate and do the hard-commercial-yards if lobbying for an interventionist design better suits their business. Given the resource asymmetry between the large incumbents and consumers, it is MDAG and the EA that will need to step up to play devils-advocate and pro-actively test proposals by incumbents. It is important MDAG, and EA are active, and seen to be active, in rebutting rent-seeking proposals by incumbents.

Yours sincerely



Ralph Matthes
Executive Director