

Jarden shine a light on scale of price discrepancy

Scrutiny of the wholesale market continues, and MEUG looks forward with interest as to where the Electricity Authority will go next as part of its ongoing work following the wholesale market review last year. As it stands, many large industrial users no longer have confidence in the market and we need the Authority to act to restore that confidence.

February saw Jarden, an investment and advisory group, reporting they do not understand why futures prices are as high as they are. Jarden, who have no axe to grind and possess sophisticated models of the electricity sector, identified \$52/MWh that is unexplained.

That large positive discrepancy is greater than the unexplained wedge the Electricity Authority identified of \$38/MWh in its wholesale market review.

If average demand for the second quarter of 2022 is around 9 TWh, then the variance Jarden identified has a value of \$468m for that quarter alone. If that level of discrepancy holds for the year, then those buying electricity in the wholesale market are paying almost \$1.9 billion for no discernible reason.

This issue has to date and will continue to undermine consumer decisions to electrify and must inevitably be reflected in retail prices to households. It certainly impacts investment and employment decisions among large users throughout provincial New Zealand.

Evidence that undermines confidence in the wholesale market continues to mount

The Jarden analysis is just the latest in a long list, which point to enduring issues with market rents.

- The Commerce Commission's 2009 wholesale market review (Wolak) found market power was exercised and around \$4.3 billion in excess rents over 2001 to 2007.
- Modelling by Browne et. al. (2011) using an alternative simulation model to Wolak, estimated total market rents for 2006 to 2008 to be \$2.6 billion.
- Poletti (2016) identified market power rents of around \$5.4 billion from 2010 to 2016
- The Electricity Authority upheld a claim of an Undesirable Trading Situation (UTS) due to unusual spilling activities and high price offers in December 2019 by Meridian Energy and Contact Energy. The test for upholding a UTS claim is the event threatens, or may threaten confidence in, or the integrity of, the market.
- Ireland, Wallace & Associates Economic Profit Analysis found Meridian Energy earned around \$2 billion in excess economic profit from 2016 to 2021.

- The Electricity Authority’s 2021 wholesale market review identified economic withholding and price discrepancy of around \$38/MWh from 2018 to 2021, with an average value of over \$1 billion p.a.
- In February 2022, Jarden identifies around \$1.9 billion p.a. in unexplained pricing.

This body of analysis will continue to hang over the wholesale market until there is a rigorous examination of the issue of market power and excess rents, using independent analysis from someone other than those involved in creating the current market.

Key dates

| What’s on | Who | When | Notes for members |
|--|----------------------------|--------------------|---|
| Submission: Settlement Residual Allocation Methodology (SRAM) | Electricity Authority (EA) | 1 March | Allocation of Loss and Constraint Excess rentals have not been reviewed for many years. With a possible change to TPM, this is a timely view by the EA of early thinking on SRAM options. |
| Submissions: Regulated gas lines proposed DPP3 and related IM changes | Commerce Commission | 7, 10 and 25 March | Multiple workstreams and submissions on Default Price-Quality Path (DPP3) and Input Methodology (IM). Precedents set may be relevant to future regulated electricity lines DPP and IM. |
| Submission: Annual Security Assessment | System Operator | 8 March | Consultation on assumptions and scenarios for the 10-year ASA forecast. |
| Events: Annual breakfast with the Minister | BusinessNZ Energy Council | 10 March | Often a vehicle for the Minister to announce priorities for the forthcoming year. This year on-line. |
| Submission: Price discovery with 100% renewables | MDAG (an EA working group) | 16 March | Paper to uncover issues by the Market Development Advisory Group (MDAG) in thinking about transition issues. |
| MEUG monthly meeting | MEUG | 16 March | Guests invited to date include EA reps. |
| Submission: Commercial market making (MM) Code amendments | EA | 29 March | Well designed and implemented continuous improvement of the futures and options market (and MM is part of that) will help competition and choice. |
| Conference: Downstream 2020 | Conferenz | 29-30 March | The premia annual energy sector conference. This year on-line. |