

Wholesale electricity market review worsens crisis of confidence

The high prices businesses exposed to the wholesale market have had to pay over the last three years has undermined confidence in the wholesale market. That has directly impacted production, capital expenditure, hiring, and jobs. Restoring confidence in the market is essential. Unfortunately, the Electricity Authority's recently released wholesale market review not only fails to restore confidence, but undermines confidence in the Authority itself.

Industrial consumers exposed to the wholesale market were looking for a review that provided clarity on the causes or drivers of the high wholesale prices over the last three-plus years, and recommendations or proposals on how to address those causes or drivers.

The review itself finds the prices large employers have had to pay over the last three years cannot be adequately explained by the cost of generating that electricity, gas shortages, hydro lake levels and rising carbon costs.

The Electricity Authority also found evidence wholesale prices may not have been determined in a competitive environment, and that generators have an increased incentive and ability to exercise market power – and may have been doing so over the review period.

Yet the issues paper doesn't shed light on what has been driving those wholesale prices, or on whether or not the market is undermined by market power.

Similarly, forward projections of wholesale prices suggest those prices will decline as new generation comes online. Here the Authority tells us *"The total quantity of definitely committed investment projects is not enough to replace existing thermal generation."* Yet no light is shed on why committed investment is so low nor does it quantify impacts – especially important for New Zealand in reaching our emissions reduction ambitions.

Instead, the issues paper places almost sole focus on the contract entered between Meridian Energy and the New Zealand Aluminium Smelter earlier this year – despite the fact that the issues which triggered the review have been affecting the wholesale market for years before this contract was even signed.

Right now, the focus feels lost. There is a real risk of becoming distracted by the wrong priority, one which fails to address market fundamentals.

MEUG was looking to the Authority to analyse and explain what has been behind the poor outcomes the wholesale market has been delivering in recent years. Once we had clarity on why the outcomes were happening, then we could expect action to remedy them – that was the pathway to restoring confidence in the market. Instead, no pathway is discernible.

Key dates

What's on	Who	When	Notes for members
Submission: Supporting reform to efficient distribution pricing	Electricity Authority (EA)	3 November	Detailed proposed changes to Distribution Pricing Practice Note, and how to implement for EDB. Not a consultation on change to policy; rather to facilitate the voluntary approach for what is not a one-size-fits-all starting point and journey for EDB. MEUG not submitting but supports EA's pro-active approach to bridge policy making and implementation.
Submission: Electricity Industry Amendment Bill	Economic Development, Science and Innovation Committee	17 November	Mainly non-controversial. Some proposed changes we will lend our support for to reinforce their value to the Select Committee.
Submission: Draft compliance strategy	EA	23 November	Important and at first read is OK. How to implement is the challenge.
Submission: Emissions reduction plan	Ministry for the Environment (MfE)	24 November	Not so much a plan that's being consulted on; rather a list of policies, some already consulted on, that may or may not go into a plan. Ideally, MfE should as a next step consult on a draft plan with the rationale for why some policies adopted and others not, and how those proposed for implementing meld (or not) into a cohesive plan.
MEUG monthly meeting	MEUG	24 November	EECA CEO Andrew Caseley attending to discuss EECA levy funded proposal for 2022-23.
Submission: Proposed supplementary appropriations for this year and draft budget for next year	EA	30 November	Part of routine annual consultation ahead of next financial year budget. Unusually also asking for additional budget for the current 2021-22 year.