

5 November 2024

Submissions
Electricity Authority
Level 7, AON Centre
1 Willis Street
Wellington 6011

Via email: taskforce@ea.govt.nz

SUBMISSION: REQUEST FOR INPUT ON “LEVEL PLAYING FIELD MEASURES”

The Electricity Retailers' Association of New Zealand ('ERANZ') welcomes the opportunity to contribute to the Electricity Authority's request for input on level playing field measures, ahead of an expected formal consultation in February 2025.

ERANZ is the industry association representing companies that sell electricity to Kiwi households and businesses. Collectively, our members supply almost 90 per cent of New Zealand's electricity. We work for a competitive, fair, and sustainable electricity market that benefits consumers.

Comments

While it is difficult to comment substantively before the full options paper is released by the Electricity Authority (the Authority) in February 2025, ERANZ has some initial contributions to inform the paper's development.

Need for clear problem definition

The Authority has asked for stakeholder input to support “level playing field” measures, but it has not defined the problem it seeks to solve with this information. Without clarity on the specific matters that are of concern to the Authority, it is difficult for stakeholders to provide meaningful feedback.

ERANZ is also concerned that starting with the measures needed without first clearly defining the problem may cause the Task Force's Initiative 1D to become a solution looking for a problem, with the potential for unintended negative effects on the electricity sector.

When the Authority comes back to stakeholders in February 2025 with an options paper, ERANZ requests that they present clearly defined problems they wish to rectify, evidence that existing regulatory tools are inadequate to solve the problems, and evidence of the impact these problems are having on market participants and

consumers. Only then will stakeholders be able to make fair and meaningful contributions to the Authority's consultation.

Need to define "level playing field" objective

The Authority has asked for stakeholder feedback on "level playing field" measures, but it has not articulated what the objective of a "level playing field" actually looks like.

The term "level playing field" can take on a range of different meanings within the context of economic regulation in New Zealand. Without understanding the Authority's objective, it is difficult for stakeholders to provide meaningful feedback on possible measures to achieve it.

General comments on existing levels of regulation and vertical integration

ERANZ believes that the current level of regulation already provides equality of opportunity for electricity retailers to operate within – both for vertically integrated gentailers and independent retailers.

The electricity market is not one-size-fits-all and not all retailers will see benefit in also becoming generators. In fact, many that independent retailers often prefer to remain vertically separated because, in many cases, this allows them greater freedom to operate their business as they wish.

Over the history of the wholesale market, whether retail or generation players are financially better off has swung back and forth. There have been long periods when the electricity retail market was more profitable than its generation counterpart. This is a result of the cyclical nature of the electricity market, not a sign of a particular failure.

Vertical integration of gentailers also brings significant benefits for consumers. Research from Dr Richard Meade¹, commissioned by ERANZ, explains how vertical integration improves the security of supply, eliminates double marginalisation (where both the generator and retailer 'clip the ticket', leading to increased cost to consumers), and allows the electricity market to better manage supply and demand, leading to less volatile spot prices.

Dr Meade's research also indicates that vertically integration offers advantages for investment security, suggesting that gentailers have a greater ability to finance new renewable energy generation projects. This in turn has the potential to lead to faster decarbonisation of the energy sector.

Empirical evidence from an October 2024 Concept Consulting report commissioned by ERANZ supports this research. The report found that approximately 1,400 MW of net

¹ Meade, R., 2021, "Review of the Economics Literature on the Pros and Cons of Vertical Integration and Vertical Separation in Electricity Sectors".

new capacity has been added to New Zealand's generation infrastructure over the last 25 years, with total renewable capacity increasing by approximately 2,900 MW. Much of this new investment came from gentailers, highlighting their pivotal role in enabling cost-effective renewable energy for New Zealand.

Critics of the existing system often point to the split of Telecom's fixed-line infrastructure and service retailer functions as a model that should be replicated in the context of the electricity sector. While this model served the telecommunications industry well, it is irrelevant to the electricity sector.

Telecom was an infrastructure owner and a service provider, using its infrastructure ownership to shape competition with other service providers. Gentailers on the other hand do not own any transmission or distribution infrastructure. In fact, all such infrastructure is already highly regulated by the Commerce Commission.

Additionally, the government at the time encouraged the voluntary split of Telecom by creating a massive financial incentive for them to separate and through funding the UFB programme to the tune of \$1.5 billion. No such government funding plans are in place for the electricity sector.

Conclusion

ERANZ looks forward to participating in the full consultation on the level playing field measures option paper in February 2025.

In the meantime, we hope this feedback provides useful context to the Authority as it prepares its options paper.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'K. Clark', with a long horizontal flourish extending to the right.

Kenny Clark
Policy Consultant