

Media Release: Changes urged to drive competition

Published: Wednesday, 21 Dec 2022

Changes urged to drive competition and better protect small electricity consumers

Small electricity retailers struggling to compete with large gentailers

Analysis commissioned by the Consumer Advocacy Council shows the big gentailers are using their competitive advantage at the expense of small electricity retailers and consumers are worse off as a result.

The Council has released its submissions into two consultations by the Electricity Authority - on promoting competition in the wholesale market as New Zealand transitions to 100% renewable electricity and on avoiding supply and price shocks next winter.

The Council is the only entity that submitted to the Electricity Authority, on either consultation, on behalf of all New Zealand residential and small business consumers.

“There are great challenges ahead, both short term in avoiding power cuts and price spikes next winter and, in the long term, to ensure we achieve the Government’s target of 100% renewable electricity generation by 2030,” said Council Chair Deborah Hart.

“The Council’s priority is to ensure New Zealand can meet those challenges without sacrificing the interests of small consumers.

“Right now with the way the wholesale market operates, consumers are very vulnerable. Electricity is an essential service which most consumers can’t just switch off when prices rise without affecting their health and wellbeing and many cannot afford increasing costs, particularly as inflation bites.

“The market is not working in a way that best protects their interests. Large generators are making windfall profits from price spikes and high forward prices and consumers are paying the price for that. It’s not fair.

“We’re very concerned at the market power that can be exerted by the large gentailers. Analysis by NZIER, which has informed our submissions, shows they have ‘significant competitive advantage over other competitors.’

“It’s a worrying fact that 14 retailers have left the market since 2018 and that the market share of small and medium retailers has fallen. That just reduces competition and we know competition benefits consumers.

“By being vertically integrated - that is by having generation and retail arms - the gentailers are better able to weather price spikes at the expense of smaller competitors while making large profits. Small retailers can’t protect themselves against higher spot prices like gentailers.

“As NZIER states, ‘gentailers are incentivised to make short-term profits and pay excessive dividends to shareholders rather than making long term investment in new renewable generation. Ultimately, this comes at the cost of higher electricity bills for consumers, especially households and small business consumers.’

“Of immediate concern is how to avoid shortages next winter - consumers should not unfairly bear the burden of failures in the wholesale market to ensure generation supply is coordinated efficiently to avoid price spikes.

“As the Electricity Authority now has a new mandate to protect the interests of residential and small business consumers, it needs to ensure prices are fair and that costs are shared equitably and not loaded on to consumers, while gentailers pay out large dividends to their shareholders. In our view, the interests of 5 million residential consumers and half a million small businesses should be paramount.

“Changes are clearly needed if we are to meet New Zealand’s electricity challenges. We look forward to discussing our views with the Authority and continuing to give voice to what residential and small business consumers need - reliable, affordable and sustainable electricity.”