

16 December 2022

Electricity Authority

Email: WholesaleConsultation@ea.govt.nz

To whom it may concern,

Re: Driving efficient solutions to promote consumer interests through winter 2023

1. Executive Summary

1.1. The Consumer Advocacy Council (the Council) submits:

- a. longer consultation periods are needed to ensure meaningful participation in the Authority's processes from consumers and smaller organisations.
- b. options for winter 2023 should be assessed using these principles:
 - Fairness to residential and small business consumers - electricity is an essential service and reliability of supply in winter is crucial due to high dependence on electricity, particularly for heating for households.
 - Small consumers should not bear the brunt of winter shortages: the electricity industry should have been better prepared for winter demand. Therefore, small consumers should not be expected to shoulder the consequences of the operational coordination problems evident in the current management of supply.
 - Consumers should not be unfairly required to pay for the costs of market failure while generators are making large windfall profits. Instead, windfall profits of generators should be utilised to help get consumers through winter.
- c. The Council supports options A, B, D and E, and strongly supports option H for further investigation. It also supports investigation of option K.
- d. Whichever solutions are implemented, consumers should not be left to absorb additional costs.

2. Introduction

- 2.1. Thank you for the opportunity to make a submission on this paper. This submission is from the Consumer Advocacy Council (the Council), the independent advocate for residential and small business electricity consumers (consumers) in Aotearoa New Zealand.
- 2.2. We envision a future where consumers get a fair deal, are better informed, and have their voice included in decisions that impact them. This is all within the context of an electricity market that is sustainable, secure, and provides affordable electricity.

- 2.3. As New Zealand's demand for electricity grows, there is more urgency to make sufficient and sustainable changes to mitigate risks of shortages whilst balancing supply and demand, especially during winter periods of high demand. Pressures on the system can grow in winter as demand peaks, and supply from hydro generation and other renewable sources can be restricted, forcing a reliance on expensive thermal power.
- 2.4. Effective operational coordination is essential to manage the risks of winter power shortages. The system must work effectively with the right incentives and information for participants so we can avoid price spikes, rolling outages or blackouts that will adversely affect consumers.

3. Comment on consultation timeframe

- 3.1. We wish to raise our concern regarding the short consultation period for this submission. A three-week period for submissions, particularly before Christmas and at a time when the Authority has called for submissions on a separate issues paper, is difficult, particularly for smaller organisations to adequately respond and participate in the decision-making process.
- 3.2. The Council is one of the few entities that is in a position to speak for residential and small business consumers. With the Authority's mandate, particularly its expanded role, it is crucial that this perspective is heard.
- 3.3. Whilst we understand the urgency of winter energy issues and appreciate the early advice of the issues from the Authority, consumer interests cannot be fully explored and advised in such a tight timeframe.
- 3.4. This submission is constrained by the limited timeframe provided, but we would value the opportunity to be involved further.
- 3.5. This submission should be read in conjunction with the Consumer Advocacy Council submission on the wholesale market "*Promoting competition in the Wholesale Electricity Market in the transition towards 100% renewable electricity*".

Recommendation:

The Council recommends longer consultation periods are needed to ensure meaningful participation from consumers and smaller organisations.

4. Wholesale Market

- 4.1. The Council acknowledges the Authority's effort to address the discreet issues that arise in the winter period. However, there are underlying issues that need to be addressed for the market as a whole.
- 4.2. The Council encourages the Authority to re-evaluate the wholesale market and make the necessary changes to not only address the potential problems going into winter 2023, but to also address problems with the transition to 100 percent renewable generation by 2030.
- 4.3. We again draw your attention to our submission on the wholesale market.

5. Principles

- 5.1. Increased consumption due to decarbonisation, greater intermittency as renewable generation increases, and higher thermal generation costs, are issues that could have been readily predicted. The failure of the electricity market to deliver reliable electricity in winter 2023 is further evidence that the current wholesale electricity market is not delivering the benefits it should.
- 5.2. Consumers have a reasonable expectation that the supply of a service, critical to healthy living and the country's GDP, should have been managed to avoid the risk of shortages at the coldest time of year.
- 5.3. Residential and small business consumers should be central to the solutions; they should not need to pay for the costs of market failure while generators are making large windfall profits.
- 5.4. We suggest that the interests of domestic and small business consumers must be central to any decisions about changes made to address problems with the winter supply.
- 5.5. There needs to be a principled approach towards addressing the winter 2023 issues. These principles should include:
 - Fairness to residential and small business consumers - electricity is an essential service and reliability of supply in winter is crucial due to high dependence on electricity, particularly for heating for households.
 - Small consumers should not bear the brunt of winter shortages: the electricity industry should have been better prepared for winter demand. Therefore, small consumers should not be expected to shoulder the consequences of the operational coordination problems evident in the current management of supply.
 - Consumers should not be unfairly required to pay for the costs of market failure while generators are making large windfall profits. Instead, windfall profits of generators should be utilised to help get consumers through winter.

Recommendation:

The Council recommends options for winter 2023 should be assessed using these principles:

- Fairness to residential and small business consumers - electricity is an essential service and reliability of supply in winter is crucial due to high dependence on electricity, particularly for heating for households.
- Small consumers should not bear the brunt of winter shortages: the electricity industry should have been better prepared for winter demand. Therefore, small consumers should not be expected to shoulder the consequences of the operational coordination problems evident in the current management of supply.
- Consumers should not be unfairly required to pay for the costs of market failure while generators are making large windfall profits. Instead, windfall profits of generators should be utilised to help get consumers through winter.

6. Proposed options

The Council supports these options:

- 6.1. The Council believes options A-E are potentially useful for keeping parties well-informed to make better assessments of necessary generation. We support the proposal for the mid-2023 implementation of options A, B, D, and E.
- 6.2. However, these options are only supplementary in nature, and we do not consider that they will be sufficient to effect real change without further information. These options should not add any extra costs for consumers or allow the industry to ignore the more significant changes that need to be made.
- 6.3. The Council strongly supports option H due to its potential to incentivise behaviour changes by gen-tailers. However, we believe that this option could only be a partial interim solution. We question how independent retailers, who may not be fully hedged-should be responsible to generators. Further investigation is required into how a compensation scheme would work in practice without reducing retail competition in the electricity market.
- 6.4. The Council also supports further investigation of option K and notes that it could be used in conjunction with option E. However, again consumers should not be left to absorb the costs of any additional resource procurement outside the spot market.

Recommendation:

The Council supports options A, B, D and E, and strongly supports option H with further investigation. It also supports investigation of option K.

Whichever solutions are implemented, consumers should not be left to absorb additional costs.

The Council is opposed to these options:

- 6.5. The Council opposes option I. The proposal appears to be based on reducing supply to consumers. As discussed above, consumers are heavily reliant on electricity, especially during the winter period. They have very little ability to sacrifice electricity without ramifications for their health and wellbeing.
- 6.6. The Council also opposes option J. Initiating an hours-ahead market adds unnecessary complexity to the market and could be detrimental to parties that cannot readily predict their output or demands to insulate themselves from volatile balancing prices.

The Council suggests more information is required on these options:

- 6.7. The Council suggests a robust analysis is required of options F and G and their potential costs for consumers before any decision is made on their implementation. These may be viable options, provided they are carefully designed and implemented to avoid adverse effects on consumers.

7. Conclusion

- 7.1. We wish to thank the Authority for the opportunity to submit on the ‘Driving efficient solutions to promote consumer interests through winter 2023.’
- 7.2. If you have any further queries regarding our submission do not hesitate to contact Jane Budge –Consumer Advocacy Council Lead, on either jane.budge@cac.org.nz or (021) 393-112.

Yours sincerely,



Deborah Hart

Chair – Consumer Advocacy Council