

# Terms of reference for a review of electricity market performance

## Purpose

1. The Minister for Energy and Minister for Resources have initiated a review of the performance of electricity markets.
2. The review is to advise on the impact of market structure, market design, and market rules (as set out in the Electricity Industry Participation Code 2010) on electricity market performance, and on options to improve market performance in terms of the Government's objectives.

## Performance objectives of markets

3. The Government Policy Statement on Electricity sets out the Government's policy objectives for electricity markets.
4. The Government expects electricity markets, comprising wholesale spot market, the markets for reserves, frequency keeping, black start and voltage support, the futures and forward markets, and the retail markets for households, commercial enterprises and industrials, to deliver reliable electricity at lowest possible cost to consumers, including for businesses that compete globally.
5. Secure and affordable electricity supply requires markets that:
  - a. incentivise timely investment in infrastructure and resources to reliably meet current and future demand (by existing market participants and prospective new entrants)
  - b. achieve efficient outcomes: considering productive, allocative and dynamic efficiency
  - c. are effectively competitive at wholesale and retail levels, ensuring entry is feasible and placing downward pressure on prices, so export businesses are globally competitive
  - d. have effective regulation in markets where competition is not possible, and
  - e. are regulated in a predictable and proportionate way, enabling participants and consumers to plan, invest and trade with confidence.

## Approach, and scope of matters to be addressed

6. The review should identify and explore improvements to current market arrangements, including any alternative market models or market designs which would support the performance objectives of markets. The review should also consider and advise on the implementation of recommended measures and any alternative models to improve market performance.

## Particular matters to be addressed

7. The review is to consider all matters that could affect electricity market performance in terms of the objectives above. Particular matters to be addressed are set out in the questions below.

<b>Investment and access to capital</b>	Q 1. How does business ownership, structure or design of markets affect incentives or opportunities to invest in generation, storage, transmission and distribution?
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<b>Hedging</b>	<p>Q 2. Since 2017, how have developments in the gas market and government policies including the offshore oil and gas exploration ban affected the availability of hedge contracts?</p> <p>Q 3. Can an expectation that major electricity users are sufficiently hedged for dry years encourage greater investment in generation?</p>
<b>Market rules and competition</b>	<p>Q 4. What is the impact of market design and market rules on competition, market entry and expansion?</p>
<b>Managing risk</b>	<p>Q 5. Do market participants have access to sufficient information (including gas and other fuel supply chain information) and risk management products to effectively manage risks?</p>
<b>Market institutions</b>	<p>Q 6. Do the regulator and system operator have the right roles and responsibilities to promote security of supply and affordable prices?</p>
<b>Market performance monitoring</b>	<p>Q 7. How does our market monitoring and compliance enforcement system (roles and approach) compare with international best practice?</p>

## Process and timeframe

8. The Review must:
  - a. Assess electricity market performance against objectives in the Government's Policy Statement on Electricity, with particular attention to the questions set out above.
  - b. Review and comment on relevant recent reports and current regulatory developments, including: the December 2023 report by the Market Development Advisory Group (MDAG) on pricing in a renewables-based electricity system, and investigations and actions being progressed by the Energy Competition Task Force, and more generally by the Electricity Authority.
  - c. Draw on other evidence and insights from public resources, supplemented where necessary by targeted information gathered from officials, regulatory agencies and sector stakeholders.
  - d. Draw on international electricity market experience, while considering distinctive aspects of the New Zealand system including the absence of generation or retail subsidies and the operational independence of the sector, and identify relevant lessons for New Zealand.
  - e. Identify key market performance issues and make recommendations on the 'top ten' priority actions in terms of urgency and impact for improvements to New Zealand's current design of markets.
9. The review is not expected to consult the public or stakeholders on its findings or recommendations but may test preliminary views with target stakeholders and must provide MBIE and Ministers an opportunity to comment on a draft report. The review should engage with regulatory agencies on any draft recommendations for them to implement.
10. The draft report is to be delivered within 2 months of the reviewer's engagement, and the final report delivered within 4 months of engagement.
11. Upon request by the Minister, the reviewer must agree to present to, and discuss their draft report with two independent peer reviewers. Peer reviews will be available to the Minister before the report is finalised.