



## EVENT BRIEFING

### Meeting with Lead Reviewer for Government's Review of Electricity Market Performance

<b>Date:</b>	24 January 2025	<b>Priority:</b>	Medium
<b>Security classification:</b>	Sensitive	<b>Tracking number:</b>	BRIEFING-REQ-0008167

Action sought		
	Action sought	Deadline
Hon Simon Watts <b>Minister for Energy</b>	<b>Note</b> the contents of this briefing, to support your meeting with Frontier Economics on 28 January 2025 at 3:30pm.	28 January 2025
Hon Shane Jones <b>Minister for Resources</b>		28 January 2025

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
Justine Cannon	General Manager, Energy Markets	Privacy of natural persons	✓
Rachel Wilson	Senior Policy Advisor, Electricity Markets Policy		

The following departments/agencies have been consulted

Minister's office to complete:

☐ Approved

☐ Declined

☐ Noted

☐ Needs change

☐ Seen

☐ Overtaken by Events

☐ See Minister's Notes

☐ Withdrawn

Comments



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### Purpose

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To provide background information and suggested topics for discussion for your meeting with Frontier Economics on 28 January 2025 at 3:30pm. Frontier are based in Australia and will meet with you online.

You also have a short pre-meeting with Officials at 1:00pm on 28 January 2025 in preparation for your meeting with Frontier.

### Recommendations

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The Ministry of Business, Innovation and Employment (MBIE) recommends that you:

- a **Note** the contents of this briefing, to support your meeting with Frontier Economics, Lead Reviewer engaged to undertake the Review of electricity market performance.

*Noted*

Justine Cannon

**General Manager, Energy Markets**

Building, Resources, and Markets, MBIE

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Hon Simon Watts

**Minister for Energy**

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Hon Shane Jones

**Minister for Resources**

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## Meeting purpose and logistics

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<b>Date:</b>	28 January 2025	<b>Time:</b>	3:30pm
<b>Location:</b>	Online		
<b>Attendees:</b>	Danny Price, Project Director, Frontier Economics Scott Stacey, Project Manager, Frontier Economics Attendee biographies are included at <b>Annex One</b> .		

1. Frontier Economics (Frontier) has been engaged as Lead Reviewer for the Government review of electricity market performance (the Review). Frontier was selected following an open and competitive procurement process.
2. This meeting provides an opportunity for you to brief Frontier on aspects of the Review including why it was initiated, your expectations, and any specific areas of focus or concern.

### About Frontier Economics

3. Frontier is an internationally respected energy market specialist, founded in Australia in 1999. It has broad experience to draw on and is also familiar with the New Zealand electricity market.
4. For this Review, Frontier has assembled an international consortium of experts including Frontier's Australian and European branches, and London Economics International.
5. Information on Frontier's proposed approach to the Review is included later in this briefing.

## Review of Electricity Market Performance

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### Background

6. Following Cabinet decisions, the Minister for Energy and the Minister for Resources have initiated a review of the performance of electricity markets (Review) to ensure they are fit-for-purpose [ECO-24-MIN-0245 refers]. Ministers announced the Review on 15 November 2024, publishing the Terms of Reference (ToR) and signalling that the Review was expected to get under way early in the new year. The complete ToR are attached for ease of reference (Annex Three).
7. 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. The review will look at whether current regulations and market design support economic growth and access to reliable and affordable electricity.

8. Further background information on this Review has been prepared for the incoming Minister for Energy and is included as Annex Five.

*Independent experts form the Review team*

9. Drawing on Cabinet decisions, MBIE prescribed three specialist roles for the independent experts who will undertake the Review [BRIEFING-REQ-0006941 refers]. The Lead Reviewer (Frontier Economics) will be supported by:
- a New Zealand Expert to support the Lead Reviewer and ensure the Lead Reviewer has good understanding of relevant New Zealand-specific matters.
  - two Peer Reviewers to provide an added layer of quality assurance and accuracy to ensure the review reports are robust, reliable and as useful as possible.
10. We provided Ministers with an update on the procurement of the three specialist roles for the Review on 18 December 2024 [BRIEFING-REQ-0007460 refers]. Since then, we have been in contract negotiations with each of the providers, and we expect that all contracts will be executed before the week commencing 27 January 2025. Until the contracts are executed and the providers announced, the identities of those appointed remains strictly confidential.
11. The Review is part of a package of work the Government has underway to improve energy security and keep electricity prices down for New Zealand households and businesses.

**Context for the Review**

12. Winter 2024 saw some very high wholesale spot prices as the market responded to a genuine energy shortage – driven by low gas production and exacerbated by low hydro and wind generation. The high wholesale spot prices resulted in reductions in industrial activity (demand response) and, in some cases, industrial closures where energy prices were a contributing factor. Such high prices are not sustainable, especially for industries that rely on affordable energy to compete globally.
13. This brought into focus the need for regulatory settings and institutional arrangements to be as effective as possible so that the electricity system operates efficiently and effectively for the long-term benefit of consumers. The market has delivered well for consumers in the past, but recent events and trends suggest it is timely to undertake a review and look for opportunities to ensure we have the optimal settings to deliver secure electricity at internationally competitive prices.
14. Recent years have also highlighted the challenge of keeping the lights on at times of peak demand or system stress due to plant outages and variable output from intermittent generation. While these challenges may be transitional, as the electricity system becomes more renewable, we want assurance that the regulatory system is helping rather than hindering an orderly transition.

**Free and frank opinions**

## Summary of the Terms of Reference for the Review

### *Purpose*

15. 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.

### *Approach, and scope of matters to be addressed*

16. 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 the market. The review should also consider and advise on the implementation of recommended measures and any alternative models to improve market performance.
17. One of the requirements is to make recommendations on the 'top ten' priority actions in terms of urgency and impact for improvements to New Zealand's current design of markets.

### *Particular matters to be addressed - seven questions*

18. The review is to consider all matters that could affect electricity market performance in terms of the objectives above. These are set out in the seven questions below.

Investment and access to capital	Q 1. How does business ownership, structure or design of markets affect incentives or opportunities to invest in generation, storage, transmission and distribution?
Hedging	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?  Q 3. Can an expectation that major electricity users are sufficiently hedged for dry years encourage greater investment in generation?
Market rules and competition	Q 4. What is the impact of market design and market rules on competition, market entry and expansion?
Managing risk	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?
Market institutions	Q 6. Do the regulator and system operator have the right roles and responsibilities to promote security of supply and affordable prices?
Market performance monitoring	Q 7. How does our market monitoring and compliance enforcement system (roles and approach) compare with international best practice?

19. The full ToR are included as Annex Two.

# Free and frank opinions

## Frontier Economics – Lead Reviewer

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### Lead Reviewer role

20. The Lead Reviewer's role is to undertake the review of the performance of New Zealand electricity markets. They must be able to demonstrate they have independent perspectives and knowledge of electricity market systems and are able to apply their thinking in a manner that is relevant to the New Zealand electricity market system. They must be able to offer fresh perspectives and insights from outside New Zealand.
21. They are required to address the seven questions specified in the ToR, and in the manner prescribed (refer Annex Two).
22. They must provide a draft written report within two months of the contract commencing, and the final report within four months of commencement. More detail on the Review stages and timing is set out later in the briefing.

### Frontier's proposed approach as Lead Reviewer

23. Frontier's RFP response demonstrated an excellent understanding of the nature of the New Zealand electricity market and the areas in which investigation is most needed. Frontier also set out a useful and sensible description of the way in which they would go about their work

Commercial Information

Commercial Information



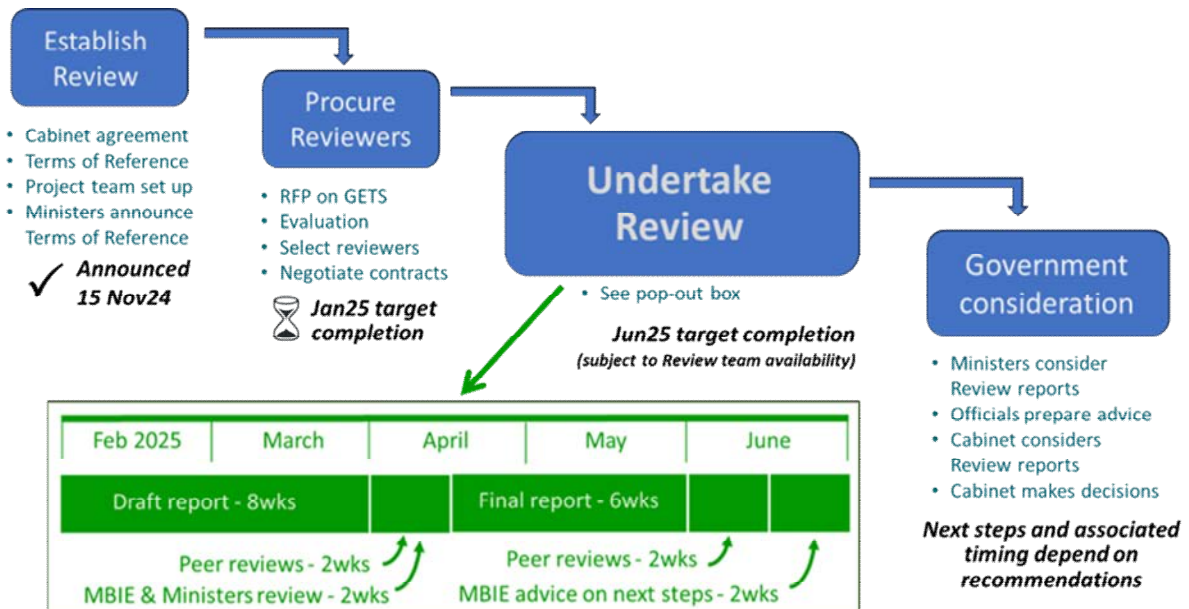
Free and frank opinions



## Timetable and key milestones

24. The RFP specifies the key milestones and target timelines for each of the three specialist roles, consistent with Cabinet decisions and the ToR. Frontier's proposal aligns with this. These are shown in Figure 1 below.

**Figure 1: Overview of the Review process and target timelines**



# Free and frank opinions

## Work relevant to the Review

### *Government Policy Statement (GPS) on electricity*

25. The Minister for Energy issued a Government Policy Statement on electricity (GPS) on 11 October 2024. This sets out the Government's priorities to deliver abundant and affordable energy at internationally competitive prices. Section 17 of the *Electricity Industry Act 2010* provides that the Electricity Authority (EA) is required to "have regard to" this statement of government policy. The GPS is included as Annex Three.
26. The GPS signals to the EA this Government's view on the role it must play to ensure electricity market settings promote competition, innovation, and security of supply as the economy electrifies. The GPS also aims to also provide certainty to the sector on the role of government, to support a stable investment environment for renewable energy, and drive affordability through security of supply.

# Free and frank opinions



### *Energy Competition Task Force*

27. The EA and the Commerce Commission have established an Energy Competition Task Force with MBIE as an observer. The Task Force has two workstreams. Of these, 'Package 1' is most relevant to the Review and information on this is included as Annex Four.
28. The Review ToR require the Lead Reviewer to review and comment on current regulatory developments, including in particular investigations and actions being progressed by the Task Force, and more generally by the EA.
29. Frontier queried the difference between the work of the Task Force and the Review. Free and frank  
Free and frank opinions

## Free and frank opinions

### **Risks and mitigations**

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30. The time assigned to the Review team to prepare a draft report is short and leaves little scope for additional questions or to expand the matters to be investigated.

### **Annexes**

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Annex One: Attendee biographies



Annex Two: Terms of Reference for the Review

Annex Three: Government Policy Statement on Electricity

Annex Four: Energy Competition Taskforce Overview

Annex Five: Review of Electricity Market Performance – further detail

## Annex One: Attendee biographies

	<p><b>Danny Price, Project Director, Frontier Economics</b></p> <p>Danny Price is the cofounder and Managing Director of Frontier Economics Pty Ltd. Danny has 30 years of experience in advising governments, regulators and private firms on energy market design, energy reform and implementation, regulation, power trading and hedging, and asset sales and acquisitions. He has advised energy related clients in Australia and other countries.</p> <p>Danny has detailed knowledge of the design and operation of energy markets, built up over 30 years of consulting to the energy industry in Australia and internationally; a unique combination of detailed analytical skills with an understanding of the constraints imposed by the broader commercial, regulatory and policy environment in which clients operate; and an ability to provide frank and independent advice to clients.</p> <p>Danny has worked closely with the NSW, South Australian, Queensland, Western Australia and Tasmanian Governments designing and implementing their electricity reforms, the Australian Energy Market Commission (AEMC), the Australian Competition and Consumer Commission (ACCC), the Australian Energy Regulator (AER), and most State regulators. He has advised most major electricity and gas businesses in Australia on commercial, regulatory and competition matters, and many multi-national energy companies.</p> <p>Prior to founding Frontier Economics in 1999, Danny was Managing Director of London Economics. Prior to being a consultant, Danny was a Principal Economist at the NSW Electricity Commission. In this role he was heavily involved in the design of the Australian National Electricity Market rules.</p>
	<p><b>Scott Stacey, Project Manager, Frontier Economics</b></p> <p>Scott brings over 20 years of expertise in analysing economic and regulatory issues in the utilities and infrastructure sectors. Scott specialises in regulatory design, competition analysis in infrastructure markets, and energy sector analysis.</p> <p>Scott has been involved in many of the key regulatory policy debates that have taken place in Australia over recent years. In particular, those that have focused on regulatory design in the electricity sector. He had a lead role in the development of the rules for the economic regulation of transmission networks and was involved in formulating the corresponding rules for distribution businesses.</p> <p>Recently he has been involved two matters focused on generator market power. One of these in the National Electricity Market's energy-only market, the other in the Western Australian capacity market. He has also recently undertaken several engagements for Australian regulators on the future of hedge contracting for electricity generators and retailers.</p>

**Annex Two: Terms of Reference for the Review**

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**Annex Three: Government Policy Statement on Electricity**

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## Annex Four: Energy Competition Taskforce Overview

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1. The Electricity Authority (EA) and the Commerce Commission have established an Energy Competition Task Force with MBIE as an observer.
2. The Task Force has two workstreams:
  - Package 1 initiatives are about enabling new generators and independent retailers to enter, and better compete in the market to put downward pressure on prices.
  - Package 2 initiatives are about providing more options for end-users (businesses, homes and industrial firms) of electricity to lower costs and to better reward for contributing to the electricity system.
3. Of most relevance to the Review are two aspects of Package 1, described briefly here together with an update on progress to date and next steps:
  - **Package 1C: Prepare for virtual disaggregation of the flexible generation base (backstop measure):** designing rules that would require gentailers to offer a share of their flexible generation base to buyers on the wholesale market in the form of risk management contracts.
    - Progress to date: the virtual disaggregation outline is complete, consistent with MDAG's December 2023 advice.
    - Next steps: approval of outline as part of the 1D options paper at the EA's February Board meeting, for publication in February 2025.
  - **Package 1D: Investigate level playing field measures (backstop measure):** investigating what measures are appropriate, risks and possible triggers.
    - Progress to date: high-level policy direction agreed by the EA Board, and presented to Ministers on 18 December 2024, as part of the package 1 market performance roadmap.
    - Next steps: drafting options paper for approval at EA's February Board meeting, for publication in February 2025.

## Annex Five: Review of Electricity Market Performance – further detail

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This Annex provides further detail on the Review, prepared for the incoming Minister for Energy.

### Background to the Review

*The electricity market came under significant pressure during winter 2024*

1. August 2024 pricing in the wholesale electricity market was volatile which was reflective of underlying supply conditions. Gas production dropped significantly in the two years prior and the impact of this on the electricity system was exacerbated by extremely dry conditions for hydro-electricity generation and low wind. National hydro storage was below the fifth percentile of the historical range for that time of year.
2. Electricity generators took action to manage the very low hydro storage, low wind and limited gas fuel, including by exercising a contract with the Tiwai Point aluminium smelter to reduce demand by 185 megawatts (MW) by shutting down a potline. Gas fired generators purchased gas that was released by Methanex through reduction of its production of methanol.

*The risk of potential shortage of fuel, both hydro and gas, resulted in substantially higher prices in the electricity wholesale spot market*

3. Fuel shortages in gas and hydro storage, along with a period of low wind generation resulted in high wholesale market prices, reductions in industrial activity (demand response) and, in some cases, industrial closures where energy prices were cited as a contributing factor.
4. North Island electricity spot prices averaged more than \$700/megawatt hour (MWh) in the seven days to 5 August 2024 (about 5 times the average North Island spot price for August 2023). Businesses exposed to spot prices (e.g. large industrials) usually manage the risk of spot price volatility through hedging which provides longer-term certainty on electricity costs. Prior to May 2024 and for much of 2023, North Island futures contracts covering the quarter ending September 2024 traded around \$200/MWh.
5. There were complaints however, by the Major Electricity Users Group (MEUG) members asserting there are price and access barriers to hedging contracts to allow businesses to manage their spot exposure.
6. Independent retailers (that is, retailers that do not have generation assets and are not vertically integrated) also voiced similar concerns relating to price and access barriers to hedge contracts. In July 2024 Electric Kiwi announced it would no longer accept new customers for a period due to the increase in wholesale electricity prices and an inability to access suitable hedge contracts to cover further growth of its retail base.
7. This brought into focus the need for regulatory settings and institutional arrangements to be as effective as possible so that the electricity system operates efficiently and effectively for the long-term benefit of consumers.

*The Government took urgent action to bolster energy security*

8. On Monday 26 August 2024 Cabinet announced it had committed to:
  - act with urgency to reverse the ban on offshore oil and gas exploration, with legislation passed by the end of 2024,

- remove regulatory barriers to the construction of critically needed facilities to import Liquefied Natural Gas (LNG) as a stop gap,
- ease restrictions on electricity lines companies owning generation,
- ensure access for gentailers to hydro contingency, and
- improve electricity market regulation by undertaking a review of the performance of the electricity market.

## **The Minister for Energy and Minister for Resources initiated the Review**

9. Following Cabinet decisions in November 2024, the Minister for Energy and the Minister for Resources initiated a review of the performance of electricity markets (Review) to ensure they are fit-for-purpose [ECO-24-MIN-0245 refers]. The Review was announced on 15 November 2024 and the Terms of Reference (ToR) published (included as Annex Two).
10. The Review is expected to begin in the week commencing 27 January and be completed in June 2025.

### *It is timely to undertake a Review*

11. The market has delivered well for consumers in the past, but recent events and trends suggest it is timely to undertake a review and look for opportunities to ensure we have the optimal settings to deliver secure electricity at internationally competitive prices.
12. Winter 2024 saw some very high wholesale spot prices as the market responded to a genuine energy shortage – driven by low gas production and exacerbated by low hydro and wind generation. Such high prices are not sustainable, especially for industries that rely on affordable energy to compete globally.
13. Recent years have also highlighted the challenge of keeping the lights on at times of peak demand or system stress due to plant outages and variable output from intermittent generation. While these challenges may be transitional, as the electricity system becomes more renewable, Government wants assurance that the regulatory system is helping rather than hindering an orderly transition.

### *Purpose of the Review*

14. The Review is to advise on the impact of market structure, market design, and market rules on electricity market performance, and on options to improve market performance in terms of the Government's objectives.
15. The Review will look at whether current regulations and market design support economic growth and access to reliable and affordable electricity. 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.
16. The ToR state that the Review must 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.

*Cabinet agreed the Review team must be independent*

17. Cabinet agreed the Review would be undertaken by suitably qualified experts with expertise and experience in electricity markets in comparable countries, but also with access to experts in New Zealand's electricity market [ECO-24-MIN-0245 refers]. Cabinet also set an expectation that the review team must be independent and bring new and clear thinking to the task, providing fresh perspectives and insights from other markets. Formal peer review was also included.

*Experts engaged to fill three specialist roles for the Review through a competitive process*

18. Drawing on Cabinet decisions, MBIE prescribed three specialist roles for the independent experts who will undertake the Review [BRIEFING-REQ-0006941 refers]:
- The Lead Reviewer whose role is to undertake the review of the performance of New Zealand electricity markets. They must be able to demonstrate they have independent perspectives and knowledge of electricity market systems and are able to apply their thinking in a manner that is relevant to the New Zealand electricity market system. They must be able to offer fresh perspectives and insights from outside NZ. They are required to address the seven questions specified in the ToR, and in the manner prescribed.
  - A New Zealand Expert to support the Lead Reviewer and ensure the Lead Reviewer has good understanding of relevant New Zealand-specific matters. Their role is not to undertake aspects of the Review itself – that is the role of the Lead Reviewer
  - Two separate Peer Reviewers whose role is to provide an added layer of quality assurance and accuracy to ensure the review reports are robust, reliable and as useful as possible. The role also enhances credibility and demonstrates transparency by showing the reports have been scrutinised by multiple experts.
19. MBIE issued the Request for Proposals (RFP) for competitive procurement of the three roles and contacted a wide range of potential respondents in New Zealand and internationally alerting them to the RFP. An evaluation panel of suitably qualified people within MBIE, **Privacy of natural persons** was assembled. The panel considered proposals from 23 organisations across the three roles, primarily from the United Kingdom, United States, Australia and New Zealand.
20. Procurement of the experts to undertake each of the Review roles is expected to be completed by Tuesday 28 January, and their identities remain in strict confidence until all contracts are executed and an announcement made.
21. MBIE has established a small project team to support the independent Review team and provide Ministers with advice as the Review progresses.

## **Current Status of the Review**

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*Finalising contracts and announcing the Reviewers*

22. Procurement of the Lead Reviewer and New Zealand Expert is expected to be completed by Friday 24 January, and of the two Peer Reviewers by Tuesday 28 January.
23. Their identities remain in strict confidence until all four contracts are executed and an announcement made.



## Risks

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24. We have identified some key risks for the timely and successful completion of this Review, and possible measures to mitigate these.
25. Once the Review is underway, there is a risk that one or more of the specialist providers fails to meet their agreed deadline. As the steps in the prescribed Review process are sequential, a delay in completion of one step, for instance peer review of the draft report, will have a flow-on effect for subsequent steps. The project team will be actively working with the Review team to identify potential timeline risks and take action accordingly.
26. Although the ToR and Government Policy Statement on Electricity (GPS) clearly set out the scope of the Review and Government's policy objectives for electricity, there is a risk that the Lead Reviewer's line of enquiry departs from Ministers' expectations. Ministers briefing the Lead Reviewer on commencement [BRIEFING-REQ-0008167 refers] and providing comment on the Draft report, are both key measures to mitigate against this risk.
27. Confidential advice to Government
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## Communications

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28. Communications material has been prepared for the announcement of the Review team.

## Resource material

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29. The following provides links to key publicly available information on or related to the Review.

MBIE's Review Webpage	<a href="#">Review of electricity market performance   Ministry of Business, Innovation &amp; Employment</a>
Review Terms of Reference	<a href="#">Terms of reference for a review of electricity market performance</a>
Review Press Release	<a href="#">Government launches review to ensure electricity market is fit-for-purpose   Beehive.govt.nz</a>
GPS on Electricity	<a href="#">Government Policy Statement on Electricity - October 2024.pdf</a>
Energy Competition Task Force webpage	<a href="https://www.ea.govt.nz/projects/all/energy-competition-task-force/">https://www.ea.govt.nz/projects/all/energy-competition-task-force/</a>
MDAG Report	<a href="#">Price discovery in a renewables-based electricity system: Final Recommendations PAPER 2023</a>

## Next Steps

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30. Once all contracts are signed (expected by 28 January), the Lead Reviewer, New Zealand Expert and the two Peer Reviewers can be publicly announced.
31. We have proactively prepared draft communications for the announcement and are seeking a steer on whether joint Ministers wish to announce the details or if you prefer that MBIE do this.
32. The Lead Reviewer is due to commence the Review on Monday 27 January 2025 (refer Figure 1 in the body of this briefing for the Review process and target timelines).
33. Ministers meet with Frontier as Lead Reviewer on January 28.
34. An early Review activity will be the workshops the Lead Reviewer has planned, in person, with the New Zealand Expert to ensure they have a good awareness and understanding of relevant New Zealand-specific matters. These are scheduled for the week commencing 3 February.
35. MBIE will continue to update Ministers on the Review as it progresses.