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Media release

## Electricity Commission releases Options Paper on electricity market design

Retail competition and prices, energy affordability and how electricity generators are paid are some of the key focus areas of an Electricity Commission report into the operation of the electricity market that has been released today.

In addition to the options review, the Commission has signalled that at the conclusion of winter 2008 it intends to review the recent experience with managing dry year risk. This review will look at the performance of current arrangements in the lead up to winter, the market responses once it became evident that supply would be tight, and the operation of the reserve energy scheme.

The 200 page Market Design Review Options Paper is the latest stage in a project to review the performance of the electricity market. The review began in 2007. Electricity Commission Chair David Caygill said: "The Commission has been talking to industry and consumers, and looking in depth at how the electricity market can be improved. In response to last year's issues paper, stakeholders raised concerns about competition, energy affordability and security. The Market Design Review Options Paper looks at those and other issues and suggests a range of options to improve outcomes for consumers."

The paper has examined in detail five key areas of concern to stakeholders, and came up with a range of options to address them. The five areas are:

- pricing and competition, especially in the retail market
- energy affordability issues
- the effectiveness of the energy-only spot market design
- demand-side participation
- availability of market information

On retail pricing Mr Caygill said: “One of the findings of our investigations was that some consumers could save \$150 a year or more by switching to the cheapest supplier in their area, yet most do not. There is also significant regional variation in retail profit margins – some are quite high and some are low. This suggests that there may be an impediment to competition in some parts of the country.

“The Commission believes more competition can reduce margins and improve prices. It aims to promote competition by making it easier for retailers to enter new markets and by improving information on tariffs and switching for consumers,” said Mr Caygill.

The Commission is also looking at alternative ways of paying electricity generators. Stakeholders have expressed concern that some important forms of generation may not be provided in the future, particularly peaking generators, because relying on uncertain spot prices might mean the investment risks were too high.

“An option we believe worth examining is paying generators for making capacity available,” said Mr Caygill. “This could provide benefits to security of supply in the longer term by providing more certainty of payment for resources that are needed very infrequently or on a very uncertain basis. While the Commission does not see any such problems at the moment, changes to the supply mix may make these areas more challenging in future. Given the lead times for generation projects it makes sense to look at these issues early rather than late.”

Energy affordability is a growing problem according to some submitters. A number of agencies are looking at the issue, but in the meantime Mr Caygill said the Commission is looking at strengthening retail competition to put downward pressure on prices, making it easier for customers to find and switch to lower cost suppliers, monitoring implementation of the revised Guideline on Arrangements to Assist Low Income Customers and continuing to support initiatives to improve electricity efficiency that resulted in lower energy costs for households.

Copies of the options paper are available on the Commission's website at [www.electricitycommission.govt.nz](http://www.electricitycommission.govt.nz). The paper is open for submissions until 1 September 2008.

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