Address by Dr John Small, Chair of the Commerce Commission, at Downstream, the strategic forum for New Zealand's energy sector.

COMMERCE COMMISSION NEW ZEALAND
Te Komihana Tauhokohoko

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The following text represents written highlights of Dr John's address, delivered at the Downstream forum in Wellington.

Scene setting

- It's great to be here talking about shaping our energy future. It's not a small topic; it's a big one.
- To talk about the future, we need to start by asking: what exactly are we aiming at?
- I want to spend a bit of time on that, then talk about the opportunities and challenges between us and that future, and finally what regulators can do, and what sits more properly in policy.
- And just to be clear: none of this is meant to overshadow the brilliant work commercial players do every day to keep the lights on and innovate.

Where we're heading: Government signals

- I've put up two recent government statements – ones that might give us a good sense of direction:

  "New Zealand aims to double renewable generation by 2050 to achieve net zero emissions."

  "And we want our transport and manufacturing increasingly powered by wind, water, and sun."

- These statements are characteristic, not definitive. However, they tell us the broad plan hasn't changed across governments:
  - Rapid decarbonisation of electricity, and
  - Electrification across the economy.
- That means electricity prices must support uptake and fuel switching.
- And we need to be realistic: converting a coal boiler to electricity isn't trivial or quick - these transitions take time.
- But the direction is clear: an electrified economy, powered as much as possible by renewables.

Opportunities

Grid-scale

- At the large-scale, high-voltage end, the Huntly deal helps us a lot:
  - A collaboration between the four gentailers, authorised by the Commerce Commission.
  - Leading to a $70 million investment.
  - Engineers are refurbishing the turbine right now for this winter.
  - Coal is already arriving through Auckland and Tauranga to support it.
  - Provides a significant chunk of dry year security for up to 10 years (a 5+5 deal).
  - Coal is dirty, yes - but it is secure, and that matters for resilience.
- We have a strong pipeline of established renewables:
  - Wind
  - Solar
  - Geothermal
  - Micro-hydro
  - Biomass (including palletised wood products for Rankine units at Huntly)
- And we're investing in technologies just over the horizon:
  - Supercritical geothermal - the deep stuff.
  - Fusion research, including the OpenStar team here in Wellington manipulating plasma in increasingly larger vessels.
- There is a lot happening at the grid connected scale.

Local / distributed energy

- At the low voltage, local level, distributed energy resources are growing fast:
  - Rooftop solar
  - Battery systems
  - EVs acting as mobile batteries
  - Biomass-fuelled combined heat and power for industrial processes
- These can all connect into local networks but only if networks can handle two-way flows.
- That requires flexibility markets, which are still underdeveloped but full of potential.
- Microgrids are exciting, and so is the idea of an energy protocol (the energy equivalent of the internet protocol) could democratise energy flows.
- Flexibility markets and distributed resources will increasingly impact network businesses.
- There's a chicken and egg dynamic:
  - The more flexibility markets develop, the more distributed resources appear.
  - And the more distributed resources appear, the more viable non-network solutions become.

Networks

- There are also opportunities for collaboration between network operators:
  - Shared services
  - Standardisation
  - And yes, even full mergers
- All of these can deliver cost savings.
- Recent sessions here have highlighted the value of standardisation and learning from each other, though less attention has been paid to the savings from reducing duplicated head offices.

Challenges

I think there are two big ones.

We often talk about the energy trilemma: security, affordability, sustainability. My opinion is that in New Zealand, sustainability will largely take care of itself given resource prices. So, I want to focus on the other two:

1. **Security**

- This includes network resilience, stability, capacity, and reliability.
- But the number one issue is climate driven dry year risk.

2. **Diversity**

- By diversity, I mean more diverse participants in the energy system:
  - More competition
  - More efficiency
  - More affordability
- Diversity of supply, ownership, and grid edge investment all strengthen resilience.

Dry year risk: why the market won't solve it alone

- Dry year cover is, in my view, a public good.
- The market under-provides it because:
  - You need expensive plant that mostly sits idle.
  - You only earn revenue once every few years when it's dry.
- That's hard to justify commercially.
- The Huntly collaboration showed this clearly:
  - Gentailers had to share costs and seek authorisation because the competitive market wouldn't deliver it.
  - Malcolm Johns was clear: *"We're fine for our own customers. If you want dry year cover, you'll have to chip in."*
- The proposed LNG plant raises similar issues:
  - Its costs are intended to be socialised, again consistent with a public good problem.
  - But large dry year assets raise questions about their impact on the market the rest of the time, which is the same concern raised with Lake Onslow.
- These are questions we still need to be resolved.

What regulators can do

- Promote non-wire alternatives and support the development of flexibility markets.
- Ensure sufficient infrastructure investment, balancing *"invest ahead"* vs *"wait until the last minute"*.
- Work closely with the Electricity Authority to close gaps and make the system more seamless.
- Constrain market power where needed:
  - Non-discriminatory pricing work through the Electricity Competition Taskforce
  - Market making obligations
  - The Super Peak contract is a great example of regulator-industry collaboration,
- Price quality regulation
  - For networks that are price quality regulated:
    - We set revenue limits and quality standards that shape investment.
  - For networks that aren't price quality regulated:
    - Investment decisions sit entirely with the companies.
    - Our main tool is information disclosure, which has transparency as discipline.

What regulators can't do – the policy questions

- We can't set policy and there are areas where clearer direction would help:
  - A national energy strategy
  - Stronger security-of-supply assessments
  - Better thinking about locational signals and the interdependence of generation, load, and grid investment.

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