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Flick Electric Welcomes Changes to Commerce Act Amidst Continued Concerns Over Misuse of Market Power

Flick Electric has welcomed changes to the Commerce Act which come into effect today that should help investigate and resolve the misuse of market power by New Zealand's four generator-retailers (gentailers).

The independent electricity retailer believes that innovation and competition in the market are being stifled by the practices of market players with significant market power, preventing independent retailers from being able to compete.

The changes to the Commerce Act will mean that it is now easier to successfully pursue conduct that shows evidence of market power misuse.

"The structure of our electricity market has long been a contentious issue because there's clear evidence that it's not functioning in a fair, competitive manner," says Pavan Vyas, Flick Electric's chief executive.

"We're hopeful that the Commission's new powers will dissuade those companies from using their market power to make it harder for independents to enter the market and compete."

Under the current market structure, a gentailer's retail business is able to purchase electricity from their generation business at an Internal Transfer Price (ITP) of their own choosing, generally significantly lower than wholesale market prices. They then onsell the balance to independent retailers at a much higher price.

"The ITPs don't include the same costs and risks an independent retailer faces. Essentially, gentailers are leveraging their vertically-integrated position to benefit from low electricity prices acquired through inherited assets."

The market structure also incentivises gentailers to keep wholesale prices high, and Vyas says the instances of artificially inflated wholesale prices over the years are a clear indication that vertical integration is a threat to a competitive market.

“We’ve seen it happen time and again. It’s behaviour that the market structure and the regulators seem to allow, but which we know isn’t in the best interests of competition and Kiwi consumers.”

In October last year, Flick presented its ‘Join The Revolt’ petition to the Economic Development, Science, and Innovation Committee, requesting the Government and Electricity Authority ensure a fair, competitive market by splitting up gentailers, or ensuring all generation is sold into the open market at the gentailers’ internal transfer price, or ensuring there is no price discrimination between vertically-integrated and independent retailers.

“We’re keen to work with the Commission where we can to help them identify and investigate behaviours that breach the Commerce Act.

“Competition is crucial in order to deliver Kiwis better pricing and better products, and encourage more innovation and investment in the sector.”

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