

8 March 2022

David Katz
Market and Security of Supply Manager
System Operator, Transpower
By email to system.operator@transpower.co.nz

Dear David

2022 SOSAA Reference Case and Sensitivities

1. This is a submission from the Major Electricity Users' Group (MEUG) on the System Operator Invitation to Comment "2022 Security of Supply Annual Assessment: Reference Case and Sensitivities" published 17 February 2022 (i.e., 2022 SOSAA).¹
2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Members may lodge separate submissions.
3. MEUG agrees with the change to use a Reference Case and test risks with sensitivities. This is pragmatic given more scenarios are to be considered. While MEUG agrees with the statement in the Invitation to Comment,
"The reference case does not represent the most likely outcome, it represents a case with a fixed set of assumptions which are subsequently varied as sensitivities,"²
in practice some commentators will refer to the Reference Case as if it is Transpower's expected or most likely view of the future and the risk is that will become a widespread interpretation. Perceptions matter and therefore setting key reference case assumptions needs both factual and qualitative considerations.
4. For three of the key assumptions under the sub-sections titled "demand growth", "Potential future generation and grid scale batteries" and "HVDC capacity," MEUG has no comments as they are largely business-as-usual, similar or the same as last year.³
5. For the key assumptions under the sub-section titled "Gas supply" we do not have the detail that others will have to assist the System Operator. MEUG's sole comment is that we support the continuation of the assumption from 2021 SOSAA of the System Operator response in the summary of submissions to the consultation last year that,
"It is our view that no new gas generation should not be a 'default' assumption."⁴

¹ Document <https://www.transpower.co.nz/sites/default/files/bulk-upload/documents/20220211%20-%20ASA%20Sensitivities%20Consultation%20Document%20-%20Final.pdf> at <https://www.transpower.co.nz/system-operator/stakeholder-interaction/invitation-comment-annual-security-assessment-scenarios-and>

² Invitation to comment, section 3.1, p6.

³ Ibid, section 3.2, pp6-7.

⁴ Document https://www.transpower.co.nz/sites/default/files/uncontrolled_docs/2021-10%20Final%20ASA%20Report%20Cover%20Note.pdf, quote from response in last paragraph p3.

6. For the fifth and last key assumption “Tiwai smelter load,” MEUG believes the weight of evidence is balanced more in favour of the scenario that the Tiwai smelter load will continue after 2024. There have been positive expressions of interest reported by Rio Tinto to stay beyond 2024 and on the supply side many have welcomed that news such as Contact Energy when reporting half year financial results last month:

“Rio Tinto has recently indicated a desire to continue operating its unique low carbon smelter at Tiwai Point beyond 2024, when the current electricity supply contract concludes.

‘It’s early days, but we are encouraged that the smelter’s owner recognises it needs to play a larger role to help manage dry year security of supply in New Zealand’s electricity system,’ Mr Fuge said. ‘In turn, this will lower system carbon emissions and enable the development of more renewable generation, which is positive for New Zealand.’”⁵

Consistent with this change in the balance of thinking that Rio Tinto will remain post 2024 has been an uplift in long-dated futures prices. This is a significant turnaround from this time last year when the Climate Change Commission led the view that the Tiwai smelter would leave at the end of 2024. Hence, on balance, MEUG recommends the Reference Case assume the Tiwai smelter load will continue after 2024.

7. MEUG has comments on two of the proposed supply side sensitivities⁶:
- We agree there should be a “Low gas supply” sensitivity. There is a case for a “High gas supply” sensitivity also because that will give decision makers an appreciation of the scale and composition of the whole generation fleet given low, expected or high gas supply to achieve the three security standards specified in the Code. Consistent with the comment in paragraph 5 above, quoting the System Operator view that no new gas generation should not be a ‘default assumption’, there should not be a presumption gas supply is inevitably going to be squeezed out of contention over the next decade. Hence having a high gas supply scenario is needed to ensure a balance to sensitivities that can be tested.
 - Last year the final 2021 SOSAA report did not include a “NZ battery” sensitivity because there was insufficient information.⁷ We are not aware of additional key information available on the feasibility or timing of Project Onslow since last year. Hence, there is also no case for a “NZ Battery” sensitivity in 2022 SOSAA.

Yours sincerely



Ralph Matthes
Executive Director

⁵ Contact Energy FY22 Interim Result announcement to NZX 14 February 2022, <https://www.nzx.com/announcements/387202>

⁶ Invitation to Comment, section 4.1, p10.

⁷ Document https://www.transpower.co.nz/sites/default/files/uncontrolled_docs/2021-10%20ASA%20Final%20Report.pdf, last paragraph p3.