Major Electricity Users' Group

Update from the Chair April 2021

Wholesale prices are turning the industry lights out

Energy policymakers often reference the trilemma of security, sustainability and affordability. Historically, as a country we have focused on security of supply – on making sure the lights stay on. In more recent years there has been a stronger focus on sustainability. Now, however, the system is failing to deliver affordable electricity, a failure that is seeing the lights go off in factories around the country.

Whakatane Mill recently closed due, in large part, to high wholesale electricity prices. Families in and around Whakatane have lost their primary source of household income, with few other well-paying, skilled jobs in the region, for redundant workers to go to.

Last week, a large pulp and paper MEUG member shut down for the whole week, despite strong demand for its product simply because electricity cost so much they could not afford to operate. This operation is shut down this week too.

At New Zealand Steel's Glenbrook site some operations, including its hot rolling mill, were shut down last week due to unaffordable wholesale electricity prices. This is a particularly poor outcome for New Zealand's economy given the current global shortage of steel.

Hedges are not necessarily the answer

Hedging is the primary response to insure against high wholesale prices for most commercial and industrial consumers. However New Zealand's pricing problem extends to the hedge market as well. As at 31 March the ASX futures price for CY2023 base load at Otahuhu was NZD137.00. In Australia the prices were NSW AUD51.75, Victoria AUD 36.00, Queensland AUD 38.51, and South Australia AUD 35.55. Setting aside the cost of hedge instruments as well as normal risks and benefits of a financial hedge, having a hedge isn't without risk and costs over and above uncertainty in what the spot price actually ends up being.

Even accounting for Victoria having the most affordable wholesale electricity in Australia, and differences between generation in Australia and New Zealand, it is hard to justify prices between 2.5 to 4 times higher here especially in a country which boasts some of the most efficient hydro power stations the world.

High wholesale prices show why an energy or industry strategy is needed

The impact of high wholesale prices highlights why New Zealand needs either an energy or industry strategy to ensure our industrial base is not hollowed out, whether due to high electricity prices, carbon leakage, or other reasons beyond the ability of industry to mitigate.

Countries around the world have responded to the COVID-19-influenced economic slowdown by boosting spending on infrastructure, resulting in a global shortage of steel. In this environment, supplying steel to a small, geographically remote market like New Zealand is not a priority for any international steel maker. The lead-in time for importing steel used to be around eight weeks. It is now over eight months, even assuming you can secure any international supply.

A very real example of the need for retaining domestic steel making was the recent repair to the Auckland Harbour Bridge. NZ Steel provided the steel (Grade 350 plates) for the Auckland Harbour Bridge repair the day after they received the order. If NZ Steel had not been able to supply the steel, the bridge repair would have been delayed while Waka Kotahi waited for imported steel to arrive.

The ability of New Zealand to avoid an economic recession due to COVID-19 rests on our ability to build things. But the lights are out in parts of Glenbrook because wholesale electricity is too expensive to operate. Around the country, building supplies are running short.

We need a strategy that recognizes the vital importance of having domestic supply of strategic manufacturing capability, so our economy doesn't grind to a halt in times of global shortage. New Zealand is out of step with most developed countries in not recognising the benefits of strategic manufacturing and planning for its continuing operation.

Key dates

What's on	Who	When	Notes for members
Submission: Treatment of residual charges for batteries	Transpower	12 April	A specific topic being considered as part of implementing the new Transmission Pricing Methodology guidelines. Cross-submissions close 19 April.
Submission: Electricity compliance framework	MBIE	23 April	Several, mostly pragmatic, changes to the compliance framework governing the EA and Ruling Panel remits that flow from government decisions following the Electricity Price Review.
Submission: Actions to correct the UTS of December 2019	Electricity Authority (EA)	27 April	Important decision on the Undesirable Trading Situation in Dec 2019. Could set precedents for EA's monitoring and enforcement and affect behaviour of generators. Cross-submissions close 18 May.
MEUG monthly meeting	MEUG	28 April	Phil Gibson, GM Portfolio, Mercury Energy.