Major Electricity Users' Group

Update from the Chair February 2022

Where next for the wholesale market review

As we head into the new year, MEUG is looking closely at what the Electricity Authority does next in advancing the wholesale market review it released in October last year.

There are significant issues outlined by the Authority in its review that were not contained in its first issues paper. We also understand other issues are to be considered as the work progresses.

The Authority outlined economic withholding as an issue in its review (that is, generators withholding supply to get high prices) as well as an increase of $38/MWh in wholesale prices the Authority couldn't explain.

From a consumer point of view, MEUG believes that having identified these issues, the Authority needs to answer whether or not consumers are paying prices higher than what those expected in a workably competitive market.

The question of market prices has been a live issue since the Commerce Commission Electricity Sector Investigation Report in 2009 that the large generators use market power to price high. Now we expect the following actions:

- The Authority examines the detail to determine if this is an ongoing issue
- if it is an issue, then the Authority needs to quantify it,
- then consider what action if any must be taken.

Unless this issue is addressed, consumer confidence in the wholesale market will erode further.

High January wholesale prices don't match dry year risk

Wholesale electricity spot prices increased significantly through January. On 11 January and a further 5-days since up to and including 1 February, average daily spot prices exceeded $200/MWh. On 1 February average spot prices were $362/MWh, with some trading periods over $500/MWh. In comparison the average household retail price for total delivered electricity, that is spot price plus retailer costs and margin, Transpower charges, and local distribution charges are around $300/MWh (equivalent to 30 c/kWh).

On 31 January, the System Operator published an update of the Simulated Storage Trajectories. It shows that despite a decrease in lake levels since December, no future scenarios breach the 'watch curve' or show a 1% risk of a dry winter.

This begs the question of why we are seeing some spot prices so high. Put simply, the System Operator has found there is a mismatch between observed actual spot and futures curves and the physical risk forecast. To spell it out; the System Operator's forecast security of supply risks arguably does not support sustained high futures prices.

Some MEUG members have or are likely to reduce production as a result of the high spot prices and high front-end futures curves. That loss of output does not seem a good result for NZ Inc. given no clear evidence that electricity supply this year is going to be a problem. This is another data point which strengthens the case for the Electricity Authority to get to the bottom of what is driving high wholesale pricing.

Key dates

What's on	Who	When	Notes for members
Submission: UTS claim on blackout Monday 9 August event preliminary decision	Electricity Authority (EA)	3 February	There have been and still ongoing various investigations into this event. This consultation is on a claimed Undesirable Trading Situation (UTS). The preliminary decision raises more questions we think need addressing before a final decision can be reached.
MEUG monthly meeting	MEUG	23 February	Guests include MBIE Energy and Resource team.