

Electricity pricing in the spotlight for MEUG

The primary focus for MEUG remains high wholesale electricity prices, which are having a serious impact on the profitability of some of New Zealand's largest employers.

Prices rose in late 2018 following the Pohokura gas outage and have remained high since. Contract prices are around 33% higher now than they were in mid-2018. MEUG has been looking into why. Early analysis by Energy Link suggests price rises can be traced to a combination of:

- a medium-term increase in the price of imported coal at Huntly
- a high level of uncertainty over the supply of gas, particularly to Contact Energy, resulting in an elevated opportunity cost in 2019
- an overall increase in the price of newly contracted gas of up to 22%.

Looking ahead, Indonesian coal prices have come back down, but it may take some time for Genesis to burn through the higher-priced coal in its Huntly stockpile. Increasing certainty over gas supplies means that opportunity costs are likely to fall. However, this could take some time to work through because there is still uncertainty around gas supply from Maui later this year and next year. Development drilling in the Maui field should reduce this uncertainty.

Contact has sent the clearest signal yet that the Taranaki Combined Cycle (TCC) gas-fired station is unlikely to remain in the market after FY22 and that it is likely to further develop the Tauhara field. Adding more geothermal generation should depress prices, but in the meantime the higher gas prices faced by Contact and Genesis will keep prices high at least until recently announced windfarms come on stream over the next two years.

Most recently, we have been looking at trading periods, marginal pricing and the behavior of wholesale market suppliers. Related to this, MEUG has recently commissioned an independent economic profit performance analysis of electricity generators to test whether they have been earning "excessive profits". That analysis will take some months to complete.

Concerns emerging with quality of Government climate change policy work

MEUG has growing concerns with the quality of work by officials, on which significant decisions are being made for New Zealand's future. Recent work on accelerating renewable generation and some ETS work is based on a single international literature search. This has led to policy analysis divorced from New Zealand conditions. For example, officials are making assumptions about the ability of New Zealand Steel to reduce its emissions through increased efficiency of its blast furnace. But New Zealand Steel does not have a blast furnace. We are aware of other similar anomalies between the research policy is based on and what is actually happening here in New Zealand.

Key dates

What's on	Who	When	Notes for members
Submission: Transmission Pricing Methodology (TPM) review supplementary	Electricity Authority (EA)	3 March	Four specific topics ahead of more substantial consultation on CBA and peak pricing later this month.
Workshops: High Standard of Trading Conduct (HSTOC), Auckland then Wellington	Market Development Advisory Group (MDAG)	3 and 5 March	MDAG is an advisory group formed by and reporting to the EA Board. Offer behaviour of generators has been a contentious issue and part of a suite of concerns on how fast we are tracking to improve competition in the spot market and associated hedge markets. Care is needed to avoid unintended consequences and risk more detriments than gains compared to the status quo. Complex, likely to be contentious and difficult to unbundle from other concerns and policy solutions on rate of improvement in competition.
Submission and cross-submission: Discount error Input Methodology correction	Commerce Commission	12 and 19 March	This is core to MEUG's remit. However, as the correction is non-controversial, MEUG will not be submitting.
Conference: 2020 NZ Downstream conference, Wellington	Conferenz & Energy News	17 and 18 March	The premier annual energy conference in New Zealand. MEUG is a supporting organisation for the conference.
Workshop: EA open network standards forum, Wellington	Electricity Authority	19 March	Focus is on retail level competition. MEUG's interest is to facilitate competition across the supply chain and across all consumer classes where there are cross-sector benefits.
Meeting: MEUG Executive Committee	MEUG	25 March	Electricity Authority staff will be attending to discuss a range of current topics.
Workshop: TPM cost-benefit analysis (CBA) and peak charging, Wellington	Electricity Authority	26 March	EA intend publishing consultation papers soon.