

Further job losses likely because of high prices

Major users looking to re-hedge part of their demand in the second half of this year are facing hedge price increases of up to 100 per cent compared to last year. Some energy-intensive companies simply cannot afford hedge prices that high. Further job losses are likely, with our regional communities likely to be the hardest hit.

Hedges can provide relief against high wholesale prices in the short- to medium term. However, New Zealand has experienced three years of sustained high wholesale prices and the futures market is forecasting *at least* another three years of high pricing. Industrial and commercial users will typically have to re-hedge at least twice through that six-year period. The high prices cannot be avoided.

Wholesale and futures prices continue to look bleak for industry

MEUG has one industrial member who is operating only around 50 per cent of the time. The rest of the time operations are closed down, as it makes more sense to on-sell energy it has contracted to buy rather than actually make any value-added product. That is not a situation that is tenable in the longer term for an export-led economy.

At least one other member is operating at a loss. The only reason it has not closed is the cost of closing is even higher and there is a risk that once closed, it might never re-open. But that member cannot continue to operate at a loss forever.

Three-year futures prices at Otahuhu at the start of May were around \$155/MWh – the same price as the beginning of May. In other words, there is no sign of high futures prices falling and the long-term prognosis still looks poor. As demand by households for heating in winter increases, the short-term looks bleak for commercial and industrial consumers re-contracting over the next two quarters.

Volatility in the wholesale market may have dampened in April compared to March, but high levels of prices remain. Overall, spot prices for the Upper North Island for the week ended 26 April averaged \$297/MWh, compared to the last week in March when prices averaged \$256/MWh.

System Operator providing quality security of supply assistance to large users

Over the last month the System Operator has increased the frequency of updating reports on the security of supply situation, added new scenarios to assist participants understand the evolving status and potential outcomes, and held online briefings for the industry so that everybody has access at the same time to the latest information.

While this is a service provider role the System Operator are contracted by the Electricity Authority to provide in such events as the current potentially emerging risk to security of supply, MEUG has been impressed with the frequency and quality of information provided and congratulates the System Operator on how well it has assisted participants.

Key dates

What's on	Who	When	Notes for members
Submission: Aurora Customised Price-Quality Path (CPP) accountability measures	Commerce Commission	10 May	Aurora was granted a 5-year CPP effective 1st April 2021. Cross-submissions close 24 th May.
Submission: Extended Reserves proposed Code amendment	Electricity Authority (EA)	11 May	Implements decision to revert to an AUFLS regime. Devil-is-in-the-detail, with next phase of consulting on technical requirements key.
Submission: Internal transfer prices and segmented profitability reporting	EA	18 May	This paper implements Government decisions on the recommendations by the Electricity Price Review in 2019.
Cross-submission: Actions to correct the UTS of December 2019.	EA	19 May	16-submissions were made on the EA's proposals.
Submission: Proposed RMA national directions to phase out fossil fuels in process heat	Ministry for the Environment (MfE)	20 May	Complex, perhaps even unworkable for businesses with large process heat loads. High risk of unintended consequences. Using carbon prices via the ETS to facilitate efficient dispersed decision making is better than the proposed regime.
MEUG monthly meeting	MEUG	26 May	Guests to be finalised.
Submission: On the EAF section of the paper on NZETS and synthetic GHG levy regulation updates	MfE	28 May	EAF refers to Electricity Allocation Factor. EAFs are one of the methods used to allocate emission units under the NZETS.