

Looking to government to reduce uncertainty and risk

The Government will release its emissions reduction plan later this month. Attention will then shift towards the Government's energy strategy. In preparing to engage in the development of the energy strategy MEUG has been reflecting on the current state of the market.

The ability of the market to securely supply close to 100% renewable, affordable electricity is in question. The trilemma is not balanced, with affordability a distant third to renewables and secure supply. The futures market suggests that will continue for several years if not longer.

Since 2018 we have seen consistent increases in wholesale electricity prices. This trend is unsustainable and cannot be traced to the long run marginal cost of new electricity generation. It represents an enduring shift in the market beyond discrete events like the Pohokura outage in 2018 or an individual dry year.¹

Since 2018 we have also seen government intervention around the need to meet the net zero emissions by 2050 target, which has had direct and indirect impacts. A legislated emissions reduction target by 2050 along with the risk of a political environment demanding more action means the risk of ad hoc interventions continues.

The future facing the market is one where an increasingly higher percent of generation will come from short term intermittent sources such as wind and solar. The Electricity Authority's Market Development Advisory Group (MDAG) estimates annual average intermittent supply will rise from 6% in 2020 to 31% in 2035 and 47% in 2050². Future physical gas supply uncertainties and hydro storage vulnerability, coupled with insufficient new supply and/or storage to keep up with demand³ mean confidence in the market will likely be tested in a way it has not been before.

We are now into the fourth year in which elevated electricity prices have caused major disruption for large consumers, contributing to the closure of businesses or the curtailment of operations, and ultimately economic growth in the regions. It is just a matter of time before those high wholesale prices filter through to residential consumers.

As we embark on a future where all of our electricity is generated from renewable sources, we'll be looking to the Government's energy strategy to help reduce the uncertainty and risk that

¹ The 30-day moving average spot price prior to 2017/18 reflected the long run marginal cost of new electricity generation (\$75-\$85 /MWh). In March 2022, that price averaged \$150 /MWh. The trend for the average futures settlement price since 2017/18 is of almost consistently increasing prices.

² Price Discovery under 100% renewable electricity supply, 18 January 2022.

³ MDAG simulations show an average investment requirement equivalent to 400-500 MW of new supply or demand response capability every year until 2050. By comparison, net supply growth between 1990 and 2020 averaged around 60 MW/year.

exists in the market, especially on the supply side. This includes for example, around the future role of gas in underpinning security of supply in an increasingly intermittent renewable future.

In terms of restoring confidence, the regulator or Government needs to demonstrate wholesale prices are the outcome of a workably competitive process, and are explainable in terms of the fundamentals of the market. That is not the case now. To quote the Electricity Authority itself:

“Spot prices that are competitively determined are efficient and to the long-term benefit of consumers. There is some evidence that suggests prices may not be being determined in a competitive environment.”⁴

Focusing on the competitive environment would be a good place to start, if consumers are to have confidence their long-term interests are being met as we navigate the changes coming on the supply side.

Key dates

What's on	Who	When	Notes for members
Submission: UTS supplementary consultation	Electricity Authority (EA)	3 May	Considers treatment of scarcity pricing in claimed Undesirable Trading Event (UTS) on “blackout” Monday 9 August 2021.
Submission: Targeted review of ID for EDB	Commerce Commission	4 May	All Electricity Distribution Businesses (ED) are subject to Information Disclosure (ID).
Submission: Security of Supply Forecasting and Information Process	System Operator	6 May	Proposed changes following review of the 9 August 2021 unplanned blackouts.
Submission: Future Security & Resilience	EA	10 May	Multi-year joint EA and System Operator project to ensure effective transition to a low-emissions energy system at the system operations level.
Submission: policy statement (SO)	EA	17 May	Bi-annual update of the System Operator (SO) that is part of the Code.
Submission: Code amendments to implement TPM	EA	18 May	Initial set of changes signaled when new Transmission Pricing Methodology (TPM) announced on 12 April 2022.
MEUG monthly meeting	MEUG	25 May	Guests to be confirmed.
Submission: TPM BBC assumptions book	Transpower	27 May	Part of new TPM process for calculating Benefit-Based Charges (BBC). New TPM prices to commence 1 April 2023

⁴ Electricity Authority Market Monitoring Review of structure, conduct and performance in the wholesale market since the Pohokura outage in 2018, October 2021.