

**Reflecting on the market and what the next few years hold**

MEUG presented at the Wind Energy Conference in August. It was a very good conference and provided an opportunity to reflect on the state of the market, our renewable generation goals, and what the next few years hold from a large user perspective.

**What's needed to support build of new generation**

Generation volume is tied to load. To support build of new generation and the renewable transition, either load needs to grow or generators need to accelerate retirement of base load thermal. For the former to happen in heavy industry, the wholesale electricity price needs to come down. To bring electricity prices down and facilitate the transition, we need three things:

- Near-term wholesale prices need to reflect expected lower long-run new renewable generation costs.
- Significant investment in new renewable generation.
- Clarity on the pathway forward for thermal generation, especially gas, as part of a low-cost transition.

**Wholesale prices: where they're coming from and where they are going**

From the beginning of 2012 through to September 2018 the wholesale price averaged \$75/MWh. In September 2018 the Pohokura gas field had an unexpected outage, which flowed through into high wholesale electricity prices. Prices have not returned to pre-Pohokura outage levels. For the last two years the price has averaged \$166/MWh. This year the wholesale price has averaged \$176/MWh.

To put it into context, the Interim Climate Change Committee found that a wholesale electricity price of \$115 MWh was unaffordable for our economy to function in the longer term without significant loss of businesses and jobs.

The elevated prices are not coming down any time soon. In fact, the futures market tells us the price is going to get even more unaffordable for the peak June ending and September ending quarters. For example, at the end of July, quarterly Otahuhu futures for June 2025 were \$175/MWh.

The Electricity Authority, even after they take into account all known factors such as the cost of generation, constraints on gas supply, hydro lake levels, and rising carbon costs, cannot explain almost \$40/MWh out of the average \$166/MWh prices we've seen over the last 2 years beyond stating "there appears to be some evidence that spot prices may not have been determined in a competitive environment".

Take that \$40/MWh out of future prices and you get closer to the affordable electricity needed for the renewable transition. We need greater clarity on what is causing that price discrepancy, so we can remedy it and support the transition.

## Key dates

What's on	Who	When	Notes for members
<b>Commences:</b> Commercial market making starts with this initial 20% step to be funded by beneficiaries	Electricity Authority	1 Sept	Important milestone in improving the futures market. Final approach using this initial step before deciding next steps is welcome.
<b>Informal feedback:</b> draft guidance on EDB pricing principles for pass-through of new TPM charges	Electricity Authority	2 Sept	MEUG is interested in principles, practical application (some specific critical cases), and that EDB advise C&I consumers well ahead of 1 April 2023.
<b>Submission:</b> Improving the performance of EV chargers	EECA	5 Sept	A "green paper" seeking information. Detailed proposals will be consulted on later.
<b>Submission:</b> Powerco transition from Customised Default Price-Quality Path (CPP) to Default Price-Quality Path (DPP)	Commerce Commission	15 Sept	Detailed mechanics. No material changes from prior precedents for EDB transitioning from CPP to DPP. MEUG not likely to make a submission.
<b>Cross-submission:</b> Targeted Information Disclosure (ID) review for EDB tranche 1	Commerce Commission	16 Sept	ID requirements apply to all Commerce Act Part 4 regulated monopolies. Fundamental to regulatory regime.
<b>Submission:</b> Settlement Residual Allocation Methodology (SRAM)	Electricity Authority	27 Sept	Controversial. Tens of millions per year at stake. MEUG will be opposing EA draft proposal. We are more aligned with options proposed by Transpower in changes needed to SRAM to accommodate TPM changes that take effect 1 April 2023.
<b>Monthly meeting:</b> MEUG Executive Committee	MEUG	28 Sept	Finalising agenda. Climate Change Commission is a confirmed guest.