

Electricity market & growth issues

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Current situation

- Blackout risk: 1992, 2001, 2003, 2005, 2008...
- Spot prices: [\$487/MWH]

NZ electricity market

How NZ differs from others:

- No land borders, can't import electricity
- Profile: big hydro ✓, geothermal, gas, coal, wind
- Spot market different

Spot market

- Electricity available for immediate delivery at price reflecting current scarcity
- Decides merit order for generation dispatch
- Scarcity price signal → “build more generation plant”

Scarcity price rise

- **Elsewhere** - caused by growth in demand
- **NZ** - caused by drop in supply
 - Problem #1 - happens every dry year
 - Problem #2 – leads to higher long term contract prices

Signal unheeded (1)

- **Elsewhere:** scarcity price signal → more generation plant built
- **NZ:**
 - conservation lobby prevents new hydro generation plant
 - government ban on new thermal generation plant (oil, gas, coal)

Signal unheeded (2)

- More reasons why high price signal doesn't result in new generation plant built:
 1. No separation of generation & retail
 2. Regional monopolies
 3. State ownership
- Result: inadequate supply, risk of blackout in dry years

Hedge issues

- Hedging often not available - more profitable for generators to sell via own retailer than to sell hedge contracts
- Hedging too costly – generators know power profile of big co's; charge more when close to 100% of need, even spot market cheaper

Impact on industry

- Forced to scale back production in dry winters, renege on international contracts
- Vulnerable competitive situation
- International credibility
- Impact on economy

Options

- Requirements re provision of hedging?
- Legislate to separate generators & retailers?
- Privatisise SOE generators?
- Reform rulebook?

Rules

- Mid '90s: voluntary governance led by supply & demand sides of market
- 3 rule books: market, settlements, standards
- Consolidation desired but industry vote inconclusive
- So govt decreed Electricity Commission, unwieldy rules
- “planner, investment controller, dry-year price controller, regulator, responsible only to Minister”

Where to?

- Business NZ forum – electricity producers & users
- Consensus: need for reform
- Day to day governance by industry players ✓
- Independent regulator ok but not ‘planner, controller, regulator, responsible only to Minister...’