

25 January 2022

Electricity Authority  
By email: [consult-2021dryyearreview@ea.govt.nz](mailto:consult-2021dryyearreview@ea.govt.nz)

## Consultation paper – 2021 Dry Year event review

Meridian welcomes the opportunity to comment on the independent review of the 2021 dry year event by MartinJenkins.

### Meridian broadly agrees with the findings of the independent review

Dry year events are an inevitable feature of New Zealand’s highly renewable energy system, as it relies heavily on hydroelectric storage. We think that it is wise to adopt a mindset of review and improvement. We support the efforts to consider performance and to look for opportunities to enhance the various roles and preparedness.

Meridian generates significant amounts of hydroelectric power, from the Manapōuri power station and the six hydro stations in the Waitaki chain. We have a responsibility to manage our water prudently, having regard to a number of risks and competing demands, including the dry year risk and future price and demand. We manage our water storage carefully to contribute to maintaining security of supply during periods of low in-flows to our storage lakes, and periods of high demand.

We agree with the finding that:<sup>1</sup>

“The system worked as intended. The 2021 dry year demonstrated the resilience of New Zealand’s electricity market mechanisms, even under the added stress of further environmental factors such as gas supply pressures. Water was preserved appropriately through use of alternative generation mechanisms, and the country was retained an appropriate hydro supply buffer to take forward to 2022.”

Preserving water in storage and retaining appropriate hydro storage buffers requires hydro generators to offer their generation in a way that achieves that outcome. As we noted in our submission<sup>2</sup> on the recent review of competition in the wholesale market, the pricing of hydro offers drives the volumes of hydro generation dispatched and as a result determines the impact on storage levels over time.

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<sup>1</sup> Page 5 of the review.

<sup>2</sup> Our submission is available [here](#). Our comments on hydro storage and security of supply are on pages 11-14 and pages 59 to 67 of the detailed appendix.

## **The Electricity Authority should consider the 2021 dry year review as part of its review of competition in the wholesale market**

The independent review finding that water was preserved appropriately is contrary to the speculation in the review of wholesale market competition that hydro generation offers “could” to some extent reflect the exercise of market power through economic withholding of generation. Any exercise of market power to withhold generation by increasing the price of hydro offers would result in less dispatch of hydro generation and an increase in storage over time and therefore an increase in the likelihood of spill. There is no evidence of this occurring, and to the contrary the independent review found that water was preserved appropriately. This supports the conclusion reached by the Authority that no evidence was found of the exercise of market power.

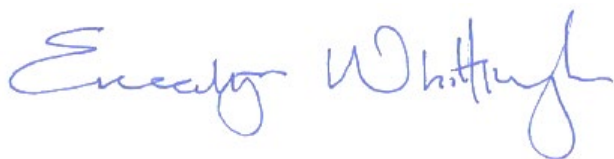
As we noted in our submission on the wholesale market review that there is no such thing as a “free lunch” when it comes to managing scarce hydro resources. If more hydroelectricity is generated in the short term at lower prices, the risk of shortage increases, as does the risk of much higher prices in the longer term. Generating more hydroelectricity at lower prices during dry periods also suggests that consumers should accept an increased risk of shortage and the potential for economic and political consequences, namely high prices and reactive regulatory responses. We consider that outcomes for customers are best served by prudent management of water storage.

The independent review also highlights the extent of gas market uncertainty, particularly in respect of “the lack of established contractual frameworks to reallocate resources within the gas market.”<sup>3</sup> Meridian agrees with the independent reviewer’s observations that gas users like Methanex may or may not contract to sell gas to electricity generators in advance or on an ad hoc basis in a dry year. This adds uncertainty not only for Transpower’s electricity risk curves but for the risk assessments made by individual generators in valuing their fuel in storage and deciding whether that storage should be used in the short term or conserved.

### **Electricity Authority communications during the dry period could have been better**

Finally, Meridian agrees that there is an opportunity for the regulator to have a stronger voice during dry years to reassure people that the market is working exactly as intended to preserve resources and ensure security of supply.<sup>4</sup> Part of that is communicating that high wholesale prices are an expected outcome in dry situations and are intended to conserve scarce resources. Importantly, most consumers are not exposed to high prices and there are options available to all consumers to manage or avoid wholesale price volatility. While Transpower holds considerable expertise in respect of security of supply, we agree that there is a role for more proactive communication from the Authority as the independent regulator. The Authority can consult with and collaborate with Transpower in delivering such communications during dry years.

Please feel free to contact me if you would like to discuss any aspect of this submission.



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<sup>3</sup> Page 15 of the review.

<sup>4</sup> See page 14 of the review.