



25 January 2022

Electricity Authority  
Wellington.

Via email: [Consult-2021DryYearReview@ea.govt.nz](mailto:Consult-2021DryYearReview@ea.govt.nz)

**RE: Consultation Paper— 2021 Dry Year Review**

Thank you for the opportunity to comment on this report

We can see the report and its conclusions being useful for the Authority in two respects, but beyond that caution its wider relevance. The two aspects being:

- Clarifying the issues that arose as to communication. Both what should be communicated and the channels.
- With adequate generation capacity, but constrained fuel availability, confirming capability of the supply side market settings to meet the 2021 energy requirements albeit at a greatly elevated price.

We note the following:

1. The report is very narrow in its focus. As stated in the paper “The Authority wants to learn from the management of the dry year event”<sup>1</sup> and appropriately points out the extensive work being undertaken in other studies including the Wholesale market competition review<sup>2</sup>.

The Martin Jenkins (MJ) report confirms the narrow focus of their review albeit noting relevant peripheral factors<sup>3</sup>. The report does not address changes to the market required with urgency to meet zero carbon targets.

2. The Authority points out

“The security of supply regime is an implicit part of the electricity market design. Coupled with some explicit policy settings, the regime’s purpose is:

(a) to ensure the electricity supply to consumers is resilient in the event of a dry year.

---

<sup>1</sup> Consultation paper, 1.2

<sup>2</sup> Ibid, 1.3, 1.4, 1.5.

<sup>3</sup> Ibid, MJ report, page 4.

That is, the role of higher prices is recognised as an appropriate means of rationing to ensure we get through the dry year, including promoting efficient operation in the event of dry-year scarcity and efficient investment in generation and demand response to manage dry years;”<sup>4</sup>

The MJ report makes no comment on the later part of this purpose i.e. we see no evidence that significantly higher prices have so far led to increased investment.

3. The MJ report briefly covers environmental factors including natural gas. While the word coal is mentioned twice, there is no mention of what some see as the crucial factor for winter 2021 of having had three servable Rankine units available at Huntly and the dynamics of coal supply which we understand came close to running out.

The report concludes that section with the statement “Far from demonstrating a fragile system, the 2021 dry year event highlighted a well-functioning market which responded as expected to even minimal levels of risk”<sup>5</sup>. Given the limited analysis mentioned in the report and narrow list of interviewees (see later comments), this claim is a real stretch. At most it can be concluded market settings contributed to avoiding a lack of fuel for generation. Evidence of a well-functioning electricity market is a stream of work well outside the scope of the MJ report. We also question how a report can credibly comment on market functionality without examining specifics relating to price. This is particularly important when market prices were often well in excess of both SRMC and LRMC of the most expensive generation, and in effect prices related to a theoretical value placed on water which of itself merits detailed consideration.

4. We find useful the sections dealing with: Policies underpinning the regime, transparency of information, the risk curves, and communications. There are valuable messages in here for the Authority and to a lesser extent Transpower.

The reported use of S46 to extract information from Transpower, particularly given the contractual relationship between the two parties, is concerning.

5. “The review canvassed the views of the major generators and the government.”<sup>6</sup> In several places the MJ report references market participants as the generators. The generators are only in business because of customers and the “government” bodies exist to serve the whole industry. The report does mention demand side interaction but input from a whole section of market participants is missing from this dynamic equation. As identified in our opening paragraph it restricts the conclusions as being specific to a very narrow issue. This may validly be the Authorities intent.
6. The MJ report states “Our scope also did not include the regime’s overarching policy purpose. This means that, while industrials did choose to shutter production in order to reduce electricity demand and conserve generation capacity, this is not a system failure and in fact was the system working as intended...”<sup>7</sup>. Given the authors did not talk to any “industrials” – refer interview list<sup>8</sup> - we question how any credibility can be placed on this statement.

---

<sup>4</sup> Ibid 2.1(a)

<sup>5</sup> Ibid, MJ Report, page 8.

<sup>6</sup> Ibid, 2.7

<sup>7</sup> Ibid, MJ report, page 4

<sup>8</sup> Ibid, MJ report, page 17

7. Under the heading of communications the MJ report states “A stronger public position could have been taken in the early parts of the year (January – March) to explain to media the emerging dry year situation, and the intended function of the market that people could expect to see (specifically, rising wholesale prices to encourage the conservation of water, and how it would not impact the retail consumer’s bills, and that the market was designed to avert the need for conservation campaigns or reduction in home power consumption).”<sup>9</sup>

We highlight the underlined section. While this may be valid in the short-term and allay fears in the mass market, it is disingenuous in such a report to not recognise the longer-term impacts of significantly elevated wholesale prices including how these flows in the futures market. Also, the fact most of the retail market in New Zealand is shielded via gentailer vertical integration and all the questions this raises.

8. We are unclear about the following section of the MJ report under Market Participants. “We see a potential weakness in the lack of established contractual frameworks to reallocate resources within the gas market. While there were clear agreements in place for demand reduction downstream of the generators, there are not equivalent relationships upstream with competitors for gas. This means that in dry year situations, agreements must be negotiated ad-hoc and there are no standard procedures in place.”<sup>10</sup>

It seems this relates to gas yet earlier on MJ notes “We lack specific expertise on gas industry data...”<sup>11</sup>

9. The opening sentence in the FINDINGS section of the MJ report starts with “The system worked as intended. The 2021 dry year demonstrated the resilience of New Zealand’s electricity market mechanisms”<sup>12</sup>.

This brings to mind a key message on day one of first aid training. It is no good having a perfectly treated broken leg if the patient has bled to death. Last year two large industrial consumers closed/decided to close current operations with energy costs being a key factor.

The MJ findings are specific to the fuels/generation market under a specific set of circumstances. Issues with the wholesale market run much deeper and are the reason for the on-going Wholesale electricity market review.

#### 10. In summary.

1. If an objective of the report was to establish the effectiveness of communication channels in the lead up to and during the 2021 dry winter, then there are some valuable insights in the MJ report.
2. If a further objective was to establish the effectiveness of the market in allocating fuel during winter 2021, then MJ give this a ‘tick’. However, without any substantiation in the report the reader is left wondering if this was really because of the market, despite the market, or just dumb good luck it rained when it did and before Genesis Energy ran out of coal.

---

<sup>9</sup> Ibid, MJ Report, page 14. Underlining added.

<sup>10</sup> Ibid, MJ Report, page 15

<sup>11</sup> Ibid, MJ Report, page 13.

<sup>12</sup> Ibid, MJ Report, page 5.

3. If further conclusions are to be drawn from the report then MJ will need to produce details of substantiating work, and the work cannot be considered complete without input from the demand side which will include a demonstrated understanding of the dynamics related to electricity in production, business, and social aspects of NZ.



**Alan Eyes** | Energy Manager  
New Zealand Steel

T +64 9 375 8393 | M +64 2 187 0629

E [Alan.Eyes@bluescopesteel.com](mailto:Alan.Eyes@bluescopesteel.com) | W [www.nzsteel.co.nz](http://www.nzsteel.co.nz)

A 131 Mission Bush Road, Glenbrook, Private Bag 92121, Auckland 1142