

25 July 2023

Sarah Gillies
Chief Executive
Electricity Authority
PO Box 10041
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Sent via email: fsr@ea.govt.nz

Dear Sarah

Ensuring an orderly thermal transition

1. This is a submission from the Major Electricity Users' Group (MEUG) on the Electricity Authority's (the Authority's) consultation paper "*Ensuring an orderly thermal transition*"¹ published for consultation on 13 June 2023.
2. MEUG members have been consulted on this submission. This submission is not confidential. Members may lodge separate submissions.

Key points for sub

3. MEUG believes that it will be important to carefully manage the energy transition, as we increase the level of renewable electricity generation while reducing the role of thermal generation in the electricity system. Concept Consulting's analysis provides useful insight into the shifting role for thermal generation over the coming decades. The Authority has canvassed the potential sources of thermal transition risk, based on information and incentive gaps, and the consultation paper also provides a good summary of options available to the Authority to address thermal risk.
4. As we raised in our recent submission to the Climate Change Commission,² we believe the transition away from thermal generation should be progressed as a priority for the Authority but will require coordinated input from many stakeholders to ensure we find the best solutions. The thermal transition will be greatly influenced by several Government policies already under development:
 - The Ministry of Business, Innovation and Employment (MBIE) work on an Energy Strategy, the New Zealand Battery project, and the electricity market measures work programme.
 - The Gas Transition Plan being prepared by the Gas Industry Company.

¹ https://www.ea.govt.nz/documents/3148/Ensuring_an_Orderly_Thermal_Transition_6_June_20231397102.1_1.pdf

² <http://www.meug.co.nz/node/1298>

- The Government's climate change policy, including the emissions reduction plans and emissions budgets under development by the Climate Change Commission and the current review of the Emissions Trading Scheme (ETS).
 - Work to improve the consenting approach for renewable electricity generation and transmission by MBIE, alongside the broader reforms to our resource management system.
5. Each of these workstreams has a significant impact on the direction of New Zealand's electricity system, and the role of thermal generation going forward.
 6. MEUG strongly believes that until we have clear direction on these policies, the system's need for thermal generation and its commercial viability will be difficult to forecast. It would be unwise to introduce other regulatory measures when there is a lack of clarity about the market failure that the regulations are attempting to address. We believe that an orderly transition will occur if the market can drive the change, and thermal players make decisions based on economic factors and incentives driven by the evolving market.
 7. Any additional or supplementary measures risk undermining the market signals. We note that even discussion of options to address this risk can create a degree of uncertainty, with market participants unclear around how the Authority and the Government may seek to intervene. We note that New Zealand has historically not provided any mechanisms / payments outside of electricity market. The Whirinaki station, while originally set up under the reserve energy scheme, was subsequently sold back into the market.
 8. We encourage the Authority to proceed with its market conduct monitoring measures for established through the Wholesale Market Review and work on winter 2023, and to closely monitor the role of thermal generation in the market, until government decisions on key energy policy are determined.
 9. If you have any questions regarding our submission, please contact MEUG on 027 472 7798 or via email at karen@meug.co.nz.

Yours sincerely



Karen Boyes
Major Electricity Users' Group