

27 August 2025

The Commerce Commission

via e-mail: registrar@comcom.govt.nz

Submission on the Proposed Arrangements for Huntly Unit 2 Authorisation

Introduction

1. Energy Resources Aotearoa is New Zealand's peak energy sector advocacy organisation. We represent participants from across the energy system, providing a strategic sector perspective on energy issues and their adjacent portfolios. We enable constructive collaboration to bring coherence across the energy sector through and beyond New Zealand's journey to net-zero carbon emissions by 2050.
2. Energy Resources Aotearoa welcomes the opportunity to comment on the Commerce Commission's ('the Commission') review of the proposed arrangements relating to Genesis Energy's Huntly Rankine Unit 2.

Key messages

3. Our submission highlights the following key points:
 - a importance of maintaining fuel and electricity security during a period of ongoing energy evolution and constrained supply. New Zealand has experienced several challenging winters and forward indicators suggest these pressures are likely to continue;
 - b optionality in the system is vital. Huntly Unit 2, alongside other thermal back-up, remains a critical element in ensuring resilience, reliability, and affordability for consumers; and
 - c the electricity system is complex and often ambiguous, with unpredictable wholesale prices and unclear investment signals in recent years. Even under ideal circumstances, it is unlikely all proposed new generation will be built. New Zealand's energy security should not be left to chance. Retaining Huntly Unit 2 through the proposed arrangements provides essential short-term capacity while the market brings new generation online.

Summary of the 'Proposed Arrangements'

4. The arrangements provide for the continuation of Huntly Unit 2 beyond January 2026. Without these arrangements, Unit 2 would be retired and its capacity removed from the market. Under the proposal:
 - a more capacity remains available to the market than in the counterfactual (retirement);
 - b Genesis has committed to making residual capacity available to the wider market, consistent with its past practice; and
 - c the arrangements ensure sufficient operational capacity is available to meet system needs during periods of peak demand and stress.

Context – Security Challenges

5. The last few winters have highlighted ongoing system vulnerability. The outlook is not improving. Gas supply remains uncertain, renewable build is not yet at scale, and demand for electricity is growing after a long period of remaining relatively flat.
6. Transpower's ten-year forward looking *System Operator Security Assessment (the 'SOSA')* and *Energy Security Outlook 2025* show North Island Winter Capacity Margins ('WCMs') falling below target thresholds from 2026 across most scenarios.
7. The 'low gas supply' and 'slow start thermal' scenarios accelerate the decline in WCMs. While batteries can assist with capacity, they do not generate power, and winter energy margins still point to a requirement for fast-start generation with access to fuels such as diesel or LPG, if natural gas cannot be obtained.
8. All projects in the WCM pipeline would need to proceed for margins to recover. We believe the likelihood of all projects going ahead to be optimistic.

Competition and Pricing Considerations

9. The arrangements increase available capacity relative to the counterfactual. This is the most likely way to place downward pressure on wholesale prices compared with retirement. There is nothing in the Proposed Arrangements to suggest that new entrants would find it more prohibitive to enter or participate in the generation side of the market.
10. Genesis has demonstrated a track record of offering residual capacity products to the market (e.g. *Market Security Options 2022*, *Huntly Firming Options 2023*). This provides confidence that market innovation will continue.

11. Counterparties to the arrangements, and all market participants, retain strong incentives to invest in new renewable generation. Thermal is a higher-cost option, but essential to manage variability and protect against shortages. In this way, thermal complements rather than competes with renewable investment.
12. Electricity sector emissions are already low by international standards. Maintaining security and price stability through Unit 2 supports electrification. This is one of New Zealand's most significant decarbonisation opportunities.

Commerce Commission Preliminary Issues

Jurisdictional threshold

13. We consider the Commission has jurisdiction to assess the arrangements.
14. While the arrangements could be viewed through the lens of competition law, the counterfactual shows that without them, capacity would be lost and market outcomes would deteriorate.

Market definition

15. The wholesale electricity market is the relevant market for assessment.
16. Both spot and contract markets are affected, but the key issue is whether sufficient physical capacity exists to keep prices competitive and security adequate.

With Proposed Arrangements

17. Unit 2 remains available, strengthening system capacity, improving resilience, and stabilising prices.

Without Proposed Arrangements

18. Unit 2 retires in January 2026.
19. Transpower's modelled WCMs fall below thresholds earlier and deeper, wholesale prices increase, and security of supply risks rise.

Alternative counterfactuals

20. Retaining Unit 2 without the Proposed Arrangements is highly unlikely given statutory and commercial barriers.
21. Other financing mechanisms are speculative and cannot be relied upon in the time available.

Timing Considerations

22. A cold survey to recertify Unit 2 requires 3–6 months and must commence in January 2026. Authorisation must therefore occur ahead of this to allow for securing resources. The Commission’s current statutory decision deadline of February 2026 risks being too late to ensure availability for winter 2026. We urge the Commission to consider timing as a critical factor in its process.

Public Benefits

23. There are several public benefits from granting authorisation for Huntly Unit 2 to continue to operate under the Proposed Arrangements:
- a security of supply: greater capacity available to the market relative to the counterfactual;
 - b lower wholesale prices: reduced scarcity pricing risk;
 - c support for renewables: thermal complements renewable investment by providing essential backup; and
 - d decarbonisation: stable and secure electricity supply underpins electrification of transport and industry, a key emissions reduction pathway.

Conclusion and Next Steps

24. Energy Resources Aotearoa supports the proposed arrangements as a practical and necessary measure to maintain security of supply and provide resilience as energy supply chains adapt and evolve to lower emissions outcomes.
25. We agree with the Commission that a full assessment of public benefits and detriments is required, but the existing evidence strongly supports approval. We also emphasise the importance of timing to ensure Huntly Unit 2 is available for winter 2026.
26. We welcome the opportunity to remain engaged and to provide further input as the Commission develops its draft determination.