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Media release

Electricity Commission responds to improved hydro situation

The Electricity Commission is responding to the improved situation in the South Island hydro storage lakes by lowering the Commission's risk meter from high to medium and reviewing its offer price for Whirinaki generation.

The changes have been made as storage levels have risen through the Commission's 'minzone'*. The Whirinaki offer has been revised back to the variable cost of fuel (currently \$387/MW). Up till now, the Commission has held the offer price below the actual fuel cost to enhance security of supply and ensure thermal generation was maximised during a period of low hydro inflows.

The Commission is also now commencing a review of the performance of the electricity market during winter, which had been previously announced when the Commission released its Market Design Review Options Paper.

Two external reviewers – company director John Isles and former Contact Energy CEO David Hunt – will lead the appraisal. It will examine dry year risk management during winter 2008, and identify any options to improve the policy framework. It will establish the facts of what occurred this winter and then review a range of areas, including the policy framework and the incentives it creates, and the extent to which actions of parties differed from those expected under the existing policy framework. The review is expected to report back to the Commission in December. A copy of the terms of reference is available on the Commission's website.

Commission Chair David Caygill said: "The Electricity Commission has been closely monitoring hydro inflows and the performance of the electricity market this year. We have had one of the lowest inflow sequences recorded. That has stressed the electricity system but it has coped, and consumers have not had their electricity supply interrupted. That shows how robust the electricity supply is in New Zealand.

"We are now confident that the situation has improved so much that we can lower the Commission's risk meter and reoffer Whirinaki," said Mr Caygill. "Now that the system is operating more normally, the Commission is starting its review of how the market

performed in winter. We have appointed two external reviewers who will look at whether the Commission's policy has been effective in managing dry year risks and the lessons we need to learn looking forward. The review is expected to be completed by December."

ENDS

* The minzone is an Electricity Commission method of measuring security of supply based on hydro storage levels. At the minzone there is approximately a 1% chance that electricity demand may not be met at some time in the future, ie if the worst recorded hydro inflow sequence is repeated and nothing else is done to conserve hydro supplies.

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