Bryan Leyland: Industry's bright sparks thin on the ground

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Huntly power station has used coal to generate power during dry periods. Photo / Amos Chapple

The news that Huntly power station is, from the point of view of Genesis, uneconomic and too expensive to run is no surprise, as it is an old station with high operating costs. However Huntly is critical to providing a reliable and economic supply because it is the only station that can come to the rescue in dry years using its stockpile of coal.

The fact that Genesis is unable to recover the costs of keeping Huntly available highlights the failure of our electricity market to provide the reserve capacity the system needs.

Without adequate reserve capacity, we cannot have a reliable and economic supply. On many occasions Huntly station has provided an invaluable service by running at full output during the late summer and autumn to build up storage in the hydro lakes and during the winter to meet peak demands.

I pointed out in 1997, and the government discovered in 2003, that our electricity market ignores the need to reward generators for providing the reserve generation we need for dry years, system emergencies, major failures and, more and more, to back up windpower when the wind isn't blowing.

The architects of the electricity market were ignorant of – or chose to ignore – the hard learnt lessons of the past. Because New Zealand gets 65 per cent of its power from hydropower stations with limited storage, it needs power stations like Huntly that can come to the rescue in dry years.

Geothermal stations can't help because they run flat-out all the time. Gas-fired stations are also unable to generate extra power in dry years because of their take-or-pay gas contracts.

Wind turbines generate least in the autumn and early winter when the lakes are low and prices are high.

To me, it is blindingly obvious that the electricity market must cover the costs of keeping reserve stations on standby in case they are needed. I cannot understand why this simple fact escaped the architects and reviewers of the electricity market.

The latest review of the electricity market is typical of the ones that preceded it. It never even mentioned the original objective: "a wholesale electricity market that would ensure that wholesale electricity is delivered at the lowest cost to the economy" – even though it is obvious that the market has, in a big way, failed to do just that.

It didn't even comment on the chart in the report that showed while the cost of power to consumers increased by $100 million a year from 1974 to 2000, it jumped to $400 million per year from 2000 when the market first got into action. According to my calculations, about $5 billion of the extra $9 billion raked in since 2000 was needed to cover load growth, new stations and new lines. The remaining $4 billion was profit.

The report also failed to highlight the huge profits the market handed out to the hydropower generators, insufficient dry-year reserves, the rundown of our once-world leading demand side management system using ripple control, and many other shortcomings.

What New Zealand consumers were entitled to expect was a report that identified the problems with the present market, analysed exactly why they happened and then proposed practical options for solving them.

Had it done so, the review would have been a valuable document. Instead, the report took the view that there is no alternative to our current market and all that it needs is a little bit of tweaking. Yeah right!

The solutions it suggests are of the "suck it and see" type, with no guarantee that they will solve the problem of steadily increasing prices, with shortages and huge price spikes during a dry year.

Perhaps, one day, we'll get a review that acknowledges that price rises since 2002 have been excessive and gives top priority to the interests of the consumer. A review that analyses the shortcomings of the existing market model and considers alternatives – such as the truly competitive single-buyer model that was discarded without explanation by the original architects of the electricity market. A model that would have delivered "a wholesale electricity market that would ensure that wholesale electricity is delivered at the lowest cost to the economy".

Sadly, for as long as the Government continues to seek advice from a small group of consultants and others in Wellington who closed their minds to the possibility that our electricity market model is fatally flawed, the recent history of increasing prices and frequent shortages will continue.

To add to our woes, we are now threatened with an Emissions Trading Scheme that is likely to increase electricity prices by 40 per cent and, if anything, increase worldwide emissions of greenhouse gases. Do we really need to add to the damage that our electricity market has already done to our economy?

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