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Commerce Commission

By email registrar@comcom.govt.nz

Huntly Authorisation

1. Transpower welcomes the opportunity to provide our views to the Commerce Commission (Commission) on the application under section 58 of the Commerce Act 1986 from Genesis Energy Limited (Genesis), Contact Energy Limited (Contact), Meridian Energy Limited (Meridian), and Mercury Energy Limited (Mercury). The application seeks authorisation to allow Contact, Merdian, and Mercury to access notional generation capacity from Genesis's Rankine Units at Huntly Power Station.

2. Below, we set out the current security of supply context in the electricity system before offering comments on the counterfactual, and likely benefits and detriments from the proposed arrangements.

3. It is clear from our analysis that the ongoing maintenance and fuelling of all three Huntly Rankine units is necessary for the next decade, alongside increased new development, to maintain a secure supply. While acknowledging the need for careful consideration, our observation is that early certainty of outcome will enable electricity and gas customers more time to react to the outcome, which is of greater importance given our energy constraints.

Security of supply – Energy risks

4. The Huntly Rankine Units' dual fuel capability provides firm energy supply critical for dry year cover, especially given the severe and rapid decline in actual and forecast gas production.

5. The Energy Security Outlook (ESO)[1] is a monthly report that helps track how secure New Zealand's electricity supply might be over the next two years. It uses two key tools, the Electricity Risk Curves (ERCs) and Simulated Storage Trajectories (SSTs), to show how likely it is that we'll have enough electricity, especially during dry periods when hydro lakes are low.

6. Our recent ESOs indicate that energy risks will be high in 2026 without a third Rankine unit. The Taranaki Combined Cycle (TCC) plant is assumed to retire early next year as scheduled in

[1] Energy Security Outlook | Transpower

all scenarios.[2] Monthly system operator reports since May 2025 shows that keeping the third Rankine available greatly reduces these risks (see table below).[3]

Table 1: Number of the 93 SSTs crossing the Watch Curves[4] in 2026

ESO version	Base case: Two Rankines in 2026	Scenario: Three Rankines in 2026
May 2025	17	0
June 2025	11	1 reaches the Watch ERC
July 2025	5	0

7. To reduce energy risks in 2026, both fuel (controlled hydro storage, gas, and coal) and available generation plant are needed. As gas supplies are limited and hydro storage depends on weather, keeping Rankine generators that can use gas or coal (or biomass in the future) is vital for maintaining power system security during prolonged dry spells and/or significant unplanned outages—such as the 28-week outage of Huntly E3P 400 MW generator in 2023/24.

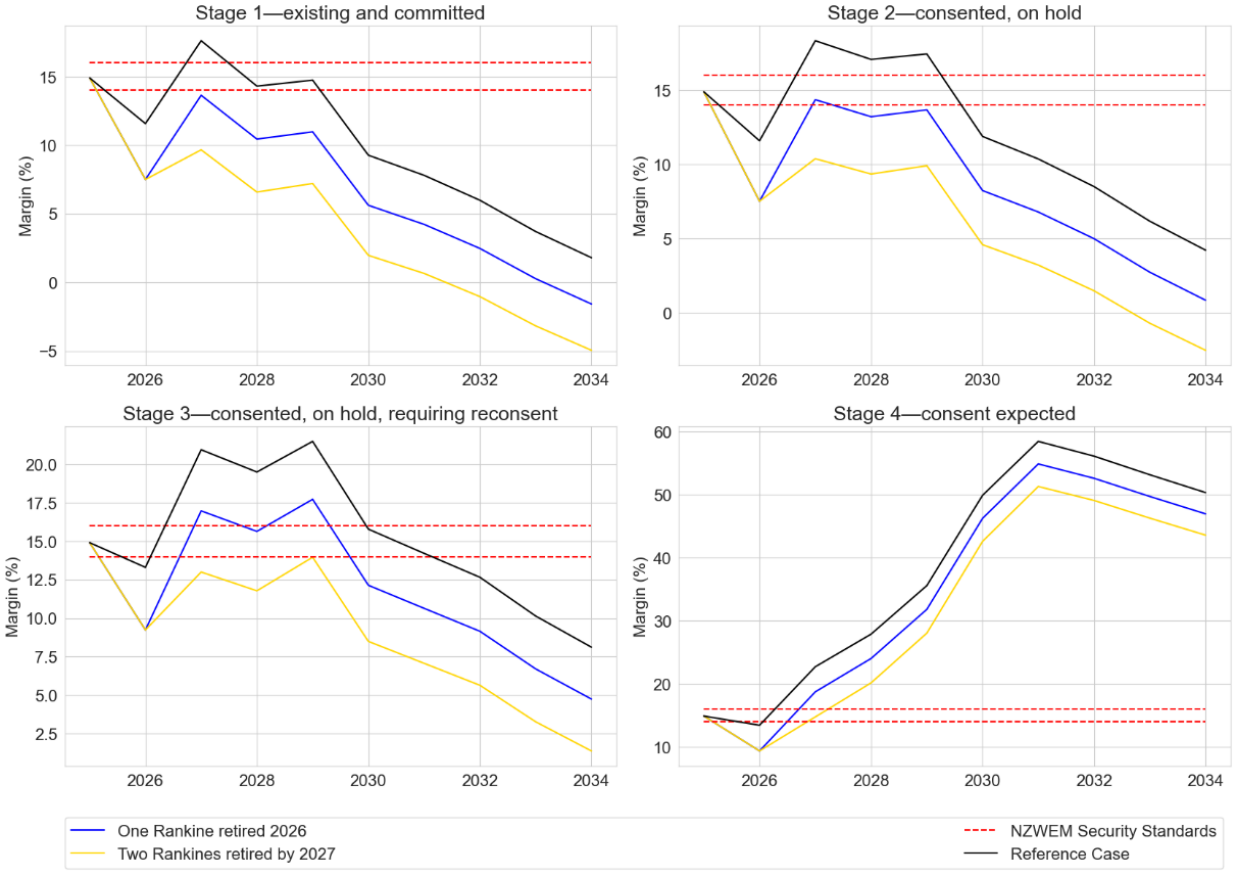
8. The Security of Supply Assessment 2025 (SOSA),[5] which provides a 10-year view of energy (and capacity risks), projects that New Zealand's winter energy margin (NZ-WEM) may fall below the lower security standard by 2026 in the Reference case, which assumes three Rankine units available. This is mainly due to the decline in gas availability, refer to the black line in Figure 1. A scenario with one Rankine unit retiring in 2026 and another unavailable from 2027—due to outages, thermal constraints, or limited fuel—is also considered, refer to the yellow line in Figure 1.

9. We have assessed a variation of the Rankine availability to that published in the 2025 SOSA. This variation shows the effect of a single Rankine retirement in 2026, refer to the blue line in Figure 1. Under this scenario, the NZ-WEM falls below the lower security standard in 2026, requiring even faster new generation build (than the reference case) to stay above the threshold. Current consented projects are insufficient, so additional unconsented generation will be needed over the next decade to raise the NZ-WEM above the lower standard.

10. Risks like delays in new plant commissioning, further reduced gas supply, or higher demand could worsen the situation beyond current projections. Recent news and market commentary[6] has highlighted increased gas supply risks in the near term (next 1-2 years) which would further stress the electricity and gas markets, further highlighting the urgent need for diversified fuel sources to help manage New Zealand's security of supply risks.

[2] This is in line with Contact Energy's statements. See page 35 Integrated Report | Contact Energy.
[3] The monthly reports are available here: System Operator | Electricity Authority
[4] 'Watch Curve' is the one percent risk curve.
[5] 2025 SOSA - Final Report
[6] See Māui gas field at end of life, timing TBD | BusinessDesk and Enerlytica reporting on Maui available to subscribers (Maui - What, why, when and how? | Enerlytica)

Figure 1: New Zealand Winter Energy Margin with Rankine Availability Scenarios



Source: 2025 SOSA

Security of supply – Capacity risks

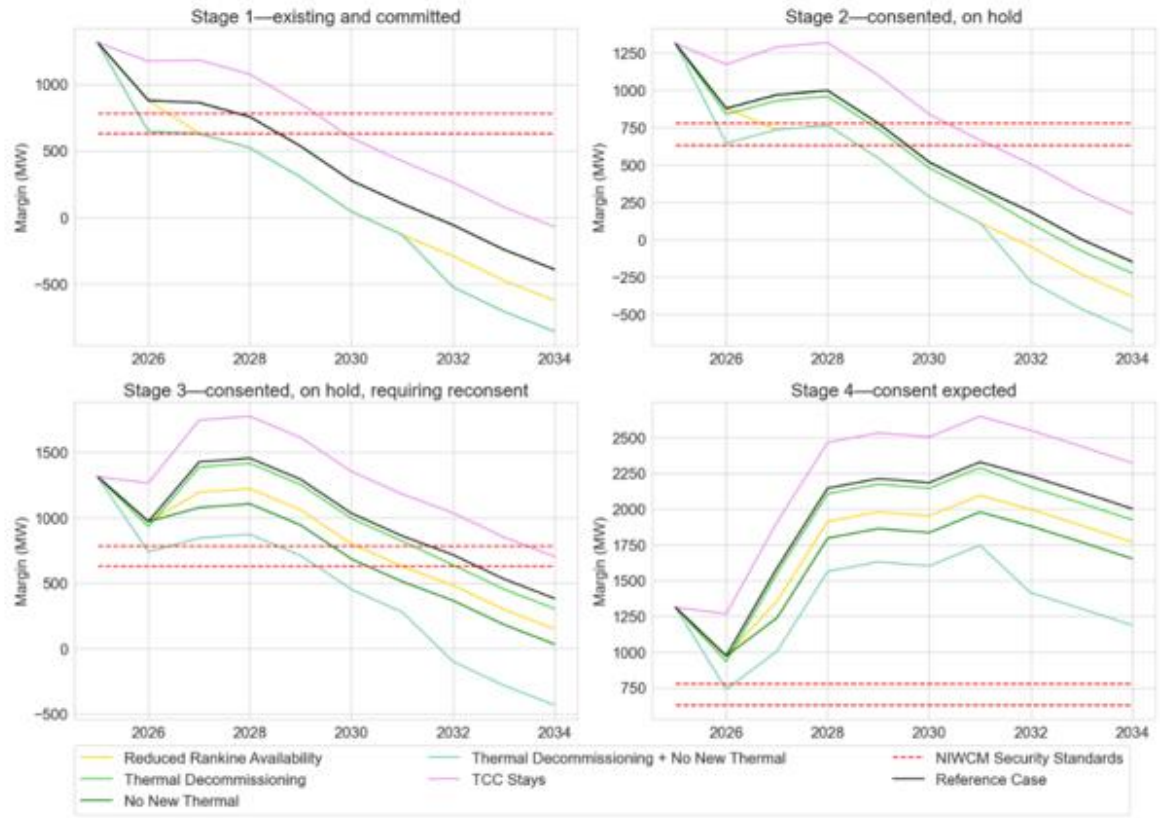
11. When online, Huntly Rankines also offer flexible generation during peak demand, especially in winter.[7] When temperatures drop by 1°C, demand can rise by around 150 MW—over half of a Rankine unit's capacity. Reliance on these generators increases further during cold, calm winter mornings and evenings when wind and solar output is low and demand peaks.

12. In the SOSA, an assessment is conducted of the North Island winter capacity margin (NI-WCM) relative to the security standards. The analysis indicates that, based on the reference case, the NI-WCM does not meet the lower security standard in 2029, given existing and committed generation. The reference case considers only two Rankines contributing to the winter peak, as the third Rankine unit is primarily maintained for energy-constrained needs requiring extended operation and is not typically online for short-term peak load capacity-constrained situations. We would not expect a reduction in gas availability to generators to change this materially, because gas supplies would continue to be prioritised to more flexible gas generators outside of extended dry / higher-priced situations.

[7] The Rankines are less flexible than some other units due to their start-up times; once the units are committed and running they are quite flexible

13. If a Rankine unit retires, the reference case (black line in Figure 2) suggests NI-WCM will fall below the lower security standard by 2029—a capacity risk less severe than the previously mentioned energy risks.

Figure 2: North Island Winter Capacity margins for the reference case and sensitivities that affect thermal unit availability



Source: 2025 SOSA

Risks of the Counterfactual

14. Without the arrangement, based on its statements we consider that Genesis is unlikely to maintain Unit 2, removing an important safeguard against dry year energy and capacity risks.

15. Based on the current forecast of consented generation, to cover the dry year risk, the SOSA shows that we will need three Rankine generators with adequate fuel for the next decade.

16. We have not undertaken price analysis. However, if a third unit is not available, given that there is insufficient new generation consented in the short term, we would expect to see higher prices in the Counterfactual.

Balancing the public benefit

17. We consider that the proposed arrangement supports national resilience and aligns with MBIE's view that thermal backup will be essential in coming years.

18. There are significant limitations in the gas market, resulting in challenges and increased costs for gas supply, especially for industrial users. Increasing the amount of thermal

generation capable of using coal can decrease the electricity sector's dependence on gas, potentially providing economic effects that extend beyond the electricity sector.

19. We do not consider that the proposed arrangements would affect the day-to-day operation of the market as the third Rankine is primarily needed during energy-constrained dry-years.

20. The Electricity Authority's market monitoring function provides a safeguard against misuse of market power. The Authority can investigate and propose disclosure, Code or legislative changes. In addition, the Commission could consider putting in place additional requirements on the parties to mitigate any risks of misuse.

21. We consider that the public benefits from the proposed arrangements outweigh any concerns about the lessening of competition.

Timing

22. The Commission's statutory deadline is February 2026. Genesis has indicated a need for certainty by early November 2025, with contracts required from 1 January.[8] This timeline reflects previous experience that arranging materials, resources, and completing major maintenance usually requires at least six months of preparation. Similarly, Genesis reports that a comparable lead time is needed to secure coal deliveries to be available at Huntly for winter 2026.

23. A delayed decision may affect the viability of the arrangement and impact supply security, particularly for winter 2026. This could also influence industrial gas market consumers' access to gas if thermal electricity generation becomes more dependent on gas as a fuel source. The recent commentary around gas supply risks from Māui in the next 1-2 years further highlights the need for greater certainty in alternative fuel sources to manage security of supply risks.

24. Early certainty helps all wholesale market participants—both suppliers and purchasers—plan and manage risks for winter 2026, covering asset availability, outages, hydro storage, thermal fuel supply, and financial risk management. Delays in contracting thermal fuels and generation contributed to the high prices seen in 2024 and earlier action in 2025 continues to moderate prices during periods when hydro storage is lower relative to historic mean (as is currently the case).

25. We urge the Commission to expedite its decision and welcome any further discussions that may aid in this process.

Yours faithfully,

James Kilty
Chief Executive

[8] https://www.genesisenergy.co.nz/about/news/term-sheet-signed-for-huntly-to-support-national-energy-security, and Agreements signed, Huntly capacity to support national energy security | Genesis NZ