The economics of four future electricity system pathways for New Zealand

### **Media Briefing**

Scott Kelly 14<sup>th</sup> June 2023

Modelling prepared for the Parliamentary Commissioner for the Environment. The opinions and views expressed in this presentation are the authors own and do not necessarily reflect the views of the PARARGER and the Parlie of th

Te Kaitiak

Hon Dr Megan V Minister of Ener 20 December 20 Note on co energy stra New Zealand is of How we produce agricultural emis agricultural emis Policy choices at

energy system." consequences o alone to resolve For that reason, publish a whole strategy will not

any such strate overtaken by de The lengthy pro arguments, nan aligned with the

public agents ov could commit No For example, a c facility to resolve merits of all pot system-wide cor whole-of-system

The Boston Con electricity syste Two-thirds of th distribution net digital future.

of scope for the elements that n can proceed on with the clarity I

<sup>1</sup> https://www.bc

### PCE communications on energy

- ▶ 11<sup>th</sup> March 2022 Letter to Minister Woods, Shaw, Robertson.
  - Caution the development of green hydrogen industry for export
- > 20<sup>th</sup> December 2022 Letter to Minister Woods.
  - Urging government to move more swiftly with energy strategy
- > 20<sup>th</sup> December 2022 Note on need for energy strategy
  - Move forward with low regrets options
  - Develop deeper understanding of system wide impacts
  - More care needed before committing to projects with path dependence
- 2<sup>nd</sup> June 2023 Submission on the national direction on renewable electricity generation and transmission
  - Specific needs of environment should be added
  - Effects management framework should not include compensation
  - Offsetting used in narrow circumstances

|                        | 00 B   |   |   |
|------------------------|--|---|---|
| entary t<br>ki Taiao a | Commissioner for the Environment PO Box<br>Welling<br>Tel 64<br>pce.part | 10 241<br>ton 6140<br>4 495 8350<br>fiament.nz                  |   |
| Noods                  | Resources  | alla aggi anna ag   |   |
| gy and R               | esources   | I   |   |
|                        | t the development of Now 7   |   |   |
| nside<br>ategy         | rations for the development of New Z                                     | ealand's  |   |
| on the                 |  |   |   |
| e, tran<br>e chan      |  |   |   |
| ssions                 | Parliamentary Commission   | er for the Environment  | PO Box 10 241<br>Mellipetro 5140  |
| nd inw<br>or both      | Te Kaitiaki Talao a Te Whare Par   | remata  | Wellington 6140<br>Tel 64 4 495 8350<br>pce parlament nz  |
| They w<br>f these      | Hon Dr Megan Woods   |   | pce.parliament.nz   |
| f these<br>. Guid      | Minister of Energy and Resources<br>Parliament Buildings                 |   |   |
| I weld                 | Private Bag 18041<br>Wellington 6160                                     |   |   |
| of-sys                 | 20 December 2022   |   |   |
| ty right<br>cision     |  |   |   |
| cess co<br>atives      | Dear Megan   |   |   |
| wider                  | I noted with approval your recently and<br>energy strategy. I was how    | ownced intention of nulling tog                                 | zether a whole-of-system  |
| ew Zea                 | before the end of 2024. Iv   |   |   |
| decisio                | Scarcely a month goes by<br>proposals are evidence that                  | Ta Katiaki Tajar  | y Commissioner for the Environment PO Box 10 241<br>Wellington 6140<br>Tel 64 4 471 1669  |
| e dry-                 | transformation is inevitabl<br>the energy system that em                 | All a contract of   | io a le Whare Paremata Tel 64 471 1669<br>pce.parliament.nz   |
| ential<br>nseque       | compares scenarios deplo<br>on a fair and consistent ba                  |   | 10 Te   |
| n ener<br>sulting      | One of the most significan   | Hon Dr Megan Woor   | ds, Minister of Energy and Resources  |
| m infra                | at Lake Onslow to mitigate<br>discontinued. Like any maj                 | Parliament Buildings<br>Private Bag 18041                       |   |
| is sper<br>work i      | technically deliverable and<br>the need for scrupulously                 | Wellington 6160   |   |
|                        | The attached note elabora  | Parliament Buildings  | inister of Climate Change   |
| energ                  | that have been raised for a<br>in committing to path dep                 | Paniament Buildings<br>Private Bag 18041<br>Wellington 6160     |   |
| eed to<br>a no-n       | Charting the course of a de<br>economic – significance. T                | 111-C 01  |   |
| a no-n<br>they n       | need to be made. To that a   | Hon Grant Robertso<br>Parliament Buildings                      |   |
| _                      | Environment Act 1986 to r<br>finalisation and submission                 | Private Bag 18041<br>Wellington 6160                            | Parliamentary Commissioner for the Environment<br>Te Katalaki Tako a Te Whare Paremata  |
| cg.com/                | finalisation and submission<br>Wishing you a well-deserv                 | Wennington  | Te Katiaki Tako a Te Whare Päremata   |
|                        | With kind regards  | 11 March 2022   | Submission on   |
|                        | J  | 1. Proj. 1  | Consultation on Strengthening national direction on renewable   |
|                        | 1  | Dear Ministers,<br>I am writing to draw                         | electricity generation and electricity transmission   |
|                        |  | addressed before an   | 2 June 20   |
|                        | Rt Hon Simon Upton   | energy resources to<br>Zealand.                                 | To Ministry of Business, Innovation and Employment and<br>Ministry for the Environment  |
|                        | Parilamentary Commissio<br>Te Kaitiaki Taiao a Te Wha                    | Green hydrogen cou  |   |
|                        | CC: Hon Grant Robertson.   | Zealand, such as lon<br>However, producing                      | Submitter details   |
|                        | CC: Hon Grant Robertson,<br>Hon David Parker, Ministe                    | cost since there are<br>beneficial uses for th                  | The Parliamentary Commissioner for the Environment, Simon Upton<br>Phone: 04 471 1669   |
|                        |  | transparently balanc  |   |
|                        | I  | Green hydrogen tecl<br>decade or more, bot                      | The Parliamentary Commissioner for the Environment  |
| -                      |  | of recent statements  | The Parliamentary Commissioner for the Environment was established under the Environment Act<br>1986. As an independent Officer of Parliament, the Commissioner has broad powers to investigate   |
|                        |  | to the development<br>Opening Statement                         |   |
|                        |  | "New Zealand is unit  | Commissioner is wholly independent of the government of the day. The current Parliamentary<br>Commissioner for the Environment is Simon Upton.  |
|                        |  | using renewable ene<br>regional industries."                    | Key Points  |
|                        |  | Tegestre.   | <ul> <li>The consultation document, and its proposals, focus principally on the development of long-lived<br/>physical ascers that have extentially circliferant environmental impacts. Given that the proposal</li> </ul>  |
|                        |  | <sup>1</sup> Ardern, J., 2022. Jacin<br>jacinda-ardern-prioriti | physical assets that have potentially significant environmental impacts. Given that the proposed<br>national direction is to be made under environmental protection statutes, explicit consideration<br>environmental impacts, especially in areas with significant environmental values, is needed. To   |
|                        |  | J   | address this:<br>o Specific requirements to consider the operational and functional needs of the environment  |
|                        |  | 1   | should be added.<br>• In the guidance on both generation and transmission projects in areas with significant  |
|                        |  |   | environmental values the phrase "are enabled if the national significance and benefits of<br>the ETN activities outweigh those remaining adverse effects" should be removed.  |
|                        |  |   | <ul> <li>Any decision on a project with more than minor residual effects (after applying the effects<br/>management framework) that is located in an area with significant environmental values<br/>should be made by the Minister for the Nurorment et the Environmental Function<br/>Authority. Most of the issues regarding national significance will be beyond the expertise<br/>regional councils.</li> </ul> |
| /                      |  |   | <ul> <li>The effects management framework used should not include compensation, and offsetting<br/>should only be allowed in very narrow circumstances.</li> </ul>  |
|                        |  |   | <ul> <li>The consultation document proposes liberalising the placement of generation and transmission</li> </ul>  |
|                        |  |   | assets in areas with significant environmental values but provides no robust, quantifiable basis for<br>estabilishing the necessity for surgh proposals or the scale of necessity that would justify them. Th<br>assessment should be completed and considered before decisions are made on national direction  |
|                        |  |   |   |
|                        |  |   |   |

### NZ Battery Project

- Dry-year risk deficit is estimated at between 3-5 TWh
- NZ hydro lakes only have 4.5 TWh of storage, compared to 25 TWh of flows
- Two options to resolve the 'dry-year' risk problem
  - 1. Onslow (only single solution)
  - 2. Portfolio approach (including bioenergy, geothermal, curtailing green hydrogen)
- Climate change would provide some mitigation of dry year problem (only about 1-2%)

'Failure to address dry year risk in an increasingly renewable electricity system will impose significant costs on New Zealand'

### EMBARGOED until Friday 16 June 2023 at 5:00 am Options considered by MBIE

Option 1 Onslow:

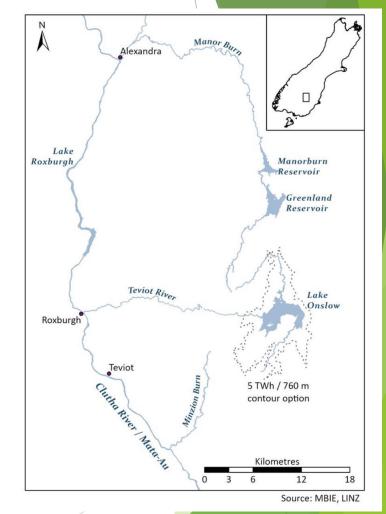
- 1 GW 15% of peak demand
- 5 TWh 12.5% of annual demand
- 8-10 year construction time
- 1.5 GW and 8.5 TWh option possible
- Technically feasible.

Option 2 Portfolio:

- 1.2 GW portfolio 2.4 TWh and
  - Combustion biomass, geothermal, interruptible hydrogen w ammonia

Counterfactual:

- 100% 'overbuild' renewables
- ▶ 1,200 MW capacity
- 230 MW green-peakers EMBARGOED until Friday 16 June 2023 at 5:00 am



### **MBIE Comparisons**

| Criteria                    | Onslow     | Portfolio option |
|-----------------------------|------------|------------------|
| Capex                       | \$15,493 m | \$13,275 m       |
| Net Present Cost            | \$9,590 m  | \$13,550 m       |
| 42-year project expenditure | \$28.7     | \$49 billion     |
| BCR @ 5%                    | 0.42       | 0.40             |
| BCR @ 2% (with NZAS)        | 1.12       | 0.73             |

# The economics of four future electricity system pathways for New Zealand

### EMBARGOED until Friday 16 June 2023 at 5:00 am Electricity system pathways

| Base case                         | Tiwai remains operational. New generation is built under prevailing economic and market conditions. Carbon prices rise in-line with meeting net zero targets going from \$50 to \$250 by 2050.  |
|-----------------------------------|---|
| Pathway 1<br>Tiwai Closes         | The Tiwai aluminium smelter is shutdown and electricity from Manapouri<br>hydroelectricity dam flows into the grid. This lowers wholesale<br>electricity prices and causes spill and other inefficiencies. Requires less<br>growth in renewable energy over the short term.   |
| Pathway 2a & 2b<br>Green Hydrogen | Tiwai remains operational. A new 500 MW Southern Green Hydrogen<br>facility (SGH) is developed. An 'option' fee is paid to the hydrogen plant<br>to curtail production and provide flexibility to the grid. Hydrogen is<br>exported overseas. New renewable generation is required to meet<br>demand. Pathway 2a: fixed supply. Pathway 2b variable supply. |
| Pathway 3<br>Onslow               | Tiwai remains and Onslow is built. Lake Onslow supports the grid in<br>continuous operation mode by pumping when prices are low and<br>generating when prices are high. Pumping and generation is optimized<br>through water values in the Energy Link model.   |

## Energy Link Model



- Uses full range of 91 historical inflow-wind-sun scenarios available
- Uses E-market and I-Gen model to estimate prices and investment
- Daily wholesale electricity prices estimated to 2050
- Carbon prices increase from \$50 to \$250 by 2050
- LCOE for different technologies were provided as inputs by Energy Link
- Natural gas prices taken from latest natural gas forecast price used by Energy Link

### Model assumptions

- No hard renewable electricity targets for any pathway pure market driven approach
- Base case represents BAU and is used as the counterfactual scenario
- Network infrastructure upgrade assumptions consistent across scenarios
- ► HVDC link upgraded to 1400MW.
- Assumptions about fossil fuel plant closures:

| Plant                               | Status        | Base Case | 1: Tiwai Closes | 2a: SGH Baseload | 2a: SGH Dispatched | 3: Onslow |
|-------------------------------------|---------------|-----------|-----------------|------------------|--------------------|-----------|
| TCC CCGT                            | Closure       | Oct-23    | Oct-23          | Oct-23           | Oct-23             | Oct-23    |
| Huntly 1 <sup>st</sup> Rankine Unit | Closure       | Oct-27    | Sep-24          | Oct-27           | Oct-27             | Oct-27    |
| Huntly 2 <sup>nd</sup> Rankine Unit | Closure       | Jan-30    | Sep-24          | Jan-30           | Jan-30             | Jan-30    |
|                                     | Winter Mode   | Oct-28    | Apr-25          | Oct-28           | Oct-28             | Oct-28    |
| e3p (Unit 5) CCGT                   | Dry Year Mode | Oct-31    | Apr-30          | Oct-31           | Oct-31             | Oct-31    |
|                                     | Closure       | Oct-37    | Jan-34          | Oct-37           | Oct-37             | Oct-37    |

### Pathway assumptions

#### Pathway 1: Tiwai Closes

- Tiwai closes in 2025
- Electricity flows to grid
- Standard market conditions

#### Pathway 2: SGH

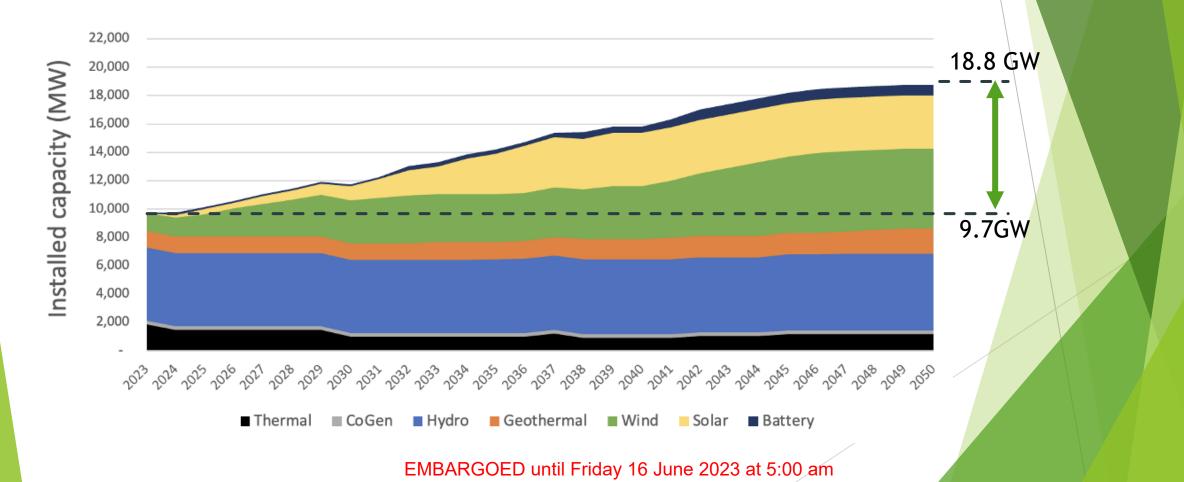
- 2a: Fixed production
- 2b: Variable production
- Hydrogen exported
- Curtailed production
- Tiwai demand response
- 500 MW plant
- CAPEX of \$750m
- OPEX of \$7.5m per year
- Capacity factor of 77%
- Life of 30 years

### Pathway 3: Onslow

- 8-10 years to build
- Can generate while pumping
- 1 GW and 5000 GWh
- Operates in continuous mode
- Uses "water values"
- CAPEX of \$15 billion
- OPEX of \$42 million per year
- Life of 100 years

## **Demand projections**

Pathway 0: Base case (installed capacity)

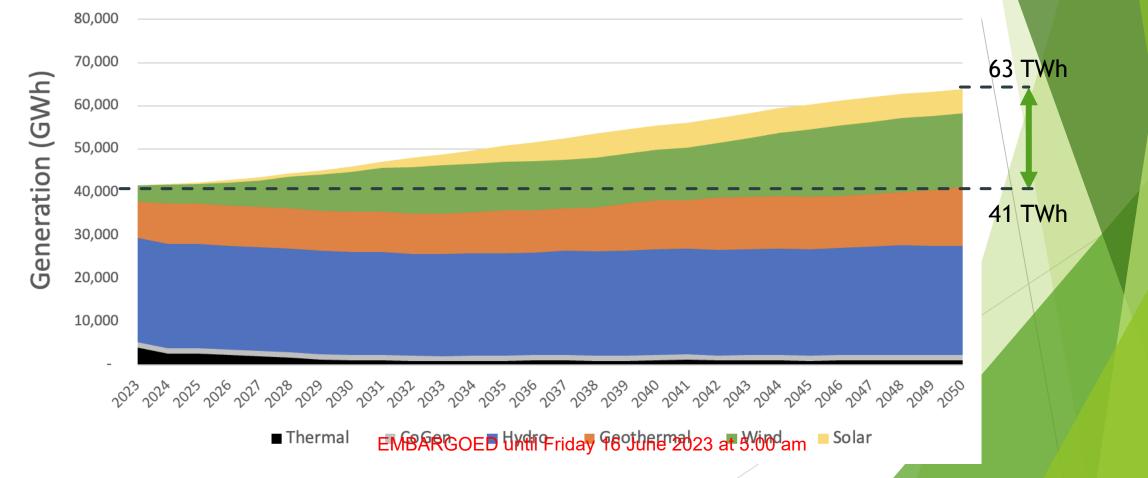


### **Generation projections**

Pathway 0: Base case (generation)

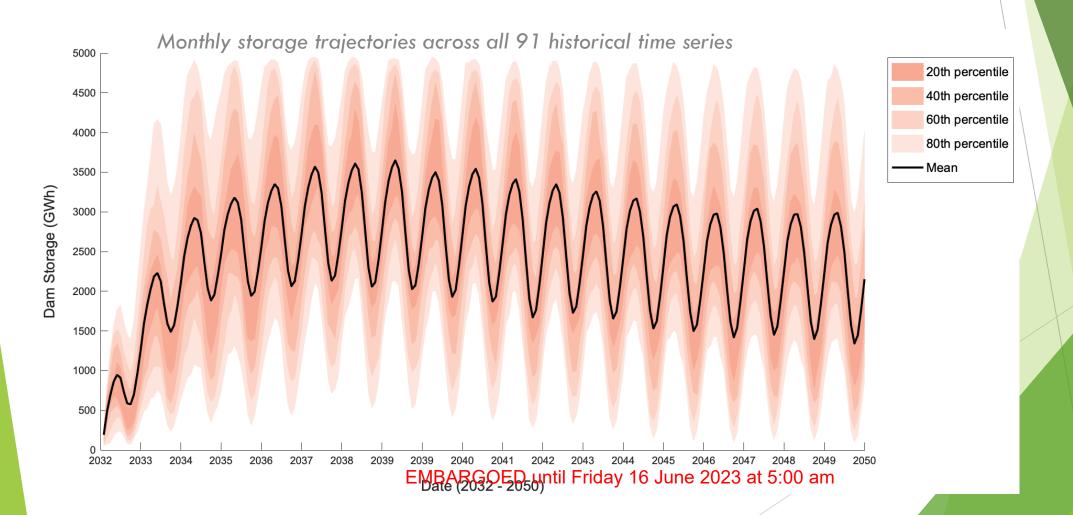
22 TWh of new generation required by 2050

Renewables supply 96% of demand by 2050



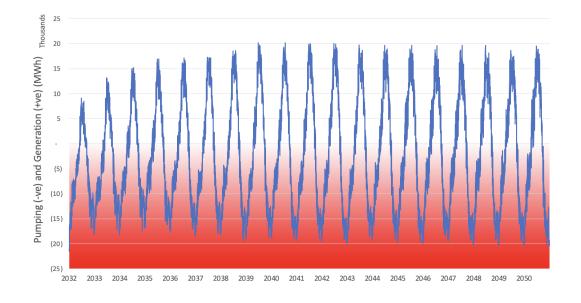
### **Operation of Onslow**

Onslow operating height between 2,000 - 3,500 GWh per year (1,500 GWh generation)

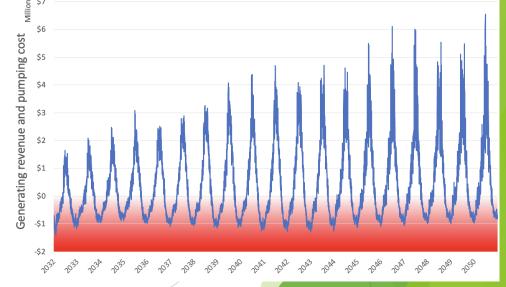


### EMBARGOED until Friday 16 June 2023 at 5:00 am Onslow pumping and generation profile

- Onslow pumps Jan, Feb, March, Oct, Nov, Dec
- Onslow generates April, May, June July, August Sept
- Peak annual revenue increases from \$2 to \$6m per day
- Peak pumping costs bottom out at \$1 m per day





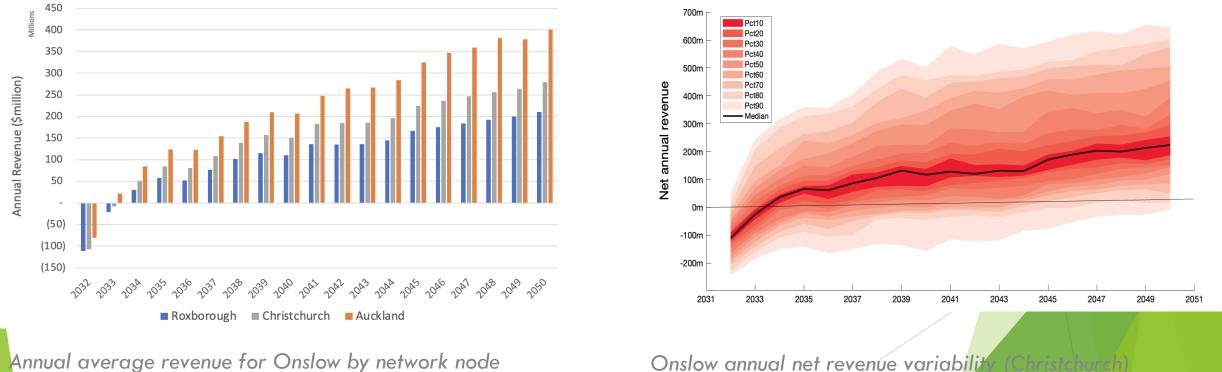


Onslow average daily pumping and generation cycles across all model runs EMBARGOED until Friday 16 June 2023 at 5:00 am

Daily generation revenue (white) and pumping costs (red) for Onslow

## Onslow average annual revenue

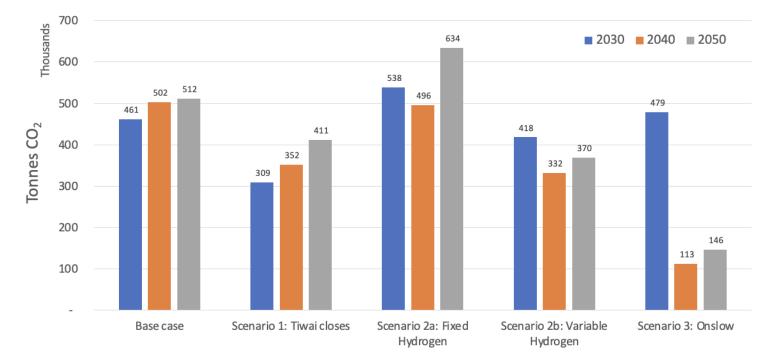
- Negative revenues in 2032 and 2033
- In 2050 annual revenues range from \$150 m to \$400 m



Annual average revenue for Onslow by network node

## Annual emissions from thermal generation

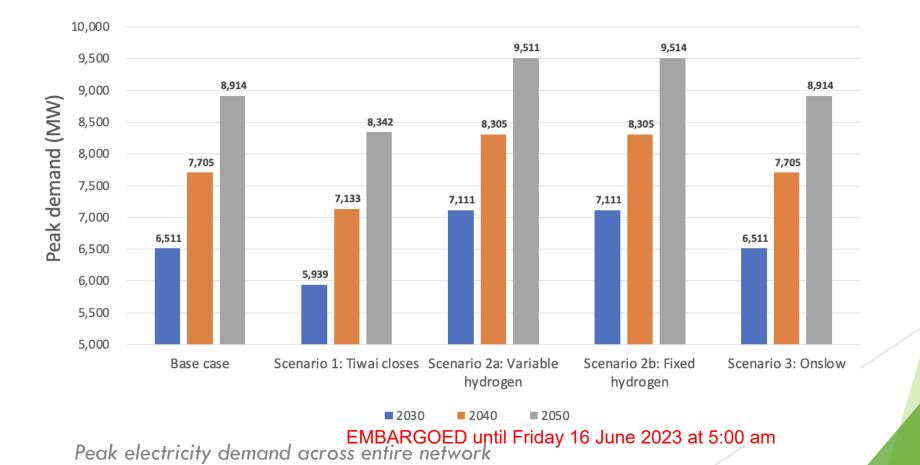
- Ignores emissions from constructing Onslow
- Onslow emissions roughly 50,000 tCO2 per year (0.06% of NZ annual GHG emissions).



Annual emissions from thermal generation (excludes geothermal and cogeneration) EMBARGOED until Friday 16 June 2023 at 5:00 am

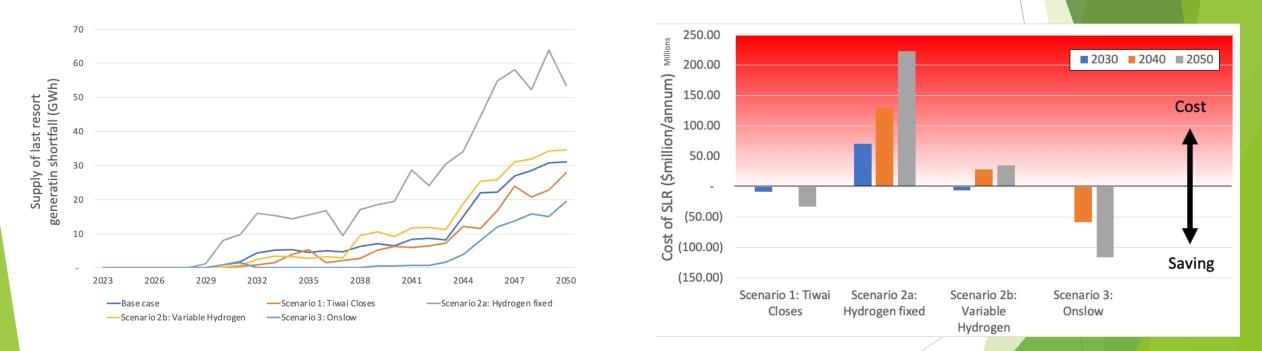
## Peak demand (~network costs)

- Peak demand is same for base case and Onslow
- Hydrogen scenarios produce higher network peak demand



### Supply of last resort

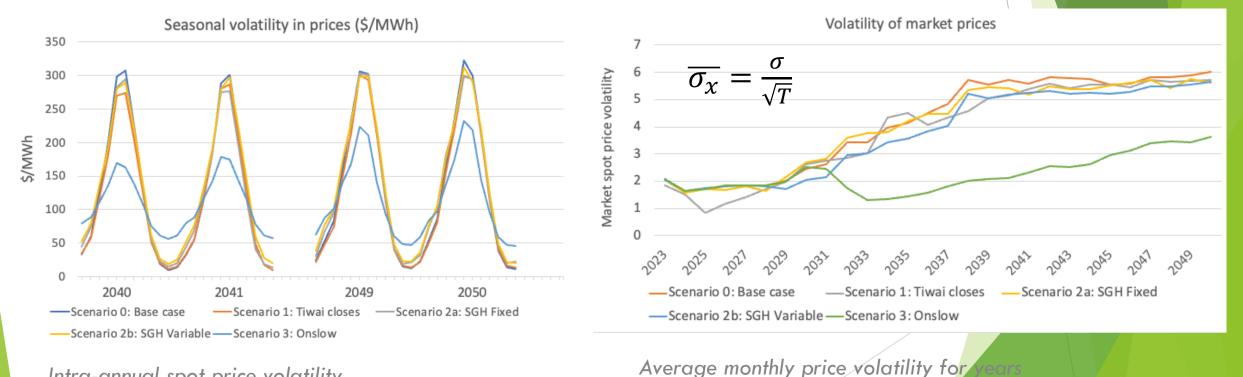
- ▶ Hydrogen scenarios have highest SLR at 54 and 35 GWh per year
- Hydrogen scenarios cost \$200m per year compared to base case
- Onslow has lowest SLR at 20 GWh per year saving \$100m compared to base case



Supply of last resort (security of supply) (GWh)

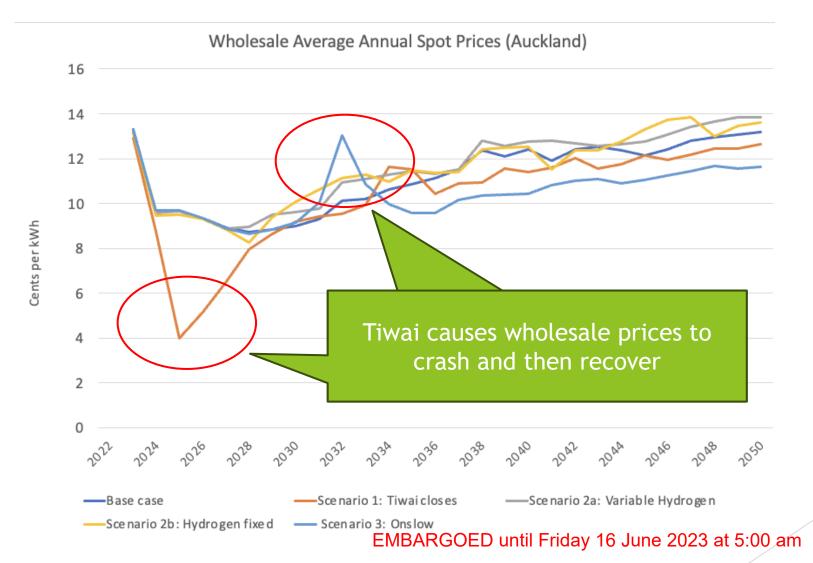
### Market volatility

- Onslow significantly supresses wholesale market price volatility compared to other scenarios
- Onslow caps seasonal high prices and raises the floor price
- This lowers cost of capital of renewable energy



Intra-annual spot price volatility

## Wholesale average annual spot prices



- Tiwai causes prices to crash and then recover
- Onslow produces lowest wholesale spot price in 2050
- Potential spikes in wholesale prices requires system oversite

### Wholesale electricity prices

|                           |      |      |      |      | % Difference with |
|---------------------------|------|------|------|------|-------------------|
|                           | 2020 | 2030 | 2040 | 2050 | Base Case in 2050 |
| Senario 0: Base case      | 11.3 | 11.2 | 12.4 | 13.6 |                   |
| Scenario 1: Tiwai closes  | 11.3 | 10.4 | 11.8 | 13.0 | -1.9%             |
| Scenario 2a: SGH Fixed    | 11.3 | 11.5 | 12.5 | 14.1 | 1.4%              |
| Scenario 2b: SGH Variable | 11.3 | 11.3 | 12.8 | 14.1 | 1.7%              |
| Scenario 3a: Onslow       | 11.3 | 11.3 | 11.7 | 12.4 | -3.7%             |

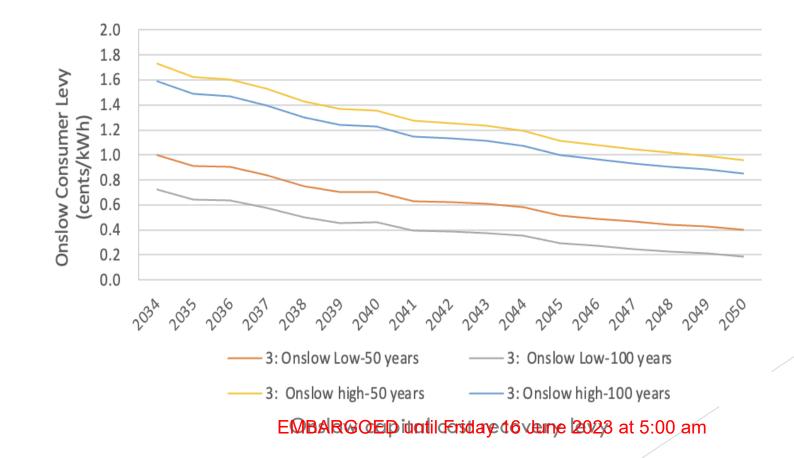
#### Christchurch wholsale prices (cents per kWh)

|                           |      |      |      |      | % Difference with |
|---------------------------|------|------|------|------|-------------------|
|                           | 2020 | 2030 | 2040 | 2050 | Base Case in 2050 |
| Senario 0: Base case      | 11.0 | 11.8 | 13.8 | 15.7 |                   |
| Scenario 1: Tiwai closes  | 11.0 | 10.3 | 11.9 | 13.4 | -7.3%             |
| Scenario 2a: SGH Fixed    | 11.0 | 12.2 | 14.8 | 17.7 | 6.1%              |
| Scenario 2b: SGH Variable | 11.0 | 11.9 | 13.9 | 15.7 | 0.1%              |
| Scenario 3a: Onslow       | 11.0 | 12.0 | 13.1 | 13.7 | -6.3%             |

### Onslow cost recovery consumer levy

> 2% WACC and 100 year life - \$360 million per year cost of capital

Consumer levy ranges from 1.8c kWh to 0.2 c/kWh



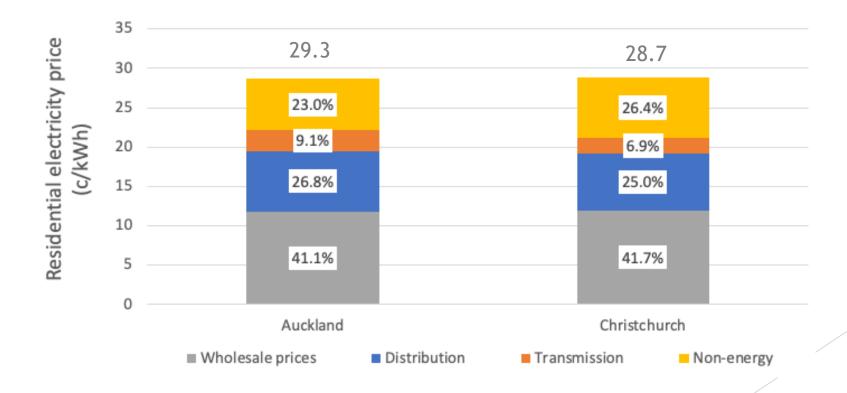
## Financial sensitivity assumptions

- All prices are in real \$2020 dollars
- Real WACC of 2% and 5% (Commerce Commission recommend 3.78% and 4.13%)
- Discount rates of 2%, 5% and 7%
- Full asset lifetimes assumed (and 50 years for Onslow)

| Sensitivity scenario               | CAPEX \$Billion | WACC (real) | Period    |  |
|------------------------------------|-----------------|-------------|-----------|--|
| Pathway 2: SGH –low 11             | \$0.75          | 2%          | 30 years  |  |
| Pathway 2: SGH – high              | \$0.75          | 5%          | 30 years  |  |
| Pathway 3: Onslow - low-50years    | \$15.0          | 2%          | 50 years  |  |
| Pathway 3: Onslow - low-100years   | \$15.0          | 2%          | 100 years |  |
| Pathway 3: Onslow - high-50 years  | \$15.0          | 5%          | 50 years  |  |
| Pathway 3: Onslow - high-100 years | \$15.0          | 5%          | 100 years |  |

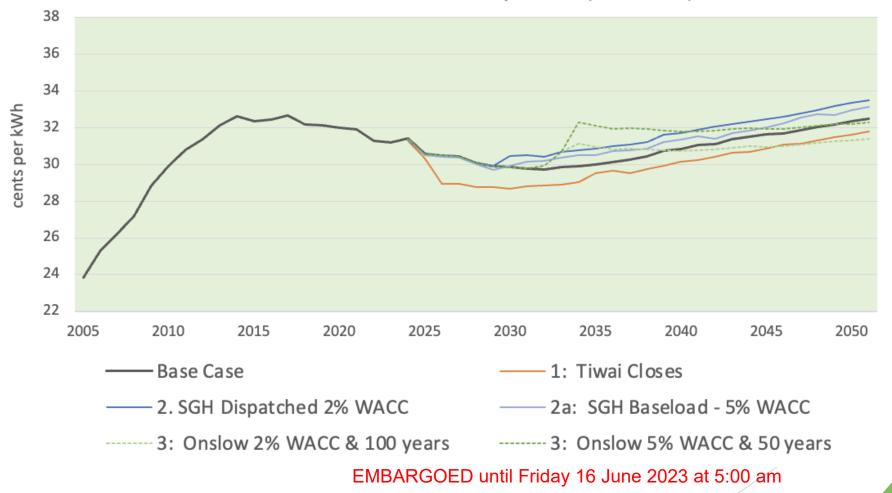
## Residential electricity prices

Electricity Price = distribution + transmission + wholesale electricity + other (non-energy retail costs)



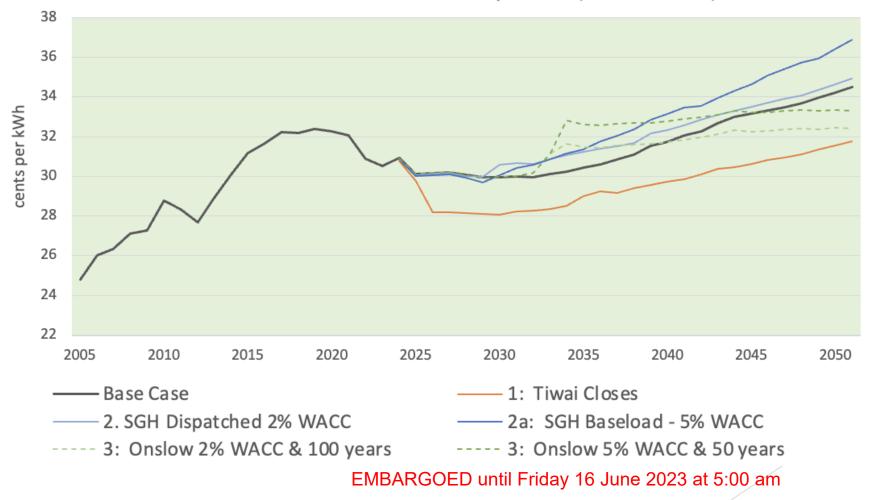
### Residential electricity prices (Auckland)

Residential Electricity Prices (Auckland)



### Residential electricity prices (Christchurch)

Residential Electricity Prices (Christchurch)



## Effect on residential electricity bills

| Annual saving (cost) for average Christchurch residential electricity bill | 2020          | 2030     | 2040     | 2050     |
|--|---------------|----------|----------|----------|
| Base case (average electricity bill for NZ household 7,261 kWh per annum)  | \$2,243       | \$2,175  | \$2,342  | \$2,505  |
| Average annual savings compared to base case (red means reduction in elec  | tricity bill) |          |          |          |
| Scenario 1: Tiwai closes   | \$0.0         | -\$123.0 | -\$157.7 | -\$197.5 |
| Scenario 2a: Fixed hydrogen (\$750m, 2% WACC, 30 years)                    | \$0.0         | \$42.6   | \$91.5   | \$170.6  |
| Scenario 2b: Variable hydrogen (\$750m, 2% WACC, 30 years)                 | \$0.0         | \$48.6   | \$44.9   | \$29.8   |
| Scenario 2a: Fixed hydrogen (\$750m, 5% WACC, 30 years)                    | \$0.0         | \$45.1   | \$93.5   | \$172.4  |
| Scenario 2b: Variable hydrogen ( (\$750m, 5% WACC, 30 years)               | \$0.0         | \$50.7   | \$46.7   | \$31.4   |
| Scenario 3: Onslow low-50years (\$15 billion, 2% WACC, 50 years)           | \$0.0         | \$16.7   | -\$0.3   | -\$132.9 |
| Scenario 3: Onslow low-100years (\$15 billion, 2% WACC, 100 years)         | \$0.0         | \$16.7   | -\$20.3  | -\$150.5 |
| Scenario 3: Onslow high-50 years (\$15 billion, 5% WACC, 50 years)         | \$0.0         | \$16.7   | \$53.1   | -\$86.1  |
| Scenario 3: Onslow high-100 yeaers (\$15 billion, 5% WACC, 100 years)      | \$0.0         | \$16.7   | \$42.9   | -\$95.0  |

#### EMBARGOED until Friday 16 in une 2023 at 5:00 am electricity prices

### Effect on commercial, industrial and agricultural electricity prices

Electricity demand and electricity prices by sector in 2022

|             | Electricity Demand | Percentage of<br>demand<br>(%) | Average<br>price (2020)<br>c/kWh |  |
|-------------|--------------------|--------------------------------|----------------------------------|--|
| Residential | 13.0               | 34                             | 31.3                             |  |
| Industry    | 13.5               | 35                             | 14.6                             |  |
| Commerce    | 9.4                | 25                             | 18.5                             |  |
| Agriculture | 2.4                | 6                              | 22.8                             |  |
| Total       | 38.3               | 100                            | -                                |  |

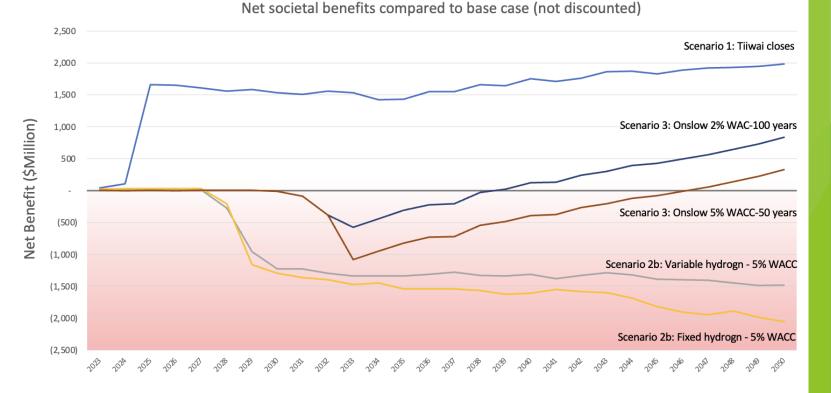
| Industrial electricity prices (cents per kWh)                         | 2020 | 2030 | 2040 | 2050 | % Difference with Bas<br>Case in 2050 |
|---|------|------|------|------|---------------------------------------|
| Senario 0: Base case  | 14.6 | 16.1 | 17.3 | 18.5 | -                                     |
| Scenario 1: Tiwai closes  | 14.6 | 15.3 | 16.7 | 17.9 | -3.4%                                 |
| Scenario 2a: Fixed hydrogen (\$750m, 2% WACC, 30 years)               | 14.6 | 16.5 | 17.5 | 19.0 | 2.8%                                  |
| Scenario 2b: Variable hydrogen (\$750m, 2% WACC, 30 years)            | 14.6 | 16.7 | 18.2 | 19.4 | 4.9%                                  |
| Scenario 2a: Fixed hydrogen (\$750m, 5% WACC, 30 years)               | 14.6 | 16.5 | 17.5 | 19.0 | 2.9%                                  |
| Scenario 2b: Variable hydrogen ( (\$750m, 5% WACC, 30 years)          | 14.6 | 16.8 | 18.2 | 19.4 | 5.1%                                  |
| Scenario 3: Onslow low-50years (\$15 billion, 2% WACC, 50 years)      | 14.6 | 16.2 | 17.2 | 17.7 | -4.4%                                 |
| Scenario 3: Onslow low-100years (\$15 billion, 2% WACC, 100 years)    | 14.6 | 16.2 | 17.0 | 17.5 | -5.5%                                 |
| Scenario 3: Onslow high-50 years (\$15 billion, 5% WACC, 50 years)    | 14.6 | 16.2 | 17.9 | 18.3 | -1.3%                                 |
| Scenario 3: Onslow high-100 yeaers (\$15 billion, 5% WACC, 100 years) | 14.6 | 16.2 | 17.8 | 18.2 | -1.9%                                 |
| Commercial electricity prices (cents per kWh)                         |      |      |      |      |                                       |
| Senario 0: Base case  | 18.5 | 16.8 | 18.0 | 19.3 | -                                     |
| Scenario 1: Tiwai closes  | 18.5 | 16.1 | 17.4 | 18.6 | -3.2%                                 |
| Scenario 2a: Fixed hydrogen (\$750m, 2% WACC, 30 years)               | 18.5 | 17.2 | 18.3 | 19.8 | 2.7%                                  |
| Scenario 2b: Variable hydrogen (\$750m, 2% WACC, 30 years)            | 18.5 | 17.5 | 18.9 | 20.2 | 4.7%                                  |
| Scenario 2a: Fixed hydrogen (\$750m, 5% WACC, 30 years)               | 18.5 | 17.3 | 18.3 | 19.8 | 2.8%                                  |
| Scenario 2b: Variable hydrogen ( (\$750m, 5% WACC, 30 years)          | 18.5 | 17.5 | 19.0 | 20.2 | 4.9%                                  |
| Scenario 3: Onslow low-50years (\$15 billion, 2% WACC, 50 years)      | 18.5 | 17.0 | 18.0 | 18.5 | -4.2%                                 |
| Scenario 3: Onslow low-100years (\$15 billion, 2% WACC, 100 years)    | 18.5 | 17.0 | 17.8 | 18.2 | -5.3%                                 |
| Scenario 3: Onslow high-50 years (\$15 billion, 5% WACC, 50 years)    | 18.5 | 17.0 | 18.6 | 19.0 | -1.3%                                 |
| Scenario 3: Onslow high-100 yeaers (\$15 billion, 5% WACC, 100 years) | 18.5 | 17.0 | 18.5 | 18.9 | -1.8%                                 |
| Agricultural electricity prices (cents per kWh)                       |      |      |      |      |                                       |
| Senario 0: Base case  | 22.8 | 20.6 | 21.8 | 23.0 | -                                     |
| Scenario 1: Tiwai closes  | 22.8 | 19.8 | 21.2 | 22.4 | -2.7%                                 |
| Scenario 2a: Fixed hydrogen (\$750m, 2% WACC, 30 years)               | 22.8 | 21.0 | 22.0 | 23.6 | 2.3%                                  |
| Scenario 2b: Variable hydrogen (\$750m, 2% WACC, 30 years)            | 22.8 | 21.3 | 22.7 | 24.0 | 4.0%                                  |
| Scenario 2a: Fixed hydrogen (\$750m, 5% WACC, 30 years)               | 22.8 | 21.0 | 22.1 | 23.6 | 2.4%                                  |
| Scenario 2b: Variable hydrogen ( (\$750m, 5% WACC, 30 years)          | 22.8 | 21.3 | 22.7 | 24.0 | 4.1%                                  |
| Scenario 3: Onslow low-50years (\$15 billion, 2% WACC, 50 years)      | 22.8 | 20.8 | 21.8 | 22.2 | -3.5%                                 |
| Scenario 3: Onslow low-100years (\$15 billion, 2% WACC, 100 years)    | 22.8 | 20.8 | 21.5 | 22.0 | -4.4%                                 |
| Scenario 3: Onslow high-50 years (\$15 billion, 5% WACC, 50 years)    | 22.8 | 20.8 | 22.4 | 22.8 | -1.1%                                 |
| Scenario 3: Onslow high-100 yeaers (\$15 billion, 5% WACC, 100 years) | 22.8 | 20.8 | 22.3 | 22.7 | -1.5%                                 |

## **Economic analysis**

| Included in CBA analysis   | Excluded from CBA analysis  |  |  |  |
|--|---|--|--|--|
| Cost of capital for new generation and the resulting impact on electricity prices    | Supply of last resort costs (SLR)   |  |  |  |
| Operation and maintenance costs of different generation resources across the network | The cost of rolling blackouts or extended periods of insufficient generation supply |  |  |  |
| Transmission and distribution infrastructure (assumed same for all pathways)         | The cost of market-based risk and cost of regulation                                |  |  |  |
| Onslow construction costs and the resulting impact on electricity prices             | The effects of market power and rent seeking  |  |  |  |
| Southern Green Hydrogen electrolyser costs and the impact on electricity prices      | Demand response from the new TPM  |  |  |  |
| Effects of price volatility on wholesale electricity prices                          | Changes to LCOE (e.g. lower cost of capital for renewables)                         |  |  |  |
| The effective carbon price to achieve net zero targets as recommended by the CCC     | Differences between pathways in transmission and distribution infrastructure        |  |  |  |
|  | The sale revenue from hydrogen or aluminium   |  |  |  |
|  | Tax and dividend payments to government (aluminium, hydrogen and electricity)       |  |  |  |
| EMBARGOED until Frid   | optimisation of Onslow based on improved inter-annual climate predictions           |  |  |  |

### EMBARGOED until Friday 16 June 2023 at 5:00 am Undiscounted economic projections

- Tiwai has strongly positive benefit
- Break even points for Onslow:
  - Scenario 3 (Onslow Low): 2039
  - Scenario 3 (Onslow high): 2044
- Hydrogen has negative benefit



——Scenario 1: Tiwai closes

—Scenario 2a: Fixed hydrogen (\$750m, 5% WACC, 30 years)

----Scenario 3: Onslow high-50 years (\$15 billion, 5% WACC, 50 years)

—Scenario 2b: Variable hydrogen (\$750m, 2% WACC, 30 years)
 —Scenario 3: Onslow low-100years (\$15 billion, 2% WACC, 100 years)

## Net Present Value (NPV)

#### Until 2073 (Discounted over 50 years) Net Present Value (2022NZD \$million) (red is negative NPV) **Constant exponential discounting** Hyperbolic discounting 7% 5% 2% 7% 5% 2% Scenario 1: Tiwai closes 20,686 29,138 35,945 42,931 62,443 55,756 Scenario 2a: Fixed hydrogen (\$750m, 2% WACC, 30 years) (14, 946)(22, 849)(48, 648)(30,077)(36,631) (55,401)Scenario 2b: Variable hydrogen (\$750m, 2% WACC, 30 years) (12, 382)(18, 536)(23,794)(28,854) (43,184) (38, 185)Scenario 2a: Fixed hydrogen (\$750m, 5% WACC, 30 years) (36,945) (15,081) (23,051)(49,063) (30, 335)(55,870) Scenario 2b: Variable hydrogen ( (\$750m, 5% WACC, 30 years) (12,499) (18,712)(38, 550)(24,020) (29,129) (43,596) Scenario 3: Onslow low-50 years (\$15 billion, 2% WACC, 50 years) 528 1,885 7,704 4,283 5,554 9,692 Scenario 3: Onslow low-100years (\$15 billion, 2% WACC, 100 years) 1,496 3,408 6,317 8,045 11,037 13,495 Scenario 3: Onslow high-50 years (\$15 billion, 5% WACC, 50 years) (2,052) (2,174) (1,178) (1, 138)(1,083)(442) Scenario 3: Onslow high-100 yeaers (\$15 billion, 5% WACC, 100 years) (1,560)(1,400) 517 (103) 184 1,492

#### Until 2123 (Discounted over 100 years)

| Net Present Value (2022NZD \$million) (red is negative NPV)           | Constant exponential discounting |          |          | Hyperbolic discounting |          |           |
|---|----------------------------------|----------|----------|------------------------|----------|-----------|
|   | 7%                               | 5%       | 2%       | 7%                     | 5%       | 2%        |
| Scenario 1: Tiwai closes  | 21,943                           | 33,614   | 91,416   | 61,550                 | 76,599   | 126,364   |
| Scenario 2a: Fixed hydrogen (\$750m, 2% WACC, 30 years)               | (16,236)                         | (27,444) | (85,254) | (56,361)               | (71,192) | (121,018) |
| Scenario 2b: Variable hydrogen (\$750m, 2% WACC, 30 years)            | (13,319)                         | (21,872) | (64,765) | (42,879)               | (53,949) | (90,829)  |
| Scenario 2a: Fixed hydrogen (\$750m, 5% WACC, 30 years)               | (16,380)                         | (27,681) | (85,950) | (56,821)               | (71,771) | (121,991) |
| Scenario 2b: Variable hydrogen ( (\$750m, 5% WACC, 30 years)          | (13,445)                         | (22,080) | (65,381) | (43,285)               | (54,461) | (91,691)  |
| Scenario 3: Onslow low-50years (\$15 billion, 2% WACC, 50 years)      | 967                              | 3,451    | 20,177   | 13,239                 | 17,331   | 32,051    |
| Scenario 3: Onslow low-100years (\$15 billion, 2% WACC, 100 years)    | 2,023                            | 5,285    | 25,993   | 17,056                 | 22,165   | 40,303    |
| Scenario 3: Onslow high-50 years (\$15 billion, 5% WACC, 50 years)    | (1,846)                          | (1,439)  | 4,681    | 3,069                  | 4,449    | 10,061    |
| Scenario 3: Onslow high-100 yeaers (\$15 billion, 5% WACC, 100 years) | (1,309)                          | (506)    | 7,638    | 5,010                  | 6,907    | 14,258    |

## **Comparison of scenarios**

| Characteristic   | Pathway 1:<br>Tiwai closes                   | Pathway 2a:<br>SGH | Pathway 2b:<br>SGH | Pathway<br>3: Onslow |
|--|--|--------------------|--------------------|----------------------|
| CAPEX (\$billion)  | Low  | \$0.75             | \$0.75             | \$15                 |
| OPEX (\$million)   | Low  | \$7.5              | \$42               | \$42                 |
| Peak demand by 2050. (GW)  | 8.32   | 9.5                | 9.5                | 8.9                  |
| Supply of last resort in 2050 (\$million)                                      | 32   | -233               | -35                | 116                  |
| Emissions by 2050 mtCO2  | 0.4  | 0.6                | 0.4                | 0.1                  |
| Market volatility  | 5.7  | 5.6                | 5.6                | 3.6                  |
| Electricity prices in Auckland by 2050<br>- 2% WACC, full asset life           | -2.2%  | +1.8%              | +3.1%              | -3.4%                |
| Net Present Value (100 years)<br>- 2% WACC, 2% DR, full asset life (\$billion) | + <mark>91</mark><br>Intil Friday 16 June 20 | -85                | -64                | +26                  |

### Key findings

- Tiwai closing reduces electricity prices with an expected benefit of \$1.5 billion per year
- Onslow still economically viable with \$15 billion CAPEX levied on consumers
- Southern Green Hydrogen uneconomic under a range of sensitivity tests
- Tiwai closing and Onslow were only scenarios to generate a positive NPV
- Wholesale price volatility is a key driver of cost in the electricity system
- Security of supply is an important driver of system wide costs
- High renewable penetration is achieved across all scenarios
  - When combined with security of supply strategy, cheaper than base case
- Results are highly sensitive to financial input assumptions

### Recommendations

- Full transparency and disclosure of all modelling assumptions, data and release of all models for public scrutiny.
  - Cost of capital, discount rates, asset lifetimes, capex and opex costs, network investment, future demand projections and other assumptions.
- Use of full asset life in financial and economic calculations
- Use hyperbolic or low discount rates when assessing long-lived assets
- Use cost of capital estimates consistent with investors expected rate of return
- Include all material costs and benefits in calculations:
  - Include cost estimates for outages and dry year risk
  - Assessment of likely impacts of market power
  - Estimate level of regulatory oversite and monitoring required
  - Assessment of changes to LCOE estimates for renewables
  - Costs and benefits of network upgrades under different scenarios
  - The optimisation of Onslow Heigg Restigning the provided states at 5:00 am

### **Recommendations for MBIE battery project**

- Undertake economic analysis on the full costs and benefits of security of supply and dry year risk for NZ.
  - Dry year deficit is assumed constant at 3-5 TWh but as aggregate demand and renewables increase, so will dry year deficit!
- Assess how different pathways will affect wholesale prices
  - Volatility and impact on final consumers
- Use the full life of the asset and appropriate cost of capital and discount rates - not 42 years.
- Use accurate estimates for the LCOE of green-peakers
  - Cabinet paper suggested costs were higher than modelled increasing from \$480 per MWh to \$1000 per MWh.

# Questions?