

Businesses could get better power deal as El Nino swoops in

CALIDA SMYLIE · FRIDAY JULY 31, 2015

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A continuing El Nino weather pattern means hydro lakes are filling up fast, which could mean better power deals for business customers.

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NIWA's latest climate guidance forecasts the El Nino weather conditions to continue through winter and spring, and probably into summer. El Nino winds tend to affect New Zealand by bringing more rain to the west, although they can cause drought in the east.

New Zealand relies on hydro for about two-thirds of its power output, which means the energy market is highly sensitive to rainfall changes.

The latest hydrology figures show steady rain throughout June increased national lake storage to 113% of the average by month end, and stormy weather mid-June saw inflows peak at 207% of average. Lake Taupo reached its highest level above average for three years.

This caused wholesale prices to drop about 3% on the month before and about 7% on the same time last year.

Utilise executive director Simon Young says the increased rainfall means electricity prices are likely to remain flat, or even lower than normal, for the next few months.

Prices may favour businesses and consumers further if NZ Aluminium Smelters announces in early August the Tiwai smelter will reduce its load.

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Mr Young suggests businesses customise their power plan and lock in a lower rate while wholesale prices are depressed.

"Of course electricity companies will want customers to stay on the current rate they are on, so it's also a good time to switch providers and shop around for a better rate and savings on your monthly power bill."

The latest power sector research from Forsyth Barr shows customer churn is increasing, with about 38,550 customers switching electricity providers in May. This is 12% above the previous May and the highest level of customer churn since March last year.

Utilise started up earlier this year to target small and medium sized businesses, customising power plans by using smart meter data that takes advantage of the lower spot market prices at off-peak times, which is 60% of a week's hours.




Utilise executive director Simon Young



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Listed gentailers take different approach

But the listed gentailers – which have a 96% market share – take a different approach, saying a yearly fixed-rate flat plan based on the long-term wholesale average better protects consumers from short-term price changes.

Mighty River Power [NZX:MRP] customer general manager James Munro says while larger businesses tend to buy direct from the spot market or contract two-yearly based on the ASX curve, its SME customers contract yearly based on fixed-price variable volume, which is not greatly affected by short-term fuel fluctuations.

He says while El Nino will depress wholesale prices “if the rain falls in the right place,” the power sector is recovering from a dry year so any reductions in wholesale price will get absorbed into the average.

Mighty River’s recent operating statements show its hydro production – reliant on North Island catchment – over the past 12 months was the lowest ever in the company’s history and inflows into Lake Taupo were second-lowest on the 80-year record.

“So let’s hope all the El Nino rain falls into Lake Taupo, because it certainly didn’t last year,” he says.

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Genesis Energy [NZX:GNE] spokesman Richard Gordon says market competition plays a part in whether power companies raise or lower retail charges, and over the long-term are influenced by wholesale spot prices, transmission and lines charges.

He says predicting what hydro storage – which has just a few weeks’ capacity – will do is very difficult.

“Wholesale prices used to follow the storage pattern quite closely but in the past year or so there has been a de-coupling of hydro storage and price levels. This is due to major investment in the national grid, new geothermal and wind farm construction, and little growth in consumer demand.”

Meridian Energy [NZX:MEL] spokeswoman Michelle Brooker says El Nino climate conditions usually mean Meridian’s catchments are wet, although in the most recent strong El Nino, in 2009-10, the Waitaki catchments dried up.

“So when it is dry and demand is high, Meridian does not increase its prices. Equally, when it is wet and prices are lower for a short time, prices are not reduced.”

The listed gentailers are all releasing annual results next month and will probably make more comment about hydrology and wholesale market performance then.