



Thursday 14<sup>th</sup> March 2019

## **New Zealand Energy Quarterly: December 2018 quarter**

Markets Team, Evidence and Insights Branch

The December 2018 quarter saw substantial increases in petrol and diesel prices, and natural gas shortages that broadly affected the entire energy sector.

### **Tightened gas supply impacted gas users**

New Zealand's largest natural gas field, Pohokura, had significantly reduced output in 2018. Several shut downs occurred to correct faults in the pipeline system and these resulted in significant interruptions to gas supply. This tightening of gas supply was felt by major gas consumers despite their scheduling of maintenance to coincide with shortages. Methanex's output in the December 2018 quarter was 30 per cent lower than a year ago<sup>1</sup>.

### **Renewables share for electricity generation rises**

Electricity demand rose 1.1 per cent when compared to the December 2017, largely due to a strong dairy season and New Zealand Aluminium Smelters re-energising their fourth potline. Lower than average hydro storage levels throughout the quarter, coupled with the reduction in gas supply and lower wind generation, saw an increase in coal-fired electricity generation. Coal-fired electricity generation in the December 2018 quarter was the highest since the March 2015 quarter.

Despite the increase in coal-fired generation, the overall renewable share of generation rose from 81.9 per cent in the December 2017 quarter to 84.5 per cent in the December 2018. This was largely as a result of higher geothermal generation.

The combination of lower hydro storage and reduced gas supply saw wholesale electricity prices in October 2018 at five times the average of October 2017. While these prices were high, they were not unprecedented. A dry period in 2008 saw wholesale electricity prices of around \$325 per MWh.<sup>2</sup>

### **Fuel prices reach high**

Petrol prices reached their highest level on record in the quarter, with a weekly high of \$2.43 per litre in the week ended Friday 12<sup>th</sup> October. Prices then fell sharply for the rest of the quarter, ending 2018 at similar levels to the beginning of the year.

Fuel price rises were largely driven by the international price of crude oil. Exchange rates also played a part, with the New Zealand dollar experiencing its largest drop against the United States dollar (USD) since late 2015.

<sup>1</sup> <https://www.methanex.com/sites/default/files/investor/quarterly-reports/2018%20Q4%20---%20News%20Release%20-%20FINAL.pdf>

<sup>2</sup> <https://www.ea.govt.nz/dmsdocument/24874-wholesale-market-commentary-march-2019-final>



---

### **Shell departed New Zealand**

After more than a century of operating in New Zealand, Royal Dutch Shell completed its divestment of all shares in Shell entities by selling its interests to the Austrian company OMV for USD \$578 million. This included Maui, Pohokura, Tank Farm assets, and Shell's interest in the Great South Basin venture.

Shell's exit from New Zealand is in keeping with their current strategy of simplifying their upstream business to reduce costs.

### **Next release**

The New Zealand Energy Quarterly: March 2019 quarter is planned to be released on Thursday 13<sup>th</sup> June 2019.