

# New Zealand Equity Monthly September 2022

"Gentailers" facing cost challenges in development of renewables, but overall outlook is favourable

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## New Zealand's "gentailers" maintaining focus on renewables but facing higher costs

The recent reporting season showed that New Zealand's "gentailers" (companies that both generate and sell energy) remain committed to developing renewable generation capacity, with five such projects currently under construction. However, a rise in the cost of developing such capacity in the past 12 months is creating a significant challenge for gentailers. The fact that costs had been declining in recent decades makes the recent increase all the more noticeable. Levelized Cost of Electricity (LCOE) figures, which measure the total cost of building and operating a power plant over its lifetime, show that solar costs have plunged 85% since 2010, and wind costs have dropped 50% over the same timeframe. However, prices have been creeping back up since the onset of COVID-19. Figures for the cost per megawatt hour of building a renewable generation project show that the outlays needed to develop onshore wind and fixed-axis PV (a form of solar generation), both of which are particularly important to New Zealand, have risen in 2022 by 6.7% and 13.5%, respectively. In addition, the cost of turbines to be delivered in the first half of 2023 will be 35% higher than it was three years before, in the first half of 2020.

## Rises driven mainly by higher commodity, freight and labour prices

The main drivers of the higher costs are increases in the prices of commodities, freight services and labour, with particularly large price hikes for materials needed for wind turbines and solar panels. For example, since February 2020, the price of polysilicon (a key material in solar panels) has jumped 402% and neodymium (a rare-earth material used in wind turbine motors) has seen its price increase 130%. Higher prices have also been seen in other materials, such as steel, which makes up about 85% of total wind turbine costs. A jump in freight costs is posing an additional challenge for New Zealand developers given that the country's wind turbines are made offshore and shipped in. Shipping costs peaked a year ago, but they are still notably higher than pre-COVID levels. A spike in delivery lead times due to ongoing global supply chain difficulties is also causing headaches for developers.

## Favourable conditions still in place despite challenges

Despite these near-term cost pressures, overall conditions for New Zealand's gentailers remain favourable, particularly given that demand is gradually improving. Other positives for the sector include support for the conversion of coal boilers to electricity through the Government Investment in Decarbonising Industry (GIDI) Fund for accelerating business decarbonisation. In the longer term, further progress in the spread of hydrogen and structural demand for electric vehicles are also set to benefit the sector.

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