



MAJOR ELECTRICITY USERS' GROUP

13 April 2006

Mr Roy Hemmingway
Electricity Commission
By email to roy.hemmingway@electricitycommission.govt.nz

Dear Roy

Some suggestions should security of supply risk increase

1. Yesterday the MEUG Executive Committee discussed strategies to improve information on security of supply risk this winter and opportunities to reduce that risk.
2. We understand several transmission, demand and supply side related initiatives are being considered by individual suppliers, suppliers collectively, the System Operator, the Grid Asset Owner and the Electricity Commission. It is useful this preparatory work is underway. Three specific options that we haven't heard are in the mix but might be worth considering are discussed below.
3. First, it may be prudent to have the option of purchasing additional dry year reserves. Although the 2006 Reserve Needs Analysis did not see a need at the time to procure additional reserves above those provided by Whirinaki, the Board did pass a resolution¹ keeping open the option of tendering for demand side reserve options in 2006. Exercising this option would only occur should market solutions to averting blackouts look likely to fail. That shouldn't stop the Commission being prepared to use that option by urgently deciding now what process should be used to acquire such option(s), when the option(s) would be exercised and who should pay the option costs and if acquired, the purchase costs. It would seem prudent that the Commission should also begin assessing the interest from potential providers of dry year reserves and become familiar with any constraints, particularly timing, that providers might have around implementing such options.
4. Second, the Electricity Commission could develop a process to consider accessing Lake Pukaki water storage below existing consented minimum levels. Such an option was proposed during the 1992 shortage when the Lake Pukaki Water Level Empowering Bill was introduced to Parliament. This was a controversial proposal at the time and is likely to be so in 2006 also. Nevertheless all options need to be considered. As noted in the preceding paragraph for the option of procuring additional dry year reserves; lowering Lake Pukaki consent levels would only be considered as an extreme last resort and may be seen by many as an indictment on electricity suppliers failing to find market solutions.

¹ Dated 26 January 2005 and sourced from the Commission's website

5. Third, we understand that there could be a role to play for the Electricity Commission to enable Contact Energy and Meridian Energy to access additional hydro resources at Lake Hawea and Lake Benmore while still retaining the integrity of the Commission not intervening in the market until absolutely necessary. It would be worthwhile the Commission exploring this further.
6. Consistent with the approach adopted by MEUG of keeping other interested parties informed, copies of this letter have been emailed to the Minister of Energy, Commerce Commission, and the CEO Forum Dry Winter Security Coordinator.

Yours sincerely

A handwritten signature in black ink, appearing to read 'R. Matthes', is written over a thin red vertical line.

Ralph Matthes
Executive Director

cc Hon Trevor Mallard, Acting Minister of Energy
cc Geoff Thorn, Commerce Commission
cc Toby Stevenson, CEO Forum Dry Winter Security Coordinator