



MAJOR ELECTRICITY USERS' GROUP

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Wholesale electricity market marks 10th anniversary

"This Sunday 1st October 2006 will mark the 10th anniversary of New Zealand's wholesale electricity market. The Major Electricity Users' Group (MEUG) supported the introduction of an efficient and effective market which would promote and enhance competition within the electricity supply sector. However for most of the last decade this market has not delivered consistent benefits to consumers," said Terrence Currie, Chairman of the Major Electricity Users' Group.

"Having a pro-competitive wholesale electricity market is important to all consumers because ultimately the power traded on that market, which has a value of between \$2.5 and \$3 billion per annum, is paid for by consumers.

"There have been considerable changes to the market including the early abandonment of a day ahead market, the market being changed from voluntary to compulsory, from net to gross plus major changes to the governance and detailed rules. The core real time design based around marginal and nodal pricing has not changed. While supporting investigations into numerous improvements to the market currently underway, MEUG has also requested the government take stock of the market as a whole by way of an independent and comprehensive review of the market compared to alternative market designs. It may be that continuing incremental changes to the core real time design of the market is the best path, but we need to assess how other market designs such as the UK NETA or Norwegian Nordpool would perform in the New Zealand context.

"The 10 years that the wholesale electricity market has been operating have seen several crises, such as prolonged periods of extreme prices in winter 2001, autumn 2003 and over the 2005/06 summer. These so called crises had, in the view of MEUG, more to do with suppliers having and exercising market power than any real threat that the lights might go out. Incremental changes to the market such as some improvements in free-to-public disclosures have helped reduce the ability of dominant parties to manipulate the market; or at least the greater transparency has allowed consumers to independently check if there has been any abuse of market power. Nevertheless it remains a very grey area whether lack of new entrant retailers over the last few years and few new generators, are a result of commercial barriers or more subtle anti-competitive barriers. MEUG see this as continuing work in progress. While the current Commerce Commission inquiry into the behaviour of suppliers should help progress our understanding of the issue and possible solutions; MEUG continue to seek greater attention by the Electricity Commission as to how to improve competition in the wholesale market.

"The wholesale electricity market has had its detractors. Nevertheless it is better to have started on the road towards a market. Our main criticism is that it has taken too long develop effective competition and we urge the Electricity Commission and Commerce Commission to apply resources to this task," concluded Mr Currie.

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