MAJOR ELECTRICITY USERS' GROUP

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"Facing the Challenge" seminar

Presentation to WEL Networks Major Customer Seminar

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"What are the major energy and related issues that business should be aware and concerned about looking forward?"

Waikato Stadium, Hamilton, 26 April 2007

Purpose

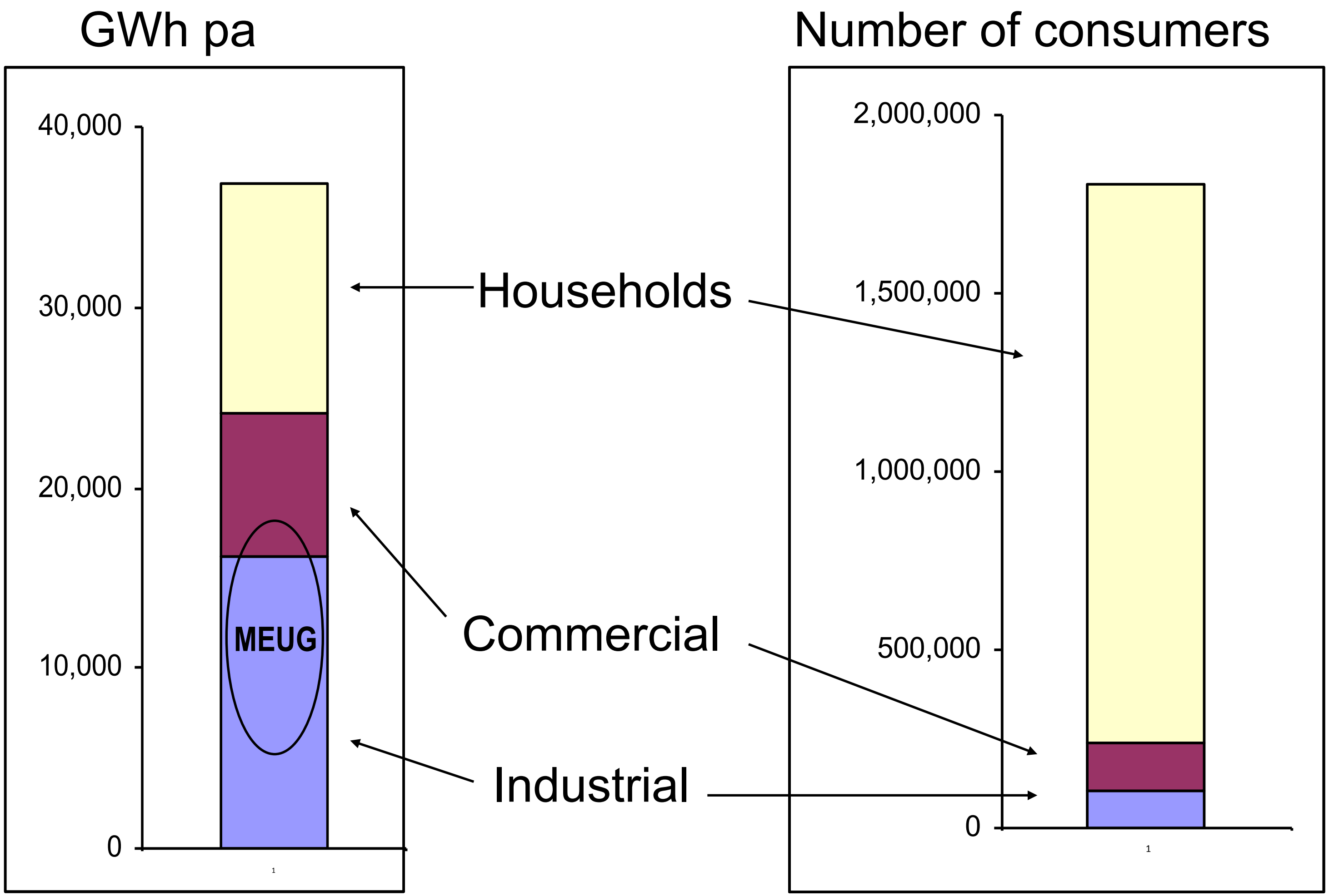
- To list electricity issues for business:
  - Threats
  - Opportunities

  … and what can consumers actually do?
- First:
  - A health warning about the statistics used
  - An overview of the industry
  - How does MEUG fit in?
  - What do consumers want?

Data source

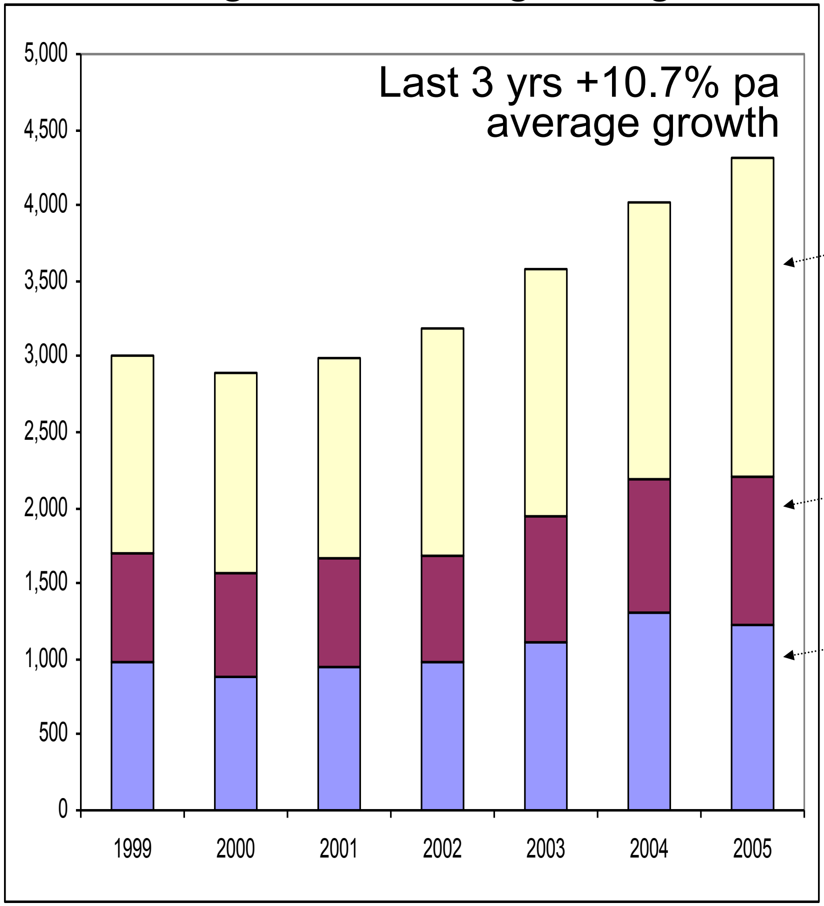
- Most graphs are sourced from MED Energy Data Files
- The most complete data from the EDF for all time series is for the year ended March 2005
- There are more recent data for some particular series – the trends to 2005 are still relevant

Industry overview

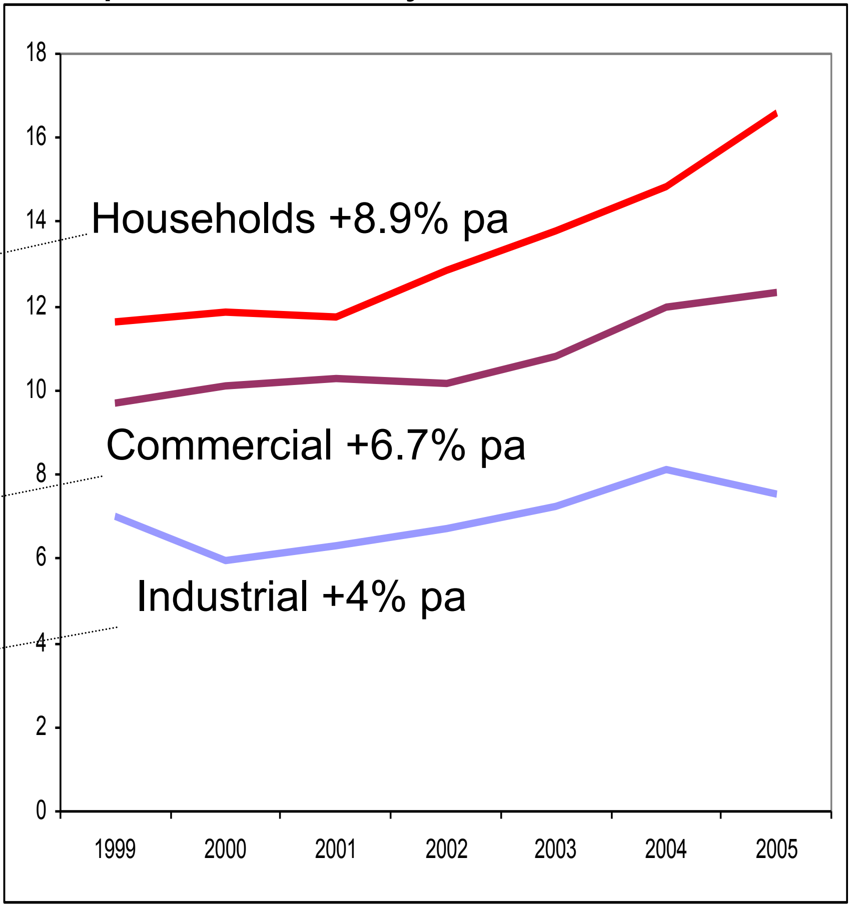


Industry overview

Power bill ($m pa)
is significant and growing

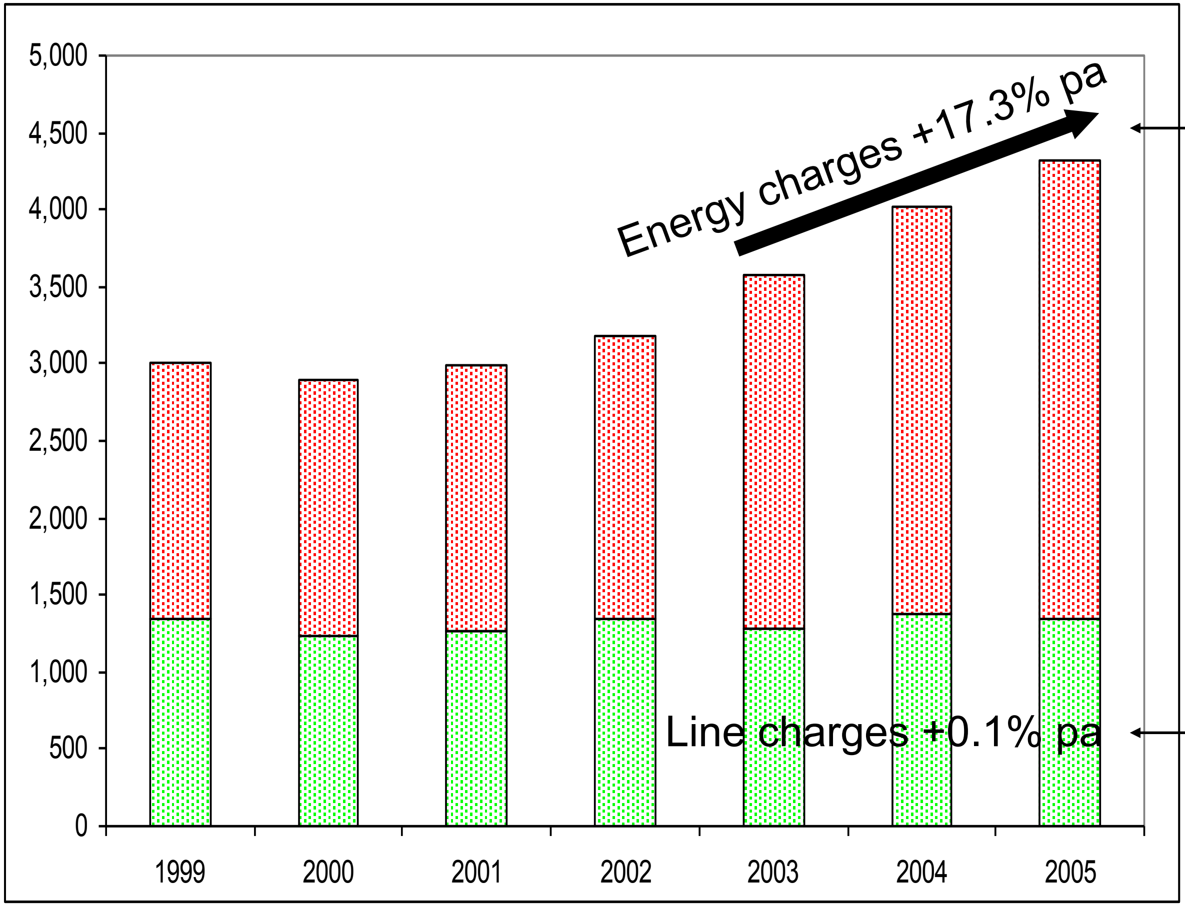


Unit price (c/kWh)
∆ pa over last 3 years is > CPI



Industry overview

Energy and line charges ($m pa) and Δ pa over last 3 years



Some legitimate drivers, eg gas price rises. Others less clear, eg what outage risk was there in:

- May to Aug 2001
- Feb to May 2003
- Nov-05 to Apr-06

5 year thresholds commenced April 2004

How does MEUG fit in?

- MEUG provides contestable policy advice in collaboration/collaboration with others:
- List of MEUG members next slide or refer www.meug.co.nz
- MEUG members collectively consume just under 30% of total electricity use
- Several MEUG members also own or contract with adjacent cogeneration

List of MEUG members

Auckland International Airport	Norske Skog Tasman
Business NZ *	Oceana Gold
Canterbury Meat Packers	Pan Pacific Forest Products
Carter Holt Harvey	Rio Tinto
Dongwha Patinna	Solid Energy
Fletcher Building	Tegel Foods
Heinz Wattie's	Telecom New Zealand
Holcim	New Zealand Refining Company
Lion Breweries	Winstone Pulp International
Methanex	Wood Processors Association *
New Zealand Steel	

* Trade Association

What do consumers want?

1. Lowest possible prices ….
2. Security of supply at a cost they are prepared to pay for

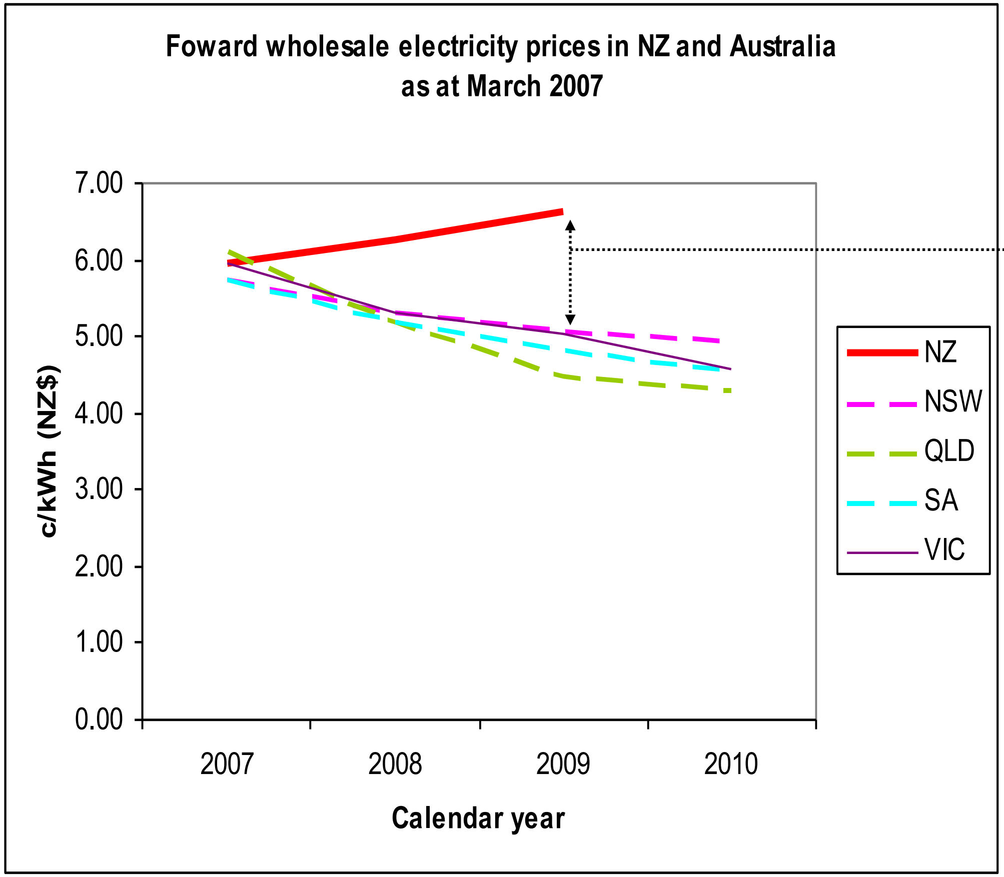
Electricity policy should not be driven by:

- Climate change policy (eg draft NZES)
- Social welfare policy

Although these and other policies can be important

What do consumers want?

1. ... Lowest possible prices



By 2009 NZ consumers will be paying between \$580m and \$796m pa for power compared to Australian prices.

We can't afford to add more taxes (eg C-tax) or have other poor policies

Energy supply opportunities & threats

Policies that change $3b pa energy bill:	
$15/t CO_2 tax or equivalent	+$390m pa
1% improvement in competition ……..	**-$30m pa**
1% decrease in competition	+$30m pa
2X EC electricity efficiency program	+$10m pa
Improvements to RMA consenting:	
• Generic improvements	Reduction
• In favour of renewables	Increase
Improvements to SOE governance	Reduction

No silver bullet to improve competition

- Anti-competitive behaviour not yet proven
- In the absence of significant failure, radical policies off the agenda (or should be)
- A number of incremental policies are being advanced, eg:
  - Improving transparency on invoices
  - Mandatory disclosure of hedge summary

Line opportunities & threats

Policies that change $1.3b pa line bill:	
Improvement in efficiency: • Dynamic efficiency most important • Transmission Pricing Methodology and who pays for grid upgrades, eg – Auckland 400 KV line – New wind farms in lower SI	Reduction
Reduction in efficiency: • Poor regulatory decisions • Eg allowing line monopolies to reintegrate back into the energy market	Increase
Removal of or increase in excess profits	-/+

?

Industry governance opportunities & threats

- Risk of politically driven rather than economically efficient policies remains high, eg
  - Propensity of politicians to chase "green" vote
  - $150m spent on Whirinaki to avoid political fall-out from having to seek voluntary demand savings in dry-year events. Cost to consumers is $29m pa. With e3p and other generation coming on-stream, Whirinaki is not needed for at least next 3 years
  - Lack of cost-benefit-analysis in policy making
- The EC governance needs to be reviewed

What can consumers do?

- Keep demanding competitive offers from suppliers – things have and can change (eg www.energyhedge.co.nz)
- Advise the Commerce Commission, EC and a trade association if you think there has been anti-competitive practices or abuse of a monopoly position.
- Similarly if there are ideas you have to improve the market, eg information that would help you make better decisions – advise those decision makers and influencers.