



MAJOR ELECTRICITY USERS' GROUP

27 April 2007

Mr Peter Harris
Acting Chair
Electricity Commission
WELLINGTON

By email to peter.harris@electricitycommission.govt.nz

Dear Peter

Market Design Review

1. Thank you for attending the MEUG Monthly Executive Committee meeting on Wednesday 18th April and sharing with us the expectations the Electricity Commission holds for the Market Design Review project being conducted by Concept Consulting.
2. Following the presentation the Executive Committee discussed the information presented and were encouraged by the intention to involve stakeholders extensively throughout the Review. However, it came as some surprise that this involvement did not extend to the problem definition phase (Stage 1) of the Review. Accordingly we would like to reiterate what was said during the meeting that, in order to have credibility, the review needs to (at least) address the following points:
 - a) The impact of vertical integration on electricity prices (ie the extent to which vertical integration represents an imbalance of market power in favour of the incumbent gentailers);
 - b) The extent to which the electricity market is in fact competitive when the 5 largest gentailers all appear to make "healthy" profits irrespective of the hydrology in any particular year. In a competitive market it is normal to expect that at least one participant would make a low or moderate profit;
 - c) The effectiveness of the existing financial (derivative) market for electricity hedge contracts and instruments for managing location price risk;
 - d) The extent to which the government's climate change policy will increase the price paid by consumers for all electricity purchased from the wholesale electricity spot market thereby resulting in windfall gains to the incumbent renewable generators;
 - e) The extent to which New Zealand's high dependence on hydro electricity (and the lack of lake storage capacity) impacts on the ability to achieve a fully competitive electricity market; and
 - f) The ability of new entrants to sell output at competitive market prices against incumbents and to obtain competitively priced hedge cover for planned and unplanned outages from existing market participants.

PO Box 8085, Level 8, Wakefield House, 90 The Terrace, Wellington, New Zealand
T +64-4 494 0996, F +64-4 494 0997, info@meug.co.nz, www.meug.co.nz

3. MEUG welcome the opportunity to participate in this review and look forward to working closely with Concept Consulting and/or other consultants engaged on the project.
4. We would be happy to elaborate further on any of the issues we have raised.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Terrence Currie', is written over a thin red horizontal line.

Terrence Currie
Chairman

cc Mr David Hunt, Concept Consulting
Messrs Tim Street and Mervyn English, Electricity Commission