



MAJOR ELECTRICITY
USERS' GROUP

Electricity security of supply review

Public hearing
24 April 2007

Outline

- Three questions:
 1. What is the optimal level of security of supply?
 2. Will the market achieve this?
 3. How could we improve on current arrangements?
- Agree with Castalia on 1
- Some disagreement on 2 and 3

1. Optimal security of supply

- Endorse Castalia's adoption of economic approach
- Agree with Castalia's definition of optimal level of security of supply
- Consider appropriate Castalia's estimates of:
 - Marginal costs of demand restraint
 - Security reserves

1. Optimal security of supply

- Accept Castalia's estimates and ranges of:
 - Optimal points of un-served energy
 - Probability of demand restraint
 - Annual energy margin
- Support Castalia's view that current 1-in-60 dry year security of supply standard is higher than optimal

2. Market failure

- Not convinced Castalia's evidence demonstrates market failure in provision of security of supply
- Believe evidence supports there has been no market failure and none is likely
- Accept evidence not sufficient to disprove possibility of failure in future
- Agree with “watchdog” role for Commission

3. Improving current arrangements

- Agree with Castalia's recommendations:
 - Clear delineation of roles
 - Need for clear trigger and process for procurement of additional reserve energy
 - Dispatch of Whirinaki at its SRMC
 - More information and explanation on Minzone
 - Retention of voluntary approach to information gathering

3. Improving current arrangements

- Disagree with current universal levy for existing reserve assets and any additional assets:
 - For existing assets, recommend:
 - Preferably, funding from general taxation because bought for political reasons not economic one or
 - Second choice, exempting parties who have their own hedge arrangements
 - Recommend applying same criteria to charges for any additional assets:
 - Funding from general taxation if bought for political reasons
 - Exempting adequately hedged parties if bought to address market failure

3. Improving current arrangements

- Suggest privatising Whirinaki. If to be offered at SRMC why have the higher costs of continued Crown ownership and EC monitoring
- Suggest relocating Whirinaki to defer need for additional investment in grid from central North Island to Auckland be considered by Castalia

Conclusion

- Castalia have produced a very good draft report; clear and high quality analysis
- We support most of the conclusions in the draft report
- We urge Castalia to reconsider the section relating to market failure and who were the real intended beneficiaries of Whirinaki