



MAJOR ELECTRICITY USERS' GROUP

27 April 2007

Jenny Walton
Electricity Commission
By email to info@electricitycommission.govt.nz

Dear Jenny

Submission on Principal objectives – draft explanatory and usage statements

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Electricity Commission (the "Commission") paper, *Principal objectives – draft explanatory and usage statements*, released 30 March 2007.

Part 1 of the paper: Approach to addressing principal objectives in Commission work

2. With respect to figure 1 on page 6:
 - a) MEUG has already commented on the proposed Strategic Priorities (column B in figure 1) in our submission of 12 October 2006.
 - b) MEUG look forward to the Commission publishing the proposed Outcome Indicators (column C in figure 1). The importance of these indicators is mentioned in paragraph 30 e. of the paper.

Part 2 of the paper: Comments on draft explanatory statements

3. The discussion on efficiency should recognise externalities and benefits and costs for which there are no observable market "prices" should all be included in any analysis by the Commission of economic efficiency effects.
4. In table 3 (Reliability, sufficient supply) the list of activities undertaken by the Commission assumes a continuing need for the Commission to make decisions for consumers in aggregate because of the public good nature of reliability. MEUG suggest that the Commission should also be proactive in developing mechanisms to allow consumers or classes of consumers to directly make the trade-off between reliability and price; hence reducing the role of the Commission as central planner for reliability.
5. The definition of environmental sustainability in paragraph 24 covers only matters affecting the physical environment. MEUG agrees. Note that this is different from the wider use of the term "sustainability" which covers environmental as well as economic sustainability.

Part 3 of the paper: Draft usage statement

6. As noted above (paragraph 2 b)), MEUG look forward to the Commission publishing the proposed Outcome Indicators – preferably for consultation before finalising.

Part 4 of the paper: Comments on draft principal objectives relationship statement

7. In relation to the components of the principal objectives, paragraph 31 states, “there is no hierarchy of importance in these relationships.” As the Act doesn't prioritise any of the components, MEUG agrees with this statement.
8. MEUG disagrees with the interrelationships illustrated in figure 2. That diagram and the preceding discussion refer to “sustainability.” The latter isn't a component in the Principal Objectives. Environmental sustainability is a component of the Principal Objectives; however as noted in paragraph 5 of this submission, environmental sustainability has a narrow focus on physical aspects of the environment whereas the more generic term “sustainability” has a broader economic context as well as physical environment aspect. A proper analysis of economic efficiency effects, including externalities and benefits and costs for which there are no observable market “prices,” (as mentioned in paragraph 3 of this submission) would in effect cover sustainability in an economic sense also.
9. MEUG suggest the interrelationships section of the paper be reconsidered by the Commission.

Yours sincerely



Ralph Matthes
Executive Director