



MAJOR ELECTRICITY USERS' GROUP

7 May 2007

Jenny Walton
Electricity Commission

By email to info@electricitycommission.govt.nz

Dear Jenny

Submission on Demand Forecasting Methodology Consultation Paper

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Electricity Commission (the "Commission") consultation paper, *Demand forecasting methodology for Security of Supply*, published 11 April 2007.
2. In summary MEUG agrees with the preferred bottom up approach for forecasting electricity demand over the next one to five years as part of its annual assessment of near term security of supply subject to:
 - a) The Commission considering whether it might be beneficial now, rather than in some future year, to extend the outputs of the forecast to include load probability curve forecasting and regional peak forecasts;
 - b) The Commission noting that MEUG would not support a regulatory requirement that end consumers would have to make information certain available to the EC for these forecasts; and
 - c) The Commission noting that MEUG has concerns that the approach may not adequately capture changes in near term GDP forecasts. One option to overcome this deficiency would be for the Commission, in parallel with the preferred bottom-up approach, to run a check using a top-down econometric forecast.
3. We look forward to the Commission's consideration of this submission.

Yours sincerely

Ralph Matthes
Executive Director

Appendix: MEUG comments on EC consultation paper Demand forecasting methodology for Security of Supply

	Question	Comment
Q1	Do you agree that this is an appropriate scope for the proposed demand forecasting methodology? If not, please provide details of how you consider the scope should be modified.	<p>The scope in paragraph 3.1.5 is the minimum required. MEUG believe it's likely the EC in future years will extend the methodology to include load probability curve forecasting and regional peak forecasts. Therefore MEUG suggest the EC consider the costs and benefits of including those outcomes now rather than later.</p> <p>MEUG assumes sufficient information will be published such as weekly forecasts to allow parties to create their own non-calendar year forecasts. Accordingly the reference in paragraph 3.1.5 (d) to non-calendar year outputs might be redundant.</p>
Q2	Do you agree that this information on new loads, changes in existing loads, and changes in embedded generation would be useful for medium-term forecasting purposes and should be obtained from participants as part of the proposed methodology?	MEUG agrees the EC should seek this information. However it should be at the option of participants whether to supply answers to the EC. There should be no regulatory requirement on parties to provide the information.
Q3	What other information should be sought from participants?	No comment
Q4	Do you agree that this paper accurately identifies the most important methodological issues? If not, what issues are more critical to the construction of a demand forecasting methodology?	<p>Agree with respect to demand forecasting for next 1 to 5 years.</p> <p>For forecasts beyond 5 years MEUG believes econometric models are more robust.</p>
Q5	Do you agree that the options identified include the best practicable approaches for resolving the issues? If not, what practicable options would provide better results?	See answer to question 6 below
Q6	Do you agree with the Commission's preferred options for resolving the methodological issues identified? If not, please explain which alternatives would be preferable and why.	<p>Only concern is that the methodology may not adequately take into account forecast near term changes in GDP. Such changes can be quite large and this might affect electricity demand more than extrapolating a historic actual demand time series.</p> <p>On the other hand MEUG accept that using an econometric approach only for the next 1 to 5 years also has risks. Perhaps the EC should consider undertaking both its preferred bottom-up approach and a top-down econometric assessment. A divergence between the two would lead the EC to check its participant sourced assumptions.</p>
Q7	Do you consider that the proposed methodology would be a practical and effective implementation of the 'preferred options' defined in section 6.1? If not, how could it be improved?	No comment