



# MAJOR ELECTRICITY USERS' GROUP

12 November 2008

**Aide memoir for discussion with  
The California Foundation on the Environment and the Economy**

**Key issues affecting NZ households and businesses having  
lowest possible power prices and secure supply**

**Notes**

<b>Electricity policy</b>	
90% of electricity generation from renewable sources by 2025	<ul style="list-style-type: none"> <li>▪ Poor policy because picks a particular technology rather than addressing the issue of climate change effects not being priced. If accrue a price to climate change effects then the economy will derive the best mix of resources. The 90% by 2025 target is reminiscent of old soviet-bloc style production targets.</li> <li>▪ Dangerous because this political rhetoric will translate into legislative and regulatory changes that will lead to reduced supply options and hence raise costs and possibly increase risk to supply.</li> </ul>
<b>Electricity sector structure and governance</b>	
Role of Electricity Commission	<ul style="list-style-type: none"> <li>▪ Not independent of politicians</li> <li>▪ Needs to focus on core regulatory functions. Economic regulation of transmission could shift to Commerce Commission. Could be a range of alternatives to governance of market rules, including industry self-governance.</li> </ul>
Market structure	<ul style="list-style-type: none"> <li>▪ Is the NZ 1996 market design (based mainly on PJM) still best practice and the most appropriate for NZ given our high exposure to highly variable seasonal rainfall?</li> <li>▪ How to reduce oligopoly competition?</li> </ul>
<b>Legislation</b>	
Ban on new thermal generation	<ul style="list-style-type: none"> <li>▪ Will be repealed by new government</li> </ul>
Emissions Trading Scheme	<ul style="list-style-type: none"> <li>▪ Refer Catherine Beard of Greenhouse Policy Coalition</li> </ul>
State Owned Enterprises Act	<ul style="list-style-type: none"> <li>▪ Unclear if poor performers compared to private sector businesses or lower returns demanded from shareholders. Governance likely to change slowly.</li> </ul>
Resource Management Act	<ul style="list-style-type: none"> <li>▪ Generic issue affecting the whole economy</li> </ul>
<b>Regulation and Rules</b>	
Benchmark Transmission Agreement	<ul style="list-style-type: none"> <li>▪ EC needs to make it a higher priority to continuously improve these regulated backstop terms and conditions</li> </ul>
Transmission Pricing	<ul style="list-style-type: none"> <li>▪ Need to improve locational pricing and shift away from postage stamp pricing</li> </ul>

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### A summary of MEUG policy objectives for the electricity sector

<b>Industry governance</b>	Governance institutions where decision making is subject to robust principles, is transparent, the institutions are accountable and independent of political interference.
<b>Supply Chain elements:</b>	
<ul style="list-style-type: none"> <li>▪ System Operations monopoly</li> </ul>	<p>Quality regulation of System Operator natural monopoly.</p> <p>Improve competition for ancillary services.</p>
<ul style="list-style-type: none"> <li>▪ Network monopolies</li> </ul> <p>Transpower ≈\$0.6b pa</p> <p>Distribution companies ≈\$1b pa</p>	<p>Promote competition for network line services where possible.</p> <p>Pragmatically by-pass and competing transmission service opportunities in NZ are likely to be limited.</p> <p>Improve accountability and service innovation through better contracts with line networks. Use of regulation to facilitate improved and more balanced contracts has been useful and should continue.</p> <p>Quality regulation for services that cannot be opened up to competition or contracted for.</p>
<ul style="list-style-type: none"> <li>▪ Wholesale and retail markets</li> </ul> <p>Cost ≈\$3.8b pa</p>	<p>More competition. This will lead to pressure on costs and prices, innovation by suppliers and more choice for consumers.</p> <p>A preference for voluntary industry solutions, but where that is not possible, quality regulation should be considered to facilitate development of market solutions.</p>

List of MEUG members & sector (GWh pa)	Gross	Co-gen.	Net	Peak	Location
Rio Tinto Aluminium	5,000	-	5,000	580 MW	Southland
Norske Skog Pulp & paper	1,300	230	1,070	170 MW	BOP
CHH Pulp & paper	1,105	260	845	130 MW	NZ wide
NZ Steel Steel	1,045	600	445	106 MW	South Auckland
Pan Pac Pulp and timber	550	66	550	78 MW	Hawkes Bay
FBL Steel/cement/etc	454	-	454		NZ wide
WPI Pulp	330	-	330	48 MW	Ohakune
NZRC Refining	235	-	235		Whangarei
Telecom Telecommunications	190	-	190		NZ wide
Oceana Gold mining	152	-	152	16.5 MW	South Island
Holcim Cement	70	-	70		West Coast
Dongwha Patinna MDF	58	-	58	9 MW	Southland
Heinz Wattie's Food processing	56	-	56		Hawkes Bay
Tegel Food processing	56	-	56		NZ wide
ANZCO Meat	41	-	41		NZ wide
Solid Energy Coal	29	-	29		NZ wide
Ravensdown Fertiliser	28	22	6		NZ wide
AIAL Airport	23	-	23	13 MVA	Auckland
Lion Breweries Brewery	23	-	23	6.5 MW	NZ wide
POAL Port	23	-	23	5.5 MW	Auckland
Business NZ Trade Assoc.					
WPA Trade Assoc.					