



Electricity policy and Commerce Amendment Act 2008

- Presentation outline:
 - The role of consumers and MEUG in the electricity sector.
 - Key policy issues
 - Commerce Amendment Act and electricity line businesses
- Questions and answers

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The role of consumers

- End users:
 - Use power and pay for power
 - Have supply interrupted due to distribution service failures and less frequently (but more severe) transmission service failures
 - Limited options to dispute service, but can switch suppliers
 - Occasionally asked to voluntarily save power
 - Larger consumers can choose a mix of spot and financial derivatives to manage cost risk
 - Some consumers have own generation
 - Submit on RMA consent issues
 - Few submit on consultations by CC, EC, MED or select committees on policy issues. Even less appeal regulator decisions
- All end users rely on the CC and EC to make decisions and to “innovate” the regulatory regime to improve competition or mimic competitive pressures where competition is weak.



Electricity use and payments by consumer class

	Users #	Demand TWh	Peak MW	Line cost \$b pa	Energy cost \$b pa	Total cost \$b pa
Household	1.6m	13		0.6	1.7	2.4
Non MEUG commercial and industrial	200 k	15		0.7	2.1	2.8
MEUG members	20	11	1,200 ?			
Total	1.9 m	39	6,500	1.3	3.8	5.2
MEUG %	0.001%	28%	18%			

- MEUG members: Rio Tinto, Norske-Skog, CHH, NZ Steel, Pan Pac, FBL, WPI, NZRC, Telecom, Oceana Gold, Holcim, Dongwha Patinna, Heinz Wattie, Tegel, ANZCO Foods, Solid Energy, Ravensdown Fertiliser, AIAL, Lion Breweries, POAL
- Industry Group members: Business NZ and Wood Processors Assoc.



Key electricity policy issues for 2009

- If the Minister of Energy were to ask, “what are the top electricity sector specific priorities for 2009 that he should promote?”, my answer would be:
 - Update the NZ Energy Strategy and GPC for the EC and GIC.
 - Improve market response & regulatory frame-work for dry-year risk.
 - Improve competition including a comprehensive stock-take of market design and governance. This includes Winter 2008 Review (noted above), EC Market Design Review, CC Part 2 inquiry and governance review (MED, CC, EC, EECA, GIC, industry initiatives).
 - Review how transmission approval process and timing might be improved including governance, and aligning those that pay with those that benefit – more than election manifesto review of governance ... look at changing behaviour through contracts, TPM, etc.
- Second order or BAU policy activities would include implementing changes to Part 4 of the Commerce Act and various ongoing incremental improvements to the current market including assessing development of smart meters.
- Other economy wide policies are also material, eg RMA, ETS and energy efficiency policies



Ranking policy issues for consumer focus

Issue	Benefits/risks	Comment
Δ NZES and GPS		
Dry-year risk	GDP ↓ \$200m/event	Will be opposition to changing from the status quo and parties seeking to go in the opposite direction
Improve market	5% gain = \$190m pa	
Improve transmission D and S	\$10m's to \$100m's NPV	
....		
FK	\$10m's pa (\$99m total cost)	MPS to finish 1st
Part 4	5% gain = \$65m pa	CC on top of it
...		
ETS	\$1b @ \$50/t CO ₂	High risk - high effort



Commerce Act and Part 4

- Agree with IEA “Two common goals [of regulatory agencies] are protecting users and protecting investors. Users need to be protected from abuse by firms with substantial market power, while investors require protection from arbitrary action by government ...”
- Do not expect many, if any, consumers will participate in the 5 discussion papers to be consulted on in 2009 or the 2 conferences because complex and lack time and or expert resources. Participation might increase if have worked examples illustrating trade-offs and technical sessions (though consumer representatives time and expenses should be covered.
- Factors that will change economic regulation in the future:
 - Technology, eg smart grid and smart meter
 - Evolution of commercial arrangements and incentives flowing from Transmission Benchmark Agreement and TPM
- Lines businesses, consumers and regulators need to be open to innovation and to reward successes ... as long as we do not also pay for failures .
- We will always have a healthy dose of scepticism about some of the claimed hardships by electricity lines businesses.