



MAJOR ELECTRICITY USERS' GROUP

3 February 2010

Lisa DuFall
Electricity Commission
By email to submissions@electricitycommission.govt.nz

Dear Lisa

Submission on Proposed appropriations and work priorities for the 2010/11 Financial Year

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Electricity Commission consultation paper – *Proposed appropriations and work priorities for the 2010/11 Financial Year*, published 22nd December 2009¹. Comments on sections of the paper in the order in which they first appear follow.
2. The highest cost item in the proposed budget for 2010/11 in table 3 on page 13 is for the Transmission work-stream. MEUG agrees with the tier one work for transmission; however with the most major transmission project approvals already processed perhaps there should be a faster tailing off of transmission related work? Proposed budgets for common quality and system operation, retail markets and distribution and wholesale markets are either the same or less than the 2009/10 budget. Given the intensive Market Development Programme work likely to carry over into 2010/11 then this resourcing level might be light. It would be useful to keep the aggregate budget the same for all tier one work but consider shifting resources from transmission to the other work-streams.
3. MEUG suggests the two-yearly survey of hedge markets currently a business-as-usual activity in the wholesale work-stream (p 15) should be reviewed as part of the overall Market information and analysis tier one work.
4. Section 45 of the Electricity Bill lists six "specific new matters to be in Code." All of those are adequately covered by tier one activities except for "facilitating, or providing for, an active market for trading financial hedge contracts for electricity." MEUG suggests the Commission should consider adding a new tier one activity under wholesale (p15) for improving the range and liquidity of financial derivatives. Ideally the industry itself will take the lead on this and role of the Commission and new Electricity Authority will be relative small involving monitoring and checking alignment with other work, ie not much resource will be needed but nevertheless it should be a tier one activity.
5. The Commission is to be congratulated for including on pages 17 and 18 in the rationale for Common Quality and System Operation tier one activities estimates of the range of NPV benefits. A similar approach should be used to support requests for appropriation for all other activities.
6. The tier one project "Transmission to enable renewables" (p23) reflects the prior Government's desire to tilt the playing field in favour of renewable generation irrespective of the economics of

¹ Refer <http://www.electricitycommission.govt.nz/consultation/appropriations-2010-11/view>

renewable and non-renewable generation. MEUG suggest the Commission re-label that work "integrating renewables into the market." This would better reflect the actual work being undertaken to ensure renewable generation meets transmission connection and common quality standards and pays all related incremental costs.

7. MEUG is sceptical of the claim that Commission funded electricity efficiency programmes to date have an NPV of programme-lifetime savings of \$317m. If that were true then why don't consumers individually recognise those benefits and making investments in electricity efficient practices and equipment themselves? The sooner the strategic review of EECA as proposed by the Minister² is undertaken, the better.
8. We look forward to the proposed further review of proposals and priorities mentioned in paragraph 8 of the consultation paper.

Yours sincerely



Ralph Matthes
Executive Director

² Hon Gerry Brownlee, Minister of Energy and Resources, recommended to Cabinet a strategic review of EECA including a review of "Funding for EECA should be reviewed, with a general principle that funding should be through levies where the beneficiaries can be clearly identified and administrative (collection) costs are low." Refer paragraph 137 of the paper to Cabinet Economic Growth and Infrastructure Committee, <http://www.med.govt.nz/upload/71002/cabinet-paper.pdf>