



# MAJOR ELECTRICITY USERS' GROUP

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Media release by the Major Electricity Users' Group (MEUG)

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## Electricity Allocation Factor report released

Energy intensive industries need to understand the impact that the Emissions Trading Scheme (ETS) will have on their costs according to Ralph Matthes the Executive Director of the Major Electricity Users' Group (MEUG). "The current ETS recognises this problem (in part) and deals with it by way of an interim allocation of carbon units to businesses that pass various tests for trade exposure and materiality" he said.

Estimating the cost via the ETS for direct emissions such as use of gas or petrol and diesel is relatively straight forward. However, the cost arising from the pass-through of carbon charges by electricity generators via the wholesale electricity market is not simple, and involves complicated modelling to determine an electricity allocation factor.

Mr Matthes said that MEUG recognised the government has solicited advice on this matter and reached a view on what the increase in wholesale electricity prices is likely to be. This view has in turn formed the basis for an initial allocation to trade-exposed businesses that consume electricity. Our view is that the assumptions used by the government's advisors have led to a much lower allocation to electricity consumers than the cost they are exposed to via increased electricity prices.

"We have been dissatisfied with the advice given by the Ministry for the Environment to Government on this important issue" said Mr Matthes.

"We commissioned an independent expert report by NZIER to review submissions to the Ministry, the analysis of those submissions and the advice given to Ministers. The NZIER report is being made public today. The report finds significant shortcomings in the advice given by the Ministry.

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“There remains a gap between the rationale supporting the currently gazetted Electricity Allocation Factor and our view of what the factor should be. Understanding and reconciling the differences must be part of the review of the ETS including the Electricity Allocation Factor to apply from 1<sup>st</sup> January 2013 stated Mr Matthes.

If businesses that compete internationally are not adequately compensated for the cost of carbon being introduced into electricity prices, they will lose out to businesses in other countries that do not impose a cost of carbon and ultimately will move off-shore to those countries. The result would be bad for the NZ economy, and bad for the environment.

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Attachment: NZIER, Report to the Major Electricity Users' Group, Review of the Electricity Allocation Factor, 2 July 2010.