MAJOR ELECTRICITY USERS' GROUP

23 July 2010

Gareth Wilson
Manager, Electricity
Ministry of Economic Development

By email to electricity@med.govt.nz

Dear Gareth

Submission on costs of implementing new Electricity Governance arrangements

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Ministry of Economic Development letter to levy payers titled "Costs for implementing new Electricity Governance arrangements – impacts on electricity levies"[1]. This submission should be read in conjunction with our prior "Submission on proposed levy arrangements for the new Electricity Governance Regime" dated 7th July 2010. Comments that follow are ordered as they arise in the letter and not in any order of priority.

2. If the Ministry agrees with our earlier submission that applicants should pay costs for seeking exemptions from EIRA related requirements, then offsetting revenues should be taken into account in paragraph 3.d. of the letter.

3. The capital increases related to SOSPA are significant, ie between +$3.2m to +4.6m over 2011/12 to 2013/14 over and above current funding (table 1). MEUG does not consider the explanation in paragraph 7.a. of the details for those capital costs as sufficient. Levy payers have no idea whether the capital items are computers, software, buildings or something else. The Ministry should provide a detailed breakdown of this additional capital.

4. More information should be provided on the return on capital for SOSPA capital expenditure (paragraph 7.a.). With the Electricity Industry Bill proposing the System Operator becoming a statutory monopoly, then the relative risk of that business has reduced because it will have no competition. Accordingly the return on capital should be adjusted in the SOSPA.

5. It is not apparent why CPI adjustments to SOSPA non-capital components (paragraph 7.b.) would not already have been included in current funding levels. MEUG requests the Ministry provide further detail on why current funding levels do not already include this CPI adjustment.

6. Paragraphs 9 to 11 detail additional funding costs for policies to promote customer switching. It's worth spending such monies provided there are net benefits. This consultation should have included some output metrics so that levy payers can in later years assess the value of this policy. For example specific targets could be published for numbers of customers switching and number of Powerswitch web site "hits" over and above business-as-usual.

[1] Refer http://www.med.govt.nz/templates/ContentTopicSummary____43382.aspx

Level 28, The Majestic Centre, 100 Willis Street, Wellington 6011, New Zealand
PO Box 8085, The Terrace, Wellington 6134, T +64-4 494 0996, info@meug.co.nz , www.meug.co.nz

7. MEUG strongly opposes the assumption electricity efficiency levies (refer table 1) will increase from $13m in 2010/11 to $17.519m in 2011/12 and beyond. We accept it is pragmatic to carry over monies voted for the EC for 2010/11. However the level of funding once EECA becomes fully responsible should be decided after the strategic review of EECA recommended in the Ministerial Review and consideration of submissions on the draft NZ Energy Efficiency and Conservation Strategy. Until that work is completed, MEUG recommends $13m per annum be assumed for 2010/11 and beyond.

8. Finally MEUG notes that the letter is silent on any proposed funding of Ministry work on regional electricity supply and demand forecasts and scenarios pursuant to s.126 (3)(g) of the Electricity Industry Bill reported back from the select committee[2]. In our view this is pragmatic because the cost of properly allocating electricity sector work and the transaction costs of consulting on levies would far outweigh the benefit of doing so. We welcome the Ministry deciding not to levy electricity users for this work.

Yours sincerely

Ralph Matthes
Executive Director

[2] http://www.parliament.nz/en-NZ/PB/SC/Documents/Reports/0/2/f/49DBSCH_SCR4766_1-Electricity-Industry-Bill-111-2.htm