



# MAJOR ELECTRICITY USERS' GROUP

6 August 2010

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Electricity Commission

By email to [submissions@electricitycommission.govt.nz](mailto:submissions@electricitycommission.govt.nz)

Dear Lisa

## Submission on draft 2010 Statement of Opportunities

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Electricity Commission "Draft 2010 Statement of Opportunities" published July 2010<sup>1</sup> (the "draft 2010 SOO"). Comments are ordered as they arise in the draft SOO not in any order of priority.

### Section 2.4: Future purpose of the SOO

2. The statutory purpose of the SOO is changing. However the need for a biannual publication with the quality of analysis in the SOO remains. MEUG recommend that MED and the Electricity Authority liaises to ensure ongoing publication of information equivalent to that in the SOO. Any degradation of the analysis underpinning the SOO would be a retrograde step.
3. It was useful to hear at the Commission conference on 21<sup>st</sup> July 2010 that it is expected the Electricity Authority will continue to develop tools such as GEM.

### Section 3.4.2: After diversity maximum demand peak forecasts

4. Figure 14 graphs the change in ratio of peak demand to mean demand since 1997 by region. The Canterbury region (mainly Orion) has by far the largest reduction in peak to mean demand of approximately -0.175. The next best reduction is approximately -0.06 in Taranaki. This highlights the value of distribution business pricing regimes having a strong peak pricing component.

### Section 4.2: The five scenarios

5. The scenario short titles are carried-over from the last SOO. MEUG suggests the policy environment has changed significantly and so too should the scenario titles. For example the word "sustainable" in a scenario title has too much baggage and is prone to too much misunderstanding that we think it better to rephrase the title.
6. Another and probably more compelling reason to reassess if the scenario titles are fit for purpose is to consider if they really reflect the assumptions modelled. For example the "2010 Sustainable path" scenario is better described as "Low gas discovery and highest C price" scenario. The outcome is more renewable generation, more electric vehicles and more demand side participation than other scenarios. Those outcomes are a result of the state of nature assumed, ie highest C price path and lowest opportunity for gas power station developments due to poor rate of indigenous gas discoveries and high LNG import prices.

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<sup>1</sup> <http://www.electricitycommission.govt.nz/consultation/2010-draft-soo/view>

7. If you accept the above argument that the scenarios and their titles should be more about the main exogenous factors, then the descriptions in table 4 of the draft SOO should also be reviewed. For example the opening sentence describing the "2010 Sustainable path" scenario begins "New Zealand embarks on a path of sustainable electricity development ..." The word "embarks" could be interpreted as a deliberately chosen path or choice over other paths. That is not correct. Given the assumed main exogenous drivers of high C price and little gas, New Zealand's best choice is more renewable generation than that expected under other scenarios.

#### **Section 7.7: Further discussion**

8. Three outcomes of the scenarios are considered: fraction of renewable generation to total generation, power station greenhouse gas emissions and implications for HVDC transfers. These are interesting but give no information on the performance of the electricity sector to contribute to the higher level goal of improving economic growth. For example it would be useful to compare the electricity price forecasts for each scenario relative to the electricity price forecasts of our largest trading partners. If future power prices are going to be less or more competitive compared to our trading partners then that is useful information for policy makers and businesses.

##### **Section 7.7.5: Generation costs**

9. The NPV of generation scenarios in table 16 is useful in assessing deliberate policy choices that veer from the lowest cost option. For example if New Zealand has ample gas for new power stations but politicians decide to ban that fuel and force a higher C price onto New Zealanders than that faced by the rest of the world, then the NPV difference between the "2010 Sustainable path" and "2011 High gas discovery" scenarios is a measure of the cost of that policy decision, ie \$5.2 billion.

##### **Section 7.7.6: Revenue adequacy**

10. Future work should consider the income stream to peaking plant in providing cap options.
11. The inclusion of a 10% profit margin over and above provision of a post-tax WACC effectively leads to an actual rate of return above WACC. This is inconsistent. Generation revenue adequacy should allow return on WACC only. It may be the WACC assumed is more reflective of that for line monopolies than generators. If that is the case, then more work should be undertaken on finding a better representative generator WACC than use of an arbitrary and conceptually inconsistent additional 10% profit margin.

#### **Section 8: The power systems analysis**

12. This is a useful piece of work and highlights the comments in paragraph 2 above that this type of analysis must continue.
13. The key conclusions were summarised at the EC seminar on 21<sup>st</sup> July 2010 as follows:
- There are little new large transmission investments (for grid reliability) remaining, but plenty of small investments needed; and
  - In 2015\$'s, the NPV cost of needed grid reliability investment was between \$250m and \$300m.

Yours sincerely



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