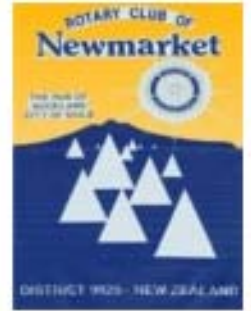


MAJOR ELECTRICITY  
USERS' GROUP



## **An insight into the workings of the Major Electricity Users' Group And policy issues in the electricity sector**

A presentation to the Rotary Club of Newmarket  
Auckland, 31st July 2013

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### **Key points:**

The industry is complex.

There is no silver bullet for improving competition or regulating line monopolies.

Small and large consumers have a common interest in policy improvements.

## MEUG is a trade association representing 18 large consumers'

+ 2 trade association members

Diverse sector & geographical spread

Some have onsite generation

Several listed on NZX and other stock exchanges

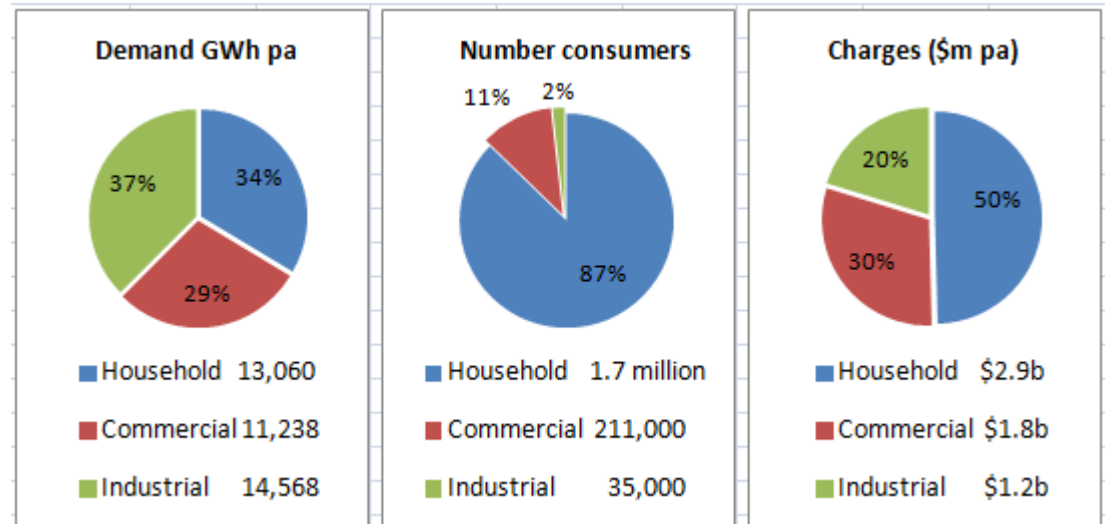
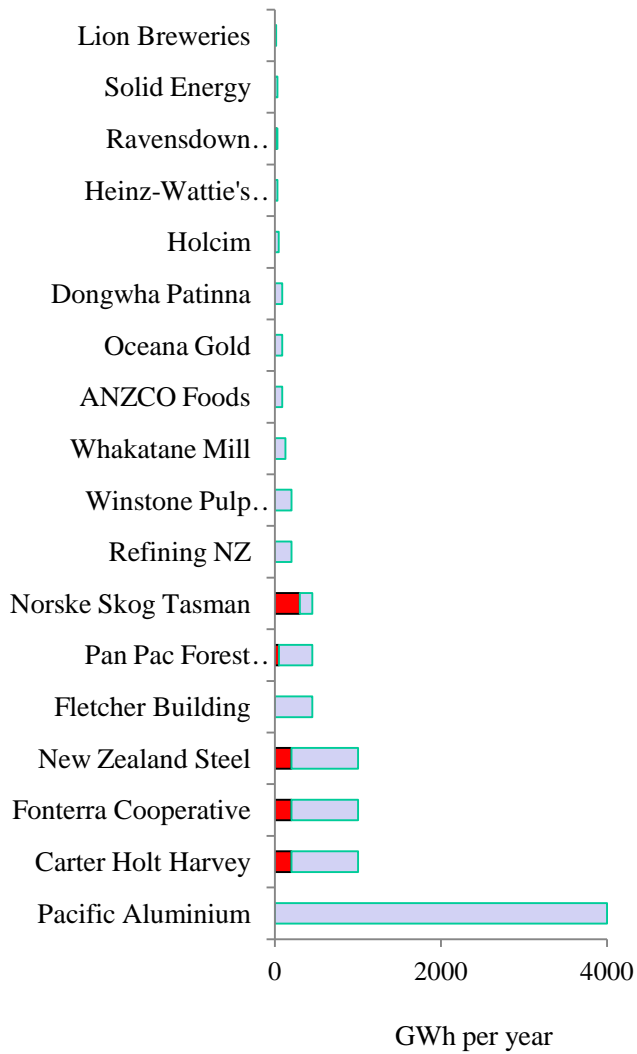
Several also large users' of gas

Not all large power users' are members

Collectively use ≈25% of power

Very few connections,

Less unit charges than other sectors, high absolute power bills



## MEUG's interest is in good policy

### **Mission statement:**

To add value to MEUG member's management of electricity costs and risks through market intelligence, networking, facilitating solutions to improve competition, maintain reliability, promote efficient operations and regulate monopolies to achieve outcomes consistent with competitive markets for the long-term benefit of electricity consumers.

This aligns with the objectives of the Electricity Authority and Commerce Commission

### **MEUG is a specialist trade association:**

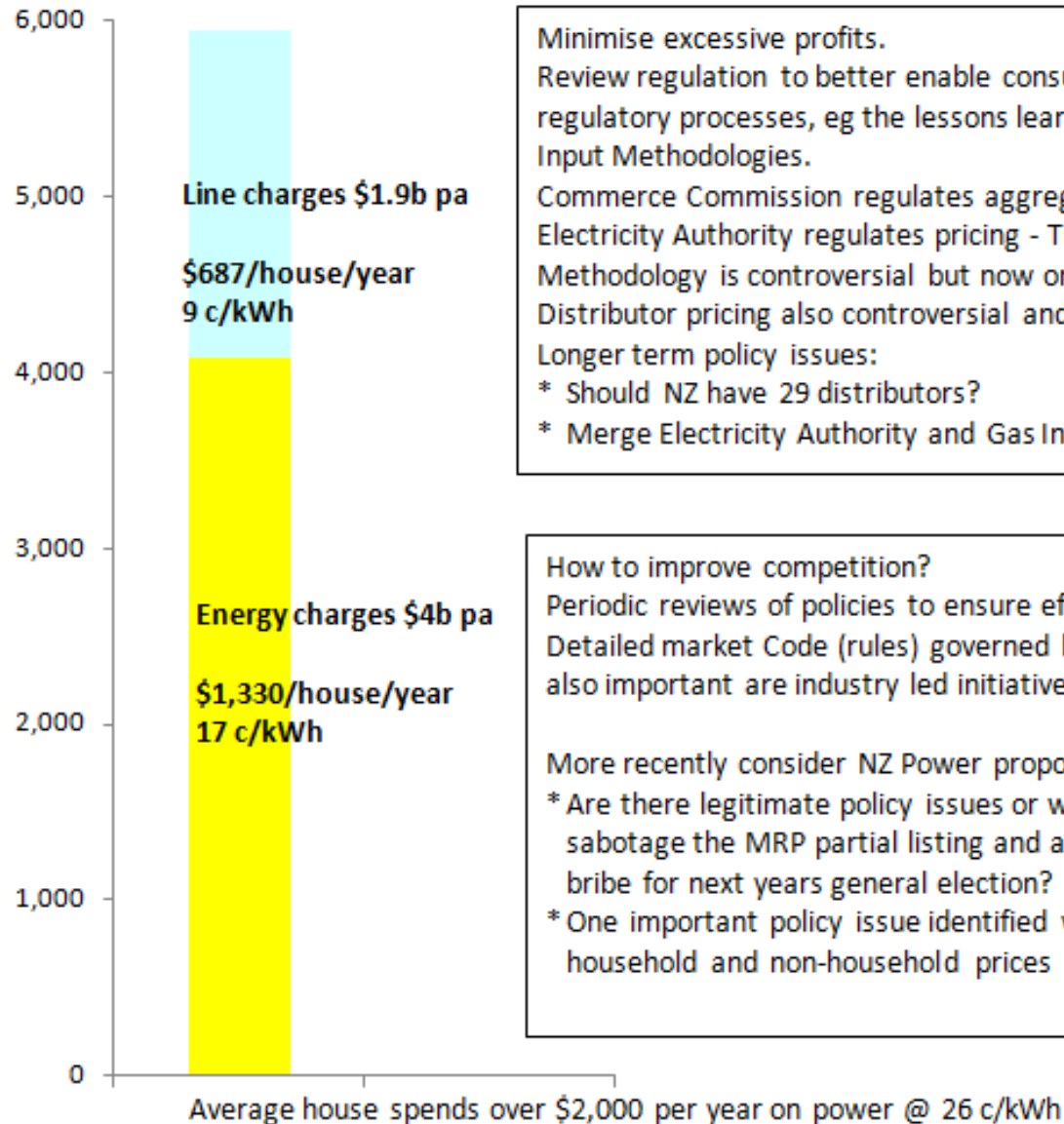
We consider changes to legislation, regulations and tertiary legislation (the electricity code) and non-regulatory solutions and drivers of improved behaviour and incentives on all participants. The day to day business of MEUG is responding to consultations papers from or participating in workshops by the Electricity Authority and Commerce Commission and other entities.

Unlike many other trade associations we do not provide advice and facilitate industry safety, training, employment relations etc.

MEUG has a full time Executive Director with work overseen by an Executive Committee appointed at the AGM. The Executive Committee meets monthly. Specialist expertise within MEUG member companies is often used and supplemented with advice from external advisors.

MEUG members want good policy affecting delivered prices and quality (security and reliability) of supply. These are the same concerns as all consumers.

## What are the policy issues?



Minimise excessive profits.  
Review regulation to better enable consumers to participate in regulatory processes, eg the lessons learned from the merit review of Input Methodologies.  
Commerce Commission regulates aggregate revenues.  
Electricity Authority regulates pricing - Transmission Pricing Methodology is controversial but now on a more considered process.  
Distributor pricing also controversial and path forward unclear.  
Longer term policy issues:  
\* Should NZ have 29 distributors?  
\* Merge Electricity Authority and Gas Industry Company?

How to improve competition?  
Periodic reviews of policies to ensure effective.  
Detailed market Code (rules) governed by Electricity Authority though also important are industry led initiatives (ASX futures).  
More recently consider NZ Power proposal by Labour & Greens:  
\* Are there legitimate policy issues or was this to sabotage the MRP partial listing and a political bribe for next years general election?  
\* One important policy issue identified was divergence between household and non-household prices

## The debate on prices

NZ Power graph ....

[some data/GST issues]

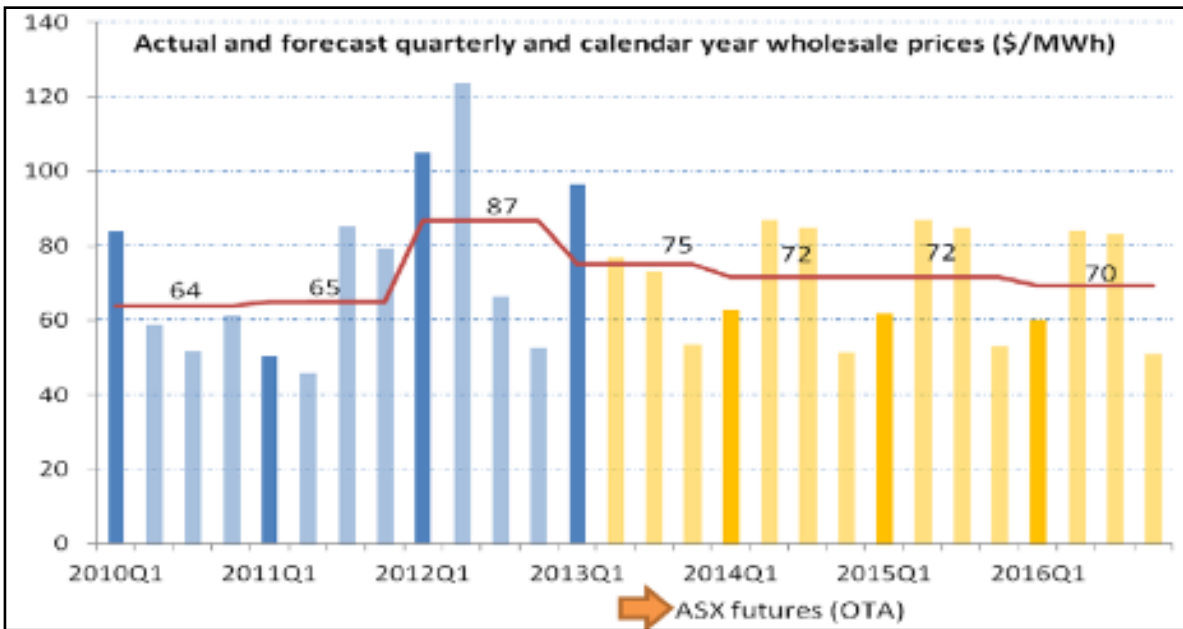
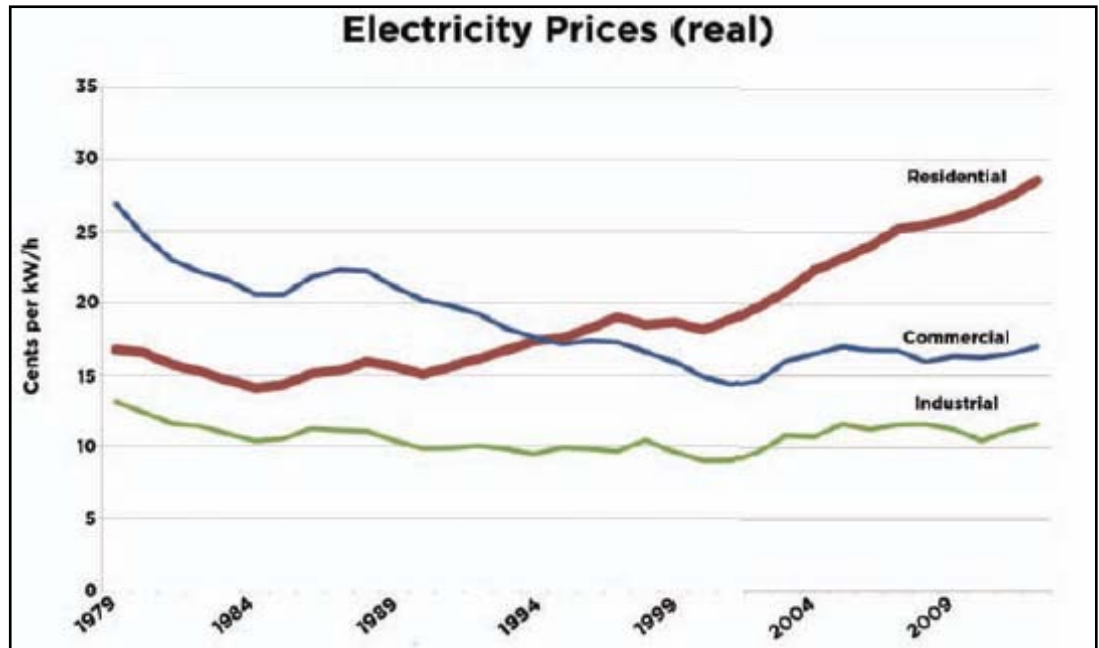
Household 26 c/kWh

= \$260/MWh

Industrial 8 c/kWh

= \$80/MWh

What matters? Future prices ...



... and retail margins over and above wholesale prices.

Households have choice and leverage by switching

[www.powerswitch.org.nz](http://www.powerswitch.org.nz)

and smart meters with smart tariffs will help in future

## The cost of capital debate for regulated monopolies

A large fraction of line charges are capital related. The regulated asset base and cost of capital are calculated using Input Methodologies.

Small changes in cost of capital (WACC) multiplied by large values of regulated asset bases can make very large changes in line charges paid by consumers.

In late 2010 the Commerce Commission determined WACC as 7.60%. Since that date the Commission has published updates as follows:

CC decision	Date	For ID year <sup>1</sup>	WACC midpoint	WACC 25 <sup>th</sup> to 75 <sup>th</sup> percentile
Decision Number 718	03-Mar-11	2010/11	6.87%	6.15% to 7.60%
Decision Number 723	27-Apr-11	2011/12	6.40%	5.68% to 7.11%
[2012] NZCC 10	27-Apr-12	2012/13	5.85%	5.13% to 6.56%
[2013] NZCC 10	29-Apr-13	2013/14	5.43%	4.71% to 6.14%

In February 2011 several monopolies lodged merit review claims seeking higher WACC. The only non-line entity to lodge a counter view was MEUG.

There were several judicial review processes heard before the merit review claims were heard last quarter 2012 and start of 2013. A decision is pending.

What's at stake is highly material but has not receive much public attention. If the line monopolies win all of their arguments line charges could increase for an average household by \$385 per year. MEUG's best argument would result in charges decreasing by \$78 per year. The monopolies have a huge asymmetry of resources advantage when it comes to debating details of regulation.

The regulated monopoly WACC issue wasn't considered an issue by Labour-Greens in the NZ Power announcements. If regulating monopolies is this difficult and time consuming; has the NZ Power proposal estimate of 4 years to implement been under-estimated?