



MAJOR ELECTRICITY USERS' GROUP

17 April 2014

Dr John Rampton
General Manager Market Design
Electricity Authority

By email to submissions@ea.govt.nz

Dear John

Consultation Paper – Improving the Efficiency of Prices in Pivotal Supplier Situations

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Electricity Authority consultation paper¹ "Improving the Efficiency of Prices in Pivotal Supplier Situation" dated 18th February 2014 and first notice given of consultation in the Authority's market brief of 11th March 2014. Members of MEUG have been consulted in the preparation of this submission. This submission is not confidential.
2. The WAG consultation paper of 25th June last year and submissions that closed 9th July (MEUG submitted) followed by the WAG recommendations paper dated 25th September to the Authority focussed on solving perceived local pivotal high pricing issues. The case for intervention for future local pivotal pricing issues described by WAG last year was tenuous at the best. We suggest the best approach is to wait and see how the soon to commence dispatchable demand regime and the partial floating of 3 major generators, that commenced just under a year ago and will conclude this week, plus ever lower cost new technology local generation and demand side response alternatives² will change behaviour for local pivotal events. Our view is those changes will further erode claimed long term harm to consumers and therefore the case for any code amendments. If that view is proven wrong then the Authority should consider just the specific safe harbour provisions for net pivotal events; but only if evidence emerges that there is a problem.
3. MEUG last year in submissions to WAG also suggested³ "*More ex post information disclosure by net pivotal suppliers and analysis by the Authority to facilitate scrutiny by customers could be considered.*"

¹ Document URL <http://www.ea.govt.nz/dmsdocument/17525> found at <http://www.ea.govt.nz/development/work-programme/wholesale/efficiency-of-prices-in-pivotal-supplier-situations/consultations/#c10795>

² MEUG noted these in response to Q1 of our submission to WAG on 3rd July 2013, refer <http://www.ea.govt.nz/dmsdocument/15278> found at <http://www.ea.govt.nz/development/work-programme/wholesale/efficiency-of-prices-in-pivotal-supplier-situations/consultations/#c7603>

³ Ibid, response to Q.2

Suppliers in a net pivotal situation may be wary of exercising transient market power if post event they risk credible analysis demonstrating their behaviour was cynically designed to obstruct competition. The risk of public odium and consequential damage to the retail brand for those suppliers should not be under-estimated.

For example it would be useful for consumers in the Cobb area to know:

- The specific Hirschman Herfindahl Index (HHI) for GXP in their area compared to HHI for GXP in adjacent areas and trends over time*
 - If prices for all classes of consumer in the Cobb area differed from adjacent areas. And where there was a difference if that was sufficient to deter competition; and*
 - A cost to serve analysis comparing the net margin for the net pivotal supplier assuming the net pivotal supplier had to purchase on spot on an arms-length basis at the same spot price as other suppliers.”*
4. The WAG recommendations paper to the Authority and the current consultation paper make no mention of the above submissions. We still think they are relevant and support the case for waiting and only if needed intervening with safe harbour provisions for local net pivotal events.

Yours sincerely



Ralph Matthes
Executive Director