

MAJOR ELECTRICITY USERS' GROUP

20th April 2016

Background to MEUG and 2016-17 policy topics

The mission statement of MEUG is “to add value to MEUG members’ management of electricity costs and risks achieving outcomes consistent with competitive markets for the long-term benefit of electricity consumers.” Members of MEUG are listed below:

Member ranked by Gross GWh pa	Sector	Generator	Direct purchaser	IR provider	Grid connected	Main EDB connected
Pacific Aluminium	Aluminium		Yes		Yes	-
NZ Steel	Steel	Yes	Yes	Yes	Yes	3
Fonterra	Milk	Yes		Yes		14
Oji Fibre Solutions	Wood processing	Yes		Yes		7
Pan Pac	Wood processing	Yes	Yes	Yes	Yes	1
Norske Skog Tasman	Paper	Yes		Yes	Yes	1
Progressive Enterprises	Groceries					29
Refining NZ	Oil refining					2
Winstone Pulp Inter.	Wood processing		Yes	Yes	Yes	-
Oceana Gold	Gold mining					3
Whakatane Mill	Wood processing	Yes				1
Ravensdown	Fertilisers	Yes				3
Lion	Brewing					4
Business NZ	Trade association					-
Wood Processors & Manu.	Trade association					-

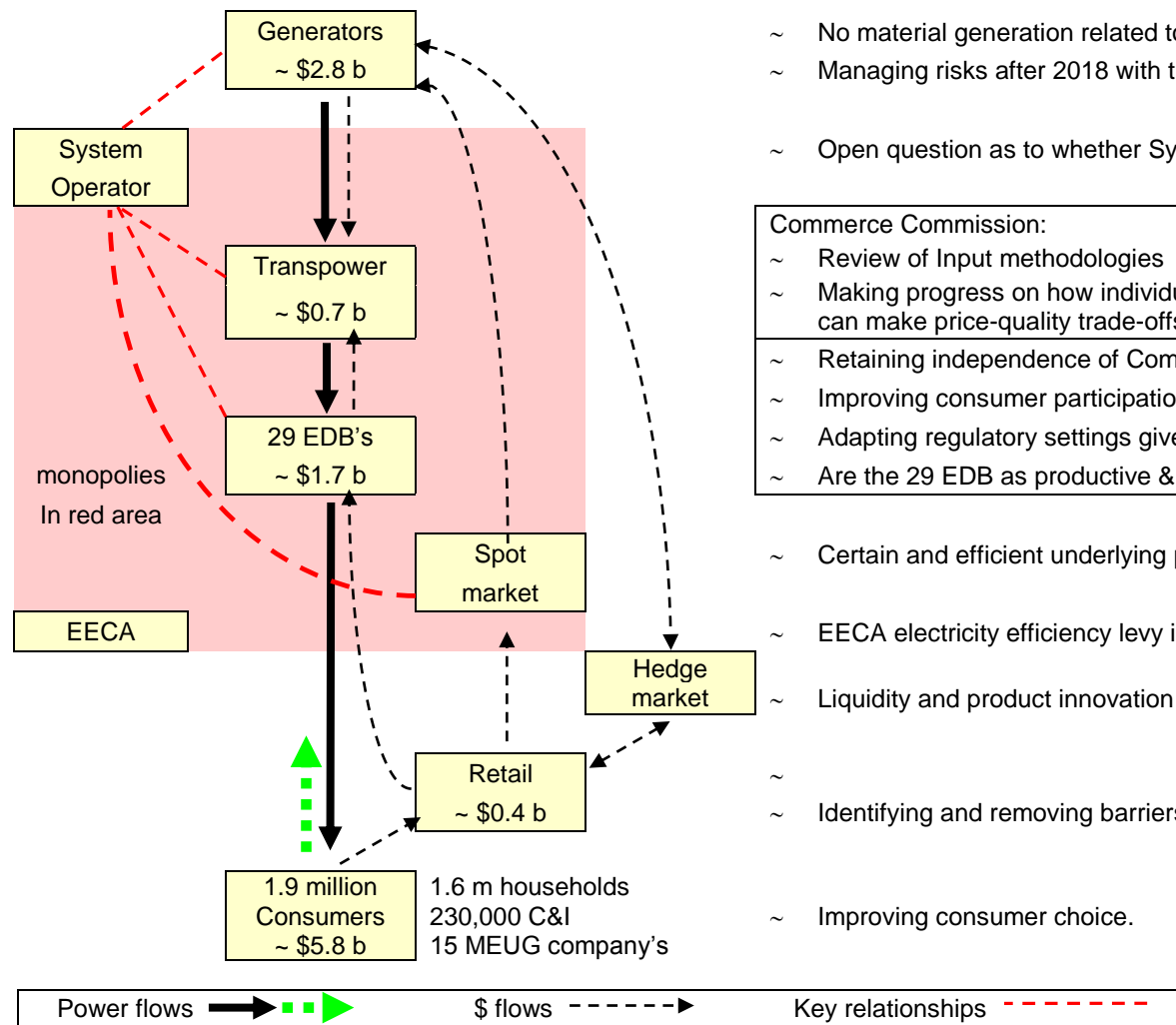
Onsite large generators use gas, wood-waste and geothermal for fuel.
 Direct purchaser is a defined term in the Code referring to end consumers purchasing from the wholesale market Clearing Manager.
 IR refers to Instantaneous Reserves.
 Another feature of member’s participation in the physical market is Norske Skog Tasman’s participation in the Dispatchable Demand regime.
 Across all members all risk management options are used such as F&O’s, CfD’s and fixed price variable contracts.

The share of MEUG member aggregate gross demand and costs to NZ totals follows:

MEUG estimates		NZ	MEUG	Pct.	
Gross Demand	GWh pa	41.0	10.6	26%	
Energy costs (wholesale and retail)	\$b pa	3.25	> 0.5	> 18%	⇐ Continuous improvement
Transmission charges (paid by consumers)	\$b pa	0.73	0.11	16%	⇐ Greatest opportunity for productivity & innovation gains
Distribution charges	\$b pa	1.73	0.02	1%	
Total costs paid by consumers	\$b pa	5.76	> 0.60	> 10%	
EECA levies	\$m pa	13	3	26%	⇐ Poorly designed tax
EA levies (direct)	\$m pa	78	8	10%	

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Source of net¹ \$'s on end consumer annual bills



Policy topics 2016-17

- ~ No material generation related topics within remit of MEUG.²
- ~ Managing risks after 2018 with thermal plant de-commissioning.
- ~ Open question as to whether System Operator statutory monopoly is optimal.

<p>Commerce Commission:</p> <ul style="list-style-type: none"> ~ Review of Input methodologies ~ Making progress on how individual consumers can make price-quality trade-offs. 	<p>Electricity Authority:</p> <ul style="list-style-type: none"> ~ Transmission Pricing Methodology. ~ EDB contract T&C's including pricing structures and standardising outage information.
<ul style="list-style-type: none"> ~ Retaining independence of Commerce Commission and Electricity Authority from political interference. ~ Improving consumer participation in industry rule setting and directly in making informed choices. ~ Adapting regulatory settings given uncertainty in scope and timeline for uptake of emerging technologies. ~ Are the 29 EDB as productive & innovative as they could be and if not how can this be improved? 	

- ~ Certain and efficient underlying physical spot prices, ancillary services markets & AUFLS arrangements.
- ~ EECA electricity efficiency levy is a poorly designed and unjustified tax.
- ~ Liquidity and product innovation in financial derivatives market.
- ~ Identifying and removing barriers to retail competition and upstream in wholesale market.
- ~ Improving consumer choice.

¹ Net refers to incidence on consumer invoices. e.g. Transpower's regulated revenue is ~\$1b pa but generators pay some and recover those costs through energy offers.

² There are important policy topics outside the remit of MEUG, eg improving the Resource Management Act, fresh water management and climate change policies. On the latter NZ's separation of climate change from energy policies has avoided the problems observed overseas of ad hoc interventions to manage climate change having adverse effects on energy markets. There are policy topics that are currently not material MEUG monitors such as generator and or retailer market power governed by Part 2 of the Commerce Act and the effectiveness of the gas sector governance given the importance of gas for peaking plant.