



Briefing by the Major Electricity Users' Group

December 2017

Introducing MEUG

Hon Dr Megan Woods

Minister of Energy and Resources

Hon Mr Kris Faafoi


Minister of Commerce and Consumer Affairs

Dear Dr Woods and Mr Faafoi,

The members of the Major Electricity Users' Group (MEUG) congratulate you on your appointment to the Energy and Resources and Commerce and Consumer Affairs portfolios respectively.

This briefing introduces MEUG and our perspective on priority topics in the electricity sector.

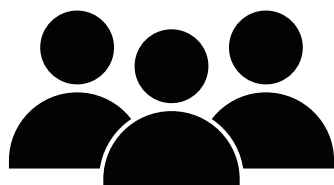
MEUG is a business association focused on ensuring electricity sector policy, regulatory and legislative settings are fit for purpose and in the long-term interests of consumers. MEUG takes a New Zealand Inc. perspective and is the only consistently active expert consumer voice in the electricity sector.

 **28%**
of all New Zealand's
electricity is used by the
MEUG group

\$900m
paid in full for
electricity charges

\$11b
contributed in full
to the GDP

\$30b
billion dollars in
revenue per annum



25,000
direct
employees

A list of MEUG members is set out in the table below. Our largest members are connected directly to the national transmission grid and most MEUG members also have sites directly connected to local distribution networks. Members with on-site co-generation are marked with an asterisk.

| More than 900 GWh pa (more than \$80m pa cost) | Between 200-700 GWh pa (between \$20m to \$80m pa cost) | Less than 200 GWh pa (less than \$20m pa) |
|--|---|--|
| Pacific Aluminium Ltd NZ Steel * Oji Fibre Solutions * Fonterra * | Pan Pac Forest Products * Norske Skog Tasman * Refining NZ Progressive Enterprises Winstone Pulp Oceana Gold | Whakatane Mill O-I New Zealand Ravensdown * Lion Cold Storage Nelson |

Industry group members are Business NZ and the Wood Processors & Manufacturers Association of NZ

Many members also have on-site co-generation. These are marked with an asterisk.

Priority topics in the electricity sector

Review of retail power pricing

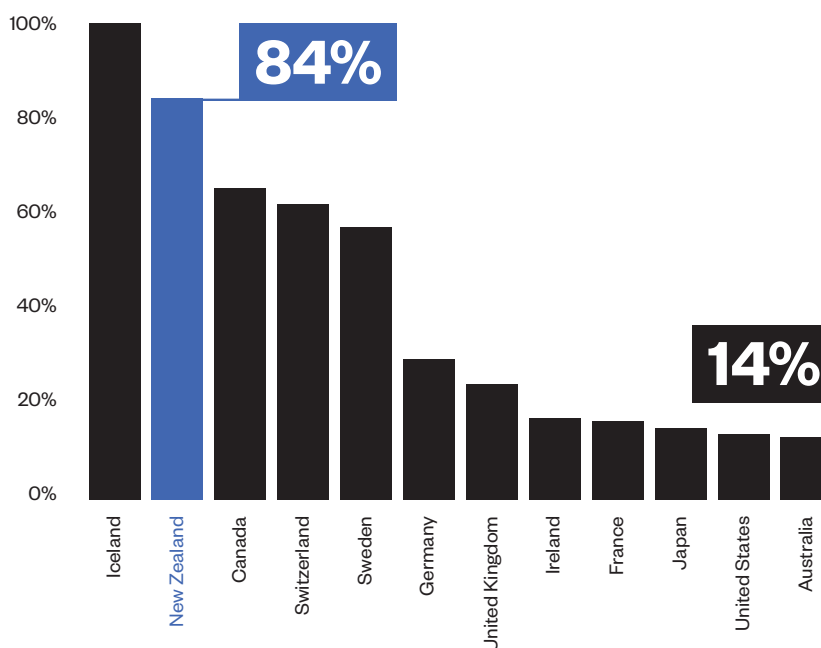
MEUG has a strong interest in efficient electricity pricing and we look forward to working collaboratively with the Government on the review into retail power pricing.

Distribution pricing makes up about 33 to 40 per cent of household electricity bills. To ensure consumers are getting fair prices, distribution pricing should be included in the terms of reference for the review.

The Electricity Authority (the EA) has been encouraging distributors to voluntarily review pricing. However, MEUG has yet to see the necessary leadership coming from distributors. Including distribution pricing the Government's retail power pricing review will make a real difference for all consumers.

Climate change policy

New Zealand has one of the highest percentages of renewable electricity generation in the world giving the productive economy a competitive advantage in a carbon constrained world.



New Zealand's domestic response to climate change should be shaped, in part, by our position as a small, globally connected and trade-dependent country. The transition to a lower net emissions economy should ensure we maintain and improve the incomes and prosperity of New Zealanders. It makes little sense to impose significant carbon costs domestically that international competitors do not face, with the result that businesses relocate to countries more reliant on fossil fuels, resulting in a net increase in global emissions.

MEUG wants to see a balanced approach to climate change policy and is pleased to see a strong emphasis on improving incomes and prosperity in much of the Government's policy and we look forward to working with you on this important issue.

Security of supply

MEUG supports Government policy to increase renewable electricity generation. However this must not come at the cost of security of supply during dry years. MEUG would not support restrictions on new thermal generation build or any moratorium on future gas exploration.

Having just experienced a dry winter and facing a dry summer, the risk of shortages in winter 2018 cannot be ignored. The recent experiences of Tasmania and South Australia demonstrate the importance of thermal back-up and peaking supply in ensuring the provision of reliable and cost-effective electricity when renewable generation is insufficient to meet demand. These security of supply risks will only increase should the Huntly Rankine units be retired in 2022.

Emerging technologies

Emerging technologies provide significant opportunities and risks for the electricity sector. So consumers can fully benefit from as yet un-defined services and business models New Zealand's regulatory framework needs to be future-proofed and well-designed.

As emerging technologies such as electric vehicles (EV) and storage devices such as batteries and photovoltaics (PV) become economic, end-user can become suppliers as well as consumers of electricity. This could turn on its head the traditional electricity sector model of remote large-scale generation with large economies of scale delivered to urban areas through large grid transmission lines.

Emerging technologies will see local distributors managing power flows from and between, as well as to, end-user with unpredictable load patterns. No new traditional towers and wires grid investment may be needed. Batteries owned by customers may have multiple value streams including energy and alternatives for local distribution and national transmission investment.

While MEUG is confident the EA is considering what future regulation might look like MEUG suggests that the Commerce Commission could be more pro-active in this space.

Regulation of electricity monopolies

MEUG believes the greatest opportunity for productivity improvements in the electricity supply chain are within the framework for regulating the monopoly services provided by Transpower and the 29 electricity distribution businesses (EDB).

The Commerce Commission has a difficult balance between ensuring the long-term benefit to customers and the near-term risk the lights may go out because EDBs have failed to manage their businesses well. MEUG's view is that the latter risk tends to lead to the Commission erring in favour of allowing EDBs to manage risk via excessive line charges.

Regulation of contract terms and conditions

The EA is about to consult on a default distribution agreement. MEUG strongly supports the development of a default distribution agreement as a means of providing certainty of all consumers.

EDBs have made some progress standardising terms and conditions at the retail level but there is a long way to go on the details for mass market consumers and large consumers connecting directly at the distribution level.

Commercial and industrial consumers have unequal bargaining power when negotiating terms and conditions with distributors, who have local monopolies on supply. The existence of a default distribution agreement means businesses know what contractual terms and conditions will apply if they cannot reach a mutually agreeable bespoke agreement with their local distributor.

Consumer participation in policy and regulatory processes

It is too hard for consumers to participate in the regulatory processes governing the electricity sector and MEUG would urge Ministers to ask officials and regulators to consider ways to remove barriers to consumer participation.

The complexity of issues and information prevents most customers understanding let alone effectively participating in regulatory processes. Regulators have made improvements in simplifying issues, for example explaining decisions in terms of impact on an average household. However, too often we continue to encounter the attitude that the issues are complex and cannot be explained in simple, accessible terms. That is unacceptable.

MEUG is the only consistently active expert consumer voice in the sector and we work hard to keep other consumer organisations like Consumer New Zealand across issues that affect all consumers. MEUG would be happy to work with you and your officials on this issue, and all issues affecting the electricity sector, in coming years.

Congratulations once again on your Ministerial appointments and we wish you, and the Government, well for the coming three years.

Yours sincerely



John Harbord

Chair

Major Electricity Users' Group