

14 December 2018

Chris Bunny
Deputy Chief Executive
Building, Resources and Markets
Ministry of Business, Innovation and Employment
By email to chris.bunny@mbie.govt.nz

Dear Chris

Spring 2018: Demonstrates the need for a wider strategic perspective on the gas and electricity markets

1. Yesterday the Major Electricity Users' Group (MEUG) Executive Committee and the Major Gas User's Group (MGUG) met separately and discussed the performance of the gas and electricity markets over spring 2018. This letter sets out the joint view of MEUG and MGUG that given the performance of the gas and electricity markets over spring 2018 a wider strategic perspective on both of those markets is needed.
2. Given the importance of what is at stake and to keep them informed of our views, we have copied this letter to the office of Hon Dr Megan Woods, sector regulators and Chairs of the Electricity Price Review Expert Advisory Panel and Interim Climate Change Committee.
3. The physical spot markets, hedge markets and transmission systems in the gas and electricity markets have been stretched this spring. In the gas market some customers, including generators, have had supply cut-short and have had to curtail production. The flow-on to the electricity market has impacted a number of businesses, with some facing high costs and/or the need to reduce production to manage cost pressures. Confidence in the market to manage risk if similar events reoccur has been undermined.
4. MEUG and MGUG are engaging constructively in the key reviews and investigations that are underway, including:
 - MBIE reviewing with the Gas Industry Company (GIC) gas outage information transparency protocols;
 - Electricity Authority (EA) investigation of an Undesirable Trading Situation (UTS) claim lodged 8th November, commencing 15th September and ongoing;
 - EA review of wholesale market issues during Spring 2018 including the HVDC outage planned for 22nd to 27th November; and
 - Electricity Price Review by the Expert Advisory Panel.
5. MEUG and MGUG believe that the above work should lead to improvements to the gas and electricity sectors. However, we are also of the view that the strategic question not addressed is whether the policy framework governing the interaction and interdependencies between the gas and electricity sectors, highlighted by events this spring, are robust.

6. Our view is a wider perspective across the gas and electricity sectors might find solutions with better outcomes than incremental improvements to each market separately.
7. If the events of Spring 2018 are a window to a future with constrained, or no, domestic gas production and supply and therefore higher energy prices whether due to intermittent renewable electricity supply, higher carbon costs or some other reason, then the view for our respective members is not attractive.
8. Some of our members have expressed a perception that the markets are not functioning as well as they should. As mentioned before, in the near-term the confidence of existing consumers of gas and electricity in how to manage risk if similar events reoccur has been affected.
9. In the longer-term investor confidence may have been affected because:
 - future similar events are likely to be more frequent and severe as gas supply becomes tighter and less diverse; and;
 - the events of Spring 2018 and policies over the last year have led to the prospect of future gas prices rising in the near and long-term and therefore so too will electricity prices given gas will, for the foreseeable future, set marginal prices.
10. Households exposed to the spot price will have been similarly affected by the above trends. Those households not exposed to the spot price will still likely experience retail price rises as a result of the recent spring.
11. Perceptions of how the markets have functioned are important to confidence in those markets. We think Spring 2018 has set back perceptions that the gas and electricity markets are functioning well.
12. A strategic review of the gas and electricity sectors and their inter-dependencies we suggest falls with the ambit of MBIE. The 4-workstreams listed above look at either the gas sector or the electricity sector, but none of them look across both. The expertise of the regulators and advisory groups already engaged in work for those sectors though would assist an MBIE review.
13. MEUG and MGUG would welcome an opportunity to discuss this request with MBIE and provide further information as required.
14. Our preference is to be as transparent as possible in any engagement with regulators and officials on material strategic issues and communications in order that we can demand the same of other parties. Therefore, we propose to publish this letter no earlier than one week from today.

Yours sincerely



John Harbord
Chair, MEUG



Richard Hale
Secretariat for MGUG

cc Office of the Hon Dr Megan Woods, c/- Vanessa Head
cc Dr Brent Layton, Chair, Electricity Authority
cc Dr Mark Berry, Chair, Commerce Commission
cc Rt Hon James Bolger ONZ, Chair, Gas Industry Company
cc Miriam R Dean CNZM QC, Chair Expert Advisory Panel
cc Dr David Prentice, Chair Interim Climate Change Committee