



Major Electricity Users'Group



Dear Minister,

On behalf of the members of the Major Electricity Users' Group (MEUG), we would like to congratulate you on your appointment to the Energy portfolio.

We look forward to working with you and would welcome the opportunity to meet with you to discuss the issues currently facing our members, and to understand your priorities as Minister.

MEUG was established in the early 1990s to advocate for, and support, a well-functioning electricity market.

Our 14 members represent industries of national and strategic importance to New Zealand such as steel, aluminium, pulp and paper, and the dairy industry. Our newest members also include businesses across the supply chain, operating food packing and cool store facilities, the distribution and retailing of groceries, and as of next year, the provision of data and cloud services.

We attach a briefing that sets out who MEUG is, who we represent and the key issues our members are currently facing.

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



John Harbord Chair Major Electricity Users' Group



Karen Boyes Executive Director Major Electricity Users' Group



What is MEUG's vision for New Zealand's electricity market?

MEUG and our members want an affordable and reliable electricity supply supporting a productive economy.

Electricity is a key input for our members' businesses. It enables our members to support regional communities, employ thousands of people in well paying jobs, and helps to pay for the essential services we all take for granted that are critical to a dynamic and thriving economy.

An affordable and reliable electricity market where customers believe they are paying a fair or justifiable price is essential to a productive economy . It allows industry and businesses to produce products at a competitive price, allowing our exporters to compete internationally, grow export revenue, drive job creation, and reinvest in their businesses

In any given year, our members generate over \$30 billion in revenue and use approximately 28% of all New Zealand's electricity, paying almost \$1 billion in electricity charges. \$30^{bn} 728% \$1^{bn}

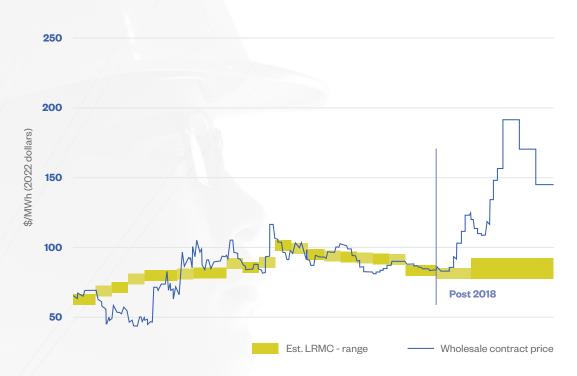


Figure 1: Contract prices and estimated costs for new baseload supply

Wholesale prices have more than doubled in the last five years significantly impacting businesses!. The Electricity Authority and at least one private investment firm² have estimated that consumers are paying between around \$1 billion and \$2 billion a year more than they would be expected to pay in a workably competitive market. The Market Development Advisory Group³ has also warned that market concentration and, as a result, pricing will get worse under a more renewable future – not less. There is a disparity between wholesale electricity prices and cost drivers (see Figure 1⁴ above), and given the impacts on businesses and productivity, we believe there is merit for further assessment that the market is working as it should.

The Climate Change Commission has said that national electricity generation needs to increase by 20 per cent over 2018 levels by 2035 to meet the anticipated needs.

An affordable, reliable and resilient electricity market: What do we need to achieve this?

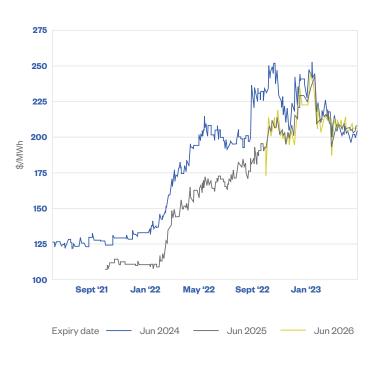
We need a competitive market where consumers pay a fair or justifiable price

Wholesale prices have more than doubled in the last five years significantly impacting the productivity and viability of industries and their ability to continue innovating, decarbonising, growing, and employing. Consumers need to believe they are paying a fair or justifiable price for their electricity and part of the challenge is the opaque pricing methodologies. Greater transparency and improved communication could demystify how prices are established what cost drivers providers are facing, how costs are shared across different consumers, and ultimately improve users' confidence that they are paying a fair and competitive price.

2

We need to understand the market conditions that have led to a doubling in wholesale prices

We need to understand why there is a disparity between wholesale electricity prices and cost drivers, both now and in the futures market. We know that our electricity market is relatively concentrated, but we need to understand whether this has led to exponential cost increases or whether there are other drivers at play.





We need a secure and reliable market

As we increase the level of renewable generation in our system, electricity supply and services must be secure, reliable and resilient to ensure an effective transition. In this respect. MEUG believes that the Government should focus on introducing as much renewable electricity generation as is technically and economically feasible. With the increase in intermittent generation from wind and solar, the system must ensure it can still deliver stable and consistent generation.



We need to make it easier for new entrants to supply or expand electricity capacity

With a relatively concentrated market, we need to ensure new and existing generators can expand their electricity capacity and invest in new technologies and supply. This would require regulators, including the Electricity Authority and the Commerce Commission, as well as government departments and councils working together to ensure the regulatory framework and consenting environment removes barriers to competition and market entry, and timely development of projects.



We need continual investment in infrastructure

Over the next decade, there will need to be a significant increase in investment in both our transmission system run by Transpower and the distribution networks run by 29 electricity distribution businesses (EDBs). Investment is needed to support the growth in demand, the increased use of solar and batteries, and greater electrification, as well as essential spend to maintain a resilient and reliable network.



Our focus for the next three years

To ensure that New Zealand has a competitive and resilient electricity network that delivers affordable electricity and supports economic growth, we are focused on the following issues.



Promoting a robust electricity market

Understand the disparity between wholesale electricity prices and cost drivers, to affirm whether the market is working as it should and to retain consumer confidence.

Improve transparency and communication around pricing decisions to demystify cost drivers, explain how costs are allocated across customers and over time, and expose discrepancies where they exist.

Support Government to set a clear direction for the energy sector and to aid the transition to a low carbon economy. Clarity is needed on the role of gas and gas peakers in the foreseeable future and the optimal mix of renewable electricity generation that the market can deliver.

Advocate for **ETS settings that are predictable and consistent** so that businesses can assess risks and invest appropriately.

Advocate for adequate **investment** to meet the needs for renewable generation and increased electricity demand and provide resilient, modern and reliable infrastructure for a productive economy.

If large industrial consumers are required to reduce production via **demand-side response mechanisms** to support the electricity market, the arrangements should be mutually beneficial and balance system needs with economic productivity.

Increased opportunity for **partnership and consultation between government and industry** to inform policy and develop workable solutions.

> Te Waihanga, the Infrastructure Commission, concluded that consent processing times from 2028 will need to be 50 per cent quicker than they are projected to be under the Resource Management Act for Aotearoa to meet its climate aspirations.



