



MAJOR ELECTRICITY USERS' GROUP

Meeting 29th April 2016

International Energy Agency In-Depth Energy Policy Review (IEA IDR)

1. A two page memo “Background to MEUG and 2016-17 policy topics” is separately attached to provide context and materiality for the topics set by the government for the IEA IDR.
2. Topic 1: The implications of integration of high shares of renewable energy for energy security and for energy market functioning.

Provided all resources and externalities are “correctly” priced then markets will arrive at the optimal level of renewable generation, non-renewable generation, demand side response and network services to match demand and supply in the short and long terms with sufficient back-up to meet the reliability desired by consumers.

Politically set aspirational targets such as the ratio of renewables to non-renewables will lead to higher costs and or lower reliability if those targets are not refined as new information emerges and the targets are used to justify ad hoc political interventions.

3. Topic 2: How the electricity distribution/retail system could be reformed to make it more efficient?

Improving distribution (EDB) productivity is likely to be a high value opportunity. EDB pricing and other contract terms and conditions need to align with outcomes expected in a balanced commercial negotiation and to ensure improved productivity. It is of little benefit to consumers to get a reasonable allocation of aggregate monopoly revenues and share of risks if aggregate regulated revenue is too high in the first place.

Retail competition like wholesale competition is subject to continuous improvement through changes to the Electricity Industry Participation Code 2010 administered by the Electricity Authority. MEUG is particularly interested in improvements to the wholesale market. Careful integration of various work streams is needed. For example to overcome barriers to consumers becoming Direct Purchasers requires progress on three parallel work streams. First changes to the Code for a Default Distribution Agreement and second to implement Real-Time-Pricing. Third, and currently outside the Code though within scope of the Electricity Authority to facilitate, the market needs to improve the range of and liquidity of financial derivative products.

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