



MAJOR ELECTRICITY USERS' GROUP

1st March 2016

Memo for discussion with the Electricity Authority Board

1. Security of supply from Winter 2019 onwards

General market expectation is that a commercial solution will be found this year and this is borne out by the futures market not showing any marked increases. Nevertheless a poor outcome may emerge. Does the EA have Code or non-Code levers to ensure parties reach an optimal commercial solution that addresses appropriately any supply security issues in the next few years?

2. Is consumer participation adequate?

Direct retail consumer participation rates are increasing as evidenced by churn statistics and effective with decreasing retailer margins; though progress on the expectation of even greater change in consumer behaviour with widespread retail AMI seems muted.

It is less clear if similar progress is being made to allow choice in for example to hedge or not, or invest in demand response opportunities for large TOU consumers.

Consumers becoming direct spot market participants has stalled pending solutions to the misalignment of forecast and invoiced spot prices (Real Time Pricing (RTP) is probably the near term answer), more liquidity in and more financial derivative products (we note considerable improvements since last year) and mainly delays in implementing Default Distribution Agreements (DDA). Dispatchable Demand (DD) growth has been hampered by a partial regime rather than fully mirroring dispatch rules for generators.

In future retail customer aggregators may with AMI and other emerging technologies offer households and SME's nationwide a direct market participant service and or certainty of DD. However those initiatives will end up being stalled for the same reasons they are not viewed as opportunities to invest in by existing large consumers. What view has the EA on these topics?

Code amendments are becoming ever more complex. Consumer submissions are few. Has the EA considered if this low level of participation by consumers in governance of the industry is a problem and if so what solutions could be considered?

3. Is governance of distributors a strategic issue for NZ Inc.?

Some distributors are pro-active on distribution pricing (primary issue may be transparency and inclusiveness of consultation processes), DDA, and notifying planned and unplanned outage information. Most distributors are not.

This range of behavior's we think is part of a wider problem about the productivity and efficiency of distributors. If the EA were to give a higher priority to the pending project "Distribution company arrangements" that is "a research project to consider the efficiency of distribution network arrangements"; that may spur progress on a range of distributor policy topics.

What is the EA's view of the priority of this project and could this be undertaken sooner rather than later? How wide is the scope of this proposed project?

This memo is not confidential.