



MAJOR ELECTRICITY USERS' GROUP

Update from the Chair

April 2016

What's on in April?

A primary focus for April is finalising MEUG's draft strategic plan for 2016/17, which will be considered at the AGM in May. We are delighted that Dr Brent Layton, Chair of the Electricity Authority, has agreed to be the guest speaker at the AGM.

Real time pricing

The Electricity Authority is looking to progress work on real time pricing, which they have acknowledged as resulting at least in part from consistent MEUG advocacy.

Truly big developments in the sector occur once every 5-10 years. Between these events its work on intermediate issues where ongoing gains can be made for members and real time pricing could be a game-changer. It's particularly important for members who might want to participate in spot markets but don't want to buy hedges.

A change to real time pricing (or much closer to it than the current day-after pricing) is not without cost and, when deciding how close to real time pricing to go, the Authority needs to balance these costs against expected benefits.

Default distribution agreements

The EA's draft Default Distribution Agreement (DDA) offers similar opportunities for members and consumers more generally, with submissions due by 19 April.

MEUG has consistently argued we need to shift from the voluntary compliance of Electricity Distribution Businesses (EDBs) to align with the Model Use of System Agreement to a mandated default agreement that EDB and EDB customers can contract out of only by mutual consent.

MEUG has contacted a range of retailers to share ideas on improving the draft DDA, with some new entrants especially interested. Standardisation of terms will help lower barriers to entry and facilitate greater competition by new entrant smaller retailers.

There might also be scope to engage with the EA on why individual direct connect users who meet all prudential requirements a trader is required to meet can't sign up to a DDA with their local EDB – or whether an equivalent default conveyance agreement is possible.

Security of supply

MEUG is looking forward to the Grid Owner investigations into managing impacts on dynamic voltage stability and other system security matters following the publication on 15 March of their report on Upper North Island decommissioning. That report was very helpful for informing the market of outcomes dependent on the conclusion of commercial discussions on the longer term role of the Rankine units.

Transmission pricing

In March the Electricity Authority announced their board will on 7 April decide on a release date for the draft transmission pricing decision. The board expects to release the draft decision by no later than mid-May.

While we were disappointed with the delay to the release of the Authority's draft decision, it's important that the Authority produces a quality document based on a robust cost-benefit analysis. If taking an extra month or two produces this and results in a shorter timeline to implementation then that's a good outcome.

Input methodologies

March was also marked by a number of submissions to the Commerce Commission on input methodology-related matters. Input methodologies are a bit of a black box, but are crucial to future monopoly line price and quality paths in New Zealand. The outcome of the Commission's work will financially impact every consumer and we look forward to engaging with the Commission when they publish draft decisions in June. Revised Input Methodologies will largely be in place by end of this year and will affect regulated gas line services from October 2017 and regulated electricity line services from April 2020.

Key dates

What on	Who	When	Notes for members
MEUG executive committee monthly meeting	MEUG	13 April	
Submission: Default distribution agreement (DDA)	EA	19 April	Having a DDA will improve retail competition and assist the case for a default conveyance agreement. Without a default conveyance agreement line companies can dictate terms and conditions. Also, a nationwide large consumer might have to negotiate many conveyance agreements, which can be very costly and time consuming.
Cross submission: Orion transition from customised price pathway to default price pathway	ComCom	22 April	Looking to set good precedents for when Orion's CPP ends March 2019 and reverts back to DPP (though Orion could apply for a new CPP). This will assist other EDBs evaluate the benefits and costs of applying for a CPP for their circumstances.
Submission: allocation of instantaneous reserves costs	EA	26 April	Change in allocation of IR costs to align with change in IR procurement from island to national basis in November 2016. A national IR market will lower costs.