



MAJOR ELECTRICITY USERS' GROUP

Update from the Chair

March 2016

A primary focus for March is the Downstream conference on 2-3 March, but after that there remains plenty for MEUG to do with substantive submissions due and the looming prospect of a draft transmission pricing decision by the Electricity Authority.

Downstream

MEUG was strongly represented at Downstream at the beginning of March, where the main theme was the likely impacts of emerging technologies. It was the first time I've attended Downstream and it was great to meet and talk to so many people.

We were pleased by the opportunity for the views of large electricity and gas users to be considered as they are intimately involved in those markets. While no small consumer representatives made presentations nevertheless an underlying theme of the conference was the increasing mobility of an average householder to either switch or invest in emerging technologies – not because of pure economics, but because many consumers were prepared to go the extra mile to avoid paying a supplier as payback for having to be price takers in the past.

There was also some acknowledgement that the way we pay for the national grid might not be sustainable. If PVs become widespread, or major industrial users exit or no longer connect to the grid, then remaining consumers will face ever-increasing costs to maintain the grid. These increased costs will drive more people or firms off-grid, creating a downward spiral. To paraphrase one commentator, "In no other industry does a company lose two clients and compel its other clients to pick up their bill."

Emissions and New Zealand's climate change efforts were also a focus of the later part of Downstream. The sector is clearly prepared to do its bit to lower emissions but we need to be prepared for some difficult public conversations and some of these were not confronted. For example, there was much discussion of PVs without acknowledging that, after some initial thermal displacement, PV's will likely displace more efficient wind and hydro-electricity and thereby increase New Zealand's net emissions. Vector CEO Simon Mackenzie's revelation that PV households use substantially more electricity than non-PV households only makes this more of an issue.

What's on in March

We met with the Electricity Authority board on 1 March and had a very good and wide-ranging discussion on issues of importance to members, such as consumer participation and security of supply from 2019 onwards should the Rankine units at Huntly close. The later remains a concern for MEUG. Given the length of time needed for any required approvals, decisions on new generation will need to be made in the next few months – but there is no sign of any new developments and, as a result, much of the country will be vulnerable for at least an interim period post-2019 before new generation is built.

The Electricity Authority hopes to release its draft decision on transmission pricing around the end of March. MEUG will be looking closely at the Authority's cost-benefit analysis and likely impacts on NZ Inc. Impacts of transmission pricing are significant for members with NZ Aluminium Smelters, for example, paying well over \$1 million per week in transmission charges.

Key dates

What on	Who	When	Notes for members
Annual meeting between MEUG and EA Board	EA	1 March	
Submission: Dispatchable demand (DD)	EA	1 March	An effective DD market and more DD participants will provide competition in the wholesale market.
Downstream conference		2-3 March	
Submission: on advice to the CC on WACC percentile for airports	CC	11 March	This is relevant though not exactly the same as the WACC percentile debate for setting DPP and IPP.
Joint Wholesale Advisory Group and Retail Advisory Group meeting	EA	15 March	
Security and Reliability Council (SRC) meeting	EA	15 March	
Executive Committee meeting	MEUG	23 March	
Meet EA to discuss draft Default Distribution Agreement (DDA)	EA	23 March	MEUG supports a mandatory default agreement instead of the current voluntary guidelines.
Submission: on CC view on opportunities to improve the way DPP and CPP work together	CC	24 March	Part of the CC review of input methodologies (IM).
Submission: on CC view on form of control	CC	24 March	Part of the CC review of IM.
Submission: on Lally report on asset beta and Black's Simple Discounting Rule	CC	24 March	Part of the CC review of IM.
Submission: on gas IM matters	CC	24 March	MEUG may submit on this and gas non-IM matters and gas DPP due 30 th March because gas is important for gas fired generation.
Submission: DDA	EA	4 April	EA will decide next steps after considering submissions.