



MAJOR ELECTRICITY USERS' GROUP

Update from the Chair

August 2017

The Commerce Commission and customised price-quality path

The Commerce Commission has recently made comments that the Commission's priority with the Powerco customised price-quality path (CPP) application is to "improve confidence in the process for future applicants". The inference being the Commission want to make it easy for EDBs to go through the CPP process and to thereby encourage uptake of the CPP process.

Such comments are concerning and at odds with the Commission's statutory objective, which is to achieve the best possible outcomes in competitive and regulated markets for the long-term benefit of New Zealanders.

The Commission's focus should be on outcomes – not on encouraging greater use of Commission-designed processes. One does not necessarily lead to the other.

CPP applications should be rigorously assessed on their merits. Instead, the Commission has created an impression there could be a degree of pre-determination on the part of a Commission keen to show that a process it has designed works – and works fast.

MEUG expects the Commission to genuinely interrogate Powerco's application. . Given the precedent the Powerco application could set, the Commission has to ensure it does not inadvertently create a precedent that might incentivise or reward other distribution monopolies for underinvesting in their assets over a prolonged period of time, make greater-than-usual profits as a result, then look to make good through the CPP process. We don't assert this applies to Powerco, but we expect the Commission to rigorously test that possibility.

If an EDB does make super-profits or has poor asset management plans (an area the Auditor-General recently found some EDB could improve on), then they should bear the cost of bringing their assets up to speed. Having the Commerce Commission give them a get-out-of-jail free card at the expense of consumers is directly at odds with the Commission's statutory responsibility.

Real time pricing

The Electricity Authority has published a consultation paper on its real-time pricing proposal for a 'look-ahead' dispatch-based price mechanism. With a mid-point net present value of \$77m the proposal has the potential to be a significant development for the electricity market.

MEUG welcomes O-I as a new member

MEUG is pleased to welcome O-I New Zealand as its latest member. O-I NZ is New Zealand's only glass bottle and jar manufacturer and has been operating from its Penrose site for 95 years, making glass packaging for New Zealand's world-renowned wine, beer, juice and water brands.

O-I operate 3 furnaces and 6 production lines, managing multiple colour changes, 24 hours per day, 7 days a week, 365 days per year.

MEUG engagement with political leaders

MEUG would like to thank Dr Megan Woods, the Labour Party energy and climate change spokesperson, for attending our Executive Committee meeting in July and for what was a very engaging conversation and debate.

Key dates

What's on	Who	When	Notes for members
Submission: Draft decision to grant Top Energy exemptions to arm's-length rules	EA	8 August	Precedents set may be important for other EDB seeking to expand generation and or retailing interests above arm's-length rule thresholds.
Event: Deloitte Energy Excellence Awards	ASX	9 August	Auckland.
Forum: Energy Trader Forum, Wellington	Freeman Media	15 August	Forum partners are NZX, GIC and emsTradepoint. Supported by EA and ERANZ.
Lunch time seminar: Andy Burgess (Ofgem)	Smart Grid Forum (MBIE)	16 August	"The UK's 'smart, flexible energy system' – making energy work for everyone?"
Lunch time seminar: Dot Benson (CC)	Energy Law Association	16 August	"Unfair contract terms", Wellington. Applicable for energy mass market retailers.
Submissions: System Operator policy statement	EA	22 August	Bi-annual up-date of ancillary services policy statement. Welcome proposal to asses risk for individual assets and thereby lower costs than use a general rule for key asset classes.
Lunch time Seminar: John Hancock, Management Consultant	BusinessNZ Energy Council	22 August	"The New Zealand's market-led approach to the smart grid", Wellington.
MEUG Executive Committee monthly meeting	MEUG	23 August	Visitors include: <ul style="list-style-type: none"> EA to discuss EDB pricing; and Commerce Commission on Powerco CPP.
Event: Global Wind Day	NZ Wind Energy Association	23 August	Celebrating Wind Energy 2017, Wellington.