

Reflecting on the year that was

As we near the holiday season it's worth reflecting on the year that was. For MEUG the most significant issue throughout the year has been the persistently high wholesale price which has eroded the profitability of a number of large electricity users and employers.

Investment in new wind farms to be commissioned 2020/21 and other renewable generation later mid next decade should lower prices. Two factors may inhibit that. First, if the large vertically integrated generators have systemic market power now, then they may be able to continue to exercise that and hold future prices up also. Second, supply from renewables such as wind is unpredictable and needs gas-fired generation back-up. With gas supplies reportedly set to decline by 50 per cent by 2028 to 2035 (depending on which scenario plays out) and coal not a long-term alternative, the marginal price of gas-fired generation is likely to increase and may wipe out the lower cost of new renewables.

The ICCG, earlier this year, recommended against a 100% renewable electricity target on the basis that the required \$115 MWh price was unaffordable and unsustainable. We've consistently seen wholesale prices higher than that for much of the year.

High electricity prices, which will flow through to residential consumers sooner or later, could become a major driver of pressure on the cost of living. If the market doesn't deliver affordable electricity, then the risk of political intervention grows.

A year of policy reform

The electricity price review occupied much of MEUG's time in the first half of 2019. While the review focused on retail pricing and made a number of recommendations that will benefit vulnerable households, it doesn't tackle the key issues driving electricity prices, particularly in the generation space.

Climate change-related policy has been an area of particular focus. The passing of the Zero Carbon Act marks a seminal moment. Taken together with the ETS reforms currently before Parliament, New Zealand's regime for reducing carbon emissions will have been set. The focus next year will shift to the Climate Change Commission as it develops its first carbon budgets.

On the regulatory front

The Electricity Authority's work on transmission pricing guidelines has been a focus throughout the year. From MEUG's perspective questions remain over whether the benefits claimed with the proposed guidelines justify the costs that will come from the proposed reforms. The Authority is undertaking further consultation on the underlying cost-benefit analysis and

hopefully this will help move the debate forward. Next year, focus will shift to Transpower as they look to develop the draft methodology.

2019 also saw final decisions by the Commerce Commission on the Individual Price-Quality Path (IPP) for Transpower and the Default Price-Quality Path (DPP) for distributors, marking the end of 16 months' work for MEUG. The overall result was good news for consumers. The decisions have resulted in a combined \$214m reduction in allowed revenue for regulated monopolies. This should be passed onto consumers.

Key dates

What's on	Who	When	Notes for members
Submission: Market making	Electricity Authority	2 Dec	High priority topic. Options paper expected in early 2020
Submission: 2020/21 appropriations	Electricity Authority	3 Dec	Proposal supported. Feedback by MEUG on key topics for 2020/21
Submission: Annual Security Assessment	System Operator	6 Dec	Non-controversial but important annual review. Includes Tiwai exit scenario (as it has in prior years)
Meeting: MEUG Executive Committee	MEUG	11 Dec	Conference call meeting with no external visitors
Submission: 2020/21 appropriations	Energy Efficiency & Conservation Authority	13 Dec	Unexpected proposal to increase electricity levy for EECA levy funded programmes by 6%. We do not accept justification for this tax creep
Submission: Electricity Allocation Factor (EAF)	Ministry for the Environment	20 Dec	Critical part of NZU allocations for EITE firms. Consultation not expected and risk MfE has predetermined approach they intend to propose to Ministers
Submission: Climate Change Response Amendment Bill	Environment select committee	17 Jan	Detailed changes to ETS. Primary focus for MEUG is EAF (see above) with MEUG members interest in EAF and overall package of ETS changes
Submission: Proposed Customised Price-Quality Path	Aurora Energy	24 Jan	Consultation expected. Helpful discussion with Aurora at MEUG monthly meeting on 20 th November
Submission: Crown Minerals Act changes	MBIE	27 Jan	Proposed changes are wide ranging. For MEUG they may affect future gas supplies to back-up increasing volumes of volatile renewable generation