

Back to business

It's back to business in the New Year and 2018 is shaping up to be a busy year for the wider energy sector. The Government has three energy-related inquiries or reviews underway or about to start, including the inquiry into retail petrol prices and the gas pipeline inquiry.

Closer to home for MEUG, the draft terms of reference for the electricity price review have been released. We are not expecting significant change when the final terms of reference are released, meaning we're looking at a wide-ranging review of most cost components in prices at every level – not just a narrow review of the retail sector.

In particular MEUG's submission on the draft terms of reference included that:

1. Given most consumers have distribution charges that incorporate re-bundled Transpower charges, the regional distributional aspects of distribution pricing (including transmission pricing) should be included
2. While the review does not need to canvas details of the input methodologies (IM) such as the appropriate asset beta in estimating the regulated Weighted Average Cost of Capital (WACC), the use of IM as a foundation in the existing Commerce Act Part 4 framework and Part 4 as a whole should be part of the review.

The year ahead

Every five to seven years, significant components of the electricity system such as IM cycle through for review. This year we have both the Default Price Pathway (DPP) and Transpower's Individual Price Pathway (IPP) resets. Both of these will occupy much of MEUG's attention.

Given its potential to save consumers tens of millions of dollars, we'll also be looking to progress innovation around real-time pricing in 2018. The Electricity Authority did a lot of work on this last year, with decisions due this year and then implementation to follow over the next 2-3 years.

Weather watching

The recent hot weather is a reminder that in a country reliant on renewable electricity Mother Nature often has the final word on supply and prices.

Due to warmer conditions for the Southern hydro lakes last year and recent hot temperatures lake levels are low. Wind levels have also been down and we're coming into February, which is often the least windy month of the year. With some thermal power stations down for planned maintenance, a picture pointing towards potential constrained supply begins to emerge.

The futures market is more volatile and spot prices have risen. While some larger users have hedges, it's a situation MEUG is following closely, particularly as we head towards winter peaks.

Key dates

What's on	Who	When	Notes for members
MEUG Executive Committee monthly meeting	MEUG	13 February	MBIE, Commerce Commission and EA attending to discuss key topics for the next 24 months. Will assist MEUG's strategic planning for the coming year
Event: ASX Users' Group Meeting, Wellington	ASX	14 February	Occasional meeting of participants interested in improvement of electricity futures and options market
Event: Energy Trader Forum	Freeman Media	14 February	Quarterly forum with speakers this month from suppliers, consumers (MEUG member James Bell of Pan Pac and MEUG Chair John Harbord), trading product vendors, platform and information providers, and the EA
Workshop: Electronic Dispatch Facilities (EDF) phase 3	System operator	15 February	Work on electronic dispatch facilities will facilitate innovation and lower costs for direct wholesale market participation
Submission: Wellington Electricity Ltd (WELL) streamlined CPP for earthquake readiness costs	Commerce Commission	22 February	Draft decision announced 1 February. A unique narrowly focused application. We have concerns costs will be recovered at 67 th percentile WACC. An issue to be considered in post-decision review. Cross-submissions close 1 March
Submission: Multiple Trading Relationships	Electricity Authority	27 February	Important for facilitating mass market competition, which are likely to change with a range of emerging technologies and business models. We will comment on any precedents relevant to SME and commercial and industrial consumers