MAJOR ELECTRICITY USERS' GROUP

Update from the Chair — December 2017

Looking back on 2017

The election reminded us the only certainty is change

The formation of the new Labour-led government following the election stands out as the greatest change in 2017. Whereas the previous government was characterized, in part, by a generally hands-off approach to both regulation and the electricity sector, the new government has signaled very strongly that it believes in using the powers of the state as a force for social and environmental good, and that it will be more activist and interventionist. How that translates for the sector will become increasingly apparent through 2018, with the retail pricing review and climate change policies likely to feature prominently.

Change, what change?

Outside the political context, the year can possibly be characterised by what didn't happen. The Commerce Commission's input methodology review this time last year led to no appreciable change, apart from a surprising and disappointing upwards adjustment in favour of the monopolies to the asset beta – and hence WACC and higher line tariffs and other changes that shifted risk onto consumers.

The year is ending with less certainty than it started with about what, if anything, will happen with transmission pricing.

Progress on distribution pricing and terms and conditions for commercial and industrial consumers is light compared to a year ago. The ENA is doing a lot of good work on distribution pricing, and terms and conditions, though we've yet to see that work translate into implementation. Given the pace of industry-led change MEUG is looking to regulators to help drive this work forward.

Security of supply a non-event for the public this winter but looming large for 2018

Winter 2017 saw a test of the market's ability to manage the driest winter since 2008. The market performed well but the current dry sequence is a reminder of how limited our hydro-storage system is. While hydro storage levels are not approaching the 1% Hydro Risk Curve, the long range forecast is for a dry summer for the Southern hydro lakes – and this on top of a dry winter and spring where rainfall was 50-79% of average. Spot prices are already tracking high.

If the current drier than usual inflows continue we expect to see individual suppliers and retailers modify their behavior and mitigate any need for emergency measures. However, higher prices hurt the productive sector and we'll be watching the dry risk closely.

The hydro risk again brings into focus the future of thermal generation should the Huntly Rankine units be retired in 2022. The recent experiences of Tasmania and South Australia demonstrate the importance of thermal back-up and peaking supply in ensuring the provision of reliable and cost-effective electricity when renewable generation is insufficient to meet demand.

Key dates

What's on	Who	When	Notes for members
Submission: Capex Input Methodology (IM)	Commerce Commission (CC)	8 December	The Capex IM sets out rules and processes for scrutinising Transpower capex proposals by the CC before being approved and incentive mechanisms for efficient deployment
Presentation: Balanced energy policy in an era of innovation	Business NZ Energy Council	14 December	In conjunction with the Young Energy Professionals Network
Submission: EECA levy	EECA	15 December	All customers pay a fee for part of EECA's work. MEUG opposes the levy on the basis that government programmes designed to deliver public benefits should be funded out of general taxation. Also, the levy creates poor incentives, with many efficient electricity users being compelled to subsidise less efficient users
Submission: Powerco Customised Price Pathway (CPP)	CC	15 December	The CPP consultation is nearing a close so final determinations can be made before 1 April 2018. There are many lessons learned from this application we will want the CC to consider for revisions to the CPP process
Submission: Electricity Authority (EA) levy	EA	19 December	As with the EECA levy all customers pay the same unit fee for EA work
Submission: Wellington Electricity Ltd (WELL) streamlined CPP for earthquake readiness costs	CC	20 December	MEUG's call for a cost-benefit-analysis to consider (1) why WELL didn't self-insure by paying these costs anyway and (2) whether the cost of capital is too high compared to a standard CPP were not accepted by the CC. We are now into a process to learn lessons and amend the CPP process to avoid a re-occurrence of similar requests
Submission: CC open letter	CC	22 December	CC has asked for feedback on priorities for their work on electricity distribution businesses and focus areas for the soon to commence work on the Default Price-Quality Path reset process