



MAJOR ELECTRICITY USERS' GROUP

Update from the Chair

February 2017

2016 was a big year for consumers in the electricity sector, with significant work undertaken on transmission pricing and input methodologies to name just two issues. Looking forward into 2017 the general election looms as does the prospect of political parties developing and releasing election policy.

One thing that shouldn't be forgotten is voters are also consumers. We have a sector where regulators are required to work for the long term benefit of consumers, but it's often difficult to understand how regulators and decision-makers translate that into their day-to-day work. And consumers probably have a very different view of long-term benefit than the regulators – one focused on reduced cost.

Consumers often cannot tell what the expected benefits of any change might be. Discussion papers and announcements rarely articulate an expected impact at the household level. If regulators are not giving thought to explaining the impact on consumers in a readily digestible way and quantify the impact of any change on a household or business level, how can they expect consumers to understand and engage?

There is significant international research coming out on the erosion of trust in institutions and government. We saw in 2016 some very visible manifestations of that lack of trust and resulting disenfranchisement. One key learning from the research is a rejection of decision-makers working for the public interest, and a demand they work with the public who have a firm view they understand what their interests are.

In the absence of a genuine focus on communicating and engaging effectively with consumers, decision-makers risk becoming the victims of disillusioned voting consumers. In election year, there are always some looking for opportunities to tap into such public sentiment.

Powerco CCP

Powerco have announced they will be seeking a customised price pathway (CPP) to raise \$1.4b which Powerco say is needed to develop essential infrastructure – a cost that will be passed onto households at up to an extra \$75-80 per annum over the 5 years of the CPP.

Changes to input methodologies have strengthened consumer participation requirements. The changes also took out some duplication and simplified steps, making it easier for EDBs to go through the CPP process. All good developments.

However, MEUG will be hoping to see a better process than the Orion CPP process. While the need for a CPP for Orion was not in question, the responsiveness to consumer input in terms of the CPP application by Orion, the CC decision on the final CPP and subsequent decisions on transitioning back to DPP regulation was not discernible.

Input methodologies

MEUG attended the Commerce Commission's input methodologies announcement briefing on 20 December. We were disappointed to learn that the asset beta for setting the cost of capital for Transpower and EDB would not be reducing. We will be following up with the Commission to better understand their reasoning on that and a number of other Input Methodologies decisions. In many instances the Commission appears to have focused on reducing risk for monopolies rather than on the interests of consumers.

Key dates

What's on	Who	When	Notes for members
Submission: Draft NZ Energy Efficiency and Conservation Strategy 2016-2022.	MBIE & EECA	7 Feb	The Energy Efficiency & Conservation Act requires the Minister of Energy & Resources to revise the NZEECS at least every 5 years. The revised NZEECS will be used to guide EECA's work programme for the next 5 years; hence its importance to MEUG members and others that must pay a levy on electricity to fund part of EECA's work.
MEUG Executive Committee monthly meeting.	Transpower	22 Feb	EA and Commerce Committee staff have accepted an invitation to separately discuss their work plans over the next 12 to 18 months to assist MEUG in preparing our strategic plan and business plan for the year commencing 1 April 2017. MBIE have been invited to attend also and we are waiting their response.
Submission: TPM – Second issues paper, supplementary consultation paper.	EA	24 Feb	This paper proposes refinements to the second issues paper published 17 May 2016. MEUG has met with EA staff on several occasions and has engaged extensively on questions of clarification since the refinements paper and various supporting paper and spreadsheet model was published on 13 December. TPM (Transmission Pricing Methodology) remains a high priority topic for the EA and likewise will be a high priority for MEUG over 2017.
Submission: Income tax treatment of electricity lines companies paying rebates/discounts to electricity consumers	IRD	28 Feb	Some MEUG members may make submissions on this paper. MEUG has an interest because the treatment of tax may have effects on the incentives and accountability of Trust owned EDB to be efficient, have cost-reflective pricing after rebates/discounts without cross-subsidies between customer classes and the risk of Trustees using rebate/discount policies to buy votes.