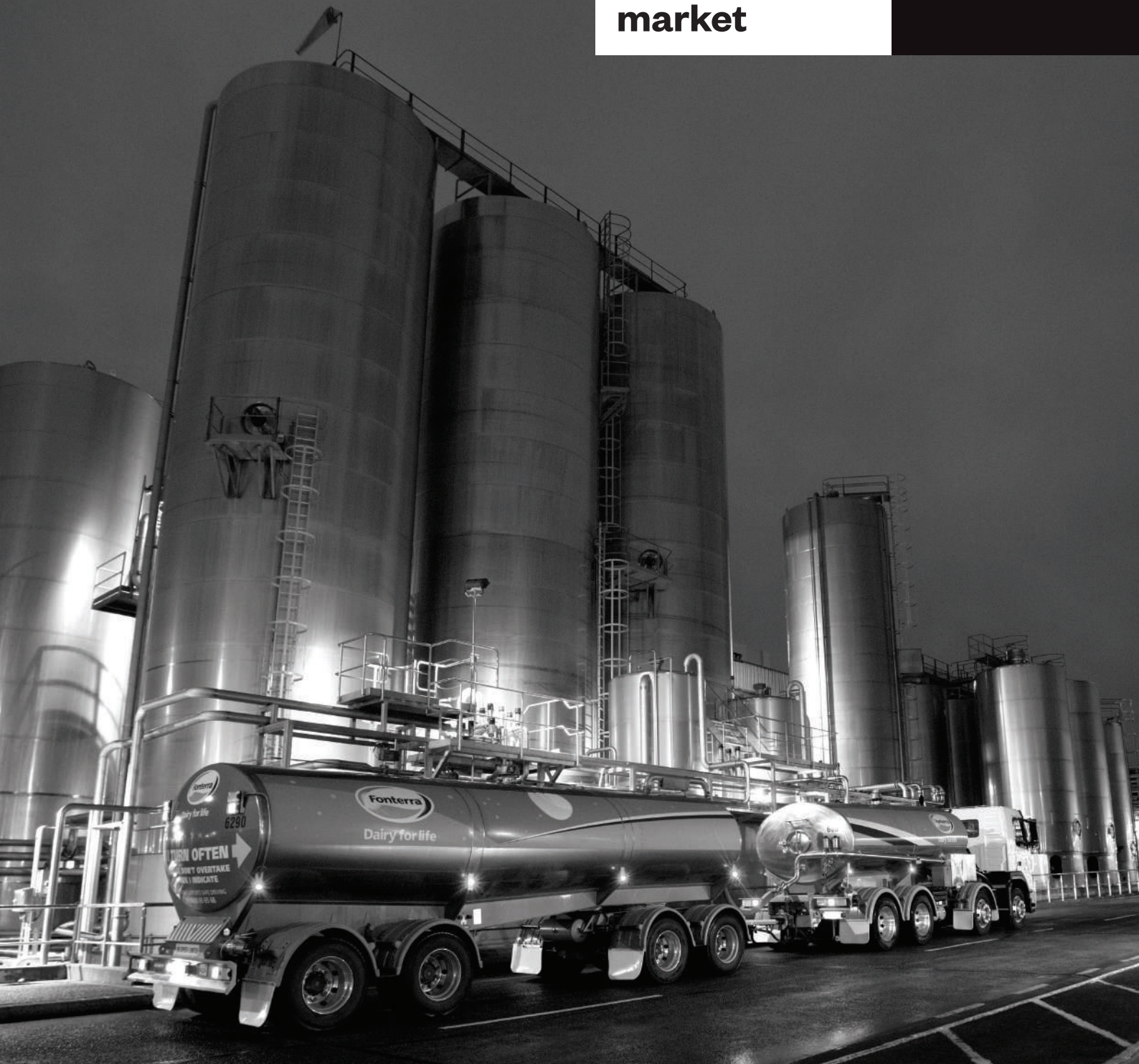




Major Electricity  
Users' Group

**Promoting  
a robust  
electricity  
market**





# About MEUG

**MEUG is a trade association working to improve New Zealand's electricity sector. We advocate for an affordable and reliable electricity supply that supports a productive economy.**


MEUG was established in the early 1990s to advocate for, and support, a well-functioning electricity market. Our 13 members directly employ over 25,000 people and make essential products like pulp and paper, steel, aluminium, and dairy products such as milk powder.

In any given year, our members will generate over \$30 billion in revenue. They use approximately

28 percent of all New Zealand's electricity and pay almost \$1 billion in electricity charges.

Electricity is not only a key input for our members' businesses – it supports our regional communities, employs thousands of people in well-paying jobs, and helps pay for the services we all take for granted but that are essential to a dynamic and thriving economy.

The electricity system must support industrial manufacturing, production, and businesses. MEUG was established to advocate for electricity sector policy, regulatory and legislative settings that are fit for purpose and support the long-term interests of consumers.

 **28%**  
of all New Zealand's electricity is used by the MEUG group

**\$900m** paid in full for electricity charges

**\$11bn** contributed in full to the GDP

**\$30bn** dollars in revenue per annum

**25,000** direct employees





# New Zealand's electricity market

An affordable and reliable market where customers pay a fair or justifiable price for electricity is essential to a productive economy. It allows industry and businesses to produce products at a competitive price, enabling our exporters to compete internationally, grow export revenue, drive job creation, and reinvest in their businesses.

## Sector is in a period of transition

Nearly 90% of New Zealand's electricity is generated from renewable energy sources, with many more projects are being developed. This is a marketable point of difference for many of our industries and businesses. However, our system relies on a decreasing proportion of thermal generation from coal and natural gas, and this is having an impact.

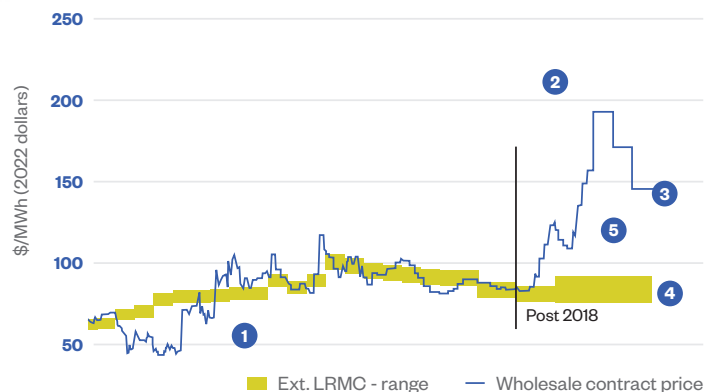
**Wholesale prices have more than doubled in the last five years, significantly impacting businesses.**<sup>1</sup> The Electricity Authority and the

investment firm Jarden<sup>2</sup> have estimated that consumers are **paying between \$1 billion and \$2 billion a year more** than they would be expected to pay in a workably competitive market.

The Market Development Advisory Group<sup>3</sup> has also warned that market concentration and, as a result, pricing will get worse under a more renewable future – not less. This is because with the percentage of intermittent renewable generation sources dependent on the weather increasing as we transition to a lower carbon system and a shortage of firming capacity, the wholesale market faces a shortage of supply, and prices become highly volatile.

There is also a disparity between wholes electricity prices and cost drivers (see Figure 1<sup>4</sup>), and given the impacts on businesses and productivity, we believe this merits further assessment.

**Figure 1: Contract prices and estimate costs for new baseload supply**



## Looking forward

The fuel security issues, low lake levels and the resulting high market prices during winter 2024 impacted many of our members, dampening confidence in the market. Electricity prices are forecast to increase again this year,<sup>5</sup> impacting the bottom line of all our members and businesses and households across the country.

As outlined by the Electricity Authority,<sup>6</sup> the electricity system needs to adapt, with New Zealand needing greater firming, storage, and demand response.

<sup>1</sup><https://www.ea.govt.nz/documents/2243/Promoting-competition-in-the-wholesale-electricity-market.pdf>

<sup>2</sup><https://businessdesk.co.nz/article/energy/some-doing-rain-dances-as-hydro-lakes-shrink>

<sup>3</sup><https://www.ea.govt.nz/documents/1006/MDAG - Price discovery in a renewables-based electricity system - options paper.pdf>

<sup>4</sup>Figure 5, page 60, [Measures for Transition to an Expanded and Highly Renewable Electricity System](#), August 2023.

<sup>5</sup>From 1 April 2025, the forecast increase in electricity transmission and distribution charges are expected to raise prices by approximately \$120 annually; [Consumer benefit key as ComCom allows increased investment in electricity network](#), 20 November 2024, Commerce Commission.

<sup>6</sup><https://www.ea.govt.nz/news/eye-on-electricity/the-electricity-sector-transition/>

# An affordable, reliable, and resilient electricity market: What do we need to do to achieve this?

To have an affordable and reliable electricity market, we need the following:

# 1

## We need a competitive market where consumers pay a fair or justifiable price:

Wholesale prices have more than doubled in the last five years, significantly impacting the productivity and viability of industries and their ability to continue innovating, decarbonising, growing, and employing. Consumers need to believe they are paying a fair or justifiable price for their electricity, and part of the challenge is the opaque pricing methodologies. Greater transparency and improved communication could demystify how prices are established – what cost drivers providers are facing and how costs are shared across different consumers and ultimately improve users' confidence that they are paying a fair and competitive price.

# 2

## We need to understand the market conditions that have led to a doubling in wholesale prices:

We need to understand why there is a disparity between wholesale electricity prices and cost drivers, both now and in the futures market. Our electricity market is relatively concentrated, but we need to understand whether this has led to exponential cost increases or whether other drivers are at play.



# 3

## We need a secure and reliable market:

As we increase renewable generation in our system, electricity supply and services must be secure, reliable, and resilient to ensure an effective transition. In this respect, MEUG believes that the Government should focus on introducing as much electricity generation as is technically and economically feasible. The market will determine what proportion is renewable. With the inevitable increase in intermittent generation from wind and solar, the system must ensure it can still deliver stable and consistent generation.

# 4

## We need to make it easier for new entrants to supply or expand electricity capacity:

With a relatively concentrated market, we need to ensure new and existing generators can expand their electricity capacity and invest in new technologies and supply. This would require regulators, including the Electricity Authority and the Commerce Commission, as well as government departments and councils, working together to ensure the regulatory framework and consenting environment removes barriers to competition and market entry, and timely development of projects.

# 5

## We need continual investment in infrastructure:

Over the next decade, investment in our transmission system, run by Transpower, and the distribution networks, run by 29 electricity distribution businesses (EDBs), will need to increase. This investment is required to support the growth in demand, the increased use of solar and batteries, and greater electrification, as well as essential spending to maintain a resilient and reliable network. However, we need to consider the affordability impacts on consumers and ensure that the existing networks are being fully optimised and used effectively.

## Our immediate focus:

To ensure that New Zealand has a competitive and resilient electricity network, we are focused on the following issues:

- **Affordable electricity** that supports economic growth, a competitive export economy, jobs in our regions, and investment in a prosperous future.
- **Progressing the regulatory work currently in play**, including implementing the Energy Competition Task Force's measures, completing the MBIE review, and committing to the next steps. We would like to understand how these two pieces of work will inform each other to deliver the best outcomes for consumers.
- **Understanding the disparity between wholesale electricity prices and cost drivers** to affirm whether the market works as it should and retain consumer confidence.
- **Improving transparency and communication** around pricing decisions to demystify cost drivers, explain how costs are allocated across customers and over time, and expose discrepancies where they exist.
- Supporting the Government to **set a clear direction for the energy sector** and to aid the transition to a low-carbon economy. Clarity is needed on the role of gas and gas peakers in the foreseeable future and the optimal mix of renewable electricity generation that the market can deliver.
- Advocating for **ETS settings (including industrial allocation) that are predictable and consistent** so that businesses can assess risks and invest appropriately.
- Advocating for adequate **investment** to meet the needs for renewable generation, increased electricity demand, and to provide resilient, modern, and reliable infrastructure for a productive economy.
- If large industrial consumers are required to reduce production via **demand-side response mechanisms** to support the electricity market, the arrangements should be mutually beneficial, and balance system needs with economic productivity.
- Increased partnership and consultation opportunities **between government and industry** to inform policy and develop workable solutions.

MEUG welcomes the government's package of measures already underway. The establishment of the Energy Competition Taskforce, along with the Government Policy Statement and MBIE's market review, should help explain the drivers of the increased wholesale electricity prices experienced over the past five years.

The fast-track process for renewable generation, the reversal of the oil and gas exploration ban, the ability for generators to access hydro contingency storage, and measures to remove regulatory barriers to other fuels should help alleviate the supply issues experienced last winter. We need a similar focus on affordability.



# Our members



# Our people



**John Harbord**  
Chair  
Major Electricity Users' Group



**Karen Boyes**  
Executive Director  
Major Electricity Users' Group

## NZAS and Meridian Energy's world-first demand response agreement

Rio Tinto operates the New Zealand Aluminium Smelter (NZAS) at Tiwai Point, Southland. The plant uses 572 MW per annum. As part of its 20-year electricity arrangements with Meridian Energy and Contact Energy, Rio Tinto recently signed up for a first-of-its-kind demand response contract.

As part of the discussions to assess new electricity supply arrangements, it quickly became apparent that generators needed new products to add to their 'tool kit' to manage dry-year risk. Meridian publicly stated early in the process that demand response during dry years was a key requirement for any new electricity contract with NZAS. Establishing how this could work within any new electricity supply contracts agreed with the smelter became a key part of the discussions. This led to the signing of the largest long-duration, single-site demand response agreement anywhere.

The agreement is a collaborative effort that works for both parties. NZAS say that they hope Meridian will call on the demand response at times of national need for the benefit of New Zealanders.

When lakes are low, and hydro output is down, demand response is an alternative to burning coal and gas. This generates fewer greenhouse gases and gives the System Operator more options.





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