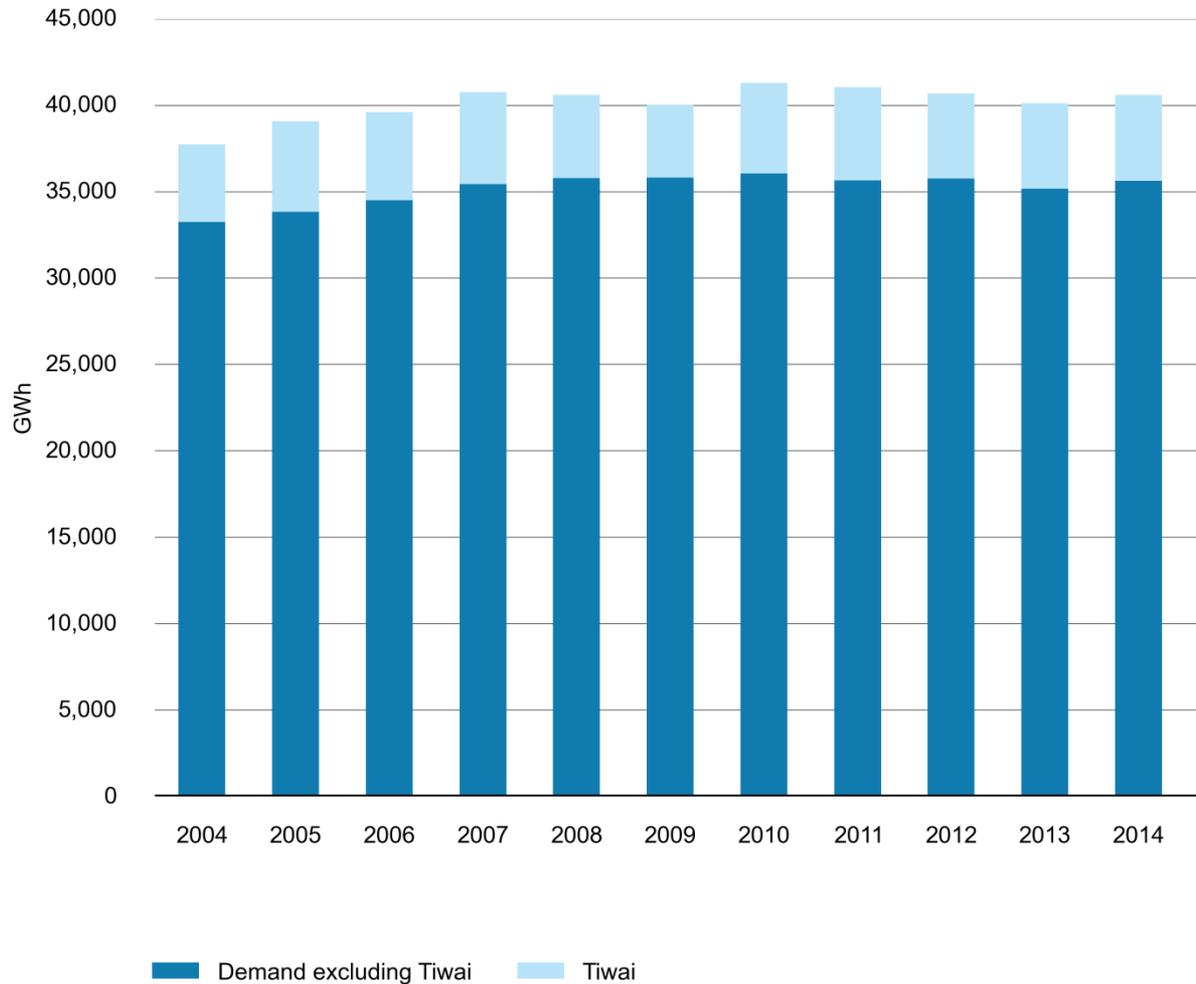


Commerce Committee Review

19 February 2015

Electricity demand in 2014 was 1.2% higher than in 2013

□ But 2014 demand remained below 2010 and 2011 levels



Growth in underlying demand not clear yet

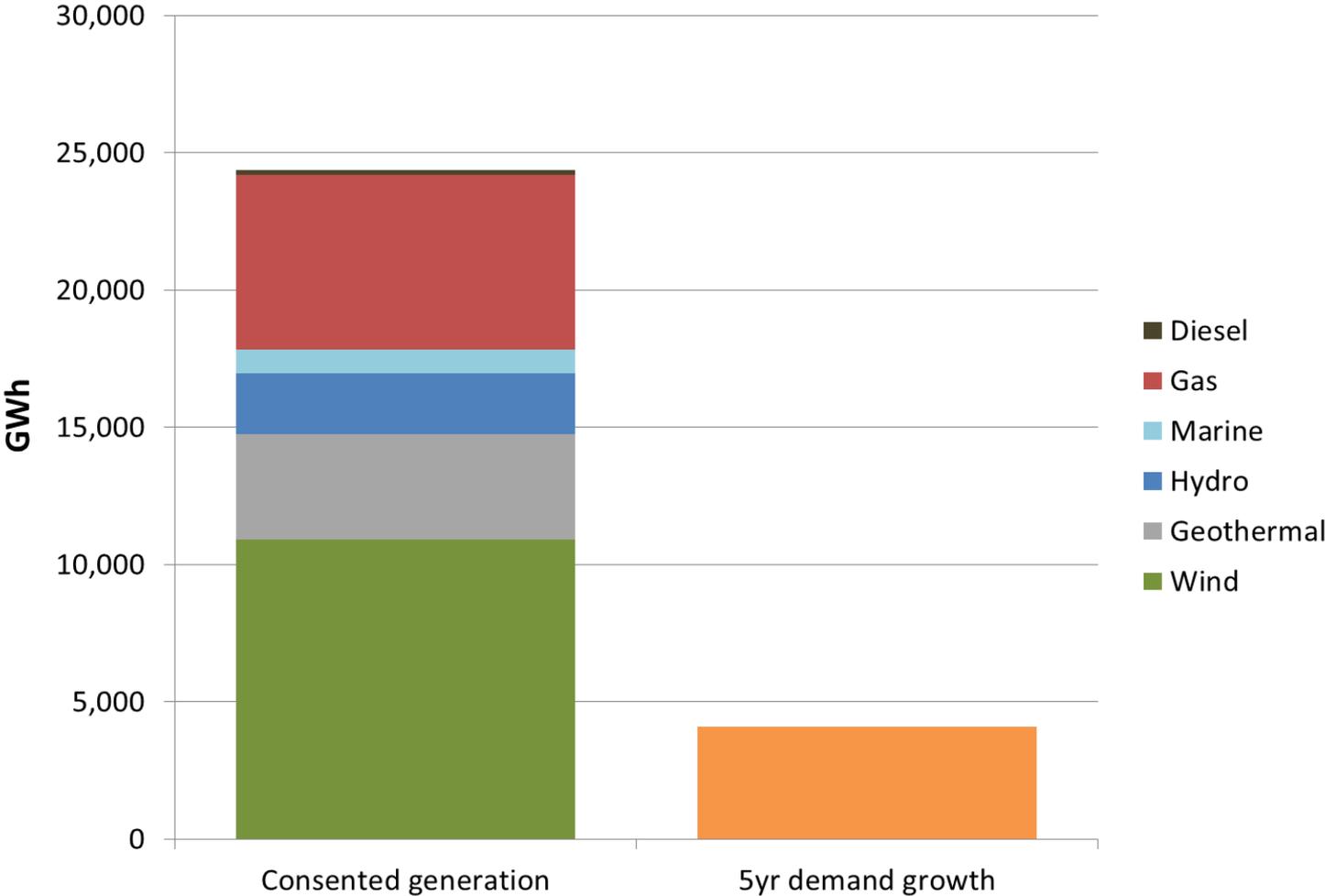
- The growth in demand was concentrated in the second half of 2014
 - Demand for the last six months of 2014 was 2.7% higher than for the same period in 2013

- This growth could be driven by a number of factors
 - Very short-term factors, such as increased irrigation due to dry conditions
 - Longer-term factors, such as the Christchurch rebuild and underlying GDP growth

- Authority econometric model of demand suggests recent GDP growth would be increasing underlying demand but we can't be sure of this yet
 - The Authority's model is based on 15 years of data and it passed various statistical robustness tests
 - It shows that demand still responds predictably to underlying drivers such as GDP, population, energy prices, temperature and employment
 - GDP increased 3.1% over 2014
 - Our model suggests we should see a corresponding upward pressure on electricity demand despite the on-going downward pressure from energy efficiency and gradual housing stock improvements

Large pool of consented generation available to meet new demand

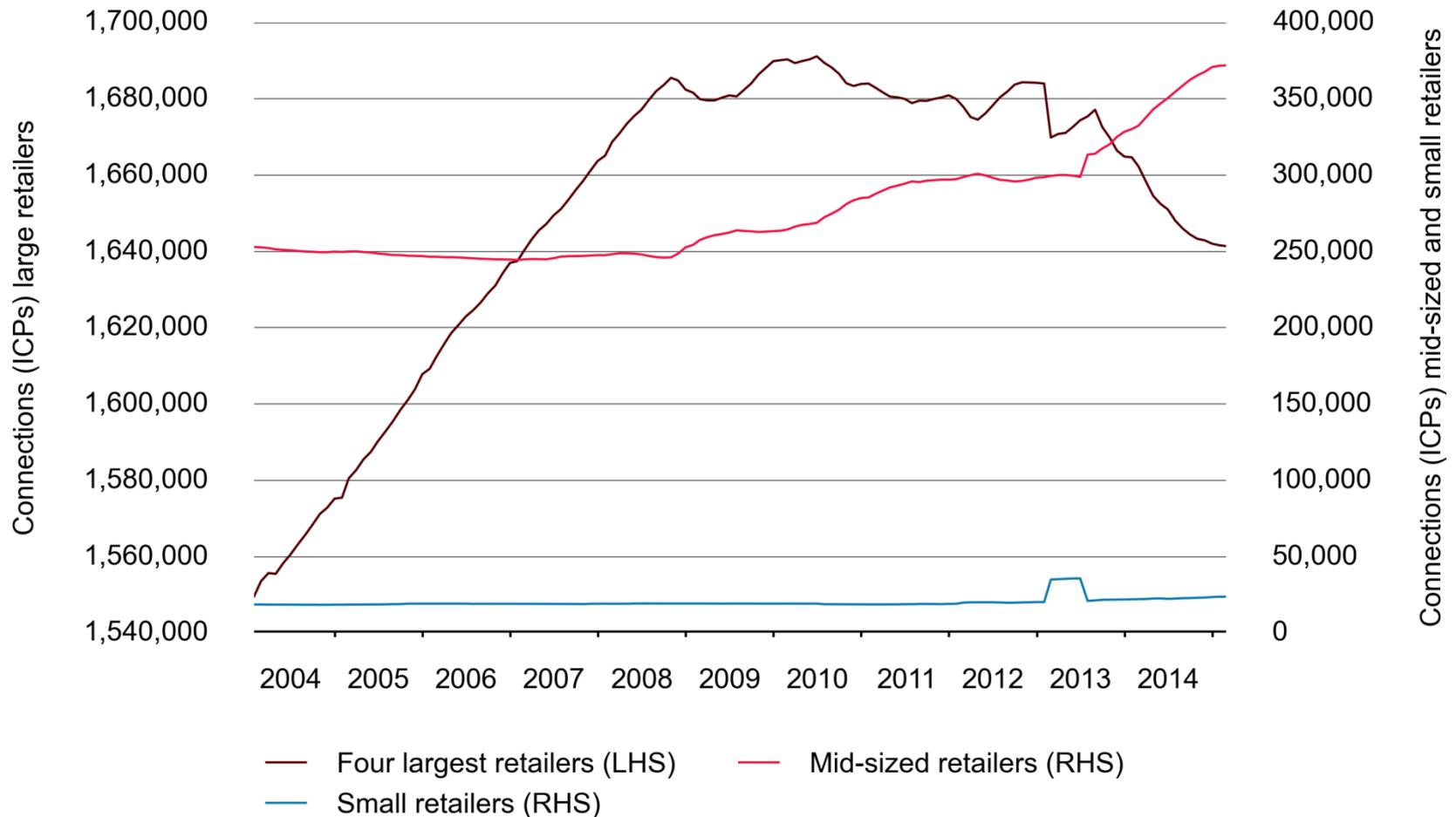
Consented new generation compared to a scenario of high demand growth (2% per year for 5 years)



Electricity Authority generation database

Significant competitive pressure from mid-sized retailers

- The Big 4 retailers have been losing market share to Trustpower, Nova and Pulse (“mid-sized retailers”) since 2008 and more sharply since 2013



Electricity Authority retail database

Three of the five largest retailers are holding the energy component of their prices in 2015

- ❑ Price announcements
 - Mercury Energy has announced it will not increase the energy component of its prices this year
 - Contact Energy and Meridian Energy are also reported to be doing the same
 - All three state they will fully pass through changes in transmission and distribution (T&D) charges

- ❑ If Genesis Energy and Trustpower do the same as the other three retailers then
 - The average change in residential prices for the year ending June 2015 should be zero or negative
 - This is because the national average change in T&D charges is -1.1% for June 2015

- ❑ But note residential prices should fall in some regions and rise in others
 - Changes in T&D prices range from a 14% decrease to a 12.4% increase
 - This implies electricity price changes ranging from a 5.6% decrease to a 5.0% increase

- ❑ *Caveat 1:* The above calculations are average results
 - Distributors are free to apply changes in their charges to residential, commercial or industrial consumers
 - Distributors are also free to apply the changes to fixed or variable components of their charges
 - Hence, we could see bigger headline price changes in some cases

- ❑ *Caveat 2:* StatsNZ's electricity CPI is based on only 15 networks and so can produce unrepresentative results

We're continuing our pro-competition work programme

- Barriers to entry to the retail electricity market are reducing
 - Our pro-competition initiatives and the maturing hedge market has encouraged the entry of new retailers
 - Eight new retailers have entered in last 18 months; four of them intending to actively pursue residential customers
 - Mercury has revamped its pre-pay Glo-Bug product to compete more aggressively for low-income customers

- We're seeking to increase participation by residential consumers
 - We've adopted new rules that require retailers to provide consumption data to consumers, or to their authorised agent, in a standard format (and at no charge up to four times a year)
 - The intention is to make it much easier for consumers to share their consumption data with other retailers, or with switching businesses such as Powerswitch, to find tariffs that best suit them
 - The new rules come into force on 1 February 2016
 - Our focus now is on improving consumer access to retailer tariff information

 - We're continuing with the What's My Number advertising campaign
 - We intend to use the campaign in 2016 to inform consumers of the easier access they will have to their own consumption data and to tariffs available in the market