



meridian

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Electricity Authority
By email submissions@ea.govt.nz

Consultation Paper – 2012/13 Appropriations

Meridian welcomes the opportunity to submit on the Electricity Authority's 2012/13 appropriations consultation paper. We broadly support the programme of work set out by the Authority for the next three years, subject to the specific comments which are set out in Appendix One.

Of particular importance to Meridian is the Authority's review of the transmission pricing methodology. We consider that decisions on this matter have the potential to bring substantial efficiency gains to the New Zealand electricity market. Furthermore, we note the influence of transmission pricing on other regulatory and operational matters, including the allocation of residual revenues from Financial Transmission Rights and the commissioning of Pole 3 of the HVDC link. As the Authority itself has noted, decisions on the transmission pricing methodology will also have significant cost implications for consumers and participants, including the three State Owned Enterprise generators subject to the Government's asset sales programme. As such, we endorse the Authority's categorisation of the Transmission Pricing Review as a key project for 2012/13, and encourage the Authority to move forward with this work as quickly as possible, noting the need for due care when dealing with this complex and influential issue.

Meridian recognises that the advisory groups established by the Authority have been a useful forum for engaging the industry and furthering analytical work. Our understanding of the intention of the advisory groups – which has informed our current representation on these groups – is that they would operate at a reasonably high level, providing guidance and feedback on direction, without necessarily carrying out the detailed analysis which may be required to progress thinking in some areas. We consider it would be useful for the Authority to reaffirm the role of these groups to members and broader stakeholders, and potentially to consider the establishment of technical or working groups which report into the higher level advisory group on some issues. Such an approach would allow advisory group members to maintain a high level, strategic view of current work programmes, and may assist with progressing analytical work in a timely manner.

Please refer to Appendix One for further detailed comments on the Authority's work programme. We look forward to continuing to work with the Authority in a constructive and open manner throughout 2012/13 and beyond.

If you have any queries regarding this submission please contact me.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'M. Hall', written in a cursive style.

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Appendix 1: Specific comments on proposed appropriations

	Issue	Comment
1	2.1.1/Table 1: 2011/12 reserve energy appropriations	Have there been any savings against these budgeted appropriations as a result of the sale of the Whirinaki power station prior to the end of the financial year?
2	General appropriations: Funding for consumer groups	We note that no funding is currently set aside to support engagement by consumer representatives in regulatory processes. Meridian acknowledges that there can sometimes be an uneven balance of resources between consumer groups and market participants, and would support the direction of levy funds towards ensuring electricity consumers have adequate representation in regulatory consultations.
3	2.2.4/Table 2: Actual expenditure	Can the Authority provide information on actual expenditure to date in the 2011/12 financial year?
4	2.2.10(d): Scarcity pricing	Does the funding allocation for scarcity pricing include the costs of commissioning an independent registrar as required under the stress testing regime?
5	2.2.11: Refinement of cost estimates	Meridian requests that the refined cost estimates for 2012/13 appropriations are made available to market participants as they are finalised.
6	3.1.3/Table 3: Indicative levy rates	How does this table reconcile with the total appropriations set out in Table 2? For instance, what assumptions are made on generation volumes and the number of ICPs?
7	C.6: Market development performance measures	<p>Meridian proposes that impact assessments prepared by the Authority should be required to be robust i.e. "All Code change proposals and implementation plans include robust impact assessments based on consultation with relevant parties."</p> <p>We consider that a key input into measuring the Authority's performance should be feedback provided from stakeholder surveys.</p> <p>Meridian notes that during the Advisory Group Strategy Forum in September 2011 it was proposed that the Authority could "undertake ex-post reviews of new code or market facilitation mechanisms to determine their effectiveness and where they could be improved." We would support the undertaking of such reviews on selected Code amendments to ensure that Code amendments are working as intended and that any lessons on effectiveness can be applied to future Code development.</p>
8	C.7: Compliance performance measures	Where will the Authority report on performance against the targets listed?
9	C.8: Monitoring and information provision performance measures	How will conclusions from market monitoring investigations feed into future market design work?
10	C.8: Monitoring and information provision performance measures	Does the Authority intend to set out timeframes for reporting on market events? E.g. Report back within three months of a high-price event.

11	D.6: Quality of Regulation	Meridian considers that principles of quality of regulations should include the foundation of a robust cost-benefit analysis.
12	D.23: Education – What’s My Number?	We acknowledge that “propensity to switch” remains an important measure of competition in the retail sector. We consider that a customer’s decision to switch retailer should rightly be informed by a range of factors - including price, but also including customer service, access to usage information, environmental sustainability and corporate social responsibility. As such, we consider that future phases of “What’s My Number?” should seek to broaden the focus of consumer engagement to incorporate such additional elements.
13	D.23: Education – Reliability-cost trade-offs	We consider there would be benefit in the Authority seeking to educate consumers on the challenging trade-offs which occur within the electricity system between achieving reliability and managing cost e.g. customers should be informed that <i>occasional</i> power disruptions are considered acceptable if their avoidance would necessarily incur significant additional cost. We suggest the Authority consider introducing such a focus in its future education initiatives. We note this point was also raised during the Authority’s Advisory Group Strategy Forum in September 2011.
14	D.24/Table 6: Priority areas’ contribution to the statutory objective	We consider that “improving market information and price signals” should be considered to contribute to the objective of “competition”.
15	D.27: Tables 7-9	<p>Meridian proposes the Authority undertake an investigation into the potential to bid and dispatch wind generation as part of its 2012/13 – 2014/15 work programme. We note that this could be seen to be included under the future project of “Consider further development of market mechanisms to address expected increases in levels of wind generation” which is scheduled for 2014/15. However, we would strongly endorse a higher priority for this project if this is the case.</p> <p>We also note that there are similarities between such a project and the proposal made by Transpower to investigate the potential for wind capacity to be offered as reserve within the Under Frequency Management work programme.</p>
16	D.41/Table 11: Locational price risk management	<p>We note that the current timetable for implementation of a Financial Transmission Rights regime coincides with the System Operator’s schedule of Pole 3 commissioning tests. Given the potential for inter-island price separation during testing of Pole 3, we recommend that the Authority consider delaying the roll out of FTRs in order to avoid any additional uncertainty or complexity in a nascent FTR regime.</p> <p>Furthermore, we restate our view that residual FTR revenues should remain subject to the current allocation methodology so long as the transmission pricing methodology remains the same. We therefore consider that the timetable for making decisions on residual FTR revenue allocation should be linked to the timetable for the transmission pricing review.</p>

17	D.44/Table 13: Gate closure	We recommend that the gate closure project be elevated to a key project for 2012/13 given expectations of high net public benefit and small project size.
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