



meridian

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Submissions

Electricity Authority

Wellington

By email submissions@ea.govt.nz

Consultation on Decision-making and Economic Framework for Distribution Pricing Methodology Review

Meridian welcomes the opportunity to submit on the Authority's consultation document on a decision-making and economic framework for distribution pricing.

The majority of Meridian's comments relate to the Authority's proposal to overlay its proposed new economic and decision-making framework on existing pricing principles and information guidelines.

Meridian generally agrees with the Authority's proposed approach for interpreting and applying its objective

Meridian is generally supportive of the way the Authority proposes to interpret and apply its statutory objective in relation to distribution pricing on the basis that the proposed approach should ensure appropriate weight is applied to efficiency considerations, particularly dynamic efficiency considerations.

Meridian does, however, consider that the point raised in our February 2012 TPM submission¹ that the Authority also faces public law and other obligations in respect of its decision making, including avoiding unreasonableness, remains valid. We have noted the Authority's recent response to this point² indicating it considers its TPM framework is consistent and robust to such obligations and Meridian assumes this view also holds with regards to the proposed decision-making framework for distribution pricing.

¹ Available here: <http://www.ea.govt.nz/our-work/consultations/transmission/tpm-economic-framework/submissions/>

² Set out in page 6 of the following document: <http://www.ea.govt.nz/document/16502/download/our-work/programmes/priority-projects/transmission-pricing-review/>

Meridian welcomes the proposal to retain existing frameworks

Meridian appreciates the Authority's efforts to confirm consistency of existing frameworks with the Authority's statutory objectives. We agree with the Authority's assessment that neither the existing pricing principles nor the information disclosure guidelines contain any elements that are inconsistent with, or would hinder, efficient distribution network use and investment. We also consider that the Authority's raises a valid point that the information disclosure guidelines will continue to be relevant irrespective of the framework used to guide the Authority's assessments and decisions in relation to distribution pricing. Meridian supports the Authority's proposal that both existing pricing principles and information disclosure guidelines should be retained unaltered for both of these reasons.

The proposed new framework, however, raises several potential concerns

Meridian is concerned that a number of the points of concern we have raised regarding potential costs and practicalities of applying the framework in transmission may also apply in a distribution context. For example, one concern relates to whether an application of a 'beneficiaries pay' approach, for instance in a situation involving a request for a new rural spur line connection, may lead to a failure to recognise that recipients could be widely dispersed and change over time. A further concern relates to the compatibility of the framework with s. 113 Electricity Act provisions allowing for the possibility for regulations to be made in respect of rural price changes that are not discussed in the consultation paper.

Meridian notes that it will be critical for practicality, cost effectiveness, and efficiency to be at the forefront of considerations in respect of applying a market-based approach.

Stability and predictability is important

As the Authority rightly points out, all aspects of the value chain need to be factored into considerations regarding overall efficiency. From a retailer perspective, Meridian submits that stability and predictability in distributor pricing methodologies will be key to enabling retailers to play their part by ensuring intended efficiency signals are, where possible, preserved. We also submit that stability and predictability will also be important from the perspective of encouraging retail competition, given the potential barriers to entry unduly complex distribution pricing methodologies could create, particularly for smaller retailers.

Adequate consultation and careful balancing of practicalities and costs will be critical

Meridian is not convinced a clear case for the framework delivering net benefits over and above those that can be delivered through existing pricing principles and disclosure guidelines has been made. When combined with our reservations regarding practicalities and potential transactions costs, Meridian submits that in the interests of ensuring the framework leads to efficient outcomes, distributors must appropriately balance providing economically efficient signals for investment against potential transactions costs and practical considerations associated with non-administrative charges. It may be appropriate that packages and/or combinations of options are considered, rather than each option being pursued as a single solution “at all costs”.

Retailers and, ideally, other stakeholders will need to be provided with adequate opportunity to provide feedback on how the framework has performed in practice to inform the Authority’s reviews. This will require a phased approach so as to avoid an unmanageable situation whereby retailers and other stakeholders are required to provide feedback in respect of multiple methodologies over the course of, say, a 6 week period. We agree with the suggestion set out in the consultation paper that the Authority should factor in whether a distributor has already set their methodology when undertaking their 2012 assessments.

Please don’t hesitate to get in contact if you have any queries regarding our submission.

Yours sincerely



Alannah MacShane
Regulatory Advisor

DDI 04 381 1378

Mobile 021 811 362

Email alannah.macshane@meridianenergy.co.nz