



2 November 2012

Electricity Authority

By email submissions@ea.govt.nz

Consultation Paper – 2013/14 Appropriations and Work Programme

Meridian welcomes the opportunity to submit on the Electricity Authority's 2013/14 appropriations and work programme consultation paper. We broadly support the programme of work that has been suggested, subject to our specific comments below regarding coverage, certain priorities and the Authority's approach to progressing its work, and our more detailed comments set out in Appendix One.

Meridian strongly supports continued transparency and effective use of working groups

Regarding general work practices, Meridian appreciates the Authority's efforts over the course of the year to provide greater transparency and visibility on their work, for instance, via industry briefings and quarterly work programme updates. We strongly support a continuation of this approach. We also strongly support the continuation of appropriate use of technical and other working groups, as is being used to further develop the Wholesale Advisory Group's prudential and settlement policy proposals. Meridian considers both will be critical to ensuring the extensive work programme set out by the Authority for 2013/14 and beyond is progressed in an appropriate way.

Meridian mostly agrees with the proposed work programme's coverage

Other than work to investigate the potential to bid and dispatch wind generation, and to investigate possible improvements to the design of the low fixed user charge, Meridian considers the Authority has set out a comprehensive suite of proposed projects.

We suggest any new requirements and / or changes to legislative indemnity provisions arising from the reform of consumer legislation are considered in the context of reviewing domestic contracting arrangements and the "Code upgrade" project.

Consistent with our previous submission, we also note that it will be important for work in connection with reviewing and determining future phases of the Consumer Switching Fund to adopt a broad focus that encompasses consideration of trends in customer awareness / perceptions and “non-price” aspects of retailer offerings e.g. related to customer service.

Meridian welcomes the inclusion of post-implementation impact reviews. We submit it is critical that the impacts of the stress testing regime and associated industry implementation costs are assessed as part of reviews of scarcity pricing and Part 10 reforms.

We support prioritising transmission pricing and timely progress on gate closure and improvements to the design of the low fixed user charge regime

Meridian recommends a review of gate closure rules is progressed as a priority for the wholesale work programme for 2013/14 and as a precursor to work investigating the potential to bid and dispatch wind generation, which we consider will deliver efficiency gains in the wholesale market.¹ We also recommend that the work described above to review the design of the low fixed user charge regime is progressed as part of the retail work programme by 2014/15.

Meridian continues to view Transmission pricing as a particularly important project and endorses the Authority’s categorisation as a “key implementation” project for 2013/14.

It is critical the Authority seeks to progress its work programme in a manageable way

Meridian submits the suite of projects proposed for 2013/14 and beyond will need to be developed and then implemented by industry participants that are already dealing with number of significant implementation projects – several of which involve, or are likely to involve, system changes – ranging from FTRs and Transmission pricing, to Part 10 changes. Because of this, we urge the Authority to adopt a cautious approach in seeking to progress these projects by focusing efforts on projects offering at least the potential to deliver moderate net benefits and by seeking to package together related projects where possible with a view to limiting major market changes to one per year. We also urge the Authority to ensure its consultation calendar is kept up to date and to ensure “peaks” in consultations are avoided, such as that which was experienced over the course of April-May 2012 which involved industry being asked to respond to 15 different regulatory topics.

¹ As mentioned for example, in Meridian’s presentation to the 2012 Annual NZWEA Conference, available at: http://windenergy.org.nz/images/stories/conf12/MIKE_ROAN.pdf

Please refer to Appendix One for further detailed comments on the Authority's proposed appropriations and work programme.

We look forward to continuing to work with the Authority in an open and constructive way in 2013/14 and beyond.

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

Yours sincerely

A handwritten signature in blue ink that reads "Alannah MacShane". The signature is written in a cursive, flowing style.

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Appendix 1: Specific comments on proposed appropriations and work programme

	Issue	Comment
1	Table 2: Actual expenditure	Consistent with our submission last year, Meridian would welcome further details on actual expenditure to date for the current financial year.
2	s 2.3: System operator capital-related costs	<p>Having noted that proposed SO related costs account for over 50% of overall EA proposed budget increases, Meridian appreciates the Authority's efforts to ensure a companion paper on system-operator (SO) costs was provided. We, are, however, concerned that a process of consultation was not undertaken by the SO at an earlier stage.</p> <p>Meridian agrees with the Authority's suggestion regarding the need for investment approvals to be granted on the basis of efficiency gains, improvements in service quality, and / or increases in the scope of services provided. We consider insufficient qualitative information has been provided in this instance to enable these criteria as well as the needs case more generally to be assessed for the SO's proposed expenditure and consequential levy increases.</p> <p>Given these concerns, Meridian supports the Authority adopting a focus on seeking to improve the transparency of capital expenditure arrangements under the system operator service provider agreement (SOSPA).</p>
3	s 3 / Table 3: Indicative levy rates	As mentioned in our previous appropriations submission, we would welcome further information on how this table reconciles with the total appropriations set out at Tables 1 and 2 such as, for example, details on assumptions made on generation volumes and the number of ICPs.

	Issue	Comment
4	E6: Market monitoring	Consistent with previous comments, Meridian submits greater clarity is needed on how market monitoring investigations will feed into future market design work. Has the Authority considered a formal rule change proposal list arising from these investigations?
5	Appendix E, A8: Scarcity pricing – impact review	Meridian submits it is critical an assessment of the impacts and outcomes associated with the stress testing regime is undertaken as part of the review.
6	Appendix E, A10: Metering (Part 10) impact review	Meridian would strongly support a post implementation review of the Part 10 project that incorporates an assessment of associated industry implementation costs, for instance, arising from flow-on implications for the switching process.
7	Appendix E, B9: Consumer switching fund	Consistent with previous comments, Meridian submits it is important that the review and future phases of the initiative adequately weight “non-price” forms of competition, for instance, in the area of customer service, and trends in customer perceptions (this being an indicator of potential effectiveness) and awareness (this being an indicator of the extent to which initiatives are successful in targeting a wide range of consumers). To this end, we consider it is important the work incorporates an assessment of the extent to which the components comprising the ‘Switchme’ tool may preclude consideration of non-price aspects of retailer offerings. Meridian also submits it is important the suitability of the “dual charge” arrangement for funding the tool ² and the extent to which it may discourage widespread participation is also considered in seeking to evaluate the programme’s impacts.

² Whereby participants are charged a fee in addition to the electricity industry participant levy.

	Issue	Comment
8	Appendix E, Table C: Second & Third priority projects for competition in 2013/14	Consistent with the comments set out in our attached cover letter, Meridian submits the scale of the list of projects may require the Authority to adopt a focus on pursuing those projects offering the potential to deliver at least moderate to high net benefits. Please see also our comments below regarding the inclusion of projects to investigate the potential to dispatch and bid wind generation and review the design of the low fixed charge regime, and priority ranking attached to work in connection with gate closure.
9	Appendix E, Table C: Code Upgrade Project	Meridian submits it is important this work also seeks to align provisions of the Code concerning indemnities with any new legislative provisions introduced as part of reforms to consumer legislation. Based on the recommendations of the Commerce Select Committee on Consumer Law Reform, we consider this will involve, at a minimum, incorporating Transpower into the provisions of the Code. It is, however, Meridian's preference that full alignment is achieved by seeking to replicate provisions set out in legislation.
10	Appendix E, Tables C & D: Wind dispatch	As per our previous submission, Meridian recommends the Authority investigates the potential to bid and dispatch wind generation as part of a "second priority" project to be progressed by 2015/16. As discussed further below, we consider this project should follow the Authority's work on shortening the gate closure period.

	Issue	Comment
11	Appendix E, Table D: Gate closure	Consistent with our previous appropriations submission, we recommend that the gate closure project be elevated to rank as a second priority project for 2013/14. We consider this project should be undertaken as a precursor to the “wind dispatch” work described above. Meridian has indicated support for further work in these areas in a number of forums due to the potential it offers to deliver efficiency gains in the wholesale market. ³ We also note the Authority’s previous assessment suggests gate closure would be a small project with the potential to deliver high net public benefits. ⁴
12	Appendix E, Table C: Domestic Contracting Arrangements	Having noted that the Commerce Select Committee’s report on Consumer Law Reform has recommended the Bill incorporates prohibitions on the use of unfair contract terms, Meridian recommends the Authority seeks as part of this project to confirm the consistency of existing minimum terms and conditions for domestic contracts with requirements under legislation. We also recommend the Authority considers the need to ensure a co-ordinated approach with the Commerce Commission to new requirements as part of its investigations.
13	Appendix E, Table E: Information about proposed future projects	Meridian is unsure why it is being suggested that project milestones will not apply for certain work-streams including, for instance, the demand side bidding and forecasting impact review.

³ Refer, for example, 2012 Meridian Presentation to NZWEA Conference, available at: http://windenergy.org.nz/images/stories/conf12/MIKE_ROAN.pdf

⁴ Refer Table 13 of the EA’s 2012/13 Appropriations, Authority Path to CRE, and EECA Work Programme Consultation Paper, available at: <http://www.ea.govt.nz/dmsdocument/12141>

	Issue	Comment
14	Appendix E, Table E: Low fixed charges	Meridian recommends this project is preceded by a “second priority” “fit for purpose” review of the regime by 2014/15, investigating, for instance, interactions with DG charging (e.g. in the case of solar panels that export excess generation into a network), to address wide-spread industry demand ⁵ .

⁵ Evidenced, for example, by suggestions raised in response to the EA’s “*Decision making and economic framework for distribution pricing review*” consultation.