



meridian

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Submissions  
Electricity Authority  
By email: [submissions@ea.govt.nz](mailto:submissions@ea.govt.nz)

## Proposed Amendments to Enable Collection of Fees – Consultation Paper

Meridian welcomes the opportunity to submit on the Authority's proposal to amend the Electricity Industry Act to enable the collection of fees. This submission is made on behalf of Meridian and its subsidiary Powershop.

Meridian supports the Authority's proposal to seek amendments that provide for fees to be introduced. While further details beyond those set out in this initial paper will be required to provide a firm view on the merits of implementing fee structures, we consider it is prudent to avoid delaying the process of pursuing the necessary legislative changes. We submit, however, that:

- Detailed case-by-case assessments that consider all plausible alternatives will be required to confirm that specific fee proposals are, in practice, likely to deliver net efficiency gains prior to enacting regulations being sought.
- To the extent the proposal is intended to bring about greater scrutiny of service provider costs, it should not be introduced without first establishing a specific forum for engagement with stakeholders to take place.
- Consultation and transparency on expected fee revenue and fee changes will be essential, with information to be made available for consideration as part of the consultation process on proposed appropriations including on the extent of any consequent reduction in levy charges.
- Our strong preference would be for the legislative amendment to specify the type of functions fees may be collected to fund (i.e. functions separate to the Authority's regulatory and market monitoring activities that are undertaken in support of the Authority's statutory objectives).

Further details are provided in the attached appendix containing our responses to the consultation questions.

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

Yours sincerely,

Alannah MacShane  
Regulatory Analyst

DDI 04 381 1378  
Mobile 021 811 362  
Email [alannah.macshane@meridianenergy.co.nz](mailto:alannah.macshane@meridianenergy.co.nz)

## Appendix 1: Responses to Consultation Questions

	Question	Response
1	<p>What comments do you have on the Authority's view that the introduction of fees could deliver efficiency gains as it would more readily support the introduction of efficient user-pays charges to recover some costs?</p>	<p>Meridian agrees the example set out in the consultation paper regarding the type of arrangement that could be adopted for reconciliation services illustrates that a fees-based approach could enable charges to be structured in a way that more accurately approximates the actual costs of usage. We agree this could translate into efficiency benefits. We cannot agree, however, that the Authority's analysis allows us to understand the potential scale of these benefits (that would require, for example, information on the incidence of quality standards failing to be met) and whether perceived benefits could be delivered at lower cost through other means (for instance, through the introduction of reporting on non-compliance).</p> <p>Meridian submits that fuller, more detailed analysis which builds substantially on the partial and largely theoretical discussions set out in the consultation paper will be required to determine whether in specific circumstances a fees structure is, in practice, likely to lead to efficiency gains.</p> <p>We provide further details on factors to be addressed as part of further analysis in our response to Q4 below.</p>

	Question	Response
2	<p>What comment do you have on the Authority's view that the introduction of fees to recover some costs could deliver efficiency gains through the enhanced flexibility that a fee arrangement can provide relative to the rigidity of the annual Crown appropriations process?</p>	<p>Meridian questions the likely materiality of the potential efficiency benefits of a more flexible funding process.</p> <p>Because we understand that fees would only be collected to fund market operations related functions, this suggests they will only be used to fund service requirements the Authority has reasonable certainty over. We are therefore unsure about the extent to which a more flexible approach will, in practice, prevent delays that would otherwise occur in the commissioning of new services or functions. We question, as a result of this, whether a fees-based approach will deliver benefits in the way that is described in paragraph 4.3.1 of the consultation paper.</p> <p>We do, however, consider a fees-based approach could assist in facilitating long term contracting as the paper suggests.</p>
3	<p>What comment do you have on the Authority's view that the introduction of fees to recover some costs could deliver efficiency gains through more effective engagement between the Authority as purchasing agent and its "client" industry users on key issues relating to service provision and the engagement of service providers?</p>	<p>We consider the proposal will be ineffective as a means of facilitating more effective engagement without a formal avenue being established for this engagement to take place. We do not consider existing fora, such as, for instance, the Security and Reliability Council, can be relied on for this purpose as broader membership will be required. It is essential that the arrangements allow the feedback which is provided to be taken into consideration by the Authority when undertaking negotiations on service provider contracts and in assessing performance against KPIs.</p> <p>We do not agree with the suggestion at paragraph 4.4.6 that there is a potential lack of clarity regarding "core" Authority costs, given the Authority provides this information as part of its annual "appropriations" consultation process.</p>

	Question	Response
4	<p>What other comments do you have on the Authority’s proposal to seek an amendment to the Electricity Industry Act 2010 to allow for the Authority’s activities to be funded by a mixture of fees and the Electricity Industry levy?</p>	<p>Meridian strongly supports the proposal discussed at paragraph 4.3.4 of the consultation paper to incorporate requirements to consult and disclose information on expected costs and fee income into the proposed amendment. We consider this information needs to be provided so that it can be considered as part of the Authority’s annual “appropriations” consultation process.</p> <p>It is our preference that the amendment, like the relevant provision incorporated into the Financial Markets Act 2011<sup>1</sup>, explicitly references the Authority’s statutory objectives. We also consider the amendment should detail the type of services the fees will be used to collect (our understanding being that these will relate to market operations related functions).</p> <p>Consistent with comments set out in our cover letter and response to Q1 above, Meridian submits that detailed and robust analysis will be essential prior to the Authority seeking to introduce a specific fee structure. It is critical that this analysis considers and quantifies the costs and benefits that are likely to result in practice and assesses the full range of plausible options. In the case of a fees proposal that relates to a new area requiring the use of a new service provider, we would also comment that it may be appropriate to consider delaying its introduction so as to avoid excessive costs being passed to initial users.</p> <p>Meridian has noted the statement at paragraph 5.1.6 suggesting that enabling the collection of fees will not, per se, affect the total level of the Authority’s funding.</p>

<sup>1</sup> That, as stated in paragraph 2.6.4 of the consultation paper, allows for the making of fee regulations that “require the payment to the FMA of fees and charges by financial markets participants in connection with the performance and exercise by the FMA or any function power, or duty under this Act or any other enactment.”