



27 September 2022

Submissions
Electricity Authority

By email: network.pricing@ea.govt.nz

Settlement Residual Allocation Methodology consultation paper

Meridian appreciates the opportunity to provide feedback to the Electricity Authority (**Authority**) on the Settlement Residual Allocation Methodology (**SRAM**) consultation paper. This submission should be read together with Meridian's submission and cross-submission on the Authority's SRAM principles, options, and pass-through consultation paper.

As stated in previous submissions, Meridian agrees that there is a need for a new SRAM under the Code that aligns with the new Transmission Pricing Methodology (**TPM**) and allocates settlement residue in a way that is consistent with the Authority's statutory objective. Meridian also strongly agrees that the benefits of the proposed SRAM can only be achieved if transmission users (generators, industrial consumers, and retailers or their customers) receive the settlement residual rebates. Some form of distributor pass-through requirement is necessary to guarantee this outcome.

This submission is structured under the following headings:

- The re-framed principles are an improvement
- Meridian is broadly comfortable with the proposed SRAM
- Meridian has some reservations about the limited pass through proposal
- The Authority should also consider the efficiency benefits of a full pass-through requirement.

Meridian's suggested amendments to the proposed Code changes are attached as Appendix A. Meridian's responses to the consultation questions are attached as Appendix B. However, the key points are set out in the body of this submission.

The re-framed principles are an improvement

Meridian agrees that the principles usefully translate the Authority's statutory objective to the specific issues raised by the SRAM methodology. The four simplified principles now applied by the Authority are clearer and better highlight the trade-offs between various principles. The principles offer a helpful lens through which to evaluate SRAM options now and if the issue is ever revisited in future.

In respect of the principle to reduce over-payment for transmission, Meridian agrees with and supports the Authority's statement that generators face nodal transport costs.

Meridian is broadly comfortable with the proposed SRAM

The Authority has identified the simple benefit-based option as the most balanced option. Meridian supports this preferred option because:

- It strikes a balance between a fixed allocation (thus preserving grid usage signals) and allocating settlement residue to parties using congested parts of the grid each month (reducing over-payment for transmission).
- Critically, it allocates residuals that arise because of losses and constraints on connection assets to the connecting party at that asset because that party is the one exposed to the associated costs of congestion.
- It does not frustrate the grid investment signals delivered by the TPM.
- While it is not as simple as the alternative, it will deliver outcomes that are more consistent with the Authority's statutory objective.

Meridian does not support the TPM charges option because it would not target rebates to those parties that overpaid (i.e. those parties that are exposed to congestion and nodal transport charges). Allocating rebates regardless of where congestion occurred, would mean wealth transfers from those that bore nodal transport charges to those that did not and lead to less efficient grid investments and use decisions over time.

Meridian has some reservations about the limited distributor pass-through proposal

The proposed limited pass-through obligation is too broad and uncertain and will lead to significant inefficiencies and costs to retailers and ultimately consumers. The limited pass-through option is crafted around an intended purpose in clause 12A.3(1) “to allocate settlement residual to consumers (or retailers on behalf of consumers) ...”. While the purpose clause refers to consumers, the remainder of clause 12A.3 refers to a distributor’s customers. There is scope for confusion and poor implementation of the pass-through proposal if this inconsistent terminology is not addressed.

For example, by referring to consumers the purpose clause suggests that distributors will have an option to pay settlement residual directly to end consumers (i.e. households) rather than to their customers (i.e. retailers or connected generators). If distributors focus on that purpose, some distributors could try to rebate end consumers directly (after seeking contact information from retailers) or try to require retailers to directly rebate consumers on behalf of distributors as a separate transaction or line item on a bill, while others may rebate retailers (as appears to be the Authority’s intent) with the competitive market driving reduced costs to consumer over time as a result. That flexibility conflicts with clause 12A.3(2) which then states that a “distributor that is paid any amount of settlement residue under clause 14.35A(1) of Part 14 must, at least annually, allocate and pay this amount to its *customers* in accordance with a methodology developed under subclause (3)” [emphasis added]. The drafting does not define the customers of a distributor. Meridian’s understanding is that retailers, and direct load or generation are the customers of distributors as they are the parties with contractual relationships. Distributors do not have any contractual relationship with mass market end consumers. Clause 12A.3(5) appears to agree inserting in brackets what looks like a definition of a distributor’s customer “(for example retailer, direct generation customer, direct load customer).”

The broad purpose clause 12A.3(1) should be better aligned with the rest of clause 12A.3 by referring to the customers of each distributor. Failure to do so would open the door to significant confusion, variable implementation, and compliance costs.

The ambiguity of the proposed Code drafting is further exacerbated by the text of clause 12A.3(3), which only requires distributors to “have regard to” the purpose clause. There is ample case law on the application of the words “have regard to”, which are a weak directive

that enables a decision-maker to give a matter its attention but not necessarily accept it.¹ In this context, a distributor could simply choose not to implement the Authority's purpose when developing a pass-through methodology. The better formulation in this context would be to require each distributor to develop a methodology for allocating settlement residue to its customers that *gives effect to* the purpose described in subclause (1). It is understandable that the Authority might want to allow distributors flexibility regarding the administrative mechanics of the rebate, i.e. monthly or annual rebates. However, it is incomprehensible that the Authority would allow flexibility in respect of whether the rebate purpose is achieved.

Appendix A of this submission sets out Meridian's suggested drafting for the limited pass-through requirement that would reduce ambiguity and make it clearer how these provisions should be implemented. These simple drafting changes would better meet the Authority's statutory objective and in Meridian's opinion are the minimum that the Authority should do to reduce the costs of implementing this limited pass-through option.

The Authority should also consider the efficiency benefits of a full pass-through requirement

Meridian would support the Authority if it chose to go further and implement a full distributor pass-through obligation. The Authority does not prefer this option as it considers the limited pass-through option to be "less costly than more prescriptive requirements". Meridian respectfully disagrees. While the Authority is correct that increased prescription might "impose more costs on more distributors, including those who already pass settlement residue through to their customers", the Authority also needs to account for the costs to retailers of managing 29 different pass-through methods. These costs are acknowledged in paragraph 5.29 of the paper where the Authority identifies that an advantage of a full pass-through requirement is retailers that interact with multiple distributors would not have to take account of different methodologies in designing their systems. However, those costs are not considered in the regulatory statement and cost benefit analysis for the proposal. In effect the Authority has quantified and elevated one-off implementation costs to distributors while ignoring ongoing efficiency costs that would flow from multiple pass-through methods.

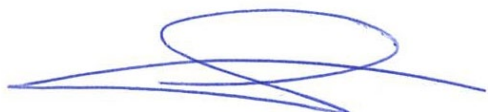
There is an opportunity at this juncture to drive industry efficiency through standardisation. This would reduce the cost of doing business for retailers who would know what to expect and how to manage rebates in their systems, regardless of the network region in which they

¹ *Foodstuffs (South Island) Ltd v Christchurch City Council* [1999] NZRMA 481

operate. Reduced retailer costs would ultimately benefit consumers. Meridian considers it likely that such ongoing efficiency benefits will outweigh any one-off costs to distributors to adopt a prescribed pass-through method.

Please contact me if you have any queries regarding this submission.

Nāku noa, nā

A handwritten signature in blue ink, consisting of several overlapping loops and a long horizontal stroke extending to the left.

Sam Fleming
Manager Regulatory and Government Relations

Appendix A: Meridian's proposed drafting changes

12A.3 Distributors must pass-through settlement residue

- (1) The purpose of this clause is to allocate **settlement residue** to **the customers of each distributor (retailers, direct generation customers, and direct load customers) consumers (or retailers on behalf of consumers)** in proportion to the transmission charges paid by those **customers consumers (whether directly or indirectly)** [in respect of each **connection location**]. [Text in square brackets is for the "Simple BB option" only]
- (2) A **distributor** that is paid any amount of **settlement residue** under clause 14.35A(1) of Part 14 must, at least annually, allocate and pay this amount to its customers in accordance with a methodology developed under subclause (3).
- (3) Each **distributor** to whom subclause (2) applies must develop a methodology for allocating **settlement residue** to its customers that ~~gives effect to~~ ~~has regard to~~ the purpose described in subclause (1) [and the information provided to the distributor by **Transpower** under clause 14.35A(7) of Part 14]. [Text in square brackets is for the "Simple BB option" only]
- (4) A **distributor** must publish the methodology developed under subclause (3), including an explanation of the rationale for the methodology.
- (5) A **distributor** must publish annually a breakdown of payments made under subclause (2) by location and type of customer (for example retailer, direct generation customer, direct load customer).
- (5.1) A **distributor** must explicitly disclose the amount of any **settlement residual** credited to a customer at the time that customer is credited with it.
- (6) A **distributor** may adjust any payment made under subclause (2) to correct for a previous overpayment or underpayment under that subclause.
- (7) An amount payable under subclause (2) is recoverable in any court of competent jurisdiction as a debt due to the person to whom that subclause requires payment to be made.
- (8) A payment required under subclause (2) may be met by way of a credit against any amount owed to the distributor by the customer.

Appendix B: Response to consultation questions

Chapter	Question	Response
2.	Do you have any comments on the problem definition and background material in this chapter?	Meridian broadly agrees with the problems identified.
3.	Do you have comments on our proposed SRAM principles?	In general, Meridian considers the principles to be an improvement on previous iterations and fit for purpose.
	Do you have comments on anything else in this chapter?	Not at this stage.
4.	Do you have comments on our preference for the Simple BB approach to the SRAM?	Meridian supports this as the preferred option.
	Do you have any comments on our assessment of other SRAM options, including in particular the TPM charges method?	Not at this stage.
	Do you wish to propose another option for consideration?	No.
	Do you have any comments on the proposed Code to incorporate the SRAM into the Code? In particular, do you have any comments on: <ul style="list-style-type: none"> the proposal to make a party's allocation of settlement residue a debt 	Not at this stage.

	<p>recoverable in a Court?</p> <ul style="list-style-type: none"> the relationship between the Code Amendment, the benchmark agreement and transmission agreements? 	
	Do you have comments on anything else in this chapter?	No.
5.	Do you agree that the Code should impose a limited pass-through obligation on distributors to pass-through any settlement residual rebate they receive?	Yes, Meridian agrees that this is the minimum required. The Authority should also consider the efficiency benefits of a full pass-through requirement.
	Do you agree that they should be required to pass-through the settlement residual rebate to their customers rather than to, for example, end users?	Yes. The proposed Code drafting should be amended as set out in Appendix A of this submission to make this intent clear.
	Do you agree that the Code should require Transpower to inform distributors of their rebate breakdown each month by location and (where applicable) by offtake vs. injection	Yes.
	Do you agree that the Code should require the distributor, in passing through and allocating the rebate, to have regard to the intent that the rebate be allocated region	No. The direction “to have regard to” a matter is too weak and would allow a distributor to give the matter its attention but not adopt it. The wording in the Code should be stronger and require the distributor to <i>give effect to</i> the intent that the rebate be allocated region by region in proportion to transmission charges paid by each customer type in respect of each connection

	by region in proportion to transmission charges paid by each customer type in respect of each connection location?	location. See the suggested amendments to the drafting in Appendix A of this submission.
	Do you agree that distributors should be required to disclose their rebate methodology and its rationale, and to report on its application?	Yes.
	Do you think that distributors should be required to explicitly disclose to customers the amount of any allocation of settlement residual rebate they are being credited with at the time they are credited with it?	Yes. This should be made clearer in the proposed drafting of the Code, which does not currently require explicit identification of the amount paid and enables it to be credited against amounts owing to the distributor. This could be interpreted as allowing distributors to hide rebate sums in amounts owing rather than identify them in a separate credit note or line item. If rebates are not explicitly identified, it will be difficult for a customer to know when a rebate is missed and exercise its rights under clause 12A.3(7) to recover the sum via the Courts.
	Do you agree that the Code should require distributors to passthrough the rebate at least annually?	Yes.
	Do you have any other comments on this chapter?	Not at this stage.
6.	Do you agree with the objectives of the proposed amendments? If not, why not?	Yes.
	Do you agree the benefits of the proposed amendments outweigh their costs?	Yes.
	Do you agree that the alternative means	In respect of the SRAM, yes. However, Meridian considers a full pass-through requirement would better

<p>of meeting the objective are not as effective in meeting the Authority's statutory objective? If you disagree, please explain your preferred alternative option in terms consistent with the Authority's statutory objective.</p>	<p>meet the Authority's statutory objective, particularly the efficiency limb.</p>
<p>Do you agree the Authority's proposed amendment complies with section 32(1) of the Act?</p>	<p>Yes, but only if the suggestions made in this submission are given effect.</p>
<p>Do you have any other comments on this chapter?</p>	<p>Not at this stage.</p>
<p>Do you have any other feedback on any other aspect of this consultation paper?</p>	<p>Not at this stage.</p>