2 December 2021

Electricity Authority

By email: TPM@ea.govt.nz

Proposed Transmission Pricing Methodology Consultation

Meridian welcomes the opportunity to comment on the Transmission Pricing Methodology (TPM) consultation. We look forward to implementation of the new TPM, which will be hugely beneficial to customers.

Meridian is supportive of the new TPM and we look forward to implementation in April 2023

As we have said in previous submissions on this topic, we think that the new TPM represents a significant improvement on the previous methodology. We are supportive of fairer and more cost reflective charging. We welcome the removal of the HVDC charge. We are also supportive of the shift to recognise new technologies (especially batteries) and an evolving energy market. Overall, we think that the methodology is a step forward in meeting the needs of the market and consumers as New Zealand decarbonises.

We look forward to implementation in April 2023, which will see benefits start to accrue to consumers (estimated to be a net benefit of $1.25 billion over the next 28 years). Given that the benefits are significant, it is important that the new methodology is implemented without delay.

Meridian supports the new charging approach for new technologies as they become an increasing feature of the energy system

We support the moves by the Electricity Authority (EA) to consider the needs of the future energy system. Decarbonisation will require investment in new generation and new technologies, to provide the supply to meet the increase in demand, but also security for the system. It is essential that barriers to investment in new generation and technology are minimised.

We are also supportive of the proposal to ensure that batteries are put on a level playing field with other forms of generation. In our view, this approach is consistent with the EA's statutory objective. Treating batteries similarly to other forms of generation will reduce any potential for distortions. This therefore promotes competition and the efficient operation of the electricity industry. It also reduces the potential for misallocation of investment and an unnecessarily costly development path for the industry.

However, we think there is also a bigger point about the government's role in assisting with the transition to renewable energy. There are known problems around first mover disadvantage (in that as firms electrify, the first movers can bear the bulk of the cost in infrastructure investment). This applies in the context of transmission as well as distribution. The measures to address first mover disadvantage in the proposed TPM (or similar measures) could also be considered in the context of distribution pricing reform, whether through EA support and encouragement of distribution pricing reform or through more direct regulation of distribution pricing methods.

Recovery of Transpower's overheads in the BBC is only justified where Transpower can accurately and reasonably allocate overheads to individual benefit based transmission investments

To the extent possible, beneficiaries should pay the costs of transmission investments in proportion to the private benefits that they receive from them. Where Transpower can accurately and reasonably allocate overhead costs to individual benefit based transmission investments, then the BBC may be an appropriate way to recover these costs. However, there is a risk that this may involve broad judgements and assumptions, resulting in a blunt and somewhat arbitrary smearing of costs. If this is the case, then the residual charge would be a better way of recovering overheads. This is because the residual has been designed to be non-distortionary and allocate costs in an unavoidable way based on the scale of transmission customers.

Although overheads could be allocated via the BBC to both generation and load customers, as the EA has previously pointed out, charges allocated to generation would in the long run be passed on to load via higher energy prices. In a dynamic sense, investment in generation will only occur if investors expect to recover their fixed and variable costs, including any transmission costs. If prices are too low to enable recovery of costs, there would be less investment, and ultimately prices would rise.

As NERA notes in its *Review of Electricity Authority's transmission pricing review 2019 papers* "this is a more general feature of markets – ultimately the demand-side has to pay for all of the costs incurred in producing the goods or services consumed – otherwise no one would invest on the supply-side."

Meridian therefore queries whether it would be simpler and more direct to allocate overheads via the residual charge.

We would also like to see a return to the previous proposal of benefits under the simple method in the BBC being apportioned between generation and load customers on a 25/75 basis

The current proposal is to apportion benefits along a 50/50 split in the simple method. The consultation states that this method is forecasted to make up the bulk of investments (and therefore charges under the BBC), so it will have a significant impact.

Costs should be passed through in the most efficient way. As part of our submission[1] on the 2019 issues paper, we included analysis from NERA demonstrating that since consumers ultimately pay for all transmission costs, it is more efficient and direct to assign costs to load customers. This is because the demand-side of the electricity market is more inelastic than the supply-side.

Please contact me if you would like to discuss any of the points raised in our submission.

[1] 25728Meridian-Energy-Limited-TPM-submission-2019.pdf (ea.govt.nz) See paragraphs 47-57.

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