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

Benchmark agreement and SRAM related Code changes

Meridian appreciates the opportunity to comment on the Electricity Authority's consultation paper on potential changes to the benchmark agreement and Code changes related to the new settlement residual allocation methodology (SRAM).

Transpower funding for SRAM implementation

We understand that Transpower expects to be able to recover the efficiently incurred cost of administering the SRAM and that the Authority committed to ensuring that outcome in a letter to Transpower last year. We query whether, having made that undertaking, consultation on the options remains meaningful. The Authority appears already committed to a regulatory intervention.

It is also not clear to us how the Authority considers this Code change will promote competition in, reliable supply by, and the efficient operation of, the electricity industry for the long-term benefit of consumers. The change proposed is purely to give effect to a wealth transfer between participants, namely Transpower and transmission customers. As explained in the Authority's foundational documents, the Authority should only consider the aggregate consumer benefit consistent with expanding the 'size of the economic pie' and exclude consideration of wealth transfers.

If, despite the above, the Authority is intent on regulating for a wealth transfer, then given the administrative costs in question are the outcome of a regulatory change by the Authority and the commitment to enabling Transpower to recover its costs was made by the Authority, Meridian's preference would be for the Authority to manage this through its own arrangements with Transpower. This would be preferrable to amending the contractual arrangements between Transpower and each of its customers. The Authority's alternative option of increasing the industry levy to cover these costs would achieve this outcome.

In Meridian's opinion, this alternative would be simpler. It is not clear to us on what basis the Authority thinks its proposed approach would be simpler. The alternative levy recovery option would avoid the cost allocation issues that would arise if basing the cost allocation on portion of settlement residue. Settlement residue payments are volatile and payments to individual participants can be heavily influenced by events on the grid. Even if the cost allocation was spread over a year, there could be significant variation between years in each participant's share of settlement residue due to factors like hydrology or planned outages in any given year.

The Authority also reasons in the consultation paper that the proposed approach would "appropriately" target those that benefit from the distribution of settlement residue. It is not clear, but this seems to be an attempt to apply a 'beneficiaries pay' approach to the costs of a regulatory change. However, the only beneficiary of the wealth transfer now proposed is Transpower. If the Authority wants to allocate costs to the beneficiaries of the SRAM Code changes then the Authority made clear in its SRAM consultation paper, the beneficiaries of the change are consumers:[1]

> "The Authority considers that its proposed SRAM will lead to significant long-term benefits for consumers. It will encourage more efficient use of the grid, and support the right investments being made at the right time and in the right places. It will, over time, lead to relatively lower prices to consumers for delivered electricity."

Therefore, it may be more "appropriate" that the administrative costs of the regulatory change are recovered from consumers via the levy.

Whatever method the Authority ultimately decides to use, we note the importance of monitoring by the Authority to ensure Transpower's costs are efficiently incurred. The Authority could also be clearer on whether it intends to only allow for recovery of initial implementation costs or whether Transpower will be able to recover ongoing administrative costs. Our assumption is that this will be a one-off cost recovery given the reference to Transpower's preliminary estimate of $1.15 million for investigating and developing an

[1] https://www.ea.govt.nz/documents/1374/Settlement-Residue-Allocation-Methodology-consultation-paper.pdf

automated solution. Once automated tools are put in place any ongoing SRAM allocation costs should be negligible and not recoverable.

Focused changes to benchmark agreement

Meridian is broadly comfortable with the proposed focused changes to the benchmark agreement for consistency with the new Transmission Pricing Methodology (TPM) and other legislative changes, as well as the renaming of it as a default transmission agreement.

Embedded networks

Meridian agrees that the Authority has identified a problem in respect of settlement residue pass-through and embedded networks. Changes are required to ensure consumers on embedded networks can benefit from pass-through of settlement residue and that embedded networks do not have a competitive advantage, encouraging inefficient investment in embedded networks.

Meridian agrees that both the “expanded pass-through” option and the “exclude embedded networks” options would be improvements on the status quo and benefit consumers. Under the status quo, the owners of embedded networks will receive a windfall gain from pass-through of settlement residue at the expense of consumers. Unless an embedded network is consumer owned there is no incentive for an embedded network to pass on the benefits of settlement residual rebates.

In the near term, Meridian supports a Code change to require that distributors must not pass through settlement residual rebates in respect of embedded networks (and would instead distribute all of the settlement residue they receive proportionally amongst their other customers). This option would be easy to implement while allowing the Authority time, if it sees fit, to design a long-term solution that achieves expanded pass-through requiring all distributors including embedded networks to pass through settlement residual rebates to their customers.

Nāku noa, nā

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