



meridian

15 November 2018

Keston Ruxton (Manager, Price-quality Regulation)
Commerce Commission
44 The Terrace
Wellington 6011

By email: regulation.branch@comcom.govt.nz

Dear Keston

Transpower IPP 2020 – Process, Framework and Approach Paper

Thank you for the opportunity to comment on the above.

Meridian's view is that the Commission's intended process, framework and approach for setting Transpower's IPP is generally appropriate. As we move through the Commission's process Meridian would like to see the Commission comment at various stages on how its proposed decisions relating to RCP3 can be expected to:

- drive outcomes consistent with outcomes produced in competitive markets (the Part IV purpose)
- deliver benefits to consumers, whether that is in terms of increased efficiencies, reduced prices or improved quality (or quality more aligned with consumer preferences) and,
- ensure Transpower shares the efficiencies it has achieved during RCP2 with consumers.

We would particularly encourage the Commission to ensure that the above matters are quantified as far as possible in terms that will be understood by and relevant to transmission customers and to consumers (e.g. impact on the bill of an average residential consumer, impact on the bill of an average commercial consumer, etc).

In short it would be useful to understand at each stage how specifically the Commission considers it is encouraging Transpower to 'deliver more for less' consistently with the pressures faced by businesses operating in competitive markets.

In relation to:

- Paragraph 4.31 of the Consultation Paper: We are pleased to see that the Commission intends to focus on the extent to which Transpower's connected customers (EDBs, generators, major electricity users) consider they have had an opportunity to genuinely engage with Transpower and, more specifically, potentially influence the content of the RCP3 proposal. Meridian provided comment on a draft RCP3 proposal at the end of August this year but there seemed some detail still to be finalised at that point and as we understand it that detail will not be available until 4 December when Transpower's actual proposal is published on the Commission's website.
- The discussion of revenue-linked performance measures at paragraphs 4.32 to 4.42 of the Consultation Paper: We query the real effectiveness of revenue-linked performance measures as incentives for price-quality regulated businesses where the regulator must have a concern that depriving the regulated entity of 'too much' revenue will compromise the quality outputs it wants the regulated business to deliver. Meridian queries whether a better means of incentivising such businesses might be requiring them to strongly publicise failures to achieve performance measures.
- Paragraph 4.46: We agree that the impact of Transpower's revenues on electricity prices for households is less direct but we disagree strongly with the Commission's stated intention not to make this a key part of its analysis and consultation. Meridian believes that it is fundamental to the success of the Commission's efforts that some estimate of the ultimate impact on end consumers is kept

firmly in mind at all times. Businesses operating in competitive markets focus obsessively on this issue and we suggest it should be key to how the Commission looks to regulate under Part IV if the stated purpose of Part IV is to be achieved. We believe it should play a key role in both this consultation and in the EDB DPP reset.

- Paragraph 5.6 and the concept of 'proportionate scrutiny': Implicit in this is the idea that the Commission believes it is only required or appropriate for it to apply scrutiny to Transpower's proposals where the anticipated benefits to customers outweigh the associated costs either to the Commission or Transpower – except to the extent (as a matter of practical reality) this sets a relatively low bar before the Commission will apply scrutiny, Meridian queries whether this is a correct conceptualisation by the Commission of its role.
- Footnote 84 and the link there to the Deed Relating to the RCP3 Independent Verification: We note that the Engagement Agreement between Transpower and the Verifier does not seem to be included with the disclosed documents and we request a copy of that agreement. In particular, we note that the Verifier's and Transpower's liability seem to be limited by that agreement and we would be interested to know to what extent – this must go to the level of care applied by the Verifier in completing its task. We would also like to know what obligations the agreement places on Transpower in terms of accuracy and completeness of the information provided to the Verifier. Both factors seem to us key to our ability to comment on the Commission's concept of 'proportionate scrutiny.'

Please contact me if you have any questions.

Yours sincerely



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