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Project Manager, Transpower and Gas c/o
Commerce Commission

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Transpower IPP 2025 – Issues Paper

Meridian appreciates the opportunity to comment on the Commerce Commission's issues paper on the default price-quality paths for distributors form 1 April 2025 (DPP4).

The impact of higher network revenues will be significant for consumers

Meridian supports the Commission's recent decision to amend the relevant input methodologies to index Transpower's regulatory asset base to inflation. Even with the effects of this change applied, the step up in regulated revenue between regulatory control periods (RCP) is significant. With smoothing, the Commission calculates that the step up in Transpower revenue will be 24.9 percent between the last year of RCP3 and the first year of RCP4 with steady increases throughout the remaining years of RCP4 as well. That will translate to a significant increase in the transmission component of consumer bills.

This step up in transmission costs borne by consumers must be considered alongside similar increases in regulated revenues for the price-quality controlled distribution companies. With network costs collectively accounting for around 40 percent of the average household power bill, the higher network revenue recovery we can expect from 2025 is likely to increase the number of households experiencing hardship.

Meridian understands the underlying drivers of these regulated revenue increases including the cost of capital, inflation, aging assets, and expectations if increased investment. Many of these costs are somewhat unavoidable under the existing regulatory framework. We also acknowledge that the cost to consumers of *not* supporting network investment may be even greater. To the extent increased costs cannot be avoided, it is critical that networks and the Commission help consumers to understand what is driving these higher costs. The changes need to be communicated widely, simply, effectively, and well in advance of the 2025 pricing year. Consumer groups could also be asked to assist in communicating this change. The tools available to the Commission to avoid price shocks, for example smoothing, should also be used to the greatest extent possible.

Wider policy considerations

While the Commission has limited tools to manage the consumer impact of price increases, we also think it is essential that the Commission makes sure wider government is aware of the upcoming cost increases and the underlying drivers. There may be a need to consider social policy responses to manage distributional impacts of price increases and help address any increased hardship that might result.

Additionally, Meridian queries whether the cycle of sharp, five-yearly increases and decreased in the weighted average cost of capital (WACC) is in the best interests of consumers. The Commission could work with the Ministry of Business Innovation and Employment to consider whether it would be possible to develop a process for longer term smoothing of the WACC. This may help to avoid some of the consumer price shocks that result when the WACC significantly increases after coming off a low base, as is proposed for 2025.

Meridian does not support some of the proposed removals of, or changes to, grid service measures and quality standards

Meridian agrees with the independent verifier that defined minimum performance levels should be set for the number and duration of unplanned outages (GP1 and GP2). Transpower's proposal to use the historical average of network performance to set targets risks incorporating any deterioration in network performance into the target. This would risk driving increasingly poor performance rather than improvement.

In respect of asset performance measures AP1 and AP2, Meridian considers the combination of:

- capping the impact of any one unplanned outage; and
- the ability for Transpower to pool across multiple years to meet the target;

will in aggregate not provide any meaningful indication of the performance of Transpower in respect of HVDC and HVAC asset availability.

Meridian does not support the use of a threshold limit to cap the impact of any one unplanned outage. Such a cap would hide the significant market impact of major unplanned outages and could result in perverse reporting against this service measure, for example the HVDC could be unavailable for several months of a year due to a significant unplanned outage, yet Transpower could report that it had met the HVDC availability measure.

Meridian considers that pooling across years in combination with the above would further enable poor performance to be under reported over the RCP by hiding poor performance in any given year by averaging performance across multiple years.

We also agree with the independent verifier that the AP2 quality standard should be retained and that there is no sufficient reason for its removal.

Finally, Meridian strongly supports the proposed new customer service measure focused on how Transpower is delivering new or enhanced grid connections. It is important that Transpower is an enabler of open access to the grid and any Transpower resource constraints do not result in delays to the connection of new renewable generation investment. It will also be important to monitor the implementation of the new connection queue management system. The process should incentivise getting projects ready to execute at pace and enabling competition amongst developers rather than Transpower picking winners through the prioritisation of limited resources. In future, Meridian would like this measure to be revenue linked and a quality standard to be complied with under the Act. This would reflect the criticality of ensuring that transmission connections do not become a bottle neck as the national economy rapidly electrifies over the coming decades.

Nothing in this submission is confidential.

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[redacted]

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