



3 March 2014

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### **Transpower RCP2 submission**

Meridian welcomes the opportunity to provide feedback on the Commerce Commission's issues paper on Transpower's proposal for Regulatory Control Period (RCP) 2.

#### **Predictability of annual wash-up process**

We understand the need for annual wash-ups via the Economic Value (EV) account. However, as a major payer of HVDC charges, Meridian faces a degree of unpredictable volatility in transmission charges as a result of the annual wash-up process. This presents obvious challenges to our business planning processes.

While some variation between forecast and actual Maximum Allowable Revenue (MAR) is inevitable, Meridian considers effort should be made in forecasting MAR as accurately as possible and in keeping customers informed of potential deviations from these forecasts. In accordance with this, we support consideration of the following:

- Spreading the annual wash-up from a particular year over more than one subsequent pricing year in order to smooth the impact of MAR variations;
- Examining the timing assumptions used in setting the MAR forecast to determine whether these could be improved to make the forecast more accurate e.g. if better information is available on the commissioning of a particular asset than the standard "mid-year" assumption, this should be used;
- Publishing regular (e.g. quarterly) updates to forecast MAR during a pricing year, in order to provide a running picture of the likely wash-up. This would provide useful information to customers substantially affected by the wash-up process;
- Providing additional details on the breakdown of wash-ups to what is currently provided in Transpower's Annual Regulatory Report.

## Grid performance measures

We support the inclusion of revenue-linked grid performance and asset performance targets for RCP2. It is important that Transpower is financially incentivised to improve its performance in managing the grid.

In particular, we support:

- Inclusion of an HVDC 'energy availability' target, applying to both planned and unplanned outages;
- Setting the HVDC target at 98.5%, being an appropriately challenging target in relation to historic performance.

Transpower has stated that "the future evolution of the HVDC [asset performance] measure may focus on the actual market effects of de-rating link capacity due to particular equipment outages occurring at a certain time".<sup>1</sup> Meridian strongly supports adopting measures based on actual market effects of grid outages. Over time, the wholesale market impacts of grid outages faced by sellers and purchasers will flow through to end consumers. Such impacts are therefore a relevant consideration under Part 4 of the Commerce Act.

In addition to the availability targets proposed, we encourage the Commission to consider the introduction of performance measures relating to market impact in RCP2. With the commissioning of Pole 3 and the upgrade of Pole 2 control systems complete, operation of the HVDC link will be more stable over the RCP2 period. It would therefore be an appropriate time to introduce market-based HVDC performance measures into the regulatory framework.

We support the "other measures" identified by Transpower<sup>2</sup>, although we note that Transpower has proposed that these measures are not revenue-linked. We think the Commission should consider revenue-linking these measures (even if revenue at stake is low) in order to ensure there is some incentive on Transpower to achieve the proposed targets (noting in some cases targets would need to be set).

We also support the Commission considering the additional performance measures as listed in paragraph 6.13 of the issues paper. In particular, we support consideration of a measure of "performance and reliability of notifications for planned interruptions".

Given the five-year term of Transpower's regulatory control period, it is important to ensure a robust and effective performance framework applies. As such, due consideration should be given to the above factors, and all feasible changes expected to enhance the regulatory framework should be incorporated.

Please contact me if you have any questions regarding this submission. Meridian would also be happy to discuss this submission directly with the Commission, if desired.

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<sup>1</sup> Service Performance Measures, 1 October 2013, page 22

<sup>2</sup> Service Performance Measures, 1 October 2013, page 25

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'M. Hall', written in a cursive style.

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