meridian

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John McLaren
Chief Advisor
Regulation Branch
Commerce Commission
By email: regulation.branch@comcom.govt.nz

**Proposed Default Price-Quality Paths for Electricity Distributors from 1 April 2015**

Meridian welcomes the opportunity to provide feedback on the Commerce Commission's consultation papers:

- 'Proposed Default Price-Quality Paths for Electricity Distributors from 1 April 2015' (issued 4 July 2014). We refer to this as "DPP".
- 'Low cost Forecasting Approaches for Default Price-Quality Paths' (issued 4 July 2014). We refer to this as the "LCF".

We have quoted the paragraph references to the DPP and LCF reports where relevant.

**Approach to low-cost forecasting may benefit from validation tests**

Demand forecasts are a crucial input to the revenue growth assumptions discussed in Chapter 5 of the LCF paper. The process of setting and resetting revenue captures the medium-term variation in demand and a distributor can apply for a customised price path if their situation differs materially. In this context, Meridian supports a low-cost approach for the demand forecasts that underpin the revenue growth forecasts.

Meridian undertakes demand forecasting over short and long-term horizons, and makes the following observations about the Commission's approach to forecasting demand:

- The key drivers of demand growth used by the Commission are consistent with what Meridian uses for long-term demand forecasting.

- The Commission's growth-rate approach means that the assumed energy demand for the first year are important, as is any normalisation to account for the circumstances affecting demand in the year, such as variations in irrigation load, embedded load, or temperature.

- Consumers face a delivered price that includes distribution, transmission, energy (generation) and levy & tax components. The approach implies that consumption is not responsive to the non-distribution components of price.

- Alignment of the implied energy forecasts and input assumptions on a national or island basis could assist the Commission to validate the implied aggregate of the forecasts across the networks. For example, while the population/household relationship may hold for Vector and Wellington (Table 5.1, LCF), does it hold on a national basis or for other distributors? Do the implied national energy forecasts fall within the ranges of national demand forecasts developed by other parties?

Transpower and the Ministry of Business Innovation, and Employment undertake long-term modelling of the energy sector and use or develop demand forecasts for that purpose[1]. The additional detail and set of drivers used for developing those forecasts could be used very simply without replicating the forecasts themselves (which would not be simple, low cost, or necessarily fit for purpose). The Commission could aggregate its implied energy forecasts and them to the energy forecasts from other parties with the sole purpose to ensure that the low-cost approach is within reasonable bounds. If not, some simple scaling could be applied.

**Clear demonstration of benefits of demand-side management initiatives will ensure compensation is justified**

We have comments about several components of the proposal:

- *Treatment of regulated services (7.10-7.14, DPP paper).* Meridian agrees with ENA that energy activities subject to regulation should be clearly defined. A simple approach to achieve this would be an "opt-out" approach, whereby a distributor proposes to the Commission that an investment falls outside its regulated business, describes the rationale for why this is so and how it will be financially ring-fenced. Distributors would have the flexibility to decide the nature of the investment and consumers would have confidence that their distribution charges are aligned to the distributor's regulated business activities.

- *Demonstrating impact of initiatives (E12-E19, LCF paper)*. Meridian supports the proposed "application" approach and suggests that distributors have the option to discuss initiatives with the Commission prior to the investment being made. For a distributor to invest in an efficiency initiative there should be a strong rationale underpinning the initiative. Investment Logic Mapping[2] (ILM) or some other approach could be used to communicate the investment rationale to the Commission, possibly before the investment is undertaken if the distributor is concerned about the compensation mechanism. If the investment is viable, then the rationale should be easy to communicate and benefits measurable. Importantly, this is not a costly exercise to undertake for either party.

- *Other issues related to Section 54Q (DPP paper)*.

    - Lower-user fixed charge. Meridian notes that the Low-user fixed charge is on the Authority's work plan for consideration late in 2014. We support the Commission's involvement in that process.

[1] Section 3 in the 2013 Technical Modelling guide has a section on the demand models http://www.med.govt.nz/sectors-industries/energy/energy-modelling/technical-papers/energy-modelling-methodology. Transpower's grid planning assumptions are include demand forecasts https://www.transpower.co.nz/about-us/what-we-do/planning-future/planning-inputs. System Operator energy forecasts for the period cover energy and peak demand forecasts: http://www.systemoperator.co.nz/security-supply/security-supply-annual-assessment.

[2] The ILM approach is by Treasury to assess capital projects in the state sector http://www.ssc.govt.nz/project-delivery-capability

- Distribution generation (DG). The Authority's work on Avoided Cost of Transmission (ACOT)[3] suggests that, among other things, consumers are paying up to $50m per annum on ACOT charges which have not resulted in any reduction in transmission or distribution investment i.e., have not been efficient. Meridian suggests the Commission consider the evidence from the Authority in its consideration of this issue.

Please contact me if you have any questions regarding this submission.

Yours sincerely,

Dr Andrew Kerr
Regulatory Affairs Manager

**DDI** **04 382 7411**
**Mobile** **021 443 059**
**Email** **andrew.kerr@meridianenergy.co.nz**

[3] *Working Paper - Transmission Pricing Methodology: Avoided Cost of Transmission (ACOT) payments for distributed generation*. http://www.ea.govt.nz/dmsdocument/16327