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Commerce Commission

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

Transpower's individual price-quality path for the regulatory control period commencing 1 April 2025

Meridian Energy Limited (**Meridian**) appreciates the opportunity to comment on Te Komihana Tauhokohoko – The Commerce Commission's (**Commission**) draft decision on Transpower's individual price-quality path (**IPP**) for the fourth regulatory control period 2025-2030 (**RCP4**).

While Meridian will respond to the Commission's draft decision on DPP4 separately, we note that many of our comments and concerns apply jointly to the IPP and DPP decisions. The discussion below therefore refers to electricity distribution and DPP4 at times alongside transmission and IPP RCP4.

The impact of higher transmission revenues on consumers

The Commission's draft decisions (IPP and DPP) obviously represent a significant step up in both transmission and distribution regulated revenues, and the costs borne by consumers will necessarily increase. Given network costs collectively account for around 40% of the average household power bill, the higher network revenue recovery from 2025 is likely to increase the number of households experiencing hardship.

Meridian understands the underlying drivers of these regulated revenue increases – the cost of capital, inflation, aging assets, and expectations of increased investment – these are all valid issues affecting electricity distribution businesses (**EDBs**) and Transpower. We have to acknowledge that the cost to consumers of not supporting network investment could be even greater in the long run.

It is critical that the impact of these increases on consumers is softened to the extent possible. In this respect, Meridian is very supportive of the Commission's proposal to smooth Transpower's revenue path. This will go some way to alleviating price shocks for consumers.

Preparation and expectation management present other means of softening the impacts of the cost increases; ensuring that consumers are informed of and prepared for those higher costs. In Meridian's view, it is critical that the greater public understands the **full** quanta of the expected cost increases (i.e. from April 2025 **and the subsequent years** – consumers should be aware that the necessary downside of smoothing is that network costs will continue to build for all five years in the regulatory control period) and the reasons for the increases.

Transpower, the EDBs, and the Commission should all aim to ensure that consumers gain this understanding before April 2025. Meridian supports the Commission's attempts to demonstrate and display these increases to consumers so far (e.g. via the Commission's press releases and website) but notes that communicating the changes should be an ongoing effort. Media coverage moves on quickly (and has done so already in this case). Consumer groups could also be asked to assist in communicating the changes.

Government policy to alleviate hardship

Significant cost increases to essential goods raise the question of social policy responses to alleviate hardship and manage the distributional impacts of price increases. While we do not suggest the Commission has any responsibility for social policy, Meridian hopes that the Commission will ensure the Government is well informed of the pending step change in regulated revenues and that the Government takes this opportunity to consider the need for any social policy initiatives. It is important that the Government understands the hardship challenges that may stem from network cost increases so that appropriate policy responses can be considered. Again, this highlights the need for continued communication of the increases so that they remain front-of-mind ahead of April 2025.

Managing price shocks between regulatory control periods

Considering the regulatory context for IPP RCP4 and DPP4 more broadly, Meridian notes that:

- the current revenue increases are motivated in large part by significant increases to the weighted average cost of capital (**WACC**);
- the WACC for RCP3 and DPP3 was decreased relative to the previous period (which drove a relatively cheaper period for consumers); and

- fluctuations in WACC across regulatory periods have therefore lead to (and will continue to generate) relatively significant fluctuations in the ultimate cost to consumers.

Meridian queries whether these increases and decreases in the weighted average cost of capital (WACC) are in the best interests of consumers. We wonder whether there is scope for the Commission to work with the Ministry of Business Innovation and Employment on processes for smoothing the WACC across longer terms. 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 in the draft decisions.

Concluding remarks

This submission is not confidential. I can be contacted to discuss any of the points made.

Nāku noa, nā

[redacted]

James France

Legal / Regulatory Counsel

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