Meridian.

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Default price-quality paths for electricity distribution businesses from 1 April 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).

About Meridian

Meridian is Aotearoa's largest electricity generator, producing energy from 100 percent renewable sources – wind, water and sun. Our hydro stations generate enough electricity to power around 1.4 million homes each year and our wind farms generate enough electricity to power around 152,000 homes each year. Meridian is also a major nationwide retailer through our Meridian and Powershop brands, and is rolling out a network of nationwide EV charging through our Zero brand. Meridian also has a process heat electrification programme, aimed at reducing dependency on fossil fuels in the commercial and industrial sectors. We are a connecting customer across many electricity distribution businesses (EDBs) and work to support with our own industrial customers that are seeking to connect new electricity loads to distribution networks. In progressing these programmes we work closely with electricity distribution businesses (EDBs) to make upgrades to networks to support electrification.

Meridian supports the Commission's approach to the issues identified

Meridian is supportive of the process, and the efforts to acknowledge the change that is happening in the energy sector as New Zealand decarbonises. Factors such as high inflation, demand for decarbonisation projects, transport electrification, and increasing resiliency needs will put pressure on electricity distribution businesses (EDBs). We agree with the Commission's view that the regulatory framework provides the necessary flexibility to meet these challenges.

We note that there will be significant and inevitable increases in network costs from 2025, and that it is important that the Commission plays a role in communicating this to consumers

Network costs will increase to reflect cost drivers and the investment needed to happen to support increased electrification. Meridian's understanding is that in DPP4, the majority of the cost increases are attributable to changes in input costs, such as the cost of capital and inflation. These costs will flow through to consumers. It is important that the Commission helps consumers to understand what is driving this. Cost increases need to be communicated widely, effectively, and well in advance. Tools to assist consumers, such as smoothing to avoid price shocks, should also be used.

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 that wider government is aware of the upcoming cost increases and the underlying drivers. There may be a need to consider planning for social policy responses to manage distributional impacts of price increases and planning to help address any increased hardship that might result from these cost increases. We suggest that the Commission covers consumer welfare issues at one of the workshops scheduled for early 2024.

Meridian believes that there are opportunities to reduce network costs using innovative non-network solutions and flexible resources

The issues paper is clear that innovation and efficiency needs to play a significant role in the energy transition. The Commission states that the current regime provides incentives for EDBs to innovate and improve efficiency through the partial retention of cost reductions. While this may be true in theory, in our experience, innovative network solutions are not being considered or adopted in practice by many EDBs and there seems to be a general reluctance or inability to commercially value flexible resources that have the potential to cost-effectively reduce the investment required in network capacity. We also note that very few applications to the Innovation Project Allowance have been received in the DPP3 period, and none have been successful. It is unclear to us what the barriers might be in practice. The lack of innovation activity may reflect a lack of immediate network capacity constraints, or culture change and capability limitations. Information gathering under section 53ZD could be one way for the Commission to build a better understanding of the barriers.

Meridian agrees with the Commission's acknowledgement that the regime's baseline incentives may be insufficient to support innovation, such that it may be appropriate to have an innovation (and/or non-traditional solutions) incentive scheme. Meridian tentatively supports some form of a scheme to better incentivise innovation and/or non-traditional solutions and the Commission's proposed principles to guide development of any scheme appear broadly sensible. However, such a scheme may not be able to overcome all barriers so identifying the underlying issues in the first instance is critical. If the main barrier is capability, particularly for smaller networks, then broader solutions outside of the Commission's remit may need to be considered such as distribution system operators tasked with procuring and dispatching flexible resources on behalf of EDBs to meet network needs and reduce duplication of systems and processes across networks.

Concluding remarks

Nothing in this submission is confidential. We would be happy to discuss the views in this submission with officials.

Nāku noa, nā

[redacted]

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