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meridian

**2020-2025 Distribution default price-quality path – Issues paper – Meridian cross submission**

Meridian appreciates the opportunity to provide cross submissions on the Commerce Commission's "*Default price-quality paths for electricity distribution businesses from 1 April 2020 Issues paper*" (the **Issues Paper**).

Meridian's views, which we do not reiterate in detail in our feedback below, remain unchanged from our previous submission.[1] Our feedback focusses on points that are supplementary to our original submission.

A central theme of several 'Issues Paper' submissions[2], Meridian agrees it is important the Commission adopts a holistic focus as it moves to its next 'draft decisions' stage of the DPP reset. Across the wide-ranging changes proposed, clarity on the way the different incentives (efficiency, reliability, and also reputational) align will be needed as one element of this. Consistent with our earlier feedback, price impacts must also be made transparent. We support Genesis' request for further analysis and reporting of price outcomes[3] – to assist stakeholders with assessing the interactions and impacts of the Commission's proposals more broadly.

As a once in 5-year opportunity to revisit current DPP arrangements, we also agree a broad-reaching review is important. To this end, Meridian supports further investigation into:

- Options for promoting greater benchmarking – as endorsed by Genesis and Mercury.
- Increased reporting on variances with AMP forecasts – as endorsed by MEUG.

[1] Available: https://comcom.govt.nz/__data/assets/pdf_file/0029/111998/Meridian-Submission-on-EDB-DPP-reset-issues-paper-20-December-2018.pdf
[2] Refer, for example, the submissions of Pat Duignan and Aurora. Available: https://comcom.govt.nz/regulated-industries/electricity-lines/electricity-lines-price-quality-paths/electricity-lines-default-price-quality-path/2020-2025-default-price-quality-path?target=documents&root=111927
[3] Refer page 3 of Genesis' submission, available: https://comcom.govt.nz/__data/assets/pdf_file/0006/112011/Genesis-Energy-Submission-on-EDB-DPP-reset-issues-paper-20-December-2018.pdf

- Improving scrutiny of AMP capex forecasts – as endorsed by Contact and MEUG.
- A more extended capex approvals process – as endorsed by Mercury and independent submissions from Pat Duignan.
- EDB-specific targets for reliability caps/collars and revenue at risk parameters – as endorsed by MEUG.

Meridian also supports comprehensive consideration of reporting standards. Consistent with our 'Issues Paper' submission[4], Meridian continues to question whether extending quality of service penalties and rewards may alone be of limited effectiveness, without also requiring EDBs to publicise and report on their breaches. We also remain of the view that broader reporting requirements – encompassing voltage stability and other, wider service quality aspects – is of value to consumers and industry participants more generally.[5] Any deferral of the decision to extend reporting requirements will delay these benefits being obtained and is therefore opposed.

Meridian shares the general concern of other submitters regarding a lack of clarity as to the Commission's basis for proposing a 0% partial productivity factor. The significance of the potential economic impact – and therefore ultimate price impact for consumers[6] – warrants detailed consideration. Meridian does not accept the submissions of some EDBs advocating for a negative productivity factor. We do not believe the assertions of various potential cost pressures (from labour availability pressures, disruptive weather events, and modified live-line work practices) provide sufficient grounds to build in an assumption of declining productivity, for the entirety of the extended 5-year DPP period. The Commission's recent determination ruling against Vector obtaining increased revenues to recover the costs of more stringent live-line policies we believe further supports this view.[7]

Meridian has noted the comments of several EDBs questioning whether DPP arrangements require fundamental adjustment, given possible eventualities with changing technologies and / or consumer preferences. More specifically, we do not accept the assertions that new innovation allowances (a feature in some other jurisdictions) and revenue-setting approaches may be needed – so as to facilitate pre-emptive expenditure in anticipation of new technologies coming to the fore.

[4] Available at the link detailed above.
[5] Indicated for example to be of value in Fonterra's submission also.
[6] The prominent role of the partial productivity factor is also reinforced in Pat Duignan's more detailed submission.
[7]Available: https://comcom.govt.nz/__data/assets/pdf_file/0011/110324/Commerce-Commission-Final-response-to-health-and-safety-reconsideration-request-13-December-2018.PDF

Meridian supports MEUG's preference for a prudent approach in assessing how the DPP may need to evolve.[8] With New Zealand positioned generally as a likely "technology-taker", that has avoided the subsidy-driven technology investments prevalent elsewhere (Australia, and the UK for instance), this limits comparability with other jurisdictions. Consideration of future needs must not detract from matters over which there is more certainty and that are of more immediate priority for the current reset.

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

Yours sincerely


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[8] See for further discussion paragraphs 5-6 of MEUG's submission, available: https://comcom.govt.nz/__data/assets/pdf_file/0004/112000/MEUG-Submission-on-EDB-DPP-reset-issues-paper-20-December-2018.pdf