



14 June 2017

Keston Ruxton
Manager, EAD Regulation Development
Regulation Branch, Commerce Commission
44 The Terrace, PO Box 2351
WELLINGTON 6140
By email: regulation.branch@comcom.govt.nz

Dear Keston

Areas of focus for the Transpower capex input methodology review – Meridian submission

Meridian appreciates the opportunity to provide early input on specific topics for further investigation through the Commission's 'Transpower Capital Expenditure Input Methodology' (Capex IM) review.

The consultation paper proposes five key areas of focus:

1. Given the changing landscape in the energy sector, are there adjustments that could be made to the capex IM to better ensure the right transmission investments are being made, including non-transmission solutions?
2. Does the capex IM support a proportionate approach to scrutiny?
3. Once expenditure has been approved, does the capex IM appropriately deal with changing circumstances?
4. Are the incentive mechanisms in the capex IM effective?
5. Are aspects of the capex IM too complex and prescriptive?

Meridian agrees with these areas being adopted as topics for the review.

Of particular importance in Meridian's view is topic 4 – the effectiveness of capex IM incentives. It is unclear from Meridian's perspective whether Transpower has in place adequate incentives to deliver capex projects to time and in a way that minimises costly periods of constraint for the industry. Comprehensive testing of this using actual capex projects is needed as part of the review.

Meridian will be looking to the Commission's follow up work to assist in further developing our thinking and is yet to form any firm views in respect of the five main topic areas or the more detailed series of sub-topics proposed. As with the proposed overarching review topics, Meridian considers the various sub-topic issues have also been appropriately defined. Other comments/questions we have to feed through at this stage on residual topic and sub-topic areas are as follows:

- Should we change our process or analytical approach for assessing Transpower's capex proposals (sub-topic i, proposed focus area 1)? Given their relevant expertise in this area, the Electricity Authority's advice must be sought on options for improving assessments of relevant electricity cost/pricing impacts – as discussed at the Commission's 24 May 2017 "Knowledge sharing" event.
- Are transmission alternatives and interactions with transmission and nodal prices being considered appropriately (sub-topic iii, proposed focus area 1)? With demand response the most common alternative favoured currently, an important aspect to the Commission's investigations will be the extent to which there is appropriate consideration of trade-offs with the use of these measures in existing markets such as interruptible load and their use in managing current transmission constraints during planned maintenance outages. In many cases the decision to delay transmission investment through such usage of demand side management would lessen the ability of market participants to manage short term nodal pricing effects during planned works and, to a greater extent, during larger project upgrades.
- Does the capex IM review support a proportionate approach to scrutiny (proposed focus area 2 and relevant supporting sub-topics)? As is acknowledged in the consultation paper¹, the Commerce Commission's scrutiny of capex is only part of the picture. In the absence of any broader transmission pricing adjustments, any improvements can at best be expected to be incremental in their impact overall. Meridian continues to support the work of the Electricity Authority to encourage broader, more extensive involvement in capex processes through proposed pricing (TPM) reforms.

¹ Refer paragraph 53 of the consultation paper.

If you have any questions relating to this submission please get in touch.

Yours sincerely,



Jason Woolley
Regulatory Affairs Manager

DDI 04 381 1206
Email jason.woolley@meridianenergy.co.nz



Alannah MacShane
Regulatory Analyst

DDI 04 3811378
Email alannah.macshane@meridianenergy.co.nz