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Commerce Commission
By email: IM.Review@comcom.govt.nz

## Input Methodologies review 2023: Draft decisions

Meridian appreciates the opportunity to comment on the Commerce Commission's Input Methodologies (IMs) review draft decisions. This submission comments briefly on three aspects of the review.

**Dealing with changing circumstances and uncertainty**

Like most other participants in the electricity sector, Meridian expects an increase in electricity demand over the seven years covered by this IM review. It is critical that network companies are able to invest to meet expected demand growth as this will be an enabler of decarbonisation. As the Commission notes, regulated network companies always face uncertainty in forecasting the extent, timing, and location of increased demand. While forecasting uncertainty is not new, the scale of expected growth is more significant than in recent history due to the decarbonisation and electrification of the economy, in particular transport, industrial process heat, and space heating.

Meridian appreciates that the Commission has taken steps to ensure the IMs enable appropriate flexibility, such that allowances can be set for regulated control periods that enable a prudent level of investment, while providing scope to later reconsider the price-quality path if further expenditure is deemed appropriate. The in period adjustment mechanisms proposed by the Commission appear broadly reasonable to Meridian. We look forward to engaging further on the quantum of allowances during the reset of the default price path (DPP) and Transpower's individual price path (IPP). Any calls for more or less expenditure seem premature ahead of those processes.

**The Commission should lead on communicating price increases to consumers**

What does appear clear to Meridian at this point, is that the combination of a higher cost of capital and increased investment is likely to result in significant increases in the network (transmission and distribution) portion of consumer electricity bills. As the Commission finalises the IM review and progresses the DPP and IPP resets, Meridian urges the Commission to consider what role it should play and what role network companies should play in communicating the resulting price increases to consumers. Electricity retailers generally hold the relationship with consumers and face the implementation costs and consumer disapproval that are associated with price increases. Where any step change in prices from 2025 is driven by regulatory decisions in respect of network companies, it seems reasonable to expect assistance in explaining the changes and the reasons for them. We hope to see more on the topic of consumer communication in the DPP and IPP reset processes.

**The proposed large connection contract mechanism for distributors**

The Commission's proposed large connection contract mechanism will mean that new connections greater than 10MW are unregulated. While Meridian appreciates the speed and flexibility that this change might enable for new connections to proceed without the need for inclusion in the regulated asset base or a reopener in some cases, there does seem to be a significant risk associated with unconstrained monopoly pricing for these large connections. This is potentially problematic both for large electricity consumers and for new distributed generation.

The Commission acknowledges but then appears to summarily dismiss this risk at paragraph 8.14 of the relevant topic paper:[1]

> "There is a risk that EDBs utilise their bargaining power to extract excessive profits from these contracts, which could affect the promotion of the s 52A purpose. However, we consider this risk is mitigated by limiting the mechanism to contracts for 'large' connections, as these will generally be negotiated with large customers with significant bargaining power."

Through Meridian's process heat electrification programme[2] we work with large commercial and industrial consumers that are seeking new connections. In our experience, even large consumers have little or no negotiating power in respect of new connections. The choice to

[1] https://comcom.govt.nz/__data/assets/pdf_file/0025/318625/Part-4-IM-Review-2023-Draft-decision-CPPs-and-In-period-adjustments-topic-paper-14-June-2023.pdf
[2] https://www.meridianenergy.co.nz/business/sustainable-options/process-heat-electrification-programme

connect to any given network is largely driven by the existing location of assets and supply chains. There is seldom a choice between competing networks and, if unrestrained, distributors have the ability to dictate pricing for a new or upgraded connection.

Meridian therefore queries whether the proposal to deregulate large connections will result in better outcomes for consumers and for emissions reduction outcomes unless consideration is also given to the monopoly pricing risk in respect of large new connections. For example:

- One option could be to make the large connection contract mechanism an option that the distributor and connecting customer could negotiate, while retaining the existing approach for new connections as a backup. This would ensure that if a consumer had no power to negotiate reasonable terms they could still ask for the connection assets to be included in the regulated asset base of the distributor, potentially requiring a reopener in some cases. It was not clear to us from the consultation paper if this is what was intended or if the large connection contract mechanism would be the *only* way to fund large new connections.

- Aspects of the Transpower new investment contract process could also be included to mitigate the risk of monopoly pricing power. In particular, to enter a large connection contract, the distributor could be required to demonstrate beyond a reasonable doubt that the terms and conditions of the contract were determined following a process that provided opportunities for:

    - the competitive provision of new electricity distribution services by parties other than the distributor; and

    - customers to make or approve reasonable price-quality trade-offs.

With additions like these included, the proposed large connection contract mechanism could be a potential enabler of faster and more flexible new connections while also safeguarding consumers from the risk of excessive pricing for new connections.

Nāku noa, nā

[redacted]

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