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To: To Whom it May Concern – Electricity Authority

From: Mark Harris – Meridian Energy

Date: 1st August 2012

Topic: Allocation of Residual LCE derived from introduction of FTRs

Dear Sir/Madam,

I am writing in response to the issue of LCE Information Paper by the Electricity Authority (EA) on 15th June 2012.

Meridian has noted the contents of the paper, and the EA recommendation to continue with the current allocation methodology for residual LCE (known as Option 1 in the paper), and to monitor its use when the FTR regime becomes operational.

Meridian endorses the EA recommendation contained in the paper. We also note that the majority of LPRTG members voted for this approach.

In response to the April 2011 FTR consultation, and most recently in correspondence to the LPRTG (letter dated 23rd March), Meridian re-iterated its view that current HVDC rentals constitute a 'quasi' property right, given payment for sunk HVDC costs. If HVDC rentals are used to ensure FTR revenue adequacy, then Meridian would expect some redress with regard to this property right, which will occur to some limited extent through the selection of Option 1, and distribution of any transformed rentals.

We have also previously noted the principle of allocating rentals to those who pay for a particular transmission asset class in order to partly offset the impact of a transmission charge. This remains a fundamental principle, and should not be abandoned without clear reason.

Meridian notes concerns raised over the impact of the rental allocation process on FTR auction bidding incentives. We agree with the EAs assessment that it is very difficult to forecast the extent of any such issues. As such, we agree it is sensible to retain the status quo methodology for rental allocation and monitor the impacts of this approach.

In this context, we note the objective of delivering an intra-island FTR product in the near future. The rollout of intra-island FTRs may provide an opportune time to review the rental allocation methodology. Meridian notes that there may be additional implications to consider following implementation of an intra-island FTR product, but this is unlikely to become clear until further details of an intra-island regime are developed. Meridian reserves the right to revisit our position on a rental allocation methodology once such details are developed.

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In practical terms, Option 1 appears easiest in terms of implementation, whereas other potential allocation mechanisms for transformed rentals have significant costs attached to them. There seems to be little or no benefit to be gained from changing allocation methodology given the scale of such costs.

In conclusion, in terms of principles and practicalities, Meridian supports the EA recommendation for allocation of transformed rentals (Option 1), and monitoring of the allocation, and its effect on participant incentives, as the new FTR regime gets underway.

Yours Sincerely

Mark Harris
Product and Market Development Manager
Wholesale Markets
Meridian Energy