David Close
8 Seafield Place,
South Brighton,
Christchurch 8007.
Phone/fax (03)388.0151
Email: david.close@xtra.co.nz

19th February 2009

Steve Ferguson,
Retail Director,
Meridian Energy,
P.O. Box 2128,
Christchurch 8140.

Dear Steve,

Notification of price increase

Recently, as a consumer, I received a letter from you informing me that Meridian's prices are "changing", your euphemism for "going up." A few dollars extra a month on my account is of no consequence to me personally. In any case, my single person household does not consume a great deal.

However, I have great concern for some of my neighbours. They struggle already to pay their power bills. I know about it because I sometimes help out with $40 or $50 when the pre-pay meter runs dry.

You and your company need to face up to the fact that your decision to increase your prices a second time within the year is going to cause a lot of hardship in the coming winter. Since last winter, tariffs have increased by 12.4%, allowing for the fact that the fixed charge remains the same. This would increase a family bill of $160 to $180.

In September last year I made a submission on the Market Design Review Options Paper. In it I observed that the incumbent net retail margin was lower in Christchurch than in most other places by a considerable margin. That was, by implication, a commendation of Meridian. I do not have access to comparable data now but it would seem clear that Meridian's position has been eroded by the price increase of last September and the coming increase from 15th March.

Your letter invites me to compare Meridian's prices with those of other companies on Powerswitch. Although Meridian is currently about $25 per year cheaper than Contact, and may remain so if Contact matches Meridian's increase, the comparison with Mercury is unfavourable by about $80 a year, a gap which will double after March 15th.

I accept that the low inflows into the lakes last year would have forced Meridian to become a net purchaser of energy to supply its customers. A cynical view would be that its motive is to shed customers to reduce its exposure to future dry years, yet only last July it was offering consumers $50 to persuade a friend to switch to Meridian. I am also aware that the cost of new generation will have increased because of the fall of the New Zealand dollar, but I am not persuaded that that justifies the size of the increase.

I am also disappointed that Meridian has failed to disclose in its letter the breakdown of line and energy charges. This failure has a history of which you may not be aware. To provide such a breakdown on invoices has been a requirement of the GPS since 2003 and it is also included in the Model Consumer Contract. When challenged as to why they had not complied, the initial response of retailers was to say that they required time to introduce changes to their computer systems. Later they claimed that it was too difficult to include the breakdown on invoices but offered to post the breakdown of charges on their websites and to include it in letters to consumers whenever there was an increase in prices. The Commission accepted this offer about October 2007, but Meridian has not kept to the undertaking it gave and neither, I assume, have other retailers.

The breach of the undertaking is a matter of importance because the statistics produced in the Market Design Review Options Paper show a widening gap between domestic and commercial prices. I do not have up-to-date information but I assume that the September and March increases by Meridian, and increases by other retailers, will have widened the gap still more. The statistics I have referred to provided prima facie evidence that commercial consumers were being cross-subsidised by domestic consumers, which is unacceptable at any time, but especially at a time when a slowing economy is putting low-income groups under pressure. Transparency as to the components of charges would establish whether suspicions as to cross-subsidies are justified or not.

I do not know what steps the Commission has taken to ensure that retailers comply with the transparency requirement but I assume that regulation would be the obvious option.

I have admired Meridian's commitment to renewable generation and the willingness of the retail arm to work with social agencies, such as the Mayor's Welfare Fund in Christchurch, to assist consumers under threat of disconnection. When I was a Commissioner, I appreciated the quality and clarity of Meridian's submissions on a wide range of issues. I also argued against the imposition of the HVDC charge on South Island generators. However, as is clear from what I have written, I regard the recently announced increase and the lack of transparency in charges as a departure from Meridian's track record of social responsibility.

My personal good wishes to you.

Yours sincerely,

David Close

Copy to James Hay, Meridian

Copy to David Caygill, Chair, Electricity Commission.