meridian

24 September 2010

Lisa DuFall
Submissions
Electricity Commission
PO Box 10041
Wellington 6143

By email: submissions@electricitycommission.govt.nz

Dear Lisa

Transmission Pricing Review: Stage 2 Options

Meridian appreciates the opportunity to make submissions on the Electricity Commission's (Commission) consultation paper 'Transmission Pricing Review: Stage 2 Options' (the consultation paper).

Meridian's submission comprises this letter and the attached two appendices which address the Commission's questions, and provide a copy of draft guiding principles developed by the CEO Forum to begin engagement with the new Electricity Authority.

Review of transmission pricing must deliver a robust and enduring outcome

The outcomes from this transmission pricing review must be robust and enduring. Meridian submits the Commission's efficiency analysis work is an important step towards resolving the transmission pricing debate that has occurred within the sector for more than a decade. Economic efficiency remains the key decision making criterion, and will, in our view, lead to an enduring outcome.

Meridian supports the Commission's decision to produce a robust empirical analysis to provide a platform for more informed decision-making in this area.

Limited value in an additional locational signal

Meridian agrees with the Commission's analysis that there is limited value in providing for an enhanced (or additional) locational signal to generators to ensure co-optimisation of economic transmission and generation investments.

Meridian Energy Limited

Level 1, 33 Customhouse Quay
PO Box 10-840
Wellington 6143, New Zealand

Phone +64-4 381 1200
Fax +64-4 381 1272
www.meridianenergy.co.nz

Analysis to assess potential detriment of continuing the HVDC signal should be undertaken

Meridian submits that the Authority (in continuing the work of the Commission in this area) should assess the potential detriment of continuing the HVDC signal.

First and foremost Meridian considers that the HVDC link plays a key role in the economic delivery of energy (including security of supply) to all New Zealanders, evidenced by the focus on HVDC capability during times of high South to North Island energy transfers during times of peak demand and high North to South Island energy transfers during dry periods.

Secondly it is widely recognised that the current charging regime creates a barrier to entry for new generators in the South Island, which is an outcome that in economically inefficient.

Meridian submits that is important that both of these factors are considered when reviewing the charging arrangements for the HVDC.

All charging options for the HVDC should be considered in Stage 3

Meridian submits that all charging options for the HVDC should be considered in the next stage.

It will be important for the Electricity Authority to consult on how it will approach its new purpose statement and objectives, issues of regulatory certainty and wealth transfers, and the pricing principles carried over to the Code and the foreshadowed Code amendment principles. Once the Authority's approach to these issues is known, we can apply these other regulatory factors to the options identified by the efficiency analysis of the transmission pricing methodology.

Meridian looks forward to engaging on these issues at Stage 3. However, we note that the Consultation Paper is ambiguous as to whether the Commission is expecting the industry to present now on other regulatory factors in the new regulatory framework, and submit on a preferred option. While paragraph 3.1.13 states all options will be considered further in stage 3, paragraph 2.2.4(c) envisages identification of a preferred option. It may be that the discussion in paragraph 2.2.4 envisages a consideration of other regulatory factors, their application to the transmission pricing methodology options, and then the identification of a preferred option. In which case, Meridian agrees with this proposal.

In any case, for the avoidance of doubt, parties are not at this point in a position where they can comment on what the Commission means by "other regulatory factors" and the Authority's proposed statutory objective, and how these can be applied to select a preferred option. This can only happen at stage 3, after the Authority has lead a discussion on the new framework and other regulatory factors.

Link to locational price risk proposals

Meridian continues to have serious concerns at the proposals being put forward by the Commission with respect to locational price risk management. At the heart of these proposals is the transfer of rental rebates for the HVDC link from South Island generators to enable the funding of financial transmission rights between the North and South Islands.

HVDC rental rebates are intrinsically linked with the payers of the HVDC charge. This is a matter that Meridian has raised repeatedly in submissions to the Commission on transmission pricing and locational price risk management. Meridian is of the view that until there is a change in charging for the HVDC, as is contemplated in some of the options being proposed by the Commission, the HVDC rentals must remain with South Island generators, and can not be used to fund financial transmission rights between the North and South Islands.

If you have any queries in relation to this submission please contact either myself or Gillian Blythe (gillian.blythe@meridianenergy.co.nz or mobile:021 388 469).

Kind regards

Guy Waipara
General Manager, External Relations
DDI **04 381 7334**
Fax **04 381 1201**
Mobile **021 429 336**
Email **guy.waipara@meridianenergy.co.nz**

Attachment:

Appendix One: Meridian's response to the Commission's questions
Appendix Two: Guiding Principles – draft prepared for CEO Forum to engage with CEO Designate of the Electricity Authority