



9 November 2007

Transpower Post-Breach Inquiry  
Network Performance Group  
Commerce Commission  
P O Box 2351  
Wellington

Dear Sir / Madam

### **Transpower Post-Breach Inquiry**

Meridian Energy ("Meridian") appreciates the opportunity to make submissions on the draft decision by the Commerce Commission ("Commission") to not declare control on Transpower and to reset Transpower's thresholds.

### **Overview of submission**

Under the Transmission Pricing Methodology approved by the Minister, Transpower will charge separately for the High Voltage Direct Current (HVDC) assets and High Voltage Alternating Current (HVAC) assets. Transpower's charges for the HVDC assets are paid for by Meridian Energy, Contact Energy and TrustPower. Transpower's charges for the HVAC assets are paid for by lines companies and are treated as a pass-through under the Commerce Act price threshold regime and paid for by end consumers.

In our view, the Commission's analysis, decision making and final Administrative Settlement should recognise that:

- there is a distinct and identifiable group of consumers for the HVDC assets and HVAC assets;
- in effect distinct services have been defined by the Minister; and
- cost reflective pricing is the appropriate approach to providing the long term benefit of consumers.

There is also an important consideration of regulatory co-ordination. The Minister made his pricing decision on an assumption that South Island generators would pay for the cost of HVDC assets, and only HVDC assets. The Commission must be confident that this is the case.

Meridian submits that the proposed Administrative Settlement does not give the Commission an assurance that the identified group of consumers of the HVDC assets are getting a distinct service at a price that is cost-reflective. There is a risk that HVDC charges could be greater than HVDC costs.

This risk is real. It is our experience since 2004 that Transpower has increased HVDC charges by more than (and the HVAC charges less than) the total revenue requirement that has been subject to the Commerce Act price thresholds regime.

Consistent with the purpose statement of the targeted control regime in the Commerce Act, to ensure services are provided at a quality that reflects consumer demand to the long-term benefit of consumers, Meridian submits that the Administrative Settlement should:

- a. recognise Transpower provides two types of assets – High Voltage Direct Current (HVDC) and High Voltage Alternating Current (HVAC);
- b. limit increases in operating costs associated with the individual HVDC and HVAC asset classes to CPI-x, as opposed to limiting the increase in the combined HVDC and HVAC operating costs (which gives Transpower the discretion to cross-subsidise between these two classes of assets);
- c. require transparent disclosure of the EV accounts for each of the HVDC and HVAC assets each year of the Settlement agreement (as at 30 June 2006 to 30 June 2011);
- d. amend the 30 June 2006 Optimised Depreciated Valuation of Transpower's assets to exclude 'fictional' assets;
- e. be clarified to ensure there is a relationship between the services provided from assets and the charges permitted under the new thresholds; and
- f. be amended to reduce the WACC for Transpower in its revenue requirement calculation to a figure closer to a risk free asset.

Each of these points are discussed in more detail below.

## **Background to our submission**

The transmission pricing methodology in Part F of the Electricity Governance Rules provides an overview of the pricing methodology, as follows (Part F Section IV Schedule F5)

2.1 *Transpower's principal objective as a State Owned Enterprise is to operate as a successful business. To this end Transpower's pricing must, subject to Part 4A of the Commerce Act 1986, recover the cost of providing its transmission services, which include capital, maintenance, operating and overhead costs. Prior to the start of each pricing year, Transpower's Board approves forecasts of:*

2.1.1 *The revenue required to recover the costs of providing AC transmission services during the pricing year. This forecast is referred to as the AC revenue for that pricing year; and*

2.1.2 *The revenue required to recover the costs of providing the HVDC assets during the pricing year. This forecast is referred to as the HVDC revenue for that pricing year.*

The rules go on to allocate the HVDC charge (Rule 6.1, Part F Section IV Schedule F5)

*"the purpose of the HVDC charge is to recover Transpower's HVDC revenue. HVDC charges are paid by all HVDC customers."*

The definition of 'HVDC revenue' is set out above in rule 2.1.2. The definition of 'HVDC customer' is:

*"HVDC customer" means a customer who is, from time to time, the owner or operators of ... South Island generation which is directly connected to the grid assets*

Thus, Meridian Energy is required by legislation to pay for the costs of the HVDC assets – we are a consumer of HVDC assets in the context of the Commerce Act<sup>1</sup>.

The purpose statement of the targeted control regime in the Commerce Act (s.57E) is to

*promote the efficient operation of markets directly related to electricity distribution and transmission services through targeted control for the long-term benefit of consumers by ensuring that suppliers –*

- (a) are limited in their ability to extract excessive prices; and*
- (b) face strong incentives to improve efficiency and provide services at a quality that reflects consumer demands; and*
- (c) share the benefits of efficiency gains with consumers, including through lower prices.*

Meridian submits that the Commission should take into account the above legislative framework and use the Administrative Settlement as the opportunity to provide Transpower’s customers with the same protection independent of the components of the transmission service that they pay for (HVDC or HVAC).

**a. distinguish between HVDC and HVAC assets**

Transpower calculates its revenue requirement and charges separately for its HVDC and HVAC assets and has done so for several years. In 2006/07 the HVDC totalled \$75.6m and HVAC charges \$459.6m. Transpower will announce price increases under this Administrative Settlement for each class of asset – HVDC and HVAC (which is then further separated into connection and interconnection assets).

Transpower propose in the Administrative Settlement that

*“compliance reporting for each of the transmission thresholds will be undertaken separately in respect of HVAC revenue requirement and HVDC revenue requirement”*

In preparing this compliance reporting Transpower will have to assign operating costs, from the total of \$199.6m +CPI, to either HVDC or HVAC assets (using a particular methodology).

The following table details the instances when HVDC and HVAC are combined or treated separately.

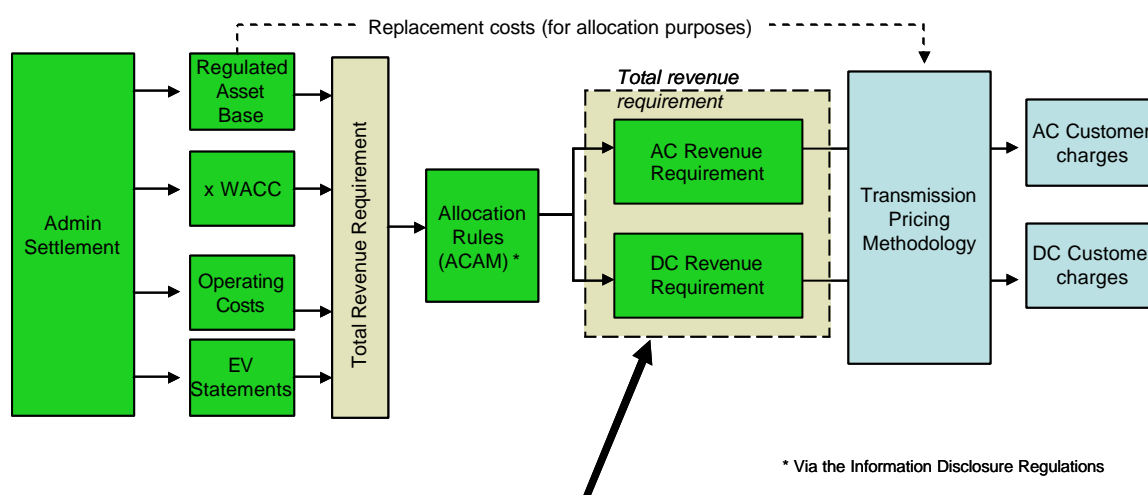
<b>Activity</b>	<b>HVDC and HVAC disclosed separately</b>	<b>HVDC and HVAC combined</b>
Calculation of revenue requirement under Commission thresholds regime		<b>v</b>
Reporting to Commission of compliance with revenue threshold	<b>v</b>	
Transpower’s calculation of transmission charges, includes:	<b>v</b>	
• calculation of operating costs	<b>v</b>	
• calculation of maintenance costs	<b>v</b>	
• calculation of capital expenditure	<b>v</b>	
• calculation of WACC	<b>v</b>	

<sup>1</sup> In contrast, HVAC charges are paid for by lines companies that are able to pass this cost directly on to consumers under the Commerce Act price threshold regime.

The above table demonstrates that for each and every step the HVDC and HVAC assets are considered separately except the step where the revenue requirement is calculated under the Commission price threshold regime. From a consumer's perspective this provides an easy avenue for Transpower to cross subsidise between different classes of consumer.

Transpower is proposing to conduct the analysis to allocate charges to each customer group using the Avoided Cost Allocation Methodology<sup>2</sup>. There are no extra administrative or compliance costs for Transpower in flowing this through to the thresholds, and there should only be a minimal increase in administration costs for the Commission to scrutinise Transpower's allocation of costs (for example, to ensure the basis for allocation is appropriate and there is no double recovery of common costs) and apply a separate threshold for each customer group. In fact, this step may make it easier for the Commission to compare Transpower's performance against the threshold, as Transpower proposes to detail HVDC and HVAC charges separately in its annual compliance report.

The following diagram demonstrates our point.



**Meridian suggests this change would ensure appropriate oversight by the Commerce Commission**

Meridian submits that the Commission should apply a operating cost threshold of CPI-x to each of HVDC and HVAC assets, that is, for each of the distinct customer groups. This would require the Commission to approve the operating costs allocated to each of the HVDC and HVAC assets – a process Transpower is going to undertake anyway when it calculates its charges and reports to the Commission in its annual compliance report.

Applying the revenue threshold to each class of asset, HVDC and HVAC, via the Administrative Settlement would:

- provide all Transpower customers with the same protection from regulation, independent of what components they pay for (HVAC or HVDC);
- limit Transpower's price increases for both types of assets, both historic and future;
- eliminate the opportunity for cross-subsidisation; and
- improve the transparency of inputs into the revenue requirement (including asset base, allocation of overheads, operating and maintenance costs) for each of the HVDC and HVAC.

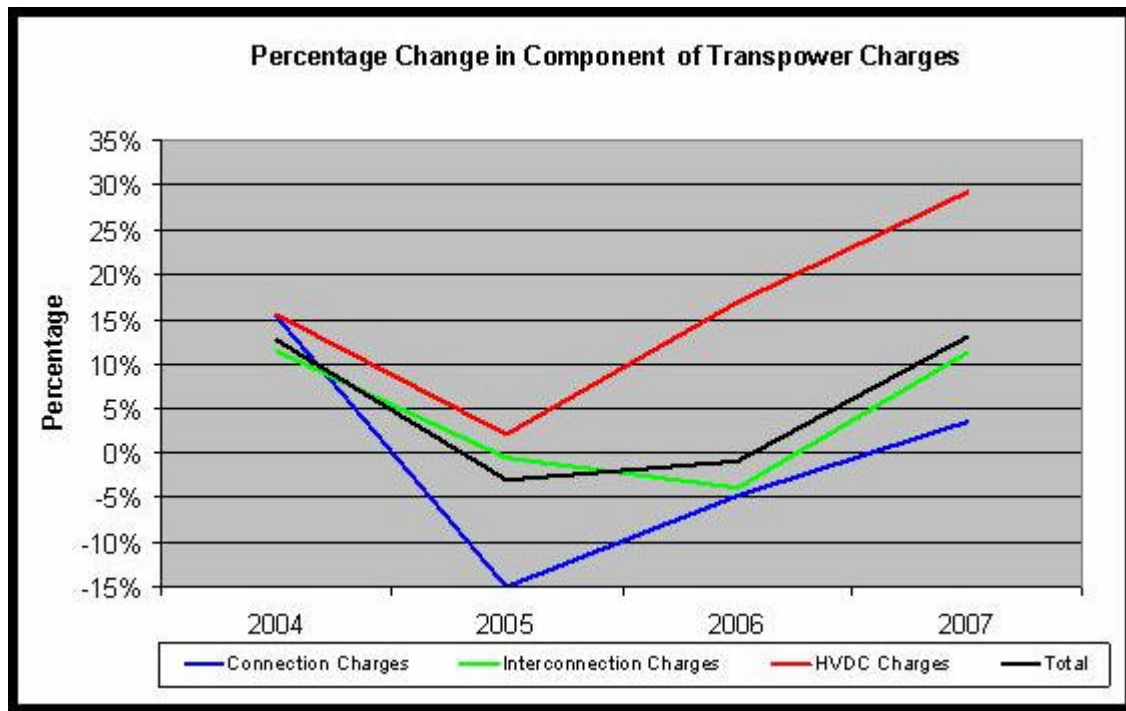
<sup>2</sup> Commerce Commission has oversight of this through the Information Disclosure regime.

**b. limit increases in operating costs associated with the individual HVDC and HVAC asset classes to CPI-x**

Since 2004 Transpower has increased HVDC charges by more than (and the HVAC charges less than) the total revenue requirement that has been subject to the Commerce Act price thresholds regime.

Based on data published in the Commerce Act (Transpower Thresholds) Notice 2006 Compliance Statement Assessment Date (30 June 2007), the following graph:

- shows a net increase in charges after taking into account the separate revenue requirements, EV adjustments by component, the discretionary HVDC rebate, and the interim rebate;
- demonstrates that HVDC charge increases have been significantly higher than the increase in HVAC interconnection and connection charges; and
- while the total average charge breaches the CPI-x threshold in later years, the HVDC charge has breached the threshold in almost all years.



At this stage it is unclear how much of the increase in charges implied by the Administrative Settlement of 10.2% in 2006/07 and 8.2% in 2007/08 would apply to the HVDC assets. We understand from Transpower that the charges for the HVDC will increase by many multiples of the average 10.2% increase in 2006/07. This increase is obviously not consistent with a CPI-x (where x=0) threshold.

Further, Meridian submits that this increase is not consistent with the purpose statement of the Commerce Act thresholds regime – the level of service received by the HVDC group of customers is unchanged<sup>3</sup> while charges are increasing well ahead of a cost-reflective level.

<sup>3</sup> Although Meridian notes that this comment takes no account of the recent standing down of Pole 1 of the HVDC, and what may occur (reconfiguration, reinstatement or full decommissioning) over the remaining period covered by the Administrative Settlement.

There are two distinct purchasers of transmission services – HVDC consumers and HVAC consumers. The above information clearly shows that some transmission customers (HVDC) are cross-subsidising other transmission customers (HVAC). It also shows that HVDC charges are increasing at a rate above that implied by cost-reflective pricing. While the Electricity Commission recommended to the Minister that the true cost of the HVDC should be paid for by South Island generators<sup>4</sup> the Electricity Commission and the Minister proceeded on the basis that the exception would be limited to the costs of the HVDC assets. If the Commission leaves open the ability to impose an increment of HVAC costs on HVDC customers – as has been the case in recent years – then the Minister’s decision is undermined. This could also lead to unnecessary disputes, if South Island generators have to challenge HVDC charges that do not reflect HVDC costs (as required by the Transmission Pricing Methodology).

That is, HVDC charges are, and will continue to be, cross-subsidising HVAC charges within the current total envelope managed by the Commission. HVDC charges are absorbing costs that should be paid by customers who pay for HVAC costs.

This is analogous to the Commission’s investigation of the pricing structure proposed by Vector with respect to its Auckland and Wellington consumers / business/residential consumers. If the Commission identifies the HVDC and HVAC assets separately in the threshold regime it will avoid the debate it had with Vector about whether the Commission has jurisdiction to require rebalancing of charges in the future if a Commission investigation reveals the return from each customer group is not fair.

Meridian submits that the Commission in its Administrative Settlement with Transpower should separately identify costs and assets associated with the HVDC and HVAC and apply a CPI- x (with x=0) to operating costs of the HVDC and HVAC as opposed to limiting the increase in total operating costs (which gives Transpower the discretion to cross-subsidise between these two classes of assets).

### **c. require transparent disclosure of the EV accounts for each of the HVDC and HVAC for each year of the Settlement agreement**

Transpower has previously disclosed EV accounts separately for HVDC and HVAC customers. Meridian submits there is currently no transparency on these accounts or the current balances for each of HVDC and HVAC.

The Commission’s draft decision report states that price increases for 2006/07 and 2007/08 will be implemented via the EV accounts. It is unclear to Meridian whether there is sufficient balance in these accounts to cover the proposed increase in charges or the likely level of the EV accounts after the price increases have been implemented.

Meridian recommends that the Commission under the Administrative Settlement require Transpower to publish the customer and shareholder EV accounts for each of the HVDC and HVAC in its annual compliance report for each year of the Agreement (as at 30 June 2006 to 30 June 2011), including the following information:

- opening balance;
- EV recoveries or rebates from customers;
- changes in EV arising from asset valuation changes, each type of change separately listed;
- changes in EV arising from revenues being higher or lower than budgeted;
- changes in EV arising from other causes, with those causes being separately listed;

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<sup>4</sup> For the avoidance of doubt, Meridian does not agree with the Electricity Commission’s interpretation of the pricing principles contained in rule 2, section IV, Part F of the Electricity Governance Rules, and therefore the Electricity Commission’s ultimate recommendation to the Minister of Energy that South Island generators should pay for the existing, and any future, costs associated with the HVDC.

- interest charged at the cost of debt on the EV balance; and
- the closing balance of the EV account.

**d. amend the 30 June 2006 Optimised Depreciated Valuation of Transpower’s assets to exclude ‘fictional’ assets**

Meridian is aware the 30 June 2006 ODV valuation includes fictional assets – created by the ‘optimisation’ methodology. For example, there is a fictional transformer and switchgear at Meridian’s Benmore power station that is included in the ODV and Meridian has been paying Transpower a “fair” return on since at least 2000.

This difference between Transpower’s actual assets and the ODV proposed for the regulatory asset base is inconsistent with the Commission’s approach to the gas pipelines industry. In the draft decisions paper on final authorisation of price control for Vector and Powerco, the Commission determined that actual capital expenditure during a regulatory period, and not ex-ante pre-approved capital expenditure, should be rolled forward into the asset base for the next period. The Commission stated (at paragraph 963):

*The Commission notes that this may create some incentive to overspend the ex-ante allowance, however the Commission considers that on balance this is preferable to determining a RAB value that does not correspond to the actual assets owned by the business.*

The Commission also emphasised in the draft decisions paper that the NPV=0 or FCM rule that underpins the building block analysis is to preserve the value of the capital employed by the business – not fictional assets.

Meridian submits that the value of all fictional assets should be removed from the ODV at 30 June 2006 before this becomes the starting value for the Regulatory Asset Base.

If this recommendation is not accepted the minimum appropriate change would be to have this value optimised from the Regulatory Asset Base when, in the case of Benmore, Meridian invests in physical assets to meet the need for a transformer and switchgear.

**e. ensure there is a relationship between the service from assets and the charges permitted under the new thresholds**

The ODV handbook is quite clear in several places that:

*“the potential level of service of the optimised network shall not exceed that of the existing network”*

This clear linkage between the optimal and physical capacities of the grid is critical to ensuring that Transpower cannot charge for assets that are not providing a service.

**Impairment or stranding of assets**

The proposed Administrative Settlement notes that if an asset is stranded or impaired then:

- Transpower may accelerate the depreciation to achieve a return on capital where the stranding or impairment is foreseen; or
- Transpower may recover from the EV account where the stranding or impairment is not foreseen.

This is a clear change in that asset stranding/impairment risk is now borne by the customer rather than by Transpower. Meridian submits that customers of Transpower should not become fiscally responsible for any poor planning by Transpower or changes in demand that result in an asset becoming stranded or impaired before the end of its economic life.

### **Decommissioning and writing-off assets**

South Island generators are currently coping with Transpower standing down half of the HVDC (Pole 1) (pending decommissioning) with no notice and, significantly, no reduction in charges. The Pole 1 assets have passed their economic life. Under ODV as applied by Transpower, their useful life for charging purposes has been extended year on year, resulting in an over recovery on the investment (again in breach of the NPV=0 principle endorsed by the Commission as fundamental in other contexts). Meridian submits that the Commission should scrutinize all instances where assets have been retained in the asset base beyond their economic life.

The Transpower proposal in the Administrative Settlement is silent on what happens when Transpower takes assets out of service.

There is currently a great deal of uncertainty about the service levels to be provided by Transpower's interconnection assets – including the HVDC. Part F of the rules required Transpower to provide a detailed list of its interconnection assets at 28 June 2007. This was not completed until 28 September after Pole 1 had been stood down. As a consequence the list of interconnection assets to which the regulated interconnection service measures would apply did not include, initially, Pole 1<sup>5</sup>. This emphasises the lack of input we, as consumers, have in determining the level of service Transpower is required to provide.

Focussing on Pole 1, it is unclear at this stage whether it will be reconfigured, reinstated, decommissioned or the life extended further. Following a decision by the Electricity Commission under the Grid Investment Test regarding the future of Pole 1 Meridian would expect a corresponding change in the Regulatory Asset Base, that is, if Pole 1 is decommissioned.

Meridian submits that:

- the starting value for the Regulatory Asset Base of 2006 ODV valuation should be adjusted to exclude the value attributed to Pole 1; and
- the write-off of the assets should be charged against the shareholder and not the customer, given the shareholder has already over-recovered from the customer the value of these assets.

Given the lack of service commitment in the proposed Administrative Settlement, Transpower has the flexibility to take assets out of service or severely reduce their capacity, with no corresponding adjustment to the revenue that it will receive and the charges borne by customers.

Meridian submits that the Administrative Settlement Agreement should require that if an asset is removed from service there must be an immediate change to the revenue requirement Transpower is allowed to earn relating to that class of asset. If it is not possible to make that change in the same pricing year then the charges for the next pricing year should reflect the loss of that asset since the date it was removed.

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<sup>5</sup> The information published by the Electricity Commission in its consultation on interconnection service measures is at this link.

<http://www.electricitycommission.govt.nz/consultation/interconsvcemeasure/view>

## Service levels

In response to the Commission's question 23 Meridian agrees that it is important for Transpower to continue to be subject to a quality threshold. Meridian agrees with the Commission that the quality threshold may well be required as a base level protection to prevent Transpower from inappropriately reducing its level of quality in order to meet other thresholds.

Meridian agrees with the Commission's concerns expressed in paragraphs E15 and E16 of the draft decision report that the Electricity Commission and Commerce Commission have limited direct influence over Transpower's quality. Meridian would add that as a contract counterparty who is paying for the transmission services it too has very limited influence over Transpower's quality, particularly given the Electricity Commission's decision to impose itself as an arbiter where Transpower and customer agree service levels which decrease the standard grid reliability standards (and require fairly onerous certification to the Electricity Commission where the service levels are increased).

Meridian has always considered that Transpower (and lines companies) should be required to comply with quality service standards, and has made numerous submissions to this effect, including to the Commission. Meridian considers the existing quality threshold and the proposed service standards under the interconnection rules and benchmark agreements are, if anything, much too light even allowing for the fact that other participants' behaviour can affect Transpower's assets.

We note that, for example, availability and reliability service standards under the benchmark agreement are not enforceable by counterparties. However, Meridian supported the service standards proposed by the Electricity Commission on the basis that it was an appropriate starting point (largely so that Transpower did not perceive itself to be accepting a much greater risk than currently, and price this risk into its charges) but that there should be a staged transition to improve the service standards. Meridian makes the same comment in respect of the Commission's threshold.

The Commission asks in question 24 if alternative forms of quality threshold exist that may be superior in terms of achieving the Purpose Statement of Part 4A of the Act, or the August 2006 and October 2006 GPS.

In general, it appears to Meridian that most overseas jurisdictions are still coming to grips with how to define and measure a quality transmission service, but that National Grid Electricity Transmission plc in the UK (see Standard Condition C17 of the National Grid Transmission Licence) and the Essential Services Commission of South Australia (see the Electricity Transmission Code) seem to be most advanced in this area. In addition, there are good reporting standards set by the Energy Market Authority of Singapore (see the Transmission Code). Meridian does not consider that there is an obvious "quick fix" to the current threshold that is superior and which will not interfere with the benchmark agreements, and would not advocate sudden changes that may cause Transpower to price this contractual risk into its charges. However, Meridian would welcome debate and a chance to contribute in this area, and has urged the Electricity Commission to instigate a review of service standards within a fixed period after implementation of the benchmark agreement, say 2 years.

In summary, we accept that it is difficult to monitor quality in terms of a robust link between price and quality and that some of this framework rests with the Electricity Commission in terms of regulated service measures. However, the allowable revenue quantum is in the Commission's jurisdiction and Meridian suggests there is an increasing onus on the Commission to be reactive when it is clear that services are being charged for but not provided (as is the case currently with fictional, stood down or decommissioned assets).

## Pseudo assets

Meridian notes that Transpower's proposal includes moving from the ODV to the financial asset valuation. As at 30 June 2006 the ODV was \$112m higher than the financial asset valuation. To avoid a loss, the financial asset valuation is to be "written up" by creating four pseudo assets. Transpower says that the pseudo assets "will be depreciated over a period of four to ten years". According to the Commission's draft decisions paper, Transpower proposes to depreciate the pseudo assets for HVDC assets, HVDC lines, and HVAC substation assets over four years, with the pseudo asset for HVAC lines depreciated over 10 years.<sup>6</sup>

PWC provides the following summary of the pseudo assets:<sup>7</sup>

Asset Category	Asset Value	Weighted Average Remaining Lives	Selected Remaining Life	Depreciation
	\$M	Years	Years	\$M
HVDC Assets	38	13	4	9.5
HVDC Line	(4)	14	4	(1)
Substations Assets	14	31	4	3.5
AC Transmission Lines	64	31	10	6.4
Total	112			18.4

There are two impacts from this approach:

- the pseudo assets are being depreciated on an accelerated basis. This will raise the depreciation charge and increase Transpower's revenue. This effect may be quite small for HVAC assets, but is significant for HVDC assets<sup>8</sup>; and
- the financial asset valuation will undoubtedly utilise different (most likely shorter) asset lives than the ODV valuation. This will also result in increased depreciation charges hence higher revenue for Transpower.

<sup>6</sup> Paragraph 284.

<sup>7</sup> Bruce Wattie, Letter to John Coulter, PriceWaterhouseCoopers, 10 May 2007.

<sup>8</sup> As an indication of magnitude, the \$38m pseudo asset for HVDC Assets will be depreciated over four years, providing an annual depreciation charge of  $\$38m / 4 = \$9.5m$ . The weighted average remaining life in the asset register is 13 years, which would have yielded a depreciation charge of  $\$38m / 13 = \$2.9m$ . The difference in depreciation (\$6.6m) will translate directly into an increase in the HVDC revenue requirement. The full impact on the HVDC revenue requirement also requires consideration of the pseudo asset for HVDC Lines, and the impact on the capital charge (which may reduce more quickly than it otherwise would have).

Meridian suggests there are three alternative approaches to this issue:

1. Transpower could have retained a separate financial asset valuation and regulatory asset valuation, employing the 30 June 2006 ODV as the opening value for the regulatory asset valuation. There is little practical difficulty in doing this once the multiple valuations are already in place (Transpower currently run separate valuations for ODV, its financial accounts, and taxation);
2. Transpower could have eliminated the financial asset valuation and relied solely on the regulatory asset valuation. This is unlikely to be considered appropriate under accounting regulations, as the regulatory valuation may not include adjustments to reflect impairment or loss of earning potential;
3. Transpower could have written the financial asset valuation up to the ODV valuation and used those values for regulatory purposes. At the meeting between Transpower and Meridian, John Coulter confirmed that this option was available to Transpower, but with the passage of time “it just became too hard”. According to the Commission’s draft decisions paper, this approach required the Administrative Settlement to be reached by 30 June 2007.<sup>9</sup> This approach would not create the pseudo assets, and so would initially have lower depreciation than the pseudo asset approach.

The increase in depreciation charge for pseudo HVDC assets as these are written off over four years obviously has an impact on Meridian’s cashflows. In our view Transpower has already achieved a “fair” rate of return on these assets via the ODV methodology. It is difficult to identify the increase in ‘service’ provided by this revaluation of financial book values to ODV values. If this treatment is to be applied Meridian has a strong preference for the depreciation rate for the HVDC assets to be 10 years.

#### **f. reduce the WACC to a figure closer to a risk free asset**

Meridian submits that Transpower faces no revenue risk – Transpower has taken assets out of service and suffered no loss of revenue. Payment of charges is legislated. Transpower should earn little more than the return on a risk-free asset.

Meridian also submits that the Commission should scrutinise any difference between the return Transpower can earn on an investment via its revenue requirement and the return Transpower uses to assess whether an investment should proceed under Part F. The lower of these rates or a near risk free rate should apply in both calculations.

It is not clear from the Administrative Settlement what WACC is going to be used for non-Part F investment decisions. The same rate as we suggest above should also apply to this category of investment.

### **Regime after the term of this Agreement**

Meridian and Transpower operate in an industry investing in long-life assets. We suggest that work should commence in the near term to establish a robust regulatory framework which is to apply at the expiry of this Administrative Settlement.

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<sup>9</sup> Paragraph 284.

## Conclusion

It is well known that an exception has been made by the Electricity Commission for recovering the cost of the HVDC assets. Meridian continues to disagree fundamentally with that decision. The imposition of the HVDC charges means we are strongly incentivised to focus on the absolute amounts that we pay for the HVDC service. The consequence of the proposals under the Administrative Settlement is that the charges for the HVDC could be higher than they ought to be as the Commission approach does not currently identify and promote the long term interests of the separate customers. Contrary to the assumption made by the Minister when endorsing the Transmission Pricing Methodology, if the Administrative Settlement proceeds in its current form it is not possible to be confident Meridian, and other South Island generators, are paying the true cost of the HVDC service.

Yours sincerely



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