



30 November 2007

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

Dear Sir/Madam

Transpower Post-Breach Enquiry – Cross Submission

Meridian Energy (“Meridian”) welcomes the opportunity to comment on submissions made to the Commerce Commission (“Commission”) on its decision not to declare control of Transpower or reset Transpower’s thresholds.

Nothing that we have read in the other submissions causes us to change our mind with regards to the key messages contained in our original submission¹ to the Commission. Meridian therefore reiterates the key messages from our submission, including that:

- HVDC and HVAC assets should be accounted for and charged separately such that the Commission limits percentage increases in each of the HVDC and HVAC revenue requirement for the whole period of the Administrative Settlement regime;
- the proposed settlement does not give any assurance that South Island generators are getting a service that is cost-reflective;
- operating costs should be separated out to HVDC and HVAC customers and increases limited under the regime;
- transparent disclosure is needed for the EV accounts for each of the HVDC and HVAC assets in each year of settlement;
- the 30 June 2006 Optimised Depreciation Value of Transpower’s assets should be amended to exclude ‘fictional assets’;
- the treatment of pseudo assets should be reviewed;
- clarification is needed to ensure that there is a relationship between services provided from assets and the charges permitted under the new Administrative Settlement; and
- the WACC for Transpower in its revenue requirement calculation should be lowered to a figure closer to a risk free rate.

¹ Meridian Energy submission, 9 November 2007, to the Commerce Commission on Transpower’s Post-Breach Inquiry.

Each of these points is discussed in more detail in Meridian's original submission.

Quality Thresholds

Meridian notes that the Commission has identified gaps in the regulatory framework with regards to the ability to enforce quality thresholds.

Meridian notes that it is the Commission that determines the size of the revenue pie (the Electricity Commission allocates it to different parties). However, the link between service quality and price is in the Commerce Act and is an important issue for a monopoly provider of service.

Meridian also notes that service measures contained in the Benchmark Agreements are default agreements. In Meridian's experience, the actual level of service delivered does not always reflect the measures contained in the Benchmark Agreements.

Meridian accepts 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).

We do not agree with Transpower's proposal that the quality threshold in the Commerce Act be deleted. Meridian suggests that, if Transpower is concerned about breaching quality thresholds due to statistical variability of grid events, this is a reason to have a high standard of threshold, not a reason to remove the threshold.

It is important to note that a breach of the Electricity Governance Rules (EGR's) and Benchmark Agreements with respect to service quality is no more than a breach of the provision of information and is not related to a change in the level of physical service or quality.

HVDC Pricing

Meridian disagrees with Mighty River Power's submission that the Administrative Settlement should not include reference to the allocation of costs between HVDC and AC assets. In Meridian's view, it is clear that costs should be allocated to the asset to which they relate.

Meridian reiterates its views from our original submission² that:

- there is a distinct and identifiable group of consumers for HVDC and HVAC assets;
- in effect distinct services have been identified by the Minister under the transmission pricing methodology contained in part F of the EGR's; and
- cost reflective pricing is the appropriate approach to providing the long term benefit of consumers.

² 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.

Meridian notes that, with regards to Pole 1, despite efforts by Transpower to increase the capacity of Pole 2, Meridian is still paying for more HVDC capacity than it receives. While Meridian does not want to discourage Transpower from undertaking initiatives such as the planned reconfiguration Pole 2, Meridian would like a regulatory regime that acknowledges there is a link between price and service.

Additional Points

Meridian agrees with submitters, such as Mighty River Power, that support the ability of Transpower to acquire transmission corridors in advance of need. Meridian shares the view that this is an efficient use of resources given increasing land prices and the rate of urban development taking place and the potential for this step to delay transmission investment.

Meridian also agrees with submissions that support the Commission's decision to automatically approve investment that the Electricity Commission has approved under part F. This helps to avoid duplication in effort between the Commission and the Electricity Commission.

Meridian also supports submissions, such as that from Unison, that consider the proposed WACC is too high. Meridian maintains the view that the proposed WACC contains a risk premium that is too high and that Transpower's revenue requirement is almost risk free.

Please call me if you wish to discuss this submission further.

Yours sincerely



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