



06 October 2009

Kate Hudson
Electricity Commission
PO Box 100411
Wellington

By e-mail

Dear Kate

Interim Pricing Period

Meridian appreciates the opportunity to submit on the Electricity Commission's consultation paper – Interim Pricing Period.

Meridian submits that the Commission should consider whether the objectives of the rule change could be better met by expanding the set of circumstances that could give rise to a provisional pricing situation rather than creating a new interim pricing category. Meridian considers that this is a reasonably practicable alternative that is not considered in the consultation paper.

Meridian considers that expanding the set of circumstance that could give rise to a provisional pricing situation would better meet the Commission's specific outcome of ensuring delivered electricity costs and prices are subject to sustained downward pressure.

Meridian's response to the Commission's questions is contained in Appendix One of this submission.

If you have any queries in relation to this submission, please contact me.

Gillian Blythe
Regulatory Affairs Manager

DDI 04 382 7550
Fax 04 381 1287
Mobile 021 388 469
Email gillian.blythe@meridianenergy.co.nz

Attachment: Appendix One. Meridian's Response to the Commission's Questions

Appendix One: Meridian's Response to the Commission's Questions

Q1 Are there any other parties, in addition to participants and the Board, who should have the opportunity to raise concerns about possible pricing errors?

No. Meridian considers that the set of parties who should be able to raise concerns should be limited to participants and the Board.

Q2 Do you agree that the proposed timeframe for submitting a pricing error claim is appropriate? If not, please explain why not, and suggest an alternative timeframe.

Meridian considers that the proposed timeframe for submitting pricing error claims, while tight, is appropriate. There is a real need to balance 'timeliness' and certainty, and the proposal achieves a reasonable balance.

Q3 Do you agree with the definition of a pricing error? If not, please explain why not, and suggest an alternative definition.

No. Meridian does not support the proposed pricing error definition. Meridian considers that a pricing error should be defined as:

- An incorrect input being used in the calculation of an interim price; or
- An incorrect process being followed in calculating an interim price; and
- That the consequence of the incorrect input or incorrect process has a material effect on the claimant (if a participant, rather than the Board).

Meridian does not consider that adding the following criterion is necessary or appropriate:

- Not signalled in dispatch prices or forecast prices; or
- Was signalled in dispatch prices or forecast prices but that the claimant was unable to respond to (if a participant, rather than the Board).

The issue being addressed here is an error, probably a human error. Participants need to assume that processes will be followed appropriately, and that inputs will be correctly used in the calculation of prices. Introducing these additional criterion tends to suggest that participants should 'second guess' whether in each half hour and at each node they are being asked to respond to an appropriate signal. Participants need to have the confidence that what they are responding to is accurate.

Q4 Do you agree that it is not necessary to submit a rule breach claim at the same time as a pricing error claim? Please explain your answer.

Meridian agrees that it is not necessary to submit a rule breach claim at the same time as a pricing error claim. Any error that fits the definition, either as proposed or amended, will by definition be a rule breach. This issue can be addressed subsequently by the relevant service provider in their daily reports.

Q5 Do you agree that the proposed timeframe for assessing claims and resolving any pricing errors is appropriate? If not, please explain why not, and suggest an alternative timeframe.

Meridian agrees that the proposed timeframe for assessing claims and resolving pricing errors appears appropriate.

To assist all participants, Meridian suggests that the pricing manager should be asked to provide a schematic of the trading day (and perhaps next two trading days) that sets out the timeframes by which notices must be provided, interim prices must be published, pricing error claims must be provided, consideration of any claims completed, discussions with the Board completed, and ultimately final decisions made. It would be useful for this information to be

published on the Electricity Commission's website, and circulated to parties who have submitted prior to the Board making its final decision and then its recommendation to the Minister, on the proposed rule change. This will assist in flushing out for all concerned whether the timeframe is appropriate (and to make sure that all have grasped the various nuances of the proposal).

Q6 Do you have any other concerns with the proposed process for an interim pricing period? If so, please explain your concerns and suggest changes to the proposed process.

Meridian is concerned that creating 'interim prices' rather than expanding the set of circumstances that can create 'provisional prices' will result in an increase in service provider costs that will be borne by participants, and that this is inconsistent with the Commission's specific outcome of ensuring that delivered electricity costs and prices are subject to downward pressure.

Q7 Do you agree that the only reasonably practicable alternative to the proposal is to retain the existing pricing process? If not, please explain what alternative option do you think should be considered, and why?

Meridian considers that the Commission should consider the option of expanding the set of circumstances that could create 'provisional prices'. Service provider systems, databases and so forth are set up to manage provisional prices and final prices, adding an additional pricing category will unnecessarily increase service provider costs which will ultimately flow through to participants. This is inconsistent with the Commission's specific outcome of ensuring that delivered electricity costs and prices are subject to downward pressure.

Q8 Do you agree that the benefits of the proposed rule changes would likely exceed the costs? If not, please explain why not.

Meridian considers that the level of benefits suggested is overstated. This reflects an assessment of the number of instances that the Board considers would have benefited from this rule change (two over the period since 1 March 2004) relative to over twenty million final prices calculated over the same period. While confidence in the pricing process is vitally important, Meridian does not consider that there is so little confidence currently to result in a NPV of \$8-17m, as suggested in the consultation paper.

Meridian is disappointed that the relevant service providers have not been asked to indicate the likely increase in costs that this rule change may require/involve (para 3.4.14(a)). Meridian suggests that this is obtained, and advised to participants prior to the Board making its final decision and then its recommendation to the Minister on the proposed rule change.

Until further details are provided by service providers affected, it is not possible to agree that the benefits outweigh the costs. As indicated above, Meridian considers the benefits are overstated, and the costs are unclear.

Indeed, the cost assessment does not appear to recognise the costs incurred by participants. One off changes to systems if a new pricing category is introduced could involve costs in the order of \$25,000 to \$50,000 per participant.

Q9 Do you agree that the proposal meets the objectives of the rule changes better than the existing pricing process? If not, please explain why not.

Meridian considers that incorrect inputs or processes should be addressed. However, as suggested above Meridian considers that the set of circumstances that could give rise to a provisional price could be widened, and that this would better meet the objectives relative to the existing pricing process.

Q10 Do you agree that the objective cannot be achieved by anything other than a rule change? Please explain.

Meridian agrees that a rule change is necessary but considers that a more appropriate rule change would be to expand the set of circumstances that could give rise to a provisional pricing situation.

Q11 Do you agree with the Commission's assessment against the relevant objectives and outcomes as set out in Appendix 4? Please explain.

See response to Q7 above.

Q12 Do you agree that the assessment of the benefits and costs of the proposal relative to the status quo supports the proposal? If not, why not?

See response to Q8 above.

Q13 Do you agree that the proposal meets the objectives of the rule amendments to the greatest extent? If not, why not?

See response to Q10 above.

Other comments

There are a number of times in the proposed drafting where the use of 'paragraph' and 'subclause' is used. This is a change in style, which at first blush appears inconsistent with the remainder of the Electricity Governance Rules. Meridian queries whether this was intentional.