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Default price-quality paths for electricity distribution businesses from 1 April 2025 – Draft decision

Meridian Energy Limited (**Meridian**) appreciates the opportunity to comment on Te Komihana Tauhokohoko – The Commerce Commission's (**Commission**) draft decision on default price-quality paths (**DPPs**) for electricity distribution businesses (**EDBs**) for the fourth DPP period (**DPP4**). This submission complements Meridian's submission to the Commission on its draft decision on Transpower's individual price-quality path for Regulatory Control Period (**RCP**) 4.

We acknowledge the significant changes in regulatory cost drivers

As detailed by the Commission, we acknowledge that that there have been significant changes in both the macroeconomic environment and the energy sector since maximum allowable revenues were set for DPP3, which will collectively result in a substantial increase in costs for EDBs during DPP4. These changes include increased interest rates (impacting the Weighted Average Cost of Capital (**WACC**)), cost inflation (including of labour and materials), growing electricity demand, and growing challenges to network resilience. While there is a clear consumer impact of these cost drivers (we discuss the importance of managing consumer impacts further below), we note that consumers will ultimately benefit from robust and reliable electricity networks which continue to meet their energy needs.

We support the Commission's close scrutiny of EDB costs

Given distribution network costs make up around 27% of an average household power bill, close scrutiny of regulated cost increases in the sector is critical. We support the robust approach taken by the Commission to review EDB expenditure plans, including the targeted review of Asset Management Plans. We also support the Commission's consideration of the deliverability of EDB investment plans, particularly in the context of a significant ramp up in capex forecasts and expected supply chain and labour market constraints. Overall, we consider it appropriate that the Commission's draft decision approves capex and opex allowances below those set out in EDB Asset Management Plans.

We support the use of flexibility mechanisms to accommodate uncertainty

As noted by the Commission, EDBs will continue to have access to flexibility mechanisms should revenue allowances be insufficient to cover their reasonable expenditure. This includes reopeners, Customised Price-Quality Paths (**CPPs**) and the Large Connection Contracts mechanism. Given the uncertainty in the ongoing evolution of the electricity sector, and the implications for EDBs, we support the availability of these mechanisms to allow EDBs to seek adjustments to their recoverable revenues where the relevant criteria have been met (and, as above, the parallel decision to set revenue allowances below those detailed in EDB Asset Management Plans).

We support efforts to reduce the impact of distribution price increases on New Zealand consumers

The Commission's draft decision, if maintained, will see significant increases in the price of electricity for New Zealand consumers. Together with the Commission's draft decision on Transpower's RCP4 revenue allowance, this determination is expected to result in an increase in household power bills of between $10 and $20 per month from 1 April 2025, followed by further annual prices increases for the remainder of the regulatory period. These increases are significant, and likely to increase the number of households experiencing energy hardship. Nevertheless, we acknowledge that the cost to consumers of not supporting network investment could be even greater in the long run.

It is critical that the impact of these increases on consumers is softened to the extent possible, particularly noting the broader cost pressures New Zealand consumers are facing. In this respect, Meridian is very supportive of the Commission's proposal to smooth EDB's revenue path. This will go some way to alleviating price shocks for consumers. We also support the decision to allow EDBs to defer a further 10% of their forecast allowable revenue each year via the wash-up account to allow for further smoothing where this would benefit consumers.

Ongoing communication with consumers will be critical to further mitigate price shocks

Preparation and expectation management present other means of softening the impacts of the cost increases; ensuring that consumers are informed of and prepared for those higher costs. In Meridian's view, it is critical that the greater public understands the **full** quanta of the expected cost increases (i.e. from April 2025 **and the subsequent years**). Consumers should be aware that the necessary downside of smoothing is that network costs will continue to build for all five years in the regulatory period.

EDBs, Transpower and the Commission should also all aim to ensure that consumers gain an understanding of the reasons for the increases before April 2025. Meridian supports the Commission's attempts to demonstrate and display these increases to consumers so far (e.g. via the Commission's press releases and website) but notes that communicating the changes should be an ongoing effort. Media coverage moves on quickly (and has done so already in this case). The Commission's final decision on DPP4 and RCP4 towards the end of 2024 will present a further opportunity for the Commission to engage with the public on these upcoming changes, as will the 1 April 2025 date when the price changes first take effect. Meridian will engage with its own retail customers to ensure these changes are well understood but the burden of this should not fall disproportionately on retailers who have very limited ability to influence or manage these cost increases. Consumer groups could also be asked to assist in communicating the changes.

Further government response may be needed for those facing energy hardship

Significant cost increases to essential goods raise the question of social policy responses to alleviate hardship and manage the distributional impacts of price increases. While we do not suggest the Commission has any responsibility for social policy, Meridian hopes that the Commission will ensure the Government is well informed of the pending step change in regulated revenues and that the Government takes this opportunity to consider the need for any social policy initiatives. It is important that the Government understands the hardship challenges that may stem from network cost increases so that appropriate policy responses can be considered, including adjustments to the Winter Energy Payment. Again, this highlights the need for continued communication of the increases so that they remain front-of-mind ahead of April 2025.

We support the Commission's decisions on quality standards and innovation

We agree with the Commission's decision to retain the three quality standards used for DPP3. We consider these standards represent good overall measures and allow sufficient flexibility.

We also support the Commission's decision to introduce the Innovation and Non-Traditional Solutions Allowance (**INTSA**) as a means of encouraging innovation. We note that there has been limited innovation and investment in non-traditional solutions under the current DPP3 settings. We consider the broader scope of the INTSA may provide an additional incentive for EDBs to trial innovative solutions which may provide greater benefits to consumers in the long term, particularly given the potential for deployment of new technologies and approaches during the upcoming regulatory period. However, we are pleased to see that the Commission is approaching this new incentive carefully (capping the scheme at 0.6% of DPP4 revenues) and with recognition of the potential impact on consumer prices during the DPP4 period.

Potential to manage price shocks between regulatory control periods

Considering the regulatory context for RCP4 and DPP4 more broadly, Meridian notes that:

- the current revenue increases are motivated in large part by significant increases to the WACC;
- the WACC for RCP3 and DPP3 was decreased relative to the previous period (which drove a relatively cheaper period for consumers); and
- fluctuations in WACC across regulatory periods have therefore led to (and will continue to generate) relatively significant fluctuations in the ultimate cost to consumers.

Meridian queries whether these increases and decreases in the WACC are in the best interests of consumers. We wonder whether there is scope for the Commission to work with the Government to investigate the merits of changes to the Commerce Act and Input Methodologies to achieve smoothing of the WACC across longer terms. This may in future help to avoid some of the consumer price shocks that result when the WACC significantly increases after coming off a low base, as is proposed in the draft decisions. However, we acknowledge a range of other costs and benefits would need to be considered.

Concluding remarks

This submission is not confidential and can be published in full. I can be contacted to discuss any of the points made.

Nāku noa, nā

Matt Hall

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Meridian Energy