

Tuesday, September 7, 2021

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James Stevenson-Wallace  
Chief Executive  
The Electricity Authority  
WELLINGTON

By email: **S9(2)(a)**

Dear James

### **Review of competition in the wholesale market**

Thank you for your letter of 30 August 2021.

For the record we were not seeking advance preferential access to your forthcoming paper. As I had indicated in my letter, we would expect all industry participants to be afforded the same opportunity and we believe it would be appropriate for there to be broad industry consultation in advance of the Authority publishing its Review.

Your letter indicates that details of the process for seeking input on your Market Review will be in the Market Brief of 21 September, ahead of release of the Review soon after. We look forward to seeing those details. In the meantime, we noted the Authority's update on the Review contained in the Market Brief of 31 August 2021. That seems to suggest that an Issues Paper would be published contemporaneously with the Review. As indicated above, we suggest the better process would be for an Issues Paper to precede publication of the Review.

The update in the Market Brief also references "MEUG's Economic Profit Analysis of Meridian Energy's last 20 financial years, released last week." We are concerned this reference legitimises MEUG's work when the reality is that MEUG have not in fact published or released anything which could fairly attract the description 'Economic Profit Analysis of Meridian'.

Instead, as far as we are aware, all that MEUG have released is a press release, some selectively chosen Q and A, and a few barely legible spreadsheets. MEUG have refused to release the Ireland Wallace & Associates (IWA) economic analysis report which, they say, supports the claims they have made in the media.<sup>1</sup> Meridian has repeatedly requested from MEUG the IWA report and they have repeatedly refused to provide it. Initial inquiries with Authority staff indicate that the Authority may also have no more information than is already in the public domain.

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<sup>1</sup> A point noted by independent commentator Hayden Green in his article in Energy News last week:  
<https://www.energynews.co.nz/news/profitability/105991/column-meridian-profit-analysis-generates-more-heat-light>. In there the author notes:

*The first thing I did when I read about the IWA study was to go looking for it. I expected to find a report describing the methodology and results. I didn't.*

*MEUG's website instead provides 24 images of semi-legible spreadsheets in miniscule font (without any formulas) and a brief 'Q&A' document. There's no 'write-up' of the steps IWA took.*

*This is unusual, to put it mildly. The lack of transparency around the methodology makes it difficult to know exactly what IWA did and whether it made any mistakes.*

The Authority must appreciate the potential reputational impact of allegations like those made by MEUG. As the sector's regulator it is incumbent on the Authority to act fairly and reasonably. We would suggest this includes ensuring it has credible prima facie evidence to support claims referenced in the Market Brief, particularly when the language used in the Market Brief seems to accept that those claims will be of relevance to the Authority in its forthcoming Review. In fact, the Market Brief went further and publicly encouraged MEUG to participate in the feedback process for the Review.

We also note that the Authority chose to omit any reference in the Market Brief to the PwC work we had provided the Authority the week before. It's not clear to us why the Authority preferred to reference the MEUG allegations over the work done by PwC. Meridian is concerned that in so doing the Authority may be anchoring expectations around what its Review might ultimately say.

Ultimately Meridian's strong view is that any profitability analysis of this nature that the Authority intends to rely on should be independently prepared and peer reviewed.<sup>2</sup> It should set out:

- the approach taken to calculate economic profits,
- the adjustments made in calculating economic profits from annual results, the logic for making such adjustments and rationale for why other alternate methods were not used,
- limitations of the analysis, and other potential approaches that could be considered,
- the independent party's view as to the conclusions that can legitimately be drawn from the analysis,
- detail of the economic profit calculations, and
- it should compare results across all the major generation businesses in the sector as the generators have quite different asset portfolios.

Finally, we noted that the Market Brief refers to the conclusion of negotiations of the contract for supply at Tiwai as a 'key event' for the purposes of the Authority's analysis of elevated wholesale prices from 2018 to 2021. It is difficult to know what exactly the Authority is thinking on this point as the Smelter's load was relatively consistent throughout the period of analysis except for the closure of Potline 4. The market disclosures around the negotiations between Meridian and NZAS may have impacted the markets view of forward prices beyond August 2021, which was the earliest the smelter would have closed. But any logic that suggests the smelter negotiations had any direct relevance to 'elevated' wholesale prices during the Authority's period of analysis is not immediately clear.

Yours sincerely



**Neal Barclay**  
Chief Executive

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<sup>2</sup> We note that MEUG appears to have enjoyed substantial engagement with the Authority on the Authority's forthcoming Review including confidential presentations to the Authority earlier this year at which MEUG shared early details of its recent claims. We also note that between their April and July presentations to the Authority MEUG seem to have opted to dispense with a planned peer review of the claims it ultimately made. The facts that MEUG was prepared to provide a preview of what it would ultimately "find", that it chose to dispense with a peer review and that it timed the announcement of its claims to coincide with Meridian's results announcement should all have raised concerns at the Authority.