

19 March 2010

Network Performance Branch
Commerce Commission
PO Box 2351
Wellington

by email: NPB@comcom.govt.nz

**SUBMISSION ON RESET OF THE DEFAULT PRICE–QUALITY PATH FOR
ELECTRICITY DISTRIBUTION BUSINESSES**

- 1 Orion New Zealand Limited (**Orion**) welcomes the opportunity to make this submission in response to the Reset of the default price – quality path for electricity distribution businesses process paper (the paper).
- 2 The Commission has identified a number of areas where it considers further work on the DPP reset process is required:
 - 2.1 consistency with input methodologies;
 - 2.2 starting price adjustments;
 - 2.3 revenue adjustment term within allowable notional revenue (“headroom” issue);
 - 2.4 energy efficiency mechanisms;
 - 2.5 quality incentives; and
 - 2.6 development of enforcement guidelines.
- 3 Orion agrees with the Commission that the above issues need further work. We also note that the Commission identified the pass-through of

avoided transmission *charges*¹ as an area that needs further consideration and we consider that this issue should be added to the work required.

- 4 While we are broadly supportive of a staged approach to address the further work required, we do not agree with the proposed consultation timeline as set out in Table 1 of the paper.

Revenue adjustment term within allowable notional revenue ("headroom" issue)

- 5 We consider that the "headroom" issue needs to be dealt with in a more expeditious manner than suggested in the paper. We accept that the timeline provided does just provide sufficient time for a decision on the "headroom" issue to be made in time for EDB's to set their prices for the following year, however our concern is that should the timeline slip just slightly then EDBs will lose the opportunity to address this issue for 1 April 2011.
- 6 We believe that the "headroom" issue is relatively uncontroversial and that if the Commission consults on this single issue ahead of the other issues then the Industry should be able to respond adequately.
- 7 We recognise that the time frame for consultation in the coming months is particularly tight² and the Commission has a statutory obligation to have completed by December 2010 the substantial work required on the input methodologies. However, it is precisely because of this heavy workload that we consider the timelines outline in Table 1 could slip and that the "headroom" issue should be dealt with promptly.

Enforcement guidelines

- 8 We note the paper states that the Commission proposes developing the enforcement guidelines in 2010 in consultation with the industry. However the timeline in Table 1 does not provided any mention of when this consultation will occur. We would like to see this omission addressed.
- 9 We consider that the guidelines are an important aspect of the regime and that their development should be given a high priority in the proposed process for dealing with further work for the reset DPP. As previously

¹ Para 4.39 Commerce Commission *Initial reset of the default price – quality path for electricity distribution businesses – Decisions Paper*, 30 November 2009

² The industry also has to deal with the consultation on the Electricity Industry Bill

submitted³ we would have liked the guidelines to have been prepared prior to the reset DPP coming into effect:

“The Commission proposes developing enforcement guidelines “to give suppliers greater certainty about the steps proposed for compliance and enforcement matters arising from Part 4 of the Act”.⁴ We welcome and support this initiative and urge the Commission to develop these in conjunction with the DPP and publish them prior to the reset DPP coming into effect. In our view clear and public guidelines are necessary to promote regulatory certainty and transparency and to ensure the Part 4 regime meets its objectives.”

Starting price adjustments

10 We agree with the Commission’s comment that “*starting price adjustments are to be based on measures of profitability which are informed by input methodology determinations*”.

11 The delay in the development of the input methodologies has provided some leeway for the Commission to delay the work on starting price adjustments. We consider that the development of a starting price adjustments process is an important issue for EDBs to provide them with certainty. However, as we indicated in our earlier submission⁵

“...there is no reason to hurry with making a P_0 adjustment, since any adjustment can readily account for the passing of time. The key objective should be to ensure that any adjustment is done only once – even if that means waiting a little longer for the landscape to take proper shape.”

12 We agree with the Commission’s assessment that the third assessment period is the earliest possible period that will allow sufficient time for the consideration of starting price adjustments after the input methodology determination has been made. That is, starting price adjustments should not take place until 1 April 2012.

13 We also support the Commission’s proposal to have a separate consultation process for starting price adjustments to take account of the input methodology determinations for EDBs.

³ Para 51 Orion submission on the Commerce Commission’s *Reset of Default Price – Quality Path for Electricity Distribution Businesses discussion paper* July 2009.

⁴ Para 382. Commerce Commission’s *Reset of Default Price – Quality Path for Electricity Distribution Businesses discussion paper* June 2009

⁵ Para 35 Orion submission on the Commerce Commission’s *Reset of Default Price – Quality Path for Electricity Distribution Businesses discussion paper* July 2009.

Concluding remarks

- 14 Thank you for the opportunity to make this submission. If you have any questions relating to this submission, please contact Dennis Jones (Industry Developments Manager) DDI 03 363 9526 email dennis.jones@oriongroup.co.nz.

Yours faithfully

A handwritten signature in black ink that reads "D. L. Jones". The signature is written in a cursive style with a large initial "D" and "J".

Dennis Jones
Industry Developments Manager