



CPP Feedback  
Orion NZ Ltd  
PO Box 13896  
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Dear Madam or Sir

1. This is a submission by the Major Electricity Users' Group (MEUG) on the consultation paper titled "Orion's post earthquake pricing and reliability – Our proposal to the Commerce Commission" dated 23<sup>rd</sup> November 2012 and related material on Orion's web site<sup>1</sup>. Members of MEUG have been consulted in the preparation of this submission. This submission is not confidential.
2. Responses to the questions in on page 37 of the consultation paper follow:

<sup>2</sup> Refer <http://www.comcom.govt.nz/electricity-information-disclosure-summary-and-analysis/>. Orion did not report ROI for 2011.

MEUG to Orion, Orion's post earthquake pricing and reliability proposal to the CC, 16-Dec-12

Question	MEUG response
Q2. What impacts did power cuts after the earthquakes have on you?	Varied for each customer. Unsure how a response to this question is material in relation to reaching a balanced CPP.
Q3. How well do you believe our electricity network stood up to the earthquakes?	Same as response to Q2.
Q4. In the future, for protection against any major disaster, should our electricity network be built as strong as it was before the Canterbury earthquakes? Or do you want a stronger electricity network? Or would you be happy with an electricity network that wasn't so strong?	Depends on the cost of the distribution alternatives to customers and if customers have cheaper non-distribution options to meet any given level of reliability.
Q5. On a normal day-to-day basis, do you want the lights to stay on as well as they did before the earthquakes? Or do you want a more reliable power supply? Or would you be happy with a less reliable power supply?	Same as response to Q4.
Q6. We propose to rebuild our network by 2019. Do you agree with this timeframe? If not, what timeframe do you suggest? Note that completing the rebuild sooner will cost more.	Same as response to Q4.
Q7. Do you think we should be able to recover our earthquake-related costs?	<p>The consultation paper reports earthquake-related costs as \$70m. No breakdown of those costs is provided in the consultation paper.</p> <p>Orion should be more transparent about what the earthquake-related costs referred to in the consultation paper are for. For example, if some of those costs are for written down assets<sup>3</sup>, then those costs should be borne by Orion's shareholders because:</p> <ul style="list-style-type: none"> <li>• The company, not customers, are better able to make decisions on how best to manage earthquake risk;</li> <li>• Line company shareholders can diversify their ownership risk to manage earthquake risk for any particular line company, whereas customers cannot because they can only have one line services supplier;</li> </ul>

<sup>3</sup> MEUG observes that note 40 to the Orion Annual Report 2011 reports over \$50m of an estimated impact of \$73.9m was due to asset value write-downs. It is unclear if the breakdown of the \$73.9m in the 2011 annual report is the same as that for the \$70m referred to in the consultation paper.

Question	MEUG response
	<p>and</p> <ul style="list-style-type: none"> <li>In competitive markets earthquake costs are borne by affected businesses, not their customers.</li> </ul> <p>The above comments are our initial view. Until details are available on the breakdown, nature and materiality of those sums relative to operating costs that would have been incurred in any case, we reserve our position.</p>
Q8. Do you think we should recover our earthquake-related costs from the people who use our network?	No. See response to question 7.
Q9. If we do recover our costs, should it be over the 10-year period we propose or over five years (which would mean higher prices until 2019 but lower prices for the five years after)?	Not applicable. See response to question 7.

3. In addition to the responses to Orion's questions, MEUG note:

- a) There is insufficient information published to enable larger time-of-use (TOU) customers to assess the effect on their individual businesses were the Commerce Commission to determine a Customised Price-Quality Path (CPP) entirely in accordance with the intended CPP proposal<sup>4</sup>.

Orion's proposed cost allocation and pricing models need to be made transparent to mitigate concerns large TOU customers, or for that matter any class of customer, may be subsidising future distribution services to other customers.

- b) We believe Orion should have consulted on a draft of the full suite of information required for CPP set out in the Electricity Distribution Services Input Methodologies. Without this information we have little understanding of basic key drivers that support the CPP proposal such as demand growth forecasts relative to network capacity for major sub-regions within Orion's network.

Re-building Canterbury's economy is an opportunity for a customer focussed electricity supply chain where innovative new demand responsive investment in customers' premises may be as important as investment in the distribution network. The consultation paper has no insights on how Orion's plans contribute to this broader vision. Orion's proposed pricing policies mentioned above are crucial to ensuring optimal customer and distribution investment.

4. Without having access to the above information to make an informed decision, large TOU consumers cannot support Orion's proposal.

<sup>4</sup> Pages 34 and 53 of the consultation paper estimate the effect on prices for a typical household, a typical small or medium sized business, a typical irrigator and a typical major customer. However individual large TOU customers will be unsure if they can rely on these estimates for "typical" customers.

5. Other more detailed comments we have on the consultation material follow.
6. The consultation paper (p4) states "... we plan to continue to use underground cables in most urban areas and overhead lines in most of our rural network. Our use of underground cables complies with the policy contained in the Christchurch City Council's City Plan." Underground cables are much costlier to install, more prone to earthquake damage and more expensive to repair than overhead lines. Orion should cost the alternative of using overhead lines rather than underground cables to inform the City Council of the impact of its policies. The Council, not power users', should foot the bill for not choosing lower cost overhead lines. Otherwise there is a perverse incentive whereby the Council can impose costs on Orion's customers for benefits, such as aesthetic values, that accrue to the Council and ratepayers rather than electricity customers.
7. On page 13 of the consultation paper is the comment "we estimate that without our pre-earthquake strengthening work and planning, the earthquakes would have cost us an additional \$65m in repair and replacement costs." No details of that calculation are provided. We suggest Orion publish those calculations and any estimate of the counterfactual had that work not been undertaken. The counterfactual should include the savings due to lower line charges to customers.

Yours sincerely



Ralph Matthes  
Executive Director