



MAJOR ELECTRICITY USERS' GROUP

12th August 2016

Matthew Lewer
Manager, Price-Quality Regulation
Regulation Branch
Commerce Commission
By email to regulation.branch@comcom.govt.nz

Dear Matt

Orion's transition to 2015-2020 DPP – Draft decision

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Commerce Commission draft report, Orion New Zealand's transition to the 2015-2020 default price-quality path, 1st July 2016" and draft amendment.¹
2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Some members may make separate submissions.
3. Our last submission noted "MEUG recommend the Commerce Commission review Orion's cost estimates for 2019-20 to check if this is a reasonable conclusion."² In response to that the Commission considered Orion's latest Asset Management Plan, compliance statement, information disclosure and Orion's forecast of actual expenditure against CPP levels.³ However in the view of MEUG the Commission in using its discretion and reliance on Orion's forecasts has erred in favour of Orion's shareholders with expected revenues hence profits expected to be higher than average - "Assuming the reasonableness of Orion's expectations here, we consider that it is sufficiently likely Orion's prices for 2019–2020 will not reflect an underestimation of revenue growth."⁴
4. One of the problems with setting prices for the one year DPP commencing 1st April 2019 is that the forecasting period is much longer than usually used for a DPP reset. In a DPP reset the process starts 2 years prior to the commencement of new DPP prices whereas in this decision the Commission will decide in October this year the starting prices as at 1st April 2019, approximately 2 ½ years prior. In addition in this case there is no building block analysis.

¹ URL for draft decision is <http://www.comcom.govt.nz/dmsdocument/14418> and both papers found at <http://www.comcom.govt.nz/regulated-industries/electricity/cpp/orion-cpp/>.

² MEUG to Commerce Commission, Cross-submission on Orion's transition to 2015-2020 DPP – Key considerations and possible approaches, 29th April 2016, paragraph 5

³ Draft report paragraphs 3.10 to 3.15.

⁴ Ibid, paragraph 3.18.

5. MEUG still agrees a pragmatic approach is needed given the very difficult circumstances faced by customers of Orion post the earthquakes and uncertainty on the shape and rate of demand for network services. Hence this 1 year DPP does not warrant a full building block analysis. However we are concerned that in the future other CPP applicants might presume a similar treatment for the transitional year(s) DPP between the end of a CPP and the DPP set at the start of the next full Regulatory Control Period (RCP). MEUG suggests the Commission make it plain that the default transitional year(s) DPP will be at the DDP that would have been determined. That may require the Commission when set starting prices and price-quality paths at the start of a RCP publishing a notional DPP for a distributor part way through a CPP.

Yours sincerely

A handwritten signature in black ink, appearing to read 'R. Matthes', with a long horizontal stroke extending to the right.

Ralph Matthes
Executive Director