



11 Chews Lane
PO Box 10568
The Terrace
Wellington 6143
New Zealand

Genesis Energy Limited

Fax: 04 495 6363

29 August 2014

John McLaren
Commerce Commission
44 The Terrace
WELLINGTON

By email: regulation.branch@comcom.govt.nz

Dear John

Cross-submission on default price-quality paths from 1 April 2015 for 17 electricity distributors: Process and issues paper

Genesis Energy Limited welcomes the opportunity to provide a cross-submission to the Commerce Commission (“the Commission”) on the consultation paper “Proposed Default Price-Quality (DPP) Paths for Electricity Distributors from 1 April 2015” dated 4th July 2014.

Overall, Genesis Energy considers the Commission completed a thorough DPP consultation process and has made a number of substantive improvements to the operation of the DPP regime. We are also pleased with the recent draft determination on lowering WACC¹ that will bring lower electricity distribution charges to end consumers. However, we are concerned that the DPP decision does not adequately address the potential price shock to end consumers.

Avoiding price shock to end consumers

We suggest that the proposed DPP is likely to create significant price shock for some end consumers. This is a particular concern for residential retail consumers who are unable to mitigate these increased costs.

¹ <http://www.comcom.govt.nz/regulated-industries/input-methodologies-2/further-work-on-wacc/>

As an example, we did a simple estimation based on publicly available ICP number information for Alpine Energy². Over one regulatory period, assuming average household electricity spending is \$5.60³ per day, the proposed DPP will result in an annual increase of around 8%⁴ per ICP in this distribution area. We note that this is a rough calculation, but it emphasises the concern with how such significant price increases may affect end consumers.

Genesis Energy suggests that one way to avoid consumer price shock is allowing estimated revenue to be recovered over more than two regulatory control periods.⁵

Other matters

EDB incentives to manage pass-through costs

We agree that, in principle, EDB's need to be able to recover pass-through and recoverable costs⁶. However, we reiterate our concern that EDB's must remain incentivised to question and control pass-through costs where they are the most appropriate party to manage this risk.⁷

Investigating the Avoided Cost of Transmission regime

We suggest the Commission needs to investigate the current Avoided Cost of Transmission (ACOT) regime before granting EDBs pre-approval to recover these costs. We agree with Meridian Energy that a good starting point on this investigation is to seek evidence and information from the Electricity Authority (the Authority).

Review of ACOT is currently part of the Authority's Transmission Pricing Methodology programme, although we have suggested it should be a separate work stream.

² Table X3 of the consultation paper

³ We take MBIE's latest average daily cost of electricity (Feb, 2014) as reference.
<https://www.powerswitch.org.nz/powerswitch/price-trends/tracker>

⁴ We assume all ICPs are households as we are unable to distinguish the natural of each ICP and their consumption pattern. This percentage increase just provides a rough indication of cost recovery impact.

⁵ Major Electricity User Group (2014) "Submission on proposed DPP for EDB from 1 April 2015 and low cost forecasting approaches"

⁶ Paragraph 5.2 of the consultation paper

⁷ Genesis Energy submission dated 15 May 2014 on "Default price-quality paths from 1 April 2015 for 17 electricity distributors Process and issues paper"

If you would like to discuss any of these matters further, please contact me on 04 495 6357.

Yours sincerely



Daisy Shen
Regulatory Advisor