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John McLaren
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Commerce Commission
PO Box 2351
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Dear John

Cross submission on default price-quality paths process and issues paper

This is Powerco Limited's cross submission on submissions made on the Commerce Commission's consultation paper *Default price-quality paths from 1 April 2015 for 17 electricity distributors: Process and issues paper*.

We note a general consistency of views on many of the major issues. We also wish to express our support for two particular proposals made by Vector. First, we agree with Vector's suggestion that the K and V variables should be removed from the price-quality path compliance equation, with pass–throughs and recoverables dealt with via a separate revenue cap, and unders and overs washed up. This would be the best way of dealing with the perverse risk, which exists currently, that a regulated electricity distribution business (EDB) may breach the price-quality path due to an incorrect forecast of pass-through and recoverable costs that are outside its control. The aim of the compliance formula is to test that the weighted average value of an EDB's prices has not increased by more than the allowed CPI-X. Including the pass-through and recoverable costs does not help to achieve this objective and may, on occasion, obscure whether or not it has actually been achieved.

Second, we agree with Vector's proposal that a new pass-through cost be created for compensation payments or charges relating to automatic under-frequency load shedding (AUFLS) and other extended reserves. The creation of such a pass-through cost category would help to facilitate the implementation of the new arrangements for AUFLS (or other extended reserves) currently being developed by the Electricity Authority.

We also note the specific data provided in the submissions from Vector, Wellington Electricity and Unison that helps confirm Powerco's view that the trend towards declining energy intensity (and hence a disconnect between GDP/ population growth and energy consumption) is not a temporary phenomenon, contrary to the Commission's view, expressed in clause 3.14 of the issues paper, that recent declines in demand are temporary.

Yours sincerely

Richard Fletcher
General Manager Regulation and Government Affairs