Submission to the Commerce Commission on its Starting Price Adjustments for Default Price-Quality Paths Discussion Paper

Submitted by

Wellington Electricity Lines Limited

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1. Introduction

Wellington Electricity Lines Limited ("WELL") welcomes the opportunity to make this submission on the Commerce Commission's ("Commission") Starting Price Adjustments for Default Price-Quality Paths Discussion Paper ("Discussion Paper"), published on 5 August 2010.

Contact person

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Comments provided on a work in progress

WELL notes that purpose of the Discussion Paper is to set out the Commission's current views on key aspects of the starting price adjustment process for Default Price-Quality Paths ("DPPs") and that the Commission's views are still preliminary. In keeping with what it sees as the formative and fact finding nature of the Discussion Paper, WELL has provided its comments in this submission to constructively assist the Commission in forming its views. As the Commission's consulting process continues and more information comes to light, WELL's position may change accordingly.

Involvement with the Electricity Network Associations ("ENA")

The ENA, on behalf of its members, is making a submission to the Commission on the Discussion Paper ("ENA Material"). WELL is an active member of the ENA. WELL attends and participates in the ENA working group discussions and has been involved in the preparation of the ENA Material.

2. Background

The current Default Price Path ("DPP") determination commenced on 1 April 2010 and is due to expire on 31 March 2015. The 2010 DPP determination provides for a price path that applies a weighted average price cap ("WAPC") based on notional revenue. The starting prices, which underpin the price path, are actual prices as at 31 March 2010. These prices evolved from the Part 4A (of the *Commerce Act 1986* ("Act")) thresholds regime which was replaced by the Part 4 (of the Act) regulatory framework on 1 April 2009[1].

[1] The prices under the Part 4A thresholds regime locked in the actual (weighted average) published prices for each EDB as at 8 August 2001.

Importantly, the Commission made the 2010 DPP determination in advance of the regulatory framework, required to give effect to the 'new' Part 4 of the Act, being developed.

Accordingly, since the commencement of the 2010 DPP determination the Commission has progressed developing the regulatory framework. In particular, the Commission has:

- Published Draft Input Methodology Decisions. These Draft Decisions set out various matters of importance to regulation under both a DPP and a Customised Price Path ("CPP"). Consistent with section 52T(1) of the Act these matters include:
    - Cost of capital;
    - Asset valuation;
    - CPP;
    - Cost allocation;
    - Treatment of taxation;
    - Pricing methodology; and
    - Rules and process.

  WELL has responded to these Decisions and emphasises that this submission should be read together with previous submissions and reports provided by it on the Draft Input Methodology Decisions, as those submissions may be directly or indirectly relevant to the topics covered by this submission.

  The Commission is required to publish its final Input Methodology ("IM") Decisions by no later than 31 December 2010;

- Published a Discussion Paper which sets out a proposed framework under which the Commission will assess the need to implement starting price adjustments for non-exempt EDBs during forthcoming regulatory resets and during this current regulatory control period. The Commission proposes to undertake a starting price assessment within this current regulatory control period on the basis that it did not undertake such an assessment for the purposes of the 2010 DPP determination.

  WELL's submission sets out its views on the framework presented in the Commission's Discussion Paper; and

- Published a Discussion Paper entitled *2010-2015 Electricity Distribution Default Price-Quality Path Refinements Discussion Paper'* which sets out how it proposes to amend its Initial DPP Determination to be consistent with the decisions set out in its Input Methodologies.

  WELL will provide a response to this by 27 September 2010.

3. Regulatory Framework

The Act provides that under the current circumstances, the Commission can reset starting prices under the current DPP Determination. In particular:

- Section 54K(3) provides that:

  If an input methodology is published after 1 April 2010 and if, had that Methodology applied at the time the default price-quality paths were reset as required by subsection (1), it would have resulted in a materially different path being set, then

the Commission may reset the default price quality paths in accordance with section 53P and may apply claw-back, despite section 53ZB(1).

- Section 53P(3), which governs resetting of starting prices provides that:

  The starting prices must be either

  - *the starting prices that applied at the end of the preceding regulatory period; or*
  - *prices determined by the Commission that are based on the current and projected profitability of each supplier.*

3.1. Method for adjusting DPP starting prices should be determined as an IM

In its submission the ENA has confirmed its view that the method for adjusting DPP starting prices should be determined as an IM pursuant to section 52T of the Act. WELL strongly supports the ENA's position.

The letter from the ENA to the Commission, dated 23 July 2010[2] sets out, in detail, the reasons for this view. In particular, it notes that the Commission has unfettered discretion to change, at any time, a decision made with respect to section 53P(3)(b) of the Act. WELL considers that this would introduce an unacceptable level of additional uncertainty and risk for EDBs and may therefore potentially negatively influence future investment decisions. Accordingly, this approach is not consistent with the Part 4 Purpose statement.

WELL also supports the ENA's position in relation to the timing of the development of the Starting Price Adjustment Input Methodology. The ENA considers that this should not be developed until the Input Methodologies, which are currently being developed, are finalised. This is important because, as noted, the starting price adjustment framework draws heavily on the decisions and elements made in the Input Methodology Decisions. Accordingly, preparing the framework before the Input Methodology Decisions are finalised is not consistent with good regulatory practice, because it creates scope for errors, misalignment between decisions, a lack of transparency and increases administrative costs.

The comments in this submission on the DPP Discussion Paper are provided on a without prejudice basis with a view that the method for adjusting DPP starting prices should be determined as an IM pursuant to section 52T.

3.2. Starting prices must consider future profitability

WELL notes that the Commission's Starting Price Adjustment Discussion Paper purports to adopt an approach consistent with section 53P(3)(b) being to determine starting prices based on the current and projected profitability of each supplier.

WELL fully supports an approach consistent with the principles of section 53P(3)(b) of the Act on the basis that fulfilling these principles is necessary to satisfy the purpose of Part 4 of the Act set out in Section 52A (Part 4 Purpose) which reads as follows:

[2] http://www.comcom.govt.nz/assets/Pan-Industry/Input-Methodologies/Correspondence---Draft-Decisions/ENA-Letter-to-Commission-regarding-Starting-Price-Adjustment-Methodologies-23-July-2010.pdf

to promote the long-term benefit of consumers in markets referred to in section 52 by promoting outcomes that are consistent with outcomes produced in competitive markets such that suppliers of regulated goods or services—

(a) have incentives to innovate and to invest, including in replacement, upgraded, and new assets; and

(b) have incentives to improve efficiency and provide services at a quality that reflects consumer demands; and

(c) share with consumers the benefits of efficiency gains in the supply of the regulated goods or services, including through lower prices; and

(d) are limited in their ability to extract excessive profits.

In particular, WELL considers that the Commission must consider future profitability in order to ensure that EDBs are able to fully recover their efficient costs of investment in distribution lines services. This is necessary in order to promote certainty and incentives for regulated businesses to continue to innovate and invest. The implications of this focus are discussed further in section 5.3.1 of this submission.

In summary, for the reasons set out in those sections, WELL believes that while the Commission's Starting Price Adjustment Discussion Paper purports to adopt an approach consistent with section 53P(3)(b), the proposed approach will not result in starting prices *"that are based on the current and projected profitability of each supplier"* and so is not consistent with this section.

In this respect, WELL draws the Commission's attention to the United Kingdom regulator Ofgem and its proposed RIIO (Revenue = Incentives + Innovation + Outputs) price control model[3] which will replace the previous CPI[4]-X regime. RIIO is intended to provide better incentives to invest and innovate. This proposed changed highlights the importance of ensuring that the Commission's starting price adjustment process does not limit incentives to invest or innovate.

WELL also considers that the starting price adjustment framework is not consistent with the conditions experienced by electricity distributors in Australia. Australian EDBs have much greater certainty about prices. If New Zealand is to maintain investment competitiveness with Australia then the New Zealand regulatory regime must provide strong investment signals.

4. Commission's proposed approach to staring price adjustment

As noted, the Commission proposes to apply the starting price adjustment framework and approach, as set out in its Discussion Paper, to determine whether or not to adjust an EDB's starting price during future regulatory resets. In the absence of having assessed EDBs' starting prices for the 2010 DPP determination, the Commission also proposes to apply the framework and approach to adjust starting prices from April 2012 (i.e. within the current regulatory control period). However, to provide stability and certainty, WELL considers that any clawback under section 54K(3) of the Act should not occur for years prior to the implementation of the starting price adjustment.

[3] OFGEM Press Release: *OFGEM reengineers network price controls to meet £32 billion low carbon investment challenge*, 26 July 2010. Available at: http://www.ofgem.gov.uk/Media/PressRel/Documents1/JULY%20RPI%20PRESS%20NOTICE.pdf

[4] The UK uses the Retail Prices Index ("RPI") which is analogous to NZ's CPI.

In summary, the Commission's draft decision on the starting price adjustment framework and approach is to:

- Calculate an EDB's return on investment ("ROI") using the following formula:

$$ROI = \frac{\text{Regulatory revenue} - \text{Total transmission costs} - \text{Total operational expenditure} - \text{Total regulatory depreciation} - \text{Tax} + \text{Revaluation}}{\text{Regulatory Investment Value}}$$

- Use input values that are:
  - Based on 'historical' data;
  - 'Normalised', albeit that the Commission does not provide any information on what data it will normalise or how it proposes to normalise data, and retains full discretion with respect to which information, and how, it will be normalised; and
  - Calculated / derived on a basis consistent with the Commission's Draft Input Methodologies Decisions.
- Compare an EDB's ROI against industry wide ROI bands of +/-1.0 or +/-1.25% around the weighted average cost of capital ("WACC") at the 75th percentile. WELL notes that the Commission sets out its approach to calculating the WACC parameter values in its Draft Input Methodology Decision and WELL's views on the Commission's draft decisions are set out in its submission dated 13 August 2010;
- Where an EDB's ROI falls within the industry wide ROI bands, then the Commission has determined that it will not adjust its starting prices;
- Where an EDB's ROI does not fall within the ROI industry wide band (being either above or below the band), the Commission has determined that it will adjust the EDBs starting prices by an amount necessary to close the 'gap' between an EDB's ROI and the upper or lower limit of the ROI bands.

Importantly, the Commission's has not set out how it proposes to adjust an EDB's prices so as to close the 'gap' between an EDB's ROI and the upper or lower limit of the ROI bands. The Commission has decided to develop its approach on this through a separate consultation process.

WELL notes that the Commission has provided worked examples, based on 2008-09 data, sourced from EDB Information Disclosure Schedules, to illustrate the Commission's proposed approach.

5. Wellington Electricity's views

The following sections of this submission (i.e. sections 5.2 to 5.6) address each aspect of the Commission's framework for determining a starting price adjustment.

5.1. 2012 Starting price adjustment

WELL strongly supports the ENA's positions that in view of the remaining steps and time required to finalise the Input Methodology Decisions and other elements of the regulatory framework, it would not be consistent with the Part 4 Purpose to undertake a starting price adjustment in 2012 due to the resultant uncertainty associated with this approach.

Rather, the Commission should undertake the first starting price adjustment reset at the end of the current regulatory control period. This would facilitate a more streamlined, orderly and consistent approach to adopting and implementing the new regulatory framework.

As noted in the ENA's submission, the preferred sequence is as follows:

- Commission to publish Final Input Methodology Decisions by end December 2010;
- Commission to develop, and consult on, a revised set of Information Disclosure Requirements ("IDR") that give effect to the Final Input Methodology Decisions. This will give rise to amendments to the way in which an EDB's ROI is calculated;
- EDBs may appeal a final Input Methodology Decision within 20 working days of publication;
- Commission to amend Input Methodology Decisions and revised IDR to reflect the outcomes from any appeals;
- Commission to prepare dataset for 2009-10 to 2012-13 based on revised IDRs (which are consistent with the Final Input Methodology Decisions);
- Commission to finalise the Starting Price Adjustment framework and approach in the form of an Input Methodology (section 52T of the Act); and lastly
- Commission to undertake starting price assessment as part of the 2015 regulatory reset.

5.2. ROI calculation formula

With regard to the Commission's proposed ROI formula as set out above, WELL notes that:

- The Commission has previously consulted on the approach to calculating an EDB's ROI for the purposes of Information Disclosure regulation;
- The proposed formula is partially consistent with the elements of the Building Block approach; and
- The proposed formula is inconsistent with a workably competitive market as it has no consideration of the EDB's relative or absolute efficiency level.

5.3. Input values used to calculate ROI

5.3.1. Historical data

WELL does not support the Commission's proposed approach of relying on historical data to calculate ROI.

This approach is inconsistent with the Commission's stated intention that the starting price adjustment gives effect to section 53P(3) of the Act, which requires that:

> *The starting prices must [be]….*
>
> - *prices determined by the Commission that are based on the current and projected profitability of each supplier.*

WELL considers that in accordance with the requirements of the Act, the Commission should also have regard for the current and forecast status and conditions of the business and specifically increases in forecast expenditure in determining a starting price adjustment.

This is because an EDB's historic costs and revenues may not be representative of its future costs and revenues. WELL notes that there are a number of reasons why an EDB's historic costs may not be representative of its future costs. For example, WELL, having acquired the Wellington distribution network, is going through a process of implementing and refining its entire operations including corporate, engineering and information systems. In addition, an increase in insurance premiums (driven by increase in natural disasters such as earthquakes), an increase in superannuation payment requirements or changes in service contract charges may all result in an EDB incurring an increase in its costs.

Further, WELL emphasises that whilst it currently has a very reliable network,[5] that network is comprised of assets with a high average age.[6] WELL's ongoing asset condition and risk assessment processes are likely to drive higher capital and operating cost structures.

Accordingly, determining a Maximum Allowable Revenue ("MAR") based on historic data may result in a revenue stream that does not appropriately fund an EDB for its future required efficient capital and operating expenditure programs.

Accordingly, WELL considers that the Commission should also take into consideration increases in forecast expenditure to ensure financial capital maintenance ("FCM"). FCM requires that the net present value ("NPV") of revenues equals the NPV of the costs of investment (return on and return of assets) over the regulatory control period.

In this respect, the presence of the CPP regime is not a justification to ignore the plain words of s53P(3)(b), which limit the Commission to determining reset starting prices *based on the current and projected profitability of each supplier*. To reset WELL's (or any other EBD's) starting prices without fully incorporating these factors into the analysis will result in starting prices that **are not** based on WELL's current and projected profitability and those prices will thereby be inconsistent with the Act.

5.3.2. Normalisation

WELL supports normalisation of certain revenue and expenditure data used to calculate an EDB's ROI, albeit that it does not support the level of discretion that the Commission proposes to retain.

In particular, WELL does not support the Commission's proposed approach of 'suitably normalising historical data'. This approach provides the Commission with complete discretion with respect to:

- What data it chooses to normalise; and
- The method and extent of normalisation.

Further, WELL notes that the Commission has identified the need to normalise one-off (extraordinary) events, but has deferred consideration and discussion of this to a separate

[5] 2008-09 national statistics on Quality Thresholds clearly show that the Wellington network has amongst the lowest fault duration (SAIDI) and frequency per customer indexes (SAIFI) in the country in comparison to other EDBs.

[6] Refer WELL's 2010 Asset Management Plan covering the 10 year period from 1 April 2010 until 31 March 2020. Available at: http://www.welectricity.co.nz/disclosures/Pages/Information%20Disclosure/Wellington%20Electricity%202010%20AMP.pdf

consultation process.

WELL considers that this level of discretion will introduce unnecessary uncertainty into the starting price adjustment process because an EDB will not be able to determine what data the Commission will normalise, how it will be normalised, or the effect of normalisation on its ROI.

WELL proposes that a more appropriate way of addressing normalisation is to allow EDBs to propose:

- What data (including one-off events) should be normalised, accompanied with appropriate, available supporting evidence. For example, WELL supports:
  - Weather normalisation to remove the effects on sales of the colder than average weather experienced in 2009-10;
  - Normalisation for lower than average growth rates in consumption and ICP connections;
  - Increases in operational and capital costs to meet changes in circumstances; and
  - Inclusion of expected IT costs resulting from the de-merger. This is discussed further in section 5.5.1 of this submission
- The method and extent of normalisation, accompanied with appropriate available supporting evidence.

This is because an EDB is in the best position to make this assessment and provide the required supporting documentation.

If the Commission does not accept WELL's preferred position, then it should set criteria for what data can be normalised and the manner in which normalisation would be undertaken. This is necessary so that EDBs can estimate the material effects of normalisation on their ROI calculation, and is therefore required for consistency with Section 52T(2) of the Act. WELL considers that the Commission should develop the relevant criteria and / or framework in accordance with a fully consultative process.

5.4. Industry wide band

If the Commission uses the approach it has proposed in the Discussion Paper it will need to devise a means by which it can translate historical ROIs into estimates of current and projected profitability. An ROI band is one means of achieving this.

There are difficulties in deriving current and projected profitability from historical ROIs and setting the upper limit of the ROI band above the 75th percentile of the WACC estimate for the purposes of the starting price adjustment would account for the effects of uncertainty in the ROI calculations. And in particular, doing so recognises that the ROI measure is an estimate only and cannot be determined with absolute accuracy.

WELL recognises that the uncertainties in the WACC calculation itself can be addressed by using the 75th percentile WACC estimate. WELL has set out its views with respect to the WACC point estimate in its submission of 13 August 2010 on the Commission's Cost of Capital Input Methodology.

WELL notes that the Commission considers two upper ROI bands +1.0 per cent and +1.25 per cent. WELL considers that the upper band needs to be set at a point greater than +1.25 per cent above the WACC point estimate to ensure that the Part 4 Purpose statement is achieved. This is because it is:

- More likely to correct for the effects of uncertainty in ROI calculations and therefore ensure appropriate returns to EDBs. This is necessary for consistency with the requirements of the Part 4 Purpose statement which requires that EDBs:

  have incentives to innovate and to invest, including in replacement, upgraded, and new assets

- Likely to limit the need for an EDB to apply for a CPP because the DPP price path does not reflect its true and efficient costs.

WELL notes that the Commission states that it may remove or reduce the ROI bands in future resets. In particular, the Commission states that:

> *The ROI band is likely to be wider for the initial starting price adjustment and become narrower at future resets*

WELL considers that the Commission should not amend the ROI band for the 2015 reset because it is not possible that the uncertainties inherent in the information or the quality of the data used in the 2015 reset (to calculate EDB ROIs) would be any different to those which characterise the information used by the Commission to calculate ROIs for the purposes of undertaking the 2011 starting price adjustment. WELL further believes that amending the ROI bands at subsequent resets would introduce additional uncertainty and risk for EDBs and other potential investors in the electricity sector, and may therefore potentially negatively influence future investment decisions.

WELL considers that the level of uncertainty that would result from the Commission amending the ROI bands at future regulatory resets does not meet the tests under 52R of the Act or the Part 4 Purpose statement.

5.5. Treatment of Efficiencies

5.5.1. Efficiencies arising from mergers, de-mergers and acquisitions

For the treatment of efficiency gains resulting from mergers and acquisitions the Commission proposes that:

- Efficiencies can be kept until at least the end of the regulatory period in which they are incurred and should be reviewed at the start of the next regulatory period; and
- Efficiencies will be determined by allowing EDBs to include the five year average annual cost (associated with a merger or acquisition) in its operating expenditure when calculating the ROI at the start of a new regulatory control period.

  The Commission considers that this approach recognises that a single year of costs may not be representative of the costs that an EDB will incur over the next five years. This is because costs in a single year:

  - May be low, therefore calculating an EDB's returns on the basis of these costs may understate the costs likely to be incurred going forward; and
  - May be high, therefore calculating an EDB's returns on the basis of these costs may overstate the costs likely to be incurred going forward.

Whilst the above treatments may be satisfactory for purposes proposed by the Commission in the Discussion Paper, WELL supports the ENA's submission that discussion of these treatments is premature until such time as the IMs are finalised and issues raised by WELL, the ENA and other parties in submissions have been resolved.

However, again with regard to the above treatments, WELL notes that the Commission's analysis of the cost impact resulting from mergers and acquisitions omits considering the impact of "de-mergers", i.e. when part of a company separates off.

WELL's experience from is "de-merger", ie, since its establishment as an independent network (from Vector Limited) in 2008, is that the costs of operating its business from acquisition are not yet reflective of "business as usual" operation costs. For example:

- WELL has not been fully resourced in accordance with its business as usual requirements and therefore its operating costs reported in its 2008-9 and 2009-10 Information Disclosure Schedules do not reflect its sustainable long term expenditure requirements;
- Significant 2009-10 IT capital expenditure (associated depreciation, return on investment and Regulatory Investment Value) will not be fully reflected in its 2009-10 ROI because these assets were not commissioned at the start of the 2009-10 regulatory year; and
- Capital expenditure forecasts are being reviewed as more information about the network has come to light from pole surveys and analysis being undertaken on the network from an age, asset condition and growth perspective. Preliminary indications are that is likely to result in an increase in capital expenditure compared with current forecasts.

Accordingly, WELL's ROI, as calculated on the basis of 2008-09 and 2009-10 data will underestimate WELL's long term expenditure requirements. The Commission will therefore need to take this into consideration when assessing the need to require a starting price adjustment for WELL.

WELL would be pleased to assist the Commission by providing it with any information that it requires to adjust WELL's ROI and data so as to address this matter.

5.5.2. Incremental Rolling Revenue Scheme (IRIS)

WELL supports that the Commission's proposal that an EDB is able to retain the efficiencies arising from the IRIS incurred under a CPP when moving back to a DPP form of control. The Commission proposes that these benefits may be recovered through a 'recoverable cost' provision under a DPP.

Consistent with its submission of 9 August 2010, WELL reiterates its position that it does not support the Commission's distinction between Pass through events and Recoverable Costs. WELL considers that the IRIS efficiencies should be recovered, with 100 per cent certainty, through a positive pass through event under the DPP.

5.6. Issues Deferred for later consultation

WELL notes that the Commission has deferred a number of issues for separate consultation. These are addressed below:

5.6.1. Information requests

The Commission proposes to inform its starting price adjustment assessment with:

- Information reported in the 2009-10 Information Disclosure Schedules ("IDS"); and

- Information collected from EDBs through its Starting Price Adjustment Information Request. The Commission proposes to issue this information request in January 2011 and EDBs are expected to submit completed requests back to the Commission by April 2011. This information request will be issued in accordance with Section 53ZD of the Act which provides the Commission with its information gathering powers.

WELL considers that as the IDS report only reports historic information, the Starting Price Adjustment Information Request should provide EDBs with the opportunity to provide information on their future profitability by allowing them to:

- Identify likely future cost differences / deviations which are not reflected in historic capital or operating expenditure. This is discussed above in section 5.3.1 of this submission;
- Provide forecast ROIs for each remaining year of the current regulatory control period; and
- Normalise data (i.e. weather normalisation[7]) to correct for events that are not representative of the trend data. WELL notes that under the IDS EDBs are not able to normalise certain data such as sales revenue to take account of higher or lower than usual weather events. However, this is important for the purposes of determining ROIs which will underpin a starting price adjustment.
- Also, where it is advised by the EDB, information should be taken from the Asset Management Plan ("AMP") of the EDB to inform the Commission.

5.6.2. Implementing starting price adjustments

The Commission has deferred determining how starting price adjustments will be implemented (i.e. closing the 'gap' between an EDB's ROI and the upper / lower ROI bands), to a separate consultation process.

WELL notes that on the basis of the worked examples set out in the Commission's Discussion Paper, some EDBs' starting price adjustments may be as high as 10 per cent.

Notwithstanding WELL's position that there should be no starting price adjustment in the current regulatory period for the reasons set out in this submission, if an EDB is required to incur the full adjustment (i.e. close the 'gap' between its ROI and the upper / lower ROI bands) in a single year this is likely to result in price shocks for consumers or undue financial hardship for EDBs.

In particular, this may cause EDBs with medium to long term financial arrangements to suffer financial distress if there is transgression of a debt covenant limit (e.g. interest cover) requiring a financing restructure or possibly even repayment of debt. This approach would therefore not be consistent with the Part 4 Purpose, which includes promoting the long-term benefit of consumers through continued investment and innovation by EDBs.

Accordingly, WELL considers that the Commission must ensure that the starting price is set in a way that manages the impact on both consumers and EDBs. WELL considers that this

[7] When normalising for weather, the Commission should be mindful that across the regions of New Zealand, there are different climates and weather patterns and these differences mean that there are different electricity usage profiles in different regions. These different usage profiles have different impacts on revenue that will need to be taken into account in any normalisation. For example, due to the increasing use of air-conditioning in the summer, Auckland has a summer peak. Major southern urban networks such as Wellington, Christchurch and Dunedin have higher usage in winter. The East Coast of the South Island, depending on rainfall, may have differing seasonal loads due to the need for increased irrigation.

would best be achieved through a glide path approach, whereby a gradual adjustment is implemented so that by the fourth year of the regulatory control period an EDB's ROI would be **on** the upper or lower ROI band.

A further benefit of this approach is that there would not be any further need for a price adjustment at the start of the next regulatory period, commencing in 2015.

WELL notes that the glide path approach, discussed in paragraph 3.14 of the Commission's Discussion Paper, would result in an EDB's ROI being within the ROI band limits, rather than *at* the limits. WELL notes that while this provides an NPV neutral alternative to a single year adjustment it is not consistent with the Commission's statement, in paragraph 3.8 that '*The Commission considers that it is appropriate for any adjustment to be limited to the relevant ROI band limit*'.