

**Submission of the OtagoNet Joint Venture
To the Commerce Commission
On the Proposed Default-Price Quality Paths**

15 August 2014

1. Introduction

1.1 The Commerce Commission (Commission) has invited interested persons to give their views on the Commission's 4 July 2014 paper and associated documents – the “proposed default price-quality paths for electricity distributors from 1 April 2015”.

1.2 This paper represents some of the views of the OtagoNet Joint Venture (OtagoNet) with respect to the preliminary thinking of the Commission through the process to date.

1.3 The general approach of this paper is to raise issues we are aware of with the proposals of the Commission. We have not gone as far as providing solutions as we prefer to rely on the Electricity Networks Association (ENA) and PricewaterhouseCoopers (PwC) submissions for this input.

1.4 We would be pleased to answer queries or discuss our submission further with the Commission if required and have appreciated the Commission's approach of the Commission staff participating (by attending as observer) with the industry working groups although were somewhat disappointed by departures by the Commission in the proposed documents from views expressed by those groups.

2. Background

2.1 OtagoNet is an electricity distribution business (EDB) operating in the rural and coastal Otago region that surrounds Dunedin City. OtagoNet was established in 2002 by the purchase of the network assets of Otago Power Limited by a joint venture comprising Electricity Invercargill Limited (EIL) and The Power Company Limited (TPCL) and Marlborough Lines Limited (MLL).

2.2 The network supplies 14,700 ICPs through 4,500 circuit kilometres and has the lowest consumer density of any EDB in New Zealand at 3.3 customers per kilometre. It has experienced limited ICP growth since 2002.

3. Other Submissions

3.1 OtagoNet and its joint venture parties MLL, EIL and TPCL have indirectly participated in other submissions by the ENA and PwC. Our comments may vary to those provided in these submissions however we support those submissions in principle.

3.2 OtagoNet intends to make further cross submissions as part of this process after having seen the submissions of other parties.

4. General Comments

4.1 Growth assumptions

OtagoNet is particularly concerned about the outputs from the Commissions econometric modelling and the impact on future revenue streams. OtagoNet has experienced limited growth and appears to be caught up in growth assumptions for the wider Otago area. With virtually all of this growth occurring in the Central Otago and Queenstown Lakes area parts of Otago such as Waitaki, Dunedin City, Clutha (OtagoNet's network area) are severely disadvantaged by such regional assumptions.

OtagoNet believes that historic data trends of EDBs growth would be a more useful predictor of growth applicable for the EDB being modelled.

4.2 Opex at 2013 levels

OtagoNet is concerned about the Commissions approach of using 2013 opex levels in its modelling. OtagoNet has experienced a step change increase in opex costs following the safety outcomes of the Pike River disaster. Using 2013 opex levels as opposed to forecast levels in EDBs asset management plans does not recognise such step changes.

4.3 A Zero X Factor

OtagoNet is also concerned that the Commission has used an X of zero and has ignored the cost increases that productivity studies have demonstrated that apply to EDBs.

4.4 Capex at 110% - 120% of previous levels

OtagoNet is concerned by the Commissions approach to capping capital expenditure at historic levels and more so by the Commissions apparent solution to the problem of applying for a Customised Price Path.

A small EDB with less than five substations could be severely disadvantaged by this approach in the likelihood that a substation would be replaced in every other regulatory control period.

We look forward to the opportunity to make further cross submissions as part of this process.

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