

14 May 2014

Karen Murray
Commerce Commission
PO Box 2351
Wellington 6140

Dear Karen

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

Mighty River Power welcomes the opportunity to cross submit on the Commerce Commission's (Commission) consultation paper titled "Default price-quality path reset from 1 April 2015 for 17 electricity distributors", dated 21 March 2014 (the issues paper). No part of our cross submission is confidential.

We wish to confine our comments to the issue of pass through and recoverable costs. In this respect we support the Commission's expectation that distributors fully recover pass-through and recoverable costs. We note that under the current regulatory regime distribution businesses face two risks in relation to the recovery of recoverable and pass through costs. First, the risk associated with the requirement to forecast the values of pass-through and recoverable costs and, where forecasts are incorrect, they will under or over recover. Secondly, the application of the lagged quantities in the DPP compliance formula leads to the potential for under or over recovery. This is because the actual recovery of pass through and recoverable costs reflects a different set of quantities to the lagged quantities used in the compliance test, which allows for greater than intended price increases when volumes are increasing (and vice versa).

Of the two approaches to risk management that are canvassed in the issues paper, unbundling the charges and making a few changes to the price path accounting and reporting regime as per the gas pipelines model, we support the latter so long as any wash up happens within two years (and as much as possible happens in the first year). A quicker washup is more favourable to consumers as it reduces retail pricing uncertainty.

Vector is proposing that the Commission remove the K and V terms from the price path equation and in the definition of prices; thus reporting of compliance with the price path will be independent of recovery of pass-through and recoverable costs. Each distributor would be required to report in their annual compliance statements their actual pass-through and recoverable costs and the actual revenue they received in respect of those costs. Any difference between the actual pass-through and recoverable costs and the actual recovery should be added or subtracted from the pass-through and recoverable allowance in the subsequent year, adjusted for the time value of money.

If you have any questions regarding our submission please contact me. Andrew.peckham@mightyriver.co.nz 09 589 3076 or 027 5043587.

Yours faithfully

A handwritten signature in black ink, appearing to read 'AP Peckham', with a horizontal line drawn through the middle of the name.

Andrew Peckham
Operations Manager - Retail

