



MAJOR ELECTRICITY USERS' GROUP

29th April 2017

Matthew Lewer
Manager, Price-Quality Regulation
Regulation Branch
Commerce Commission
By email to regulation.branch@comcom.govt.nz

Dear Matt

Cross-submission on Orion's transition to 2015-2020 DPP – Key considerations and possible approaches

1. This is a cross-submission by the Major Electricity Users' Group (MEUG) on the submission by Orion to the Commerce Commission consultation paper "Orion's transition to the 2015-2020 default price-quality path – Key considerations and possible approaches – 14 March 2016".¹
2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Some members may make separate submissions.
3. It is very helpful of Orion to have estimated the DPP starting prices effective 1st April 2019 for various options. Those starting prices will apply for the single transition year between expiry of the current CPP and before starting prices will be reset for the next DPP period 2020-2025. Orion also helpfully explains their rationale for agreeing with the Commerce Commission's preference for option 2.
4. MEUG accepts Orion's rationale for dismissing option 1.
5. For Orion the choice between option 2 and 3 depends on their estimate of expenditure in 2019-20 - "Option 2 is also expected to generate revenues which are below our forecast costs – but by a lesser extent than option 3".² MEUG recommend the Commerce Commission review Orion's cost estimates for 2019-20 to check if this is a reasonable conclusion.
6. Such a review should not be to the rigour of a building block's analysis. Nor should the review use a broad generic approach used for resetting DPP because:

¹ URL for the Commission paper is <http://www.comcom.govt.nz/dmsdocument/14128> and URL for Orion submission is <http://www.comcom.govt.nz/dmsdocument/14232> both found at <http://www.comcom.govt.nz/regulated-industries/electricity/cpp/orion-cpp/>. Orion was the only submitter.

² Orion submission, paragraph 22.

- a) There is room for poor outcomes contrary to the purpose statement in s.52A. Poor outcomes could be in either direction – that is to the detriment of Orion or its customers. In either scenario the confidence of distributors and or consumers in the Part 4 regime and future CPP applications will be affected. As with the original CPP application its important good precedents are set for this inaugural exit of a CPP and that will require a bias towards more not less analysis.
 - b) The difference between options 2 and 3 is material being \$7.7m.³ That is option 3 has a starting price 4.4% less than option 2. A 4.4% difference in starting prices is material considering CPI annual inflation for each quarter since and including the quarter ended December 2014 has been less than 1% and forecast inflation is more likely to be closer to recent historic rates than 4.4%.
7. We look forward to the next consultation round once the Commission's draft decision is published in June ahead of a final decision in October 2016.⁴

Yours sincerely



Ralph Matthes
Executive Director

³ Ibid, p5b table - Orion estimate the starting price for option 2 at \$175.4m and \$167.7m for option 3.

⁴ Commerce Commission consultation paper p10 Indicative future timeline.