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15 May 2014

Karen Murray  
Commerce Commission  
44 The Terrace  
WELLINGTON

By email: [regulation.branch@comcom.govt.nz](mailto:regulation.branch@comcom.govt.nz)

Dear Karen

## Cross-submission on default price-quality paths from 1 April 2015 for 17 electricity distributors: Process and issues paper

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Genesis Energy Limited welcomes the opportunity to provide a cross-submission to the Commerce Commission (“the Commission”) on the consultation paper “Default price-quality paths from 1 April 2015 for 17 electricity distributors Process and issues paper” dated 21 March 2014.

### **Full recovery of pass-through and recoverable costs**

Genesis Energy agrees with Vector’s view<sup>1</sup> that there is an expectation on electricity distribution businesses (“EDB’s”) to be able to fully recover pass-through and recoverable costs. We agree that the current operation of the default price-quality path does not deliver this outcome.

However, we are concerned that, if full recovery is permitted, the incentive on EDB’s to advocate for the consumer may be reduced. Some EDB’s may pass through costs unchallenged, thereby unnecessarily raising the cost to the end consumer. For example, changes in rating approaches can increase the pass-through cost. We suggest that the EDB is in the best position to manage this risk

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<sup>1</sup> Vector (2014). “Submission on processes and issues paper for DPP from 2015 30 April 2014”. <http://www.comcom.govt.nz/dmsdocument/11824>, p.12

and to ensure that any cost increases are justified. Consumers, and retailers, are not in a position to provide the same role.

One way of addressing this is requiring EDB's to demonstrate cost advocacy as part of their annual compliance statement reporting. Such reporting may be a step in the right direction, but it may not carry sufficient incentive for EDB's to engage in effective advocacy on unnecessary cost increases.

### **Review of DPP compliance formula**

Genesis Energy supports Vector's recommendation for a review of the DPP compliance formula including:

- a compliance equation independent of recovery of pass-through and recoverable costs;
- requiring each EDB 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; and
- require reporting on any difference between the actual pass-through and recoverable costs and the actual recovery could be added or subtracted from the pass-through and recoverable costs allowance in the subsequent year, adjusted for the time value of money.

If you would like to discuss any of these matters further, please contact Byron Weaver on 09 951 9228.

Yours sincerely



Jeremy Stevenson-Wright  
Regulatory Affairs Manager

