

14 May 2014

John McLaren
Chief Advisor, Regulation Branch
Commerce Commission
PO Box 2351
WELLINGTON 6140

Dear John,

Re: Process and issues paper dated 21 March 2014, default price-quality paths from 1 April 2015 for 17 electricity distributors – cross submission by Contact Energy

Thank you for the opportunity to provide feedback on the submissions received by the Commission. This cross submission is limited to (i) commenting on proposals relating to the uncertainty and risk associated with pass-through and recoverable costs, and (ii) supporting submitters' comments on inefficiencies caused by the Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations. Our specific points on these matters are set out below.

Pass-through and recoverable costs

1. Contact supports Vector's submission on pass-through and recoverable costs.¹
2. Contact's support reflects our understanding that Vector's proposal will deliver a solution aligned with the Commerce Commission's expectation² that distributors fully recover pass-through and recoverable costs.
3. We are aware the current operation of the default price-quality path (**DPP**) creates cost recovery breach and revenue risks for distributors. This incentivises distributors to seek to mitigate their breach (over-recovery) and revenue (under-recovery) risks by, for example, unbundling and bulk pass through of transmission costs to retailers.
4. Contact considers the optimal outcome for consumers is lines company pricing that is predictable and that bundles pass-through and recoverable costs. This is because they can be passed through transparently to consumers without the need for inefficient repackaging or wash-up processes. It is also consistent with acting in the long term interests of consumers to develop a DPP solution that removes any incentive on distributors to move to unbundling and bulk pass through of pass-through and recoverable costs.
5. In our view it makes sense to mitigate the breach and revenue risks. Vector's suggestions appear to be workable and addresses:

¹ Paragraphs 45-52 of Vector's submission.

² Paragraph 6.7 of the Commerce Commission's issues paper.

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- a. the forecasting issue, by implementing a similar approach to the gas distribution DPP, including a mechanism to change the approach part-way through a regulatory period if the Electricity Authority's Transmission Pricing Methodology review leads to a change in the dates Transpower announces its charges for the following year; and
- b. the lagged quantity issue, by determining a separate path for pass-through and recoverable costs that acts more like a revenue cap, with any difference between actual pass-through and recoverable costs and associated recovery added to or subtracted from the pass-through and recoverable costs in the subsequent year, adjusted for the time value of money.

Low Fixed Charge Regime

1. We agree with Vector that, while these regulations sit outside the Commission's area of responsibility, the Commission's assistance in seeking change to these regulations would be useful and, in our view, of benefit to consumers. We believe the initial intent of these regulations is no longer being served.

Should you wish to discuss any of the points raised in this cross-submission please do not hesitate to contact me.

Yours sincerely



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