



John McLaren  
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Regulation Branch  
Commerce Commission  
PO Box 2351  
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14 February 2014

Dear John

***Submission on preliminary version of the financial model for electricity default price-quality paths from 2015: Technical consultation***

This letter responds to the Commerce Commission's technical consultation on the preliminary version of the financial model for electricity default price-quality paths from 2015, on behalf of Alpine Energy Limited (AEL) and Top Energy Limited (TEL). Both AEL and TEL support the ENA's comprehensive submission on this topic and appreciate the opportunity to comment on the preliminary model at this stage.

AEL and TEL would like to emphasize one particular point raised in the ENA's submission, which is of direct and material relevance to us. Currently the DPP financial model ignores unrecovered claw-back from the current regulatory period. This is to be recovered in the next regulatory period, ie: from 1 April 2015 by some non-exempt EDBs, including AEL and TEL. We note that AEL and TEL were subject to the CPI + 10% price caps in the 2012 reset decision. This means the reset decision was NPV negative for us within the current regulatory period. These caps also have prevented us from recovering the claw-back permitted under the Determination for the 2012/13 period.

The 2012 DPP Reset Final Decision stated:

*7.12.2 suppliers that are subject to an alternative rate of change will recover their claw-back amounts in the next regulatory period, and we would consult on the appropriate rate of recovery at the next reset (by which time we will be able to factor in the price changes proposed at the time).<sup>1</sup>*

We submit that it is imperative that the DPP financial model includes the logic as to how:

- the claw-back for 2012/13 is to be determined and recovered during the next regulatory period for those EDBs subject to the CPI+10% price cap

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<sup>1</sup> Commerce Commission, Resetting the 2010-15 Default Price-Quality Paths for 16 Electricity Distributors, 30 November 2012, page 55

- how any capped revenue for 2013/14 and 2014/15 is to be recovered during the next regulatory period.

The 2012 DPP Determination included the relevant formula and provisions for the derivation and recovery of the 2012/13 claw-back amounts for those non-exempt EDBs which were not subject to the alternative rate of change price caps. No such mechanisms have yet been provided for AEL or TEL, and accordingly we cannot quantify the amount owing to us from that period.

The 2012 DPP reset model quantified the capped MAR as \$9.903m for AEL and \$2.223m for TEL (or 33% and 7% of 2103/14 MAR respectively). These values are material to our businesses.

Accordingly the rate at which they will be recovered is important for us to understand as we work on our pricing strategies for the next regulatory period, and where possible signal our pricing intentions to consumers as soon as practicable.

As indicated in the Final Decision, it is anticipated that the manner in which these claw-backs are to be recovered will be dependent on the price changes at the reset. Accordingly, it will be necessary to model this impact, in order to determine the rate of recovery of claw-back and to ensure that the recovery involves no systematic risk for us.

We note that there may be options for recovery which may need to be considered (such as recovery over more than one year). We suggest that the model is adapted to include sufficient flexibility to test the impact of alternative options, particularly where (as for the 2012 reset) significant price steps may result.

We look forward to further dialogue with the Commission on this issue including any information requirements you may have of us to complete this aspect of the DPP financial model development.

If you have any questions in this regard please contact:

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Yours sincerely



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