

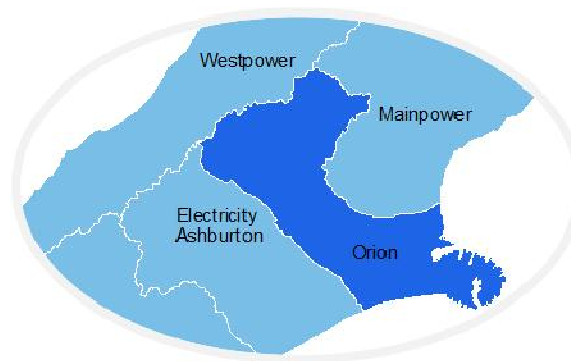
Invitation to have your say on Orion's proposal to change its prices and quality standards

Decision process and consideration of submissions

Date: 19 April 2013

Why we have written this paper

- 1 The Commission is responsible for setting the maximum average prices and required quality standards for electricity lines companies. These prices are a major component of retail electricity prices.¹ This regulation exists because electricity lines companies face little or no competition.
- 2 Orion's current maximum average prices and required quality standards are constrained by a default price-quality path (commonly referred to as a DPP) that was set in November 2009, for the five year period from 1 April 2010 to 31 March 2015.²
- 3 Electricity lines companies can propose an alternative price-quality path that better meets their particular circumstances. This is known as a customised price-quality path (CPP). Orion has submitted a proposal, dated 19 February 2013, to increase its maximum average prices and reduce its required quality standards for the five years commencing 1 April 2014.³
- 4 Orion's proposal is intended to address the impact of the Canterbury earthquakes, including the recovery of additional costs, the recovery of lower revenues due to reduced demand, and to fund future investment in its network.
- 5 Orion's proposal complies with the relevant rules and requirements relating to the process for, and content of, proposals seeking a CPP.⁴
- 6 Orion's proposed changes to its maximum average prices and required quality standards would affect electricity consumers in Orion's network area, which is bordered by the Rakaia and Waimakariri rivers and stretches from the Southern Alps to Banks Peninsula.



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- 1 23.2% of the annual electricity bill of a typical New Zealand residential customer is made up of these prices. See Electricity Authority "Fact Sheet 2, Breakdown of a typical bill" (2013). www.ea.govt.nz/dmsdocument/13295 (Viewed on 19 April 2013)
 - 2 The DPP was reset in November 2012 for 16 electricity lines companies, but not Orion.
 - 3 We did not reset Orion's DPP in November 2012 because we had been expecting this proposal.
 - 4 These relevant rules and requirements are collectively known as 'input methodologies'.

- 7 This paper explains:
- 7.1 Our role and process in evaluating Orion’s proposal; and
 - 7.2 How you can have your say on Orion’s proposal.

Our role is to promote the long term benefit of consumers

- 8 In setting maximum average prices and required quality standards for Orion, we seek to promote the long term benefit of Orion's consumers.⁵ This includes:
- 8.1 Considering what outcomes would occur in a workably competitive market;
 - 8.2 Promoting incentives for Orion to innovate, invest, improve efficiency, and provide services at a quality that reflects consumer demands, and share efficiency gains with consumers; and
 - 8.3 Limiting Orion’s ability to extract excessive profits.
- 9 Under the Commerce Act 1986, we are required to set the maximum average prices and required quality standards that we consider appropriate after receiving a proposal from a regulated business, in this case Orion. If we do not make a decision by 29 November 2013, Orion's maximum average prices and required quality standards will be those that it has proposed.
- 10 The Commission considers that if a catastrophic event occurs, its role is to provide certainty to a regulated business that it can recover the prudent costs of supplying regulated services (in this case, distributing electricity). This includes addressing the consequences of the catastrophic event, while providing appropriate incentives for the supplier to manage risk.⁶

⁵ Section 52A of Part 4 of the Commerce Act provides that “(t)he purpose of this Part is to promote the long-term benefit of consumers in markets referred to in section 52 by promoting outcomes that are consistent with outcomes produced in competitive markets such that suppliers of regulated goods and services – (a) have incentives to innovate and to invest, including in replacement, upgraded, and new assets; and (b) have incentives to improve efficiency and provide services at a quality that reflects consumer demands; and (c) share with consumers the benefits of efficiency gains in the supply of the regulated goods or services, including through lower prices; and (d) are limited in their ability to extract excessive profits.

⁶ Commerce Commission “Input Methodologies (Electricity Distribution and Gas Pipeline Services) Reasons Paper” (22 December 2010), paragraph 8.4.25.

- 11 In undertaking our role, we will:
- 11.1 Evaluate Orion's proposal, including detailed reviews of its proposed capital projects, its forecast costs, and their impact on prices; and
 - 11.2 Obtain specialist engineering and economic opinions.

Our process ends with a final decision in November 2013

- 12 We expect to make our final decision on Orion's maximum average prices and required quality standards by 29 November 2013. Our decision will apply to Orion from 1 April 2014.
- 13 We intend to issue a draft decision on Orion's maximum average prices and required quality standards on 19 July 2013. There will then be an opportunity for submissions on our draft decision, and then for cross-submissions on matters raised in submissions from other parties.

We want to hear and consider your views

- 14 Before we issue our draft decision, we want to hear and consider the views of consumers and stakeholders. We welcome submissions on Orion's proposal to change its prices and quality standards. To provide context for submissions, we will be releasing an issues paper on 29 April 2013 that will contain:
- 14.1 A summary of Orion's proposal;
 - 14.2 Our initial assessment of issues raised by Orion's proposal; and
 - 14.3 Questions for consumers and stakeholders.
- 15 To give us time to consider submissions and meet our statutory timeframes for this process, we ask that emailed submissions are received by the Commission by 5pm on 17 May 2013.
- 16 We will consider all submissions received by this date in reaching our draft decision on the maximum average prices and required quality standards that will apply to Orion.

A summary of our process is shown in the table below

Process step	Date
Issues paper published	29 April 2013
Submissions due on Orion's proposal	17 May 2013
Draft decision on Orion's maximum average prices and required quality standards	19 July 2013
Submissions due on draft decision	16 August 2013
Cross-submissions due on matters raised in submissions on draft decision	30 August 2013
Final decision on Orion's maximum average prices and required quality standards	29 November 2013

How you can have your say

- 17 Please email your submission to regulation.branch@comcom.govt.nz, and show 'Orion CPP proposal' in the subject line of your email. All submissions will be published on our website.
- 18 Orion's proposal, including additional information provided by Orion at our request after submission of the proposal, can be found on our website at www.comcom.govt.nz/orion-cpp.
- 19 The issues paper will also be published on our website when it is released.

Please contact us with any questions

- 20 Please contact John Groot, Orion CPP Project Manager, if you have any questions.

Email: regulation.branch@comcom.govt.nz, attention: John Groot