

networktasman

Your consumer-owned electricity distributor

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12 March 2020

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Commerce Commission

PO Box 2351

Wellington 6140

Dear Mathew,

EDB IMs discounts issue

Thanks for the opportunity to submit on the Commission's proposed change to the IMs. The Commission proposes to amend the IMs to address an issue with the definition of "discounts".

The Commission states the problem with the current definition is that "the current drafting means electricity distribution businesses (distributors) subject to DPP3 cannot include any discounts not offered before 27 November 2019 in their calculations of "forecast revenue from prices" when demonstrating compliance with the price path. This effectively removes a price-quality regulated distributor's ability to offer new discounts or alter their terms in a way that is acknowledged by the revenue cap."

In short, this results in a timing mismatch between the prices used in the calculation and the discounts used in the calculation.

That is, when calculating *forecast revenue from prices* for a given regulatory year, say 2020/21, the prices used in the calculation are those that will apply in 2020/21 regulatory year, but the discounts that must be used are those that applied on 27 November 2019, irrespective of whether the discounts that applied on 27 November 2019 are the same as the actual discounts that applied (and were paid out) in the 2020/21 regulatory year.

Network Tasman agrees this is a drafting error that must be corrected. However, the Commission's proposed solution still results in a price/discount timing mismatch.

The Commission proposes to amend the definition of a discount so that the discounts that must be used are those that applied "when forecast revenue from prices is calculated".

Forecast revenue from prices (which included posted discounts) for a particular regulatory year is calculated **prior** to the beginning of regulatory year in question. The forthcoming DPP determination requires non-exempt distributors to provide the Commission with an annual price setting compliance statement **before** the beginning of each regulatory year that demonstrates that forecast revenue from prices does not exceed forecast allowable revenue.

Under the current definition of discounts, the discounts that must be used for each non-exempt distributor's are those that applied before the beginning of the regulatory year for which the annual price setting compliance statement relates to (i.e. the year prior to the regulatory year in question).

Network Tasman presumes this is a drafting error and not the Commission's policy intent. We believe the discounts that apply should be those coincident temporally with prices.

Kind regards,
Network Tasman Limited

Daniel Vincent