

24 May 2013

John McLaren
Chief Adviser
Regulation Branch
Commerce Commission

Via e-mail: regulation.branch@comcom.govt.nz

Dear John

Feedback on the process for setting default price-quality paths

This letter responds to the Commerce Commission's (**Commission**) open letter on 23 April seeking feedback on the process the Commission for setting default-price quality paths.

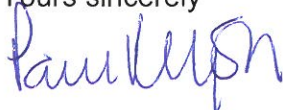
Contact Energy (**Contact**) is interested in the Commission's process to set price-quality paths for electricity lines companies and gas pipeline businesses. We are one of the largest wholesalers and retailers of electricity and natural gas providing electricity, natural gas and LPG to about 560,000 customers nationwide.

We set out our concerns with the process the Commission follows to make its default price quality path determinations in our 2012 submissions on the reset of the default price-quality paths for electricity distributors and setting the default price-quality paths for gas pipeline-business. In summary:

- The complexity of the issues, and the very large volume of information that requires specialist analysis, are barriers to effective engagement by stakeholders other than the regulated companies;
- The regulated companies have a significant information asymmetry advantage over both the retailers and the Commission when valuing assets and setting operating and capital budgets
- Retailers, like Contact, have no practical ability (and the Commerce Act, in any event, doesn't provide the mechanism) to understand, and if appropriate, challenge the budget and valuation assumptions and operating and capital expenditure decisions
- The multiples parties and information complexity make it difficult for retailers to assess the appropriateness of the charges and make comparisons to try and benchmark regulated companies.

We are happy to discuss these issues with you further. Please do not hesitate to contact me if that would be helpful.

Yours sincerely



Paul Ridley-Smith
General Counsel

Contact Energy Limited