Orion

18 July 2019

Dane Gunnell

Manager, Price-Quality Regulation

Commerce Commission

PO Box 2351

Wellington 6140

By email: regulation.branch@comcom.govt.nz

Dear Dane

**Cross submission on proposed amendments to input methodologies for electricity distributors and Transpower NZ Ltd (the paper)**

This is Orion's cross submission on submissions on the paper.

**MEUG submission**

We disagree with MEUG's suggested amendments to the definition of "innovation project".

As the Commission notes, the purpose of the fund is to stimulate innovation and encourage EDBs to think of novel ways to manage their networks and operate their businesses in the long-term interests of consumers. We believe the existing definition is sufficient to achieve this.

MEUG's proposed wording would place unnecessary impediments on EDBs accessing the fund and the level of uptake as they try and work out if the particular initiative is "innovative", "new" and something that EDB is uniquely doing.

Orion New Zealand Ltd
565 Wairakei Road
PO Box 13896
Christchurch 8141
+64 3 363 9898
oriongroup.co.nz

Having said that, as we have noted in our submission on the DPP3 draft decision, while we support the innovation allowance, the quantum is conservative. The Commission acknowledges this[1]. In our submission, to leverage the fund, we supported the ENA's proposal for a pooled industry fund administered via the ENA. This proposal will encourage collaboration and sharing of learnings and avoid duplication and may address MEUG's concerns.

MEUG also proposes a further requirement on EDBs when they seek a reopener for major unforeseen connection expenditure. MEUG appears concerned that additional revenue sought for a qualifying project won't align with the voluntary pricing principles. MEUG suggests an EDB must also attest, in seeking the reopener that it is fully complying with the voluntary pricing principles published by the Electricity Authority or is moving to compliance. We don't believe it is appropriate to have a stand-alone requirement in this regard and it being codified in the IMs. Our publically available pricing methodology sets out how we consider the pricing principles in our pricing decisions and our alignment with them.

We note that, given a reasonable materiality threshold, unforeseen connection expenditure is likely to relate to a large connection, where the following EA pricing principle will almost certainly apply:

> (c) Prices should be responsive to the requirements and circumstances of end users by allowing negotiation to:
>
> > (i) reflect the economic value of services; and
> >
> > (ii) enable price/quality trade-offs.

More generally, MEUG's proposal appears to apply a different regulatory approach to pricing depending on whether large connection was in an EDB's forecasts or not. This does not appear to be a robust approach.

In our submission on the draft DPP3 decision, we propose an alternative approach to revenue allowances for unforeseen connections that might alleviate MEUG's concerns.

---

[1] Paras x70 and 6.42 of the Commerce Commission's DPP3 draft decision.

**Vector submission**

Vector discusses the risks faced by investors and consumers, including inflation/CPI forecasting risk.

The Commission has already mitigated demand forecasting risk (up or down) for investors and consumers by moving from price control to revenue control.

In a similar vein, we submit that there is merit in considering removing or mitigating inflation/CPI forecasting risks (between WACC and RAB indexation) as well – to further reduce risks for EDBs and consumers.

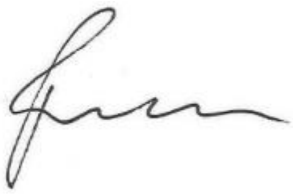
**ENA submission**

We support ENA's submission.

**Concluding remarks**

Thank you for the opportunity to provide this submission.  We do not consider that any part of this submission is confidential.  If you have any questions please contact Dayle Parris (Regulatory Manager), DDI 03 363 9874, email dayle.parris@oriongroup.co.nz.

Yours sincerely



Rob Jamieson
Chief Executive Officer