

30 November 2007

Network Performance Group  
Commerce Commission  
P.O. Box 2351  
Level 6, 44-52 The Terrace  
Wellington

*By email:* gas@comcom.govt.nz

Dear Paula

**AUTHORISATION FOR THE CONTROL OF SUPPLY OF NATURAL GAS  
DISTRIBUTION SERVICES BY POWERCO LTD AND VECTOR LTD: DRAFT  
DECISIONS PAPER**

- 1 Orion welcomes the opportunity to make this submission in response to the *Authorisation for the control of supply of natural gas distribution services by PowerCo Ltd and Vector Ltd - draft decisions paper*.
- 2 Our submission is in two parts:
  - 2.1 this letter; and
  - 2.2 a joint paper from independent experts NERA Economic Consulting and Mark Berry, which we fully support and endorse.
- 3 We currently have no commercial interest in natural gas distribution services. However, Orion made detailed submissions in relation to the Form of Control consultation round on 7 August 2006. This consultation round was of particular importance to Orion, because of the parallel nature of the issues which face both Gas and Electricity distribution, subject to the regulatory regime of Part 5 of the Commerce Act.
- 4 We now respond to the Commission's draft decisions paper - a paper which addresses significant issues that could potentially arise in relation to control of electricity lines businesses.

- 5 The attached NERA/Mark Berry paper has raised a number of issues that we find of significant concern in particular:
- 5.1 the Commission's draft decision in relation to the establishment of appropriate opening values for the regulatory asset base (RAB) for Powerco Limited and Vector Limited. These values should be based on the cost that would be faced by a hypothetical new entrant (HNE) of average efficiency as at 25 August 2005;
  - 5.2 in its draft decision, the Commission has taken a quite different, and erroneous approach. Its treatment of 'amortised revaluation gains' essentially delivers an outcome that is consistent with it having established 1 July 2002 and 31 March 2003 as the starting point for control (or t0) for Powerco and Vector, respectively;
  - 5.3 the Commission claims that its approach is consistent with the financial capital maintenance (FCM) concept. This is simply not the case.
- 6 These issues are dealt with in greater detail in the NERA/Mark Berry paper, which we trust the Commission will find a useful input into the consolation.

### **Concluding remarks**

- 7 We advise that we wish to present at the proposed conference in February 2008.
- 8 Confidentiality is not claimed for any of the content of our submission, including the attached papers.
- 9 Thank you for the opportunity to make this submission. If you have any questions, please contact Dennis Jones (Industry Developments Manager), DDI 03 363 9526, email [dennis.jones@oriongroup.co.nz](mailto:dennis.jones@oriongroup.co.nz).

Yours faithfully



Roger Sutton  
**Chief Executive Officer**