

20 March 2015

Keston Ruxton
Manager, Market Assessment and Dairy
Regulation Branch
Commerce Commission

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

Dear Keston

Proposed scope, timing and focus for the review of input methodologies

Thank you for the opportunity to comment on the appropriate scope, timing and focus for the Commission's review of input methodologies.

We support the Commission reviewing the existing rules dealing with related party transactions, cost allocation, the contents of Regulated Asset Bases and similar matters to determine the extent to which the existing rules can be improved to ensure that they promote the long-term benefit of consumers by removing any scope for regulated suppliers to obscure excessive returns or cross-subsidise other non-regulated commercial activities.

For example, the rules should ensure that consumers are not faced with costs from regulated suppliers potential obscuring excessive returns from, or cross-subsidising the provision of, photo-voltaic and storage equipment and related services. This market is currently in its infancy but could grow substantially over the next few years, and have a significant market presence by the time the Commission determines its next default price-quality path for electricity distribution businesses. It is important that the rules are unambiguous on these matters so that consumers continue to face outcomes that are consistent with the outcomes produced in competitive markets.

There are a number of reasons why the Commission should consider this issue as part of its review:

- The Commission has previously expressed concerns about the scope for inappropriate transfer payments to lead to outcomes that are inconsistent with outcomes produced in competitive markets by masking excessive profits or cross-subsidies
- There is a risk that the retail prices faced by consumers could be inappropriately inflated through incorrect asset or cost allocations by electricity distribution businesses, and
- There is a risk that consumers who do not take-up photovoltaic and storage equipment and services could be forced to cross-subsidise consumers that do, producing inefficient incentives for photo-voltaic equipment and storage and related services.

The Commission should also consider the implications of the looseness of the distributed generation pricing principles in Schedule 6 of the Electricity Industry Participants Code 2010 (**Code**) as well as the Electricity Authority's current review of these pricing principles.

Please don't hesitate to contact me on (09) 580 3623 or nick.wilson@mightriver.co.nz if you have any queries about this letter.

Yours Sincerely

A handwritten signature in black ink, appearing to read 'Nick Wilson', is written over a horizontal line. The signature is enclosed in a thin black rectangular border.

Nick Wilson
Manager Regulatory and Government Affairs