

13 October 2016

Keston Ruxton  
Manager, Input Methodologies  
Regulation Branch  
Commerce Commission

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Dear Keston,

### Input Methodologies Review Updated draft decision on cost allocation for electricity distribution and gas pipeline businesses

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Genesis Energy Limited welcomes the opportunity to provide a further submission to the Commerce Commission (“the Commission”) on the Input Methodology Review and, in this case, specifically on the “Updated draft decision on cost allocation for electricity distribution and gas pipeline businesses” dated 22 September 2016 (“the Draft Decision”). This is an extremely important review as it begins to lay the foundations for future competition in an emerging energy environment. As a result of the importance to the energy sector as a whole the Commission has run an inclusive and effective consultation process which we fully commend.

The Commission’s proposal to remove the Avoidable Cost Allocation Methodology (“ACAM”) as a stand-alone cost allocation methodology is a welcomed first step in ensuring a level competitive playing field for New Zealand consumers. While we are only at the beginning of the emerging energy discussion we support the Commission’s statement that “*the long term benefits from ensuring regulated consumers are not permanently precluded from sharing in the efficiency gains from supplying regulated and unregulated services together*”<sup>1</sup> outweigh any short-term costs from changing allocation approaches.

We understand that the Commission may compensate particular businesses at the next default price-quality path reset if there is actual evidence of significant costs arising from changing regulatory accounting systems for a particular business. We are of the strong view that this is a better regulatory outcome than the alternative proposal that would allow smaller EDBs to continue to use ACAM, which we do not support.

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<sup>1</sup> Paragraph 29, Page 7, Updated draft decision on cost allocation for electricity distribution and gas pipeline businesses 22 September 2016.

We finally note that we fully support the Electricity Retailers' Association of New Zealand ("ERANZ") submission on the Draft Decision.

If you would like to discuss any of these matters further, please contact me on 04 495 3348.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Rebekah', with a long horizontal flourish extending to the right.

Rebekah Cain  
Acting Regulatory Affairs Manager