



MAJOR ELECTRICITY USERS' GROUP

13th October 2016

Keston Ruxton
Manager, IM Review
Commerce Commission
By email to im.review@comcom.govt.nz

Dear Keston

Submission on Update draft decision on Cost Allocation

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Commerce Commission's Update draft decision on cost allocation for electricity distribution and gas pipeline businesses published 22nd September 2016.¹
2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Some members may make separate submissions.
3. MEUG makes two submissions. First a change from our earlier view that tightening the ACAM thresholds "by an order of magnitude" would suffice to now agreeing with the proposal in the Update draft decision that the option to use Avoided Cost Allocation Methodology (ACAM) be removed.²
4. Second a concern that retaining the Optional Variation Accounting-Based Allocation Approach (OVABAA) will allow ACAM to be implemented in any case and hence to be consistent with removing ACAM then OVABAA should also be removed. This concern was identified by Contact Energy in earlier submissions.³ The Update draft decision proposes retaining OVABAA because it is consistent with the requirements of cl.52T (3).⁴ That provision of the Act requires cost allocation IM to "not unduly deter investment by a supplier of regulated goods or services in the provision of other goods or services." That clause of the Act is also subject to the over-arching Part 4 purpose statement in cl. 52A (1); as are all of the IM provisions. That purpose statement talks to "outcomes produced in competitive markets." It would be bizarre if retention of OVABAA to ensure EDB could cross-subsidy forays into non-regulated businesses led to exit of or a reluctance of non-regulated suppliers to compete to offer that service. MEUG suggests that is likely to be the outcome if OVABAA is retained and hence why it should be removed.

¹ <http://www.comcom.govt.nz/regulated-industries/input-methodologies-2/input-methodologies-review/>

² MEUG's last submissions on the topic of cost allocation were in MEUG submission to the CC, 18th August 2016, paragraphs 29 to 33, refer <http://www.comcom.govt.nz/dmsdocument/14683>.

³ Contact Energy submission to CC, 4th August 2016, p15, refer <http://www.comcom.govt.nz/dmsdocument/14524>.

⁴ Update draft decision paper, paragraphs 33 and 34.

5. We look forward to an opportunity to cross-submit after viewing other submissions.

Yours sincerely

A handwritten signature in black ink, appearing to read 'R. Matthes', with a long horizontal flourish extending to the right.

Ralph Matthes
Executive Director