

Submission on *Input methodologies review: Updated draft decision on cost allocation for electricity distribution and gas pipeline business*

13 October 2016

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SUBMISSION

Introduction

1. This submission responds to the Commerce Commission (**Commission**) consultation paper on *Input methodologies review: Updated draft decision on cost allocation for electricity distribution and gas pipeline business* released on 22 September 2016.
2. The Commission has requested views on their proposed approach to remove avoidable cost allocation methodology (**ACAM**) as a standalone cost allocation option from the cost allocation Input Methodology (**IM**) for electricity distribution businesses (**EDBs**) and gas pipeline businesses (**GPBs**).
3. While Chorus is not currently regulated by IMs, there is significant consultation currently underway in the telecommunications industry on post-2020 regulation of fixed line services. This includes MBIE considering setting methodologies for determining various inputs into the calculation of regulated prices for Chorus' fibre and copper services¹.

Cost Allocation Methodology

4. Chorus acknowledges the Commission's concerns that the application of ACAM may not promote cost allocation and efficiency sharing outcomes consistent with those occurring in workably competitive markets. However we agree with the Commission's decision in December 2010, if shared costs are low between the regulated and unregulated service, a cost allocation approach is likely to produce an outcome that is immaterially different to those resulting under ACAM.
5. During the TSLRIC consultation for UCLL and UBA, Chorus outlined the challenges of allocating network costs between fixed line services. Network traffic is dynamic, with peaks and troughs during the day. One of the main objectives of network design is to dimension the network to accommodate peak hour traffic². With the dynamic nature of traffic, cost allocation is problematic when a number of network assets are shared by different regulated and unregulated services. Therefore ACAM may be an appropriate cost allocation methodology, subject to materiality thresholds, if Chorus is regulated by IM's post-2020.

¹ Ministry of Business, Innovation and Employment Telecommunications Act Review: Options Paper, July 2016, p23.

² Chorus "Cross-submission in response to draft pricing review determinations for Chorus' unbundled copper local loop and unbundled bitstream access services" (20 March 2015) at [236].