

23 March 2015

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

Dear Keston Ruxton

I am writing on behalf of the Auckland Energy Consumer Trust, which is a significant investor in the electricity and gas distribution industries via its holding in Vector Ltd. We are taking advantage of the opportunity to comment on Dr Berry's open letter of 27 February 2015, about the review of input methodologies ("ims").

While there are a number of issues covered in the open letter, we focus in this communication on two specific items which we think are important for the functioning of the review:

- The lack of a stocktake of the workings of the ims to establish an appropriate start point for the review; and
- The lack of consideration of the way the set of ims has combined to produce outcomes.

Formal stocktake

The open letter has various comments that might be seen as a reflection by the Commission of the way the ims regime has worked to date. But these are clearly impressionistic and recognised as such, through expressions such as "our preliminary view...". This means that the approach to the review is rather unorganised, with no firm basis from which to proceed.

This process is setting the basis of the regulation of electricity and gas distribution – as well as major airports - over the coming years. Thus a significant capital investment plus the supply of vital services to many consumers is at stake. And, of course, once the review is underway the likely resource cost of all participants is substantial. So we think it needs to commence with a more formal assessment of the experience of the last 4 years or so.

Any review of a set of operational guidelines needs to found itself on a clear-eyed investigation of the workings of the process thus far against its stated objectives – section 52A. And this must have a degree of granularity sufficient to identify the strengths and weaknesses of the individual sections of the rules.

Moreover to serve its purpose – creating the right base for the subsequent review - this should not be focused on process, including the various exchanges to date, but look widely at the full range of evidence that might be brought to bear on appraising the long term functioning of the two energy supply systems.

In particular, we think it should examine the extent to which the basic objectives (in section 52A) have been successfully achieved, but also look ahead to the wider context the industries are facing.

In this connection we note the open letter's reference to the issue of "disruptive technologies" and consider this area needs to be widened to investigate the extent to which technological and other forms of risk are appropriately accommodated.

We are particularly concerned about the potential for investors in long-lived assets – common in these infrastructure industries - to be left stranded by changes in consumer behaviour.

Overall effects

We are also concerned about the modular structure of the ims and seeming lack of an organising framework within which to draw together and consider their total effect on the objectives.

So we recommend that the review should use as its steering principle an appraisal method that looks to the objectives of section 52A to assess the way the ims have operated as in their totality. Have they collectively furthered the aims of Part 4?

This should include a careful assessment of the extent to which the design of the process has appropriately allocated risk fairly and efficiently between suppliers and consumers.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'I R Ward'.

Ian Ward
Executive Officer