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Keston Ruxton
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By email: im.review@comcom.govt.nz

Dear Keston

Input Methodologies Review – updated draft decision on cost allocation

Introduction

Thank you for the opportunity to comment on the updated draft decision on cost allocation as part of the Input Methodology review (**IM Review**). Contact appreciates the Commerce Commission's (**Commission**) continuing engagement on the IM Review, and the steps taken to consider the views and information provided by stakeholders.

Draft decision to remove avoided cost allocation methodology (ACAM)

Contact supports the Commission's updated draft decision to remove ACAM. On the face of it, the removal of ACAM will mean electricity distribution businesses (**EDB**) will not be able to allocate the full cost of an asset/ service to regulated consumers while also generating unregulated revenue/ value for EDB shareholders. Contact believes the removal of ACAM supports the long term interests of consumers, and is a sound decision.

Whilst this is a positive step, Contact remains concerned that EDBs can still use the optional variation accounting-based allocation approach (**OVABAA**) to subjectively allocate asset values.[1] In effect, the ability to use of OVABAA undermines the proposal to remove ACAM because, as previously stated: [2]

> *OVABAA enables EDBs to reduce any asset value or operating cost which was allocated to the unregulated service using the ABAA [accounting-based allocation approach], back to what would have been allocated to the unregulated service using ACAM. Given the ability of EDBs to subjectively determine what allocation is required to not unduly deter investment (regardless of the underlying business performance of the EDBs unregulated activities), in our view ACAM can effectively be used in any scenario, regardless of the cost allocation thresholds.*

We encourage the Commission to consider the practical, rather than theoretical, outcomes of removing ACAM. The discretionary nature of OVABAA means it is highly likely to be used to achieve the same outcomes as under ACAM – that is, to generate additional unregulated revenue/ value for EDBs' shareholders. We reiterate our view that OVABAA can (and will) be used to the detriment of regulated lines consumers and should also therefore be removed.

[1] Electricity Distribution Services Input Methodologies Determination 2012, section 2.1.2.4(c).
[2] http://www.comcom.govt.nz/dmsdocument/14524, pg 15.

For the sake of completeness, Contact believes a level playing field, rather than amendments to the cost allocation regime, will best serve consumer interests in relation to emerging technologies. In the alternative, however, we support a cost allocation approach that at least requires the allocation of the capital and operational costs *directly* to the services in which they relate. We therefore support ABAA as the most appropriate cost allocation methodology.

Next Steps
Contact looks forward to continuing to engage with the Commission on the IM Review.

Yours sincerely

Simon Healy
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