Oji Fibre Solutions

Beyond the Boundaries

Keston Ruxton
Manager, IM Review
Commerce Commission

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IM review cross-submission non-capital items

Dear Keston,

Thank you for providing us with the opportunity to make a cross-submission on the Commerce Commission's consultation on the submissions of other parties in relation to the review of Input Methodologies (IM).

We are substantial users of both gas and electricity. The electricity and gas transmission and distribution services provided by monopoly suppliers are a significant portion of our overall energy charges.

Annual electricity transmission and distribution charges are approximately $10M pa

Annual gas transmission and distribution charges are approximately $6M pa

Total payments made to suppliers for transmission and distribution of energy is approximately $16M pa.

We are primarily an export business and so cannot pass on costs. We therefore continue to be concerned that we are able to obtain these services at a minimum cost consistent with the appropriate level of service.

We make comments on two aspects of the submissions

Accelerated depreciation

The proposed option to allow Electricity Distribution Businesses to apply for accelerated depreciation to mitigate the risk to their business of emerging technologies is contrary to the experience we as a business face. We therefore agree with the submissions of ERANZ, Contact Energy, Methanex and MEUG on this issue. In our industry new technologies as well as the need to satisfy the changing product requirements of our customers are both an opportunity and risk. When we or our competitors introduce a new technology e.g. to reduce operating cost which has no change in service or product quality, prices ultimately decrease relative to what they would otherwise because competitive responses will continue to maintain downwards pressure on prices.

If the proposal in the draft decision were adopted and all EDB we take line services from were to implement accelerated depreciation, the increase in electricity distribution charges to our business would according to the Commission be approximately 3 to 6% or $300K to $600K over the next regulatory control period . While in itself this increase might not seem particularly large, we cannot pass this on or negotiate with the monopoly supplier any price change as we normally would with our other suppliers, so this increase would come directly off our bottom line.

We also note that First Gas in their submission have suggested that in spite of there being no evidence of their assets being impacted by emerging technologies, nevertheless it would be prudent to provide the same option for GDBs as is being contemplated for EDBs. First Gas goes even further and also suggests that it be provided not just for GDBs, but GTBs as well.

The potential financial impact on us of such a suggestion if the same estimate by the Commerce Commission for EDBs was used would be in the range of $1M to $2M over the next regulatory control period.

The comments made above with respect to EDBs in our view   would apply to Gas distribution and transmission businesses.

In addition, as First Gas themselves concede, there is no evidence that either GDBs or GTBs have assets that may be impacted by emerging technologies. It does not seem reasonable or logical therefore to make any allowance for something for which there is no demonstrated need.
Furthermore the Commission only opened this up possibility for GDBs, not GTBs, so by suggesting that the option should be there for GPBs First Gas has gone beyond the Commission's scope for the issue.

<u>Risk allocation</u>
In comparing business risks between ourselves as export oriented producers of goods in competition with the world and local monopoly suppliers of electricity and gas transmission and distribution services, we consider that there is a substantial   difference.

When one considers the risks inherent in the supply of transmission and distribution services, it is also evident to us that consumers rather than suppliers bear much of the risk.

In particular, consumers bear the volume risk and this was brought home to us forcefully when our gas transmission charges increased   this year by approximately $1M pa when transmitted gas volume reduced due to the retirement of the gas powered electricity generators in Auckland.
If accelerated depreciation is implemented, consumers will also bear a significant portion of the supplier's technology risk.

We therefore support MEUG's suggestion that the Commerce Commission be explicit about risk allocation between the monopoly transmission and distribution service providers and users of these services and also consider this risk allocation balance when determining overall returns for the transmission and distribution service providers.

Thank you for the opportunity to make this submission. We are happy to respond to any further questions you may have.

Yours Sincerely

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