# MAJOR ELECTRICITY USERS' GROUP

16 August 2010


Karen Murray
Regulation Branch
Commerce Commission

By email to regulation.branch@comcom.govt.nz


Dear Karen

**Submission on Input Methodologies for EDBs and GDBs asset values**

1.  This is a submission by the Major Electricity Users' Group (MEUG) on the following Commerce Commission (the "Commission") papers in relation to Input Methodologies (IM) valuation of assets for Electricity Distribution Businesses (EDBs) and Gas Distribution Businesses (GDBs). The latter includes Gas Transmission Businesses (GTBs) unless otherwise stated.

    - "Methodologies Electricity Distribution Services, Draft Reasons Paper, dated 18th June 2010[1].

    - "Input Methodologies Gas Pipeline Services, Draft Reasons Paper", dated 21st June 2010[2].

2.  MEUG comments are set out in the appendix attached.

3.  Nothing in this submission is confidential.


Yours sincerely

Ralph Matthes
Executive Director

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[1] http://www.comcom.govt.nz/assets/Pan-Industry/Input-Methodologies/Draft-Reasons-EDBs/Input-Methodologies-Electricity-Distribution-Services-Draft-Reasons-Paper-June-2010.pdf

[2] http://www.comcom.govt.nz/assets/Pan-Industry/Input-Methodologies/Draft-Reasons-GPBs/Input-Methodologies-Gas-Pipeline-Services-Draft-Reasons-Paper-June-2010.pdf

Level 28, The Majestic Centre, 100 Willis Street, Wellington 6011, New Zealand
PO Box 8085, The Terrace, Wellington 6134, T +64-4 494 0996, info@meug.co.nz , www.meug.co.nz

MEUG to CC on EDBs & GDBs asset value IM 16-Aug-10

Appendix: MEUG comments on EDBs and GDBs Input Methodologies for valuation of assets

| Input Methodologies Draft Decisions and Draft Reasons | MEUG submission |
|---|---|
| **Initial regulatory asset valuations** | |
| For all EDBs and for GDBs not subject to Gas Authorisation: Valuations reported in 2009 information disclosure requirements adjusted for various factors. | Agree. |
| For GDBs subject to Gas Authorisation: Valuations set out in the Gas Authorisations updated for various factors. | Agree. |

| Input Methodologies Draft Decisions and Draft Reasons | MEUG submission |
|---|---|
| **Roll forward and depreciation** | |
| Asset values revised annually using CPI revaluations. | Agree. |
| Straight line depreciation for DPP.  EDBs and GDBs can seek flexibility on deprecation under CPP provided consistent with outcomes required under Part 4. | Agree. |
| EDBs and GDBs can change standard asset lives provided publish justification. | Too subjective and prone to gaming by EDBs and GDBs. |
| | MEUG recommend EDBs and GDBs contemplating a change from standard asset lives must consult with interested parties and register that process with the Commission.  The Commission will advise interested parties of the proposed change. |
| | Requiring the EDBs and GDBs to put forward their reasons for scrutiny before making a decision is a more robust process.  Otherwise EDBs and GDBs may decide an outcome that suits them and backfill with weak justification.  Interested parties will have little leverage to have EDBs and GDBs review decisions once published. |
| | Requiring the proposed change to be lodged with the Commission will provide another channel (in addition to that implemented by the EDBs and GDBs themselves) to ensure interested parties are give notice of the proposed change. |

| Input Methodologies Draft Decisions and Draft Reasons | MEUG submission |
|---|---|
| **Treatment of stranded assets** | |
| EDBs and GDBs can retain stranded assets in RAB and recover remaining depreciation. | This would not occur in a market.  MEUG oppose this proposal. |
| | Assets that are stranded should be for the account of shareholders.  This creates a strong incentive on EDBs and GDBs to ensure their forecasts are accurate or to increase the level of dedicated contracted new investment.  The latter, with some regulatory backstop provisions to mitigate the monopoly power of EDBs and GDBs, is likely to find a more efficient solution. |

| Input Methodologies Draft Decisions and Draft Reasons | MEUG submission |
|---|---|

| **Treatment of fully depreciated assets**<br><br>Assets fully depreciated but with some remaining economic life are deemed to have further 5 years depreciation claimable. | An unjustified wind fall gain to EDBs and GDBs.<br><br>Consumers would have already paid full depreciation and ROI on these assets. If the assets are in place and their value is zero then they are the lowest possible cost option. The regulatory regime should be designed so that EDBs and GDBs use those assets without having to incentivise EDBs and GDBs with a windfall gain. |