



# MAJOR ELECTRICITY USERS' GROUP

16 August 2010

Karen Murray  
Regulation Branch  
Commerce Commission

By email to [regulation.branch@comcom.govt.nz](mailto:regulation.branch@comcom.govt.nz)

Dear Karen

## **Submission on Customised Price Quality Path Requirements Input Methodologies for EGBs and GDBs set out in Companion Paper**

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Commerce Commission (the "Commission") Input Methodologies for Electricity Distribution Businesses and Gas Pipelines Businesses, Companion Paper (Draft Determinations and Customised Price Quality Path Requirements), published 2<sup>nd</sup> July 2010<sup>1</sup>. Three papers by Strata Energy Consulting for the Commission are also relevant:
  - "Specifying the CPP information requirements relating to capital expenditure, operating and maintenance expenditure, and demand", 30<sup>th</sup> June 2010<sup>2</sup>.
  - "Draft qualitative CPP information requirements relating to capital expenditure, operating and maintenance expenditure, and demand", June 2010<sup>3</sup>.
  - "Draft quantitative CPP information requirements relating to capital expenditure, operating and maintenance expenditure, and demand, Electricity Distribution", June 2010<sup>4</sup>.
2. MEUG comments on the draft Input Methodologies in the Companion Paper are set out in the appendix to this submission.
3. Nothing in this submission is confidential.

Yours sincerely

Ralph Matthes  
Executive Director

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<sup>1</sup> <http://www.comcom.govt.nz/assets/Pan-Industry/Input-Methodologies/Draft-Determinations/Input-Methodologies-for-EDBs-and-GPBs-Companion-Paper-Draft-Determinations-and-CPP-Requirements-July-2010.pdf>

<sup>2</sup> <http://www.comcom.govt.nz/assets/Pan-Industry/Input-Methodologies/Strata-CPP-Reports/Strata-CPP-Information-Requirements-Overview-Paper-June-2010.pdf>

<sup>3</sup> <http://www.comcom.govt.nz/assets/Pan-Industry/Input-Methodologies/Strata-CPP-Reports/Strata-Qualitative-Draft-Electricity-Distribution-CPP-Information-Requirements-22-June-2010.pdf>

<sup>4</sup> <http://www.comcom.govt.nz/assets/Pan-Industry/Input-Methodologies/Strata-CPP-Reports/Strata-Quantitative-Draft-Electricity-Distribution-CPP-Information-Requirements-22-June-2010.PDF>

## Appendix: MEUG comments on CPP IM for EDBs and GDBs

Input Methodologies Draft Decisions and Draft Reasons	MEUG submission
<p><b>Making a CPP proposal</b></p> <p>The Companion Paper sets out a process timetable and criteria</p> <p>The draft decision is to allow an applicant to fully recover the costs of making a CPP application.</p>	<p>Process box 3 in Figure 2.1, Overview of CPP Proposal Process, states “Applicant notifies consumers that it intends to make a CPP proposal.” The applicant must make this notification 2 months before the proposal is due. The latter is the last week of January. This means consumers could be notified at the end of November and part of the two months prior to the application being lodged will span the traditional Christmas holiday period. In other words the effective notice time for consumers will be less than 2 months.</p> <p>MEUG suggest consumers be informed at the same the applicant obtains approval from Commission to engage an independent verifier, ie at the outset of the process.</p> <p>MEUG submit the following caveats should apply:</p> <ul style="list-style-type: none"> <li>• Only costs incurred since the end of the last pricing year should be considered. This will avoid applicants claiming historic costs that may or may not have been relevant. It also incentivises applicants to make decisions in a timely and efficient manner on whether to pursue a CPP.</li> <li>• Only ½ the costs are recoverable. This is more consistent with the purpose of Part 4 that benefits are shared because presumably the forecast profit under CPP will be higher than under DPP and this should compensate the shareholders of EDBs and GDBs for the risk and cost of having commenced an application for CPP. A requirement of CPP should also be that consumers will have a lower price path under CPP than DPP. This then will be the reward for consumers “acceptance” of ½ the CPP application costs.</li> </ul>
<p><b>Calculation of allowable revenue</b></p> <p>By use of Building Blocks Allowable Revenue.</p> <p>Very limited use of claw back provisions.</p> <p>Fixing contract terms and conditions</p>	<p>Agree.</p> <p>MEUG has no view at this stage on this proposal.</p> <p>The Companion Paper has no mention of the risk that EDBs and GDBs having been granted CPP could then modify contract terms and conditions to reduce their risk. This is possible under DPP, however the trade-off with DPP is that it is less intrusive generic regulation and over time the DPP will evolve to remove such arbitrage. CPP allows innovation and customisation but with that complexity there is a higher risk of gaming. MEUG submit parties granted CPP must also have the terms and conditions of their contracts with customers set and remain unchanged over the term of the CPP unless agreed by customers.</p>