



# MAJOR ELECTRICITY USERS' GROUP

2 September 2010

Karen Murray  
Regulation Branch  
Commerce Commission

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

Dear Karen

## **Cross-submission on proposed Input Methodologies, apart from cost of capital, for Electricity Distribution Business and Gas Distribution Businesses**

1. This is a cross-submission by the Major Electricity Users' Group (MEUG) on the submissions of other parties relating to all non cost of capital Input Methodologies (IM) for Electricity Distribution Businesses (EDBs) and Gas Distribution Businesses (GDBs). First round submissions on most of these IM closed on 9<sup>th</sup> August and on valuation IM on 20<sup>th</sup> August 2010<sup>1</sup>.
2. There are no aspects of our original submission that require changing as a result of viewing the submissions of other parties.
3. There are some aspects of our original submission that we reinforce as a result of viewing the submissions of other parties as follows:
  - a) MEUG support the Commission proposal for establishing the opening Regulatory Asset Base. Many submitters oppose this and have spent considerable resources developing alternative options. That may well be to their short and long-term interest; but no party has provided evidence those alternatives would promote the long-term benefit of consumers.

If other submitters had a sure-fire case that their proposals were in the interests of end consumers then they would have engaged constructively with us to gain our support. That has not happened for obvious reasons.
  - b) Another noticeable point of difference from other submitters has been the approach to cost allocations. Again self-interest of Part 4 regulated entities seems to be the driving force and in particular their ambitions to leverage (or cross-subsidise) into broadband services or energy retailing and generation. The Commission approach is sound and decisions on preferences by Government for broadband service providers should be left to Government to explicitly and transparently allow cross-subsidisation if that is their decision.

It would not appear possible for the Commission to give any leeway on cost allocation in favour of EDBs and GDBs supporting unregulated businesses because end consumers can never be guaranteed to share the benefits arising from those unregulated businesses.

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<sup>1</sup> <http://www.comcom.govt.nz/input-methodologies/>

- c) The Incremental Rolling Incentive Scheme (IRIS) is mentioned by many as a candidate for Default Price-Quality Path not just Customised Price-Quality Path (CPP) Regulation. We disagree because DPP is supposed to be a low cost without bells and whistles. IRIS is more complex, costly to design and implement and therefore is more relevant to CPP. We support the proposal by the Commission that IRIS should only be available for CPP. Further we recommend that the IRIS should be symmetrical and take into account positive and negative carry-overs. MEUG made this point in submissions on IRIS for the proposed Individual Price-Quality Path Regulation for Transpower<sup>2</sup>.
4. This submission is not confidential.

Yours sincerely



Ralph Matthes  
Executive Director

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<sup>2</sup> <http://www.comcom.govt.nz/assets/Pan-Industry/Input-Methodologies/TranspowerIPPCrossSub/MEUG-Cross-Submission-on-Individual-Price-Quality-and-Draft-Reasons-Paper-for-Transpower-Input-Methodologies-apart-from-Cost-of-Capital-25-August-2010.pdf>