



MAJOR ELECTRICITY USERS' GROUP

18 September 2003

Gas Pipelines Inquiry
Commerce Commission
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WELLINGTON

By email to gaspipelinesinquiry@comcom.govt.nz

Cross-submission on Gas Control Inquiry Draft Framework submissions

1. This cross-submission reinforces the prior MEUG submission (paragraph 5, 20 August 2003) that the inquiry needs to investigate specific pricing methodologies rather than average-prices. Two additional points arising from the conference are noted in support of this suggestion:
 - a) All of the gas line companies acknowledged differential pricing for consumers that were potentially at risk from bypass. However there was insufficient evidence provided to assess the level of cross-subsidisation between different consumer classes, end users' in different regions, current and future gas users' or consumers and line owners'. A competition analysis and net acquirers' benefit based on average aggregate prices for each gas line business would not capture material issues arising from such cross-subsidisation; hence the need to inquiry into the company specific pricing methodologies.

Some companies advised the Commission that disaggregating costs to determine cross-subsidies would be difficult, yet those companies also had active strategies to differentially price for bypass risks. That inconsistency needs to be reconciled.
 - b) All gas line companies reported a significant increase in household gas disconnections when retailers raised fixed charges. The problem appears to be that fixed charges for gas lines (which is a least distortionary approach for pricing line assets) cannot compete with mandated low-fixed charges for electricity line costs. At the same time several submitters reported that EECA had undertaken an analysis showing expanded direct household gas consumption to be more efficient than meeting household end use needs from gas-fired electricity generation. The extent of this distortion needs to be investigated by inquiring into specific pricing methodologies of both gas and electricity retailers to households.
2. All of the other comments in the MEUG submission of 20 August 2003 remain unchanged.

Yours sincerely

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