



# MAJOR ELECTRICITY USERS' GROUP

22 July 2004

## Submission to Commerce Commission conference on Gas Control Inquiry Draft Report

### Q 2.4 Foreign ownership and net public benefits test

The draft recommendation in paragraph 17.24 states (with suggested changes by MEUG):

*"The Commission notes that the results of the net public benefits assessment for NGCT and NGCD are significantly affected by foreign ownership. The Commission reiterates its view that treating businesses differently because of foreign ownership differences only, **will create potential real costs not addressed in this analysis. For this reason the Commission strongly cautions the use of the net public benefits analysis differentiating between NZ and foreign ownership.**"*

### Q 5.3 Regulator costs recovered by taxation or levy and resultant welfare treatment

The 20% marginal welfare loss of additional taxation is inappropriate because it is likely new regulatory costs will be directly recovered from the gas industry not through the Consolidated Fund.

Even if accept there is a second order welfare effect, MEUG suggest there are more important economic welfare losses that should be considered, eg without price control gas line businesses will raise prices and the additional cost and uncertainty of the risk of future uncontrolled monopoly price setting may be sufficient to trigger inefficient levels of input substitution, deter otherwise efficient new investment or hasten the closure of existing gas consumption businesses that from a national benefit perspective should remain operating. The Commission analysis captures the static efficiency effects but not the longer term impacts on gas user investment behaviour with and without certainty afforded by control of monopoly services.

### Q 7.1 Asset beta

As far as MEUG are aware the draft guidelines including the proposed asset beta for ELB of 0.4 have never been finalised.

Contrary to the draft report, MEUG suggest reliance can be placed on the observed 3-year average asset beta for NZ gas business of 0.2 (paragraph 7.61).

### Q 7.2 which percentile of WACC range?

No rationale for using other than the mid point 50<sup>th</sup> percentile is given in the draft decision – the choice of using the 75<sup>th</sup> percentile is arbitrary and biased. If a bias is needed then specific costs should be increased to reflect that specific risk.

### Q 14.1 Post Maui contract pipeline access

MEUG support the Commission statement, *"Based on both the pricing provisions in the open access regime proposed by Maui in 2003 and the potential for further delay in open access being introduced, the Commission's preliminary view is that it would be in the interests of acquirers that gas services supplied by MDL, under the Maui open access regime, be controlled."* (Paragraph 14.84)