



MAJOR ELECTRICITY USERS' GROUP

31 March 2006

Mr Paul Mitchell
Senior Advisor – Retail & Distribution
Gas Industry Company
By email to info@gasindustry.co.nz

Dear Mr Mitchell

Submission on cost benefit analysis methodology for switching options

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Gas Industry Company (GIC) consultation paper, *Cost Benefit Analysis of Options for Switching Arrangements in the New Zealand Gas Industry*, 16 March 2006. The following comments are on the methodology rather than which option is preferable. The latter will be the subject of further consultation. References to page numbers are to those in the CRA report.
2. The analysis considers only quantified benefits and costs provided by gas suppliers or switching service providers. Mention is made of other un-quantified benefits (refer first paragraph p11). MEUG suggest that where benefits and costs are difficult to measure they should be listed and ranked by likely materiality relative to quantified benefits and costs.
3. The analysis assumes the counterfactual is option 1, termed the status quo. However the report indicates some steps have been taken already towards implementing Option 2, in which case that option is the status quo and therefore the better counterfactual. Option 2 might also have sub-options whereby experience gained from some initial improvements to switching protocols will lead to a better central registry design than the "big-bang" approach of options 3 and 4.
4. MEUG note that another alternative counterfactual might be an imposed regulated switching and market governance regime should the industry fail to implement changes to address the eight issues listed on page 4.
5. There are two incremental costs relative to the status quo that should be included. First, the cost of establishing and maintaining a compliance regime. Second, gas retailers are likely to have incremental changes required to processes and software to interface with a new central switching database and compliance regime.

Yours sincerely

Ralph Matthes
Executive Director