

10 July 2015



Keston Ruxton
Manager, Market Assessment and Dairy
Commerce Commission
By email: IM.Review@comcom.govt.nz

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Dear Keston Ruxton

Cross submission on CPP IM fast track amendments

Wellington Electricity Lines Limited (**WELL**) welcomes the opportunity to make a cross submission on Powerco Limited's submission dated 23 June 2015 on the '*Scope and process for fast track amendments to the CPP input methodology requirements*'.

WELL supports Powerco's proposal for aligning the CPP WACC with the prevailing DPP WACC. Powerco's proposal provides a simple mechanism which, at a high level, involves:

- For the part of the CPP period which overlaps with the current DPP period, the CPP WACC equals the DPP WACC; and
- For the remaining part of the CPP period, a forecast of the WACC is applied initially to determine the revenue/price path in the CPP determination. Then once the new DPP WACC is published, an adjustment to the CPP price/revenue path such that the effective CPP WACC equals the new DPP WACC.

WELL supports this approach because it:

- Provides reasonable certainty to prospective CPP applicants regarding the WACC that will apply under a CPP;
- Fully removes any perverse incentives to make decisions regarding whether to apply for a CPP based solely on the difference in the WACC between CPP and DPP; and
- Is simple to understand conceptually and straight forward to implement using a mechanistic adjustment formula in the CPP price/revenue path compliance formula.

Importantly, it is appropriate that the alignment of the CPP and DPP WACC is fast tracked as the outcome of the decision will be the primary consideration for potential CPP applicants in 2016 or 2017. The differential between the CPP and DPP WACC is currently of a magnitude that would defer potential applicants from investing the necessary time and resource into the development of a CPP proposal.

Powerco's proposal better meets the purposes of Part 4 of the Act by:

- Promoting the purpose of default/customised regulation, as set out in section 53K of the Act, by enabling suppliers to assess whether a CPP proposal is appropriate given the underlying investment and operation needs of the business to operate efficiently and ensuring this decision is not distorted by a differential in the WACC between the DPP and CPP; and thereby
- Promoting the long-term benefit of consumers by ensuring suppliers have incentives to efficiently invest in the network in accordance with section 52A of the Act; and
- Fast tracking the WACC alignment ensures that CPP applications are not inefficiently deferred due to the WACC differential and therefore efficient investment decisions facilitated by the CPP determination are not inefficiently deferred.

Further, the WACC is, and should remain, independent of the decision regarding the form of control applicable under the DPP or CPP. We have not come across any evidence to suggest that alternative forms of control affect the systematic risks faced by distribution business. Additionally, the Australian Energy Regulator has not changed its methodology for measuring WACC in response to changing from a price cap to a revenue cap regime.

WELL appreciates the opportunity to make this cross submission. Please do not hesitate to contact Megan Willcox, Regulatory Projects Manager, on MWillcox@welectricity.co.nz if you have any queries.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'G Skelton', written in a cursive style.

Greg Skelton

CHIEF EXECUTIVE OFFICER