



PROGRESSIVE

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Keston Ruxton
Manager, IM Review
Commerce Commission
By email to regulation.branch@comcom.govt.nz

Dear Keston

IM review cross-submission

Progressive Enterprises welcomes the opportunity to make a cross-submission on the Commerce Commission's consultation on the submissions of other parties in relation to the review of Input Methodologies (IM). This submission covers both non-Cost of Capital topics and Cost of Capital topics. This submission is not confidential.

Progressive owns and operates 184 Countdown supermarkets in New Zealand, and is the franchisor of 60 Super Value and Fresh Choice supermarkets, which are locally owned and operated. The company is New Zealand's largest private sector employer, with 18,000 New Zealanders employed across its stores, support offices, processing plants and distribution centres. We are also one of the largest retail investors in the country. Network and Line charges paid by Progressive per annum are in excess of \$12 million, accordingly, paying the lowest possible line charges to line companies makes a material difference to the cost of doing business.

Progressive agrees with the submission also made by MEUG. The issues raised in the MEUG submission are sufficiently important to our business and Progressive will want to put on record the impacts that are noted.

Asset beta

Progressive agrees with submissions of Contact Energy, Pat Duignan and First Gas, in particular that the methodology for estimating asset beta needs to be re-considered. Progressive believes the Taylor Duignan Barry (TDB) advice to Contact Energy appears to be a more appropriate method of estimating asset beta than the current simple averaging of 74 companies most of which have little in common with Transpower and the Electricity Distribution Businesses (EDB). If the asset beta were changed to TDB's estimate of between 0.24 (three step filter) and 0.28 (two step filter) this would reduce line charges we pay by between approximately 3.4% and 5.6% or \$408k to \$672k pa. These are approximate values at this stage based on the advice of MEUG on the range of percentage reductions – nevertheless they indicate this is a very material issue and therefore support the case for the Commission to re-consider its draft decision.

Accelerated depreciation

The proposed option to allow EDB to apply for accelerated depreciation to mitigate the risk to their business of emerging technologies is contrary to the experience we as a business face. We therefore

agree with the submissions of ERANZ, Contact Energy, Methanex and MEUG on this issue. In our industry new technologies and service models are both an opportunity and risk. When we introduce a new technology for the supply of a service or to support product quality we build into the business case the costs of any advancing of depreciation or write-offs and then decrease prices relative to what they would otherwise be.

If the proposal in the draft decision were adopted and all EDB we take line services from were to implement accelerated depreciation the increase in distribution charges to our business would, according to the Commission, be approximately 3% to 6%. In addition our customers, who all use electricity, would also have an increase in line charges and to that extent their disposable income in the case of households and profits in the case of businesses would decrease. This would adversely impact our business.

For MEUG members that are also exporters or competing with importers there is a third financial risk - because off shore competitors will not bear higher line charges (unless their jurisdictions regulators exactly align their policy with the NZ Commerce Commissions).

Other issues :

- Consumer participation. Progressive supports MEUG's suggestion on the CPP application consultations (that EDB must consult with consumers or reps, e.g. ERANZ and MEUG, representing a third of consumers demand and at least 5 parties to avoid risk of retailer or large industry concentration) and this approach would also be useful for EDB consultations on pricing and other consultations undertaken with EDB (e.g. outage communication and asset planning).
- Risk allocation. From Progressive's commercial experience it is not evident that TPNZ and EDB's have any risks they wouldn't already be in control of and therefore Progressive supports MEUG's suggestion that the CC be explicit about risk allocations between the monopoly line service provider and users' of line services.
- There is a need for a re-refresh of Part 4 of the regulations before 2020 to allow for changes to be implemented in the DPP and IPP resets of 1st April 2020. Progressive supports MEUG's cross-submission that this refresh should be completed.

Progressive supports the MEUG submission to find solutions to the above by way of considering changes to the review of the Input Methodologies (IM).

Supermarkets are high volume, fiercely competitive businesses where every cent counts and where margins are low. Our focus every day is to keep food and groceries priced competitively and as such any additional costs or impediments to competitive marketplaces are unwelcome.

Thank you again for the opportunity to submit, and please don't hesitate to contact me should you require any further information.

Yours sincerely

Leon Jarden

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Finance

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