

26 March 2020

Matthew Lewer

Manager, Regulation Development

Commerce Commission

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Dear Mr Lewer

Cross submission to Reconsideration of Customised Price Paths – WACC change

Wellington Electricity Lines Limited (**WELL**) welcomes the opportunity to make a cross-submission in response to the Commerce Commission's (**Commission**) consultation paper *Reconsideration of customised price-quality paths of Powerco and Wellington Electricity Lines Limited following changes to weighted average cost of capital (Consultation paper)* published on 5 March 2020. The cross-submission is addition to our submission made on the 19 March 2020.

WELL's submission recommended alternative options to the Commission's proposed approach which allows for the wash-up calculations to operate as originally intended and avoids the perverse customer price volatility outcomes outlined in our original submission.

The Commission's proposed approach to 'work around' the error in the Input Methodologies (IMs) does not address the underlying error and creates perverse outcomes for all stakeholders. The proposal to work around would result in unacceptable and unnecessary price and cashflow volatility for customers and EDB's respectively. WELL estimates that the Commission's proposed approach results in annual distribution price fluctuations of between 3% and 17%.

WELL notes that Powerco's submission highlighted a different set of issues that also materially impact stakeholders. The material issues identified were mostly unique to Powerco, but did include issues that WELL had not identified in its analysis. Powerco expanded on the importance of maintaining regulatory consistency and provided an example of how a predictable regulatory regime can influence global financial metrics and potentially the cost of debt. Powerco also highlighted that the Commission's proposed work around would not correct the misalignment in the revenue foregone mechanism that also relies on actual net allowable revenue. These additional examples

help highlight the complexity of the Commission's proposed solution and the likelihood of other unintended consequences. The Commission had only a short amount of time to construct the proposed solution and both Powerco and WELL have only had two weeks to assess and comment in response. Unlike an industry wide consultation, which has 29 networks and a wider stakeholder group considering consultation proposals, this consultation has not had the detailed scrutiny of other consultations. WELL submits that there is a high probability that there are other unforeseen outcomes.

The uncertainty around the outcomes of the proposed solution highlights the importance of addressing all aspects of the correction now, rather than breaking the consultation into three parts. Most of the benefits of WELL's preferred solutions of correcting the IMs or Determination immediately (e.g. avoiding price and cashflow volatility) would not have been discussed until consultation step two had WELL followed the Commission's proposed approach timing. By that time, the Commission may have committed to another solution that would make the preferred option more difficult to apply.

Amending the Determinations or the IMs to correct the error and let the regulatory mechanism operate as intended is the logical and predictable solution. As WELL originally submitted, correcting these errors is the most rational solution and is the approach that stakeholders would expect the Commission to employ as their best option to avoid the perverse outcomes introduced by a less preferred work around.

If you have any questions or there are aspects you would like to discuss, please don't hesitate to contact Scott Scrimgeour, Commercial and Regulatory Manger, at sscrimgeour@welectricity.co.nz .

Yours sincerely

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

Greg Skelton
Chief Executive Officer