

14 March 2014

Brett Woods
Senior Analyst
Commerce Commission
By email to regulation.branch@comcom.govt.nz

Dear Brett,

On 19th December 2013 Consumer NZ with the Employers and Manufacturers Association Northern Inc and Major Electricity Users' Group requested the Commission undertake an urgent review before the upcoming 2015 price-quality path resets for electricity transmission and distribution services. The Commission paper dated 20 February 2014 inviting views on whether the Commission should review or amend the cost of capital input methodology is therefore very welcome.

This letter sets out our view that an urgent amendment is appropriate and necessary.

Consumer NZ has a constituency of 60,000 members. We are the leading consumer organization in NZ, with an acknowledged and respected reputation for independence and fairness in the provision of consumer information and advice. We are active in the energy market as providers of electricity and gas comparison and switching website PowerSwitch. We are represented on the Electricity Authority's Retail Advisory Group and electricity pricing is of significant interest to our members and New Zealanders generally.

Electricity is a multi-billion-dollar cost each year for households. According to MBIE households in the year ended March 2011 paid \$2.9 billion for power split \$1.9 billion for energy and \$1 billion for regulated line costs. These costs exclude GST. Line charges have been a source of ongoing concerns due to excessive monopoly charges prior to and since Part 4 of the Commerce Act was amended in 2008. Setting the regulated cost of capital, or WACC as it is often referred to, is critical.

Confidence in the use of the 75th percentile range for WACC has been undermined by the clear view of the High Court that the mid-point estimate should be used. MEUG estimates that use of the 75th percentile compared to the mid-point will add \$155 million per annum to the charges paid by all electricity and gas consumers.¹

To remove uncertainty for consumers and line monopolies an urgent amendment to the WACC input methodologies is needed. Urgency is needed to enable final decisions to be incorporated into the resets of the Default Price-Quality Path for Electricity Distribution Businesses and Individual Price-Quality Path for Transpower that come into effect 1st April 2015. If the matter is not settled quickly then consumers may be over-charged by \$155 million per annum and in aggregate over the 2015-20 regulatory period by \$773 million.²

¹ Affidavit in support of application for leave to appeal to Court of Appeal, paragraphs 9 to 16, pp4-5, document URL <http://www.meug.co.nz/includes/download.aspx?ID=132567> found at <http://www.meug.co.nz/Site/Publications.aspx>

² At paragraph 16

As far as we are aware a change to the mid-point has no flow on effect on other aspects of the WACC input methodologies. Nor are there any feasible alternatives to address the High Court comments on the use of the 75th percentile.

Consumer NZ supports the Commission issuing a Notice of Intention to undertake an urgent amendment of the cost of capital input methodologies.

Yours sincerely

A handwritten signature in black ink, appearing to read "Sue Chetwin". The signature is written in a cursive, flowing style.

Sue Chetwin

Chief Executive Officer