

Submission on WACC IM review

13th March 2014
Brett Woods
Senior Analyst
Commerce Commission

By email to regulation.branch@comcom.govt.nz

Dear Brett

On 19th December 2013 Consumer NZ along with 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 20th 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.

The Grey Power Federation Incorporated (GPF) has a membership of seventy-four Associations with a total individual membership in excess of 65,000. We are active in the energy market as an advocate for the average residential electricity & gas consumer and last year formed a partnership with Pulse Utilities to form Grey Power Electricity.

Because electricity has a multi-billion-dollar cost each year for households it has a significant cost to this group and accordingly GPE has a significant interest in the outcome of this review. 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 of course exclude GST which once added again become another significant cost to the residential consumer who cannot claim these costs back. 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. GPF supports the MEUG estimate that use of the 75th percentile compared to the mid-point will add approximately \$155 million per annum to the charges paid by all electricity and gas consumers.

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.

As far as GPF 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.

The Grey Power Federation supports the Commission issuing a Notice of Intention to undertake an urgent amendment of the cost of capital input methodologies.

Yours sincerely,

Allen Davies
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