

1 May 2014

Dr Mark Berry
Commerce Commission
PO Box 2351
Wellington 6140

Dear Mark,

Submission in relation to the Commerce Commission's Paper 'Further work on the cost of capital input methodologies'

AMP Capital appreciates the opportunity to participate in the Commerce Commission's (the Commission) review on the use of the 75th percentile WACC parameter (the Review) and is pleased to be able to provide this submission.

AMP Capital is a leading global infrastructure investor with over 20 years of experience investing in the sector, and around A\$7 billion of funds under management in infrastructure equity and debt. Regulated utilities are attractive to our investors and we have experience in investing in a number of international regimes including North America, UK, Europe and Australia.

General Comments

The key factor in determining an attractive opportunity for investment is where we believe our clients can obtain a fair risk-adjusted return in an asset that reflects the relative risks and opportunities. And for a regulated utility, having a high level of confidence in the transparency and stability of the regulated framework is critical.

The reason that AMP Capital decided to investigate the purchase of 42% of Powerco from Brookfield early last year was primarily related to the fact that we assessed the NZ regulatory framework had matured to a level that was broadly comparable with the Australian and UK models. Our subsequent due diligence during 2012 confirmed that the Commission and the NZ energy stakeholders had worked constructively over several years and after many detailed workshops and discussion papers, had developed a set of Input Methodologies (IMs) that are now the foundation of the framework. We also took comfort from the fact that there was a process identified for a comprehensive review of the collective components of the Part 4 regulatory framework within seven years.

Hence we are now very concerned that despite the High Court's clear decision late last year to reject all the appeals to change the IMs, on the grounds of no "materially better" alternatives, the Commission has commenced a review of one material component of the regulatory framework in isolation and ahead of the anticipated comprehensive review of all the interconnected inputs. We disagree that the WACC percentile can be reviewed independently, given the substantial review process the Commission has undertaken with the industry over the last few years to establish the WACC IM. We also note that the Merits Appeal process in Australia has recently been fundamentally changed to stop "cherry-picking" of specific inputs, and now requires the AER to review any change in the context of the whole regulatory package.

From an investor's perspective, embarking on an unexpected review of a key regulatory input, which has a potential material value impact, erodes our confidence in the maturity of the framework, and in fact increases the risk premium and relative risk-adjusted equity return we would regard as fair. We also note that global

credit rating agencies have also concluded that a comparable regulated energy company in NZ will need to have higher debt coverage ratios for an equivalent rating compared to an Australian or UK company - predominantly due to the immaturity of the new regulatory framework. The Commerce Commission needs to take these implications into consideration as part of its review process.

AMP Capital's strong view is that the NZ energy sector now needs a period of regulatory stability to build on the comprehensive process over the last few years that led to the development of the IMs. To restate, the High Court rejected all the appeals to change the IMs. To continue to tinker with the rules in an ad hoc manner, and over a compressed timeline, will not lead to confidence in the regulatory framework, will negatively impact investment appetite, and hence will not be in the long term interest of consumers.

Specific Comments

AMP Capital understands the need for the Commission to respond to the High Court's comments in relation to the use of the 75th percentile WACC parameter, with the objective of addressing the uncertainty that may have been perceived in the market from those comments. However, AMP Capital believes that a review of the 75th percentile WACC parameter as part of the scheduled comprehensive review of the IMs within the next few years is a preferable alternative to achieve these objectives. AMP Capital has confidence that a comprehensive review of the methodologies, in this predictable considered manner, will produce an appropriate result, which properly considers the High Court's comments on the issue and avoids the erosion of investor confidence from the imposition of an ad hoc and isolated review.

AMP Capital welcomes the opportunity to participate in this process and looks forward to the Commission's response.

Yours sincerely,



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