

28 September 2016

Graeme Peters
Chief Executive, Electricity Networks Association
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6011

By email to gpeters@electricity.org.nz

Dear Graeme

Response to ENA letter re follow-up comments to the WACC workshop

I refer to your letter of 16 September 2016.

Your letter set out two issues the ENA had following the WACC workshop:

1. The approach to establishing asset beta from a process perspective.
2. In response to a Commission question put to the ENA at the workshop, the merits of moving to a trailing average approach.

1. The approach to asset beta

The first issue related to concerns the ENA had regarding the decision making process for estimating asset beta. Particularly, the ENA was concerned that we were considering “fundamental changes to asset beta calculation methodologies” at a late stage in the process “in light of quantitative results”.

As you are aware, at the workshop we tested some of the ideas that were received in submissions and cross submissions on our draft decisions regarding ways we could improve our approach to estimating asset beta. In our view these issues were appropriately raised and ‘on the table’ before the workshop. We, therefore, do not consider that the workshop discussion constituted an “eleventh-hour reconsideration” of our decision, but rather was a useful step in our decision making process.

We are very aware of our consultation obligations around the IM review, and of the value stakeholders place on being given the opportunity to comment on data and Commission views. At this point, however, we do not consider that further substantial consultation on

our approach to estimating asset beta is necessary or useful. Should we form a different view prior to making final decisions, we will let stakeholders know as soon as possible.

We note that today we have published on our website two pieces of information that we requested at the workshop relating to debt beta and swap market data. Parties will have until 5 October 2016 to make any comments specifically related to that information.

2. The merits of moving to a trailing average approach

We note your comments in relation to a question that the ENA was asked at the workshop regarding the trailing average. We did not intend that the ENA would provide a written response to us: our apologies for any confusion. In the interest of transparency, we are going to publish your letter dated 16 September and our response on our website.

Kind regards,

A handwritten signature in black ink, appearing to read 'Keston Ruxton', with a long horizontal flourish extending to the right.

Keston Ruxton
Manager, Input Methodologies Review
Commerce Commission