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Amendment to the WACC determination date for electricity lines services, including Transpower

Reasons paper

Amendments made under s 52X and 52V(2) of the Commerce Act 1986 to the input methodologies for electricity distribution services and Transpower.

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1. Introduction

Purpose of this paper

- 1.1 This paper sets out the reasons why we have amended the input methodologies to change the date on which we determine the WACC used for:
- 1.1.1 setting the default price-quality path for electricity distributors; and
 - 1.1.2 setting the individual price-quality path for Transpower.

Determinations affected by these amendments

- 1.2 The input methodologies amendments apply to the following determinations:
- 1.2.1 *Electricity Distribution Services Input Methodologies Determination 2012* [2012] NZCC 26 (the **EDB IM Determination**); and
 - 1.2.2 *Transpower Input Methodologies Determination* [2012] NZCC 17 (the **Transpower IM Determination**).

We invited submissions on the draft amendments

- 1.3 We invited submissions on the draft input methodologies amendments in our paper, *Proposed amendment to the WACC determination date for electricity lines services, including Transpower*, which we published on 4 August 2014.¹
- 1.4 We received submissions from Transpower and Vector on the draft input methodologies amendments.²

Amending determination

- 1.5 The amendments are given effect to by the Electricity Lines Services Input Methodologies Determination Amendment 2014, [2014] NZCC 24 (the **Amendment**).³
- 1.6 The input methodologies amendments take effect the day notice of the Amendment is published in the *Gazette*.

¹ Available at <http://www.comcom.govt.nz/further-work-on-wacc/> under the heading “Draft decision on the WACC determination date”.

² These submissions are available at <http://www.comcom.govt.nz/further-work-on-wacc/> under the heading “Submissions on our proposal to amend the WACC determination date”.

³ Available at <http://www.comcom.govt.nz/further-work-on-wacc/>.

2. Reasons for the amendments

2.1 This section provides reasons for the decision to amend the input methodologies. In making these decisions, we have considered submissions⁴ on the draft input methodologies amendments we published on 4 August 2014.⁵

We have changed the date by which we must determine the estimates of WACC for electricity distributors and Transpower

2.2 We have changed the date by which we must determine the estimates of WACC used for setting the default price-quality path for electricity distributors and the individual price-quality path for Transpower New Zealand Limited from 30 September to 31 October for 2014. We have done this by changing:

- 2.2.1 the date by which we estimate the WACC percentile for electricity lines businesses; and
- 2.2.2 the dates by which inputs to the WACC percentile (the risk-free rate, debt premium, and the standard error of the debt premium and mid-point estimates of WACC) are determined or estimated.

This change is to accommodate the WACC percentile amendment process

- 2.3 This change is to accommodate the section 52V process timeframes on the WACC percentile. The change will give us the maximum possible time to consider the submissions on the draft input methodologies amendments to the WACC percentile.
- 2.4 The change only applies to the WACCs to be determined for setting the default price-quality path for electricity distributors and for Transpower's individual price-quality path.⁶ It means that, should we decide to amend the WACC percentile, we would have time to do so before the WACC is determined for the 2015 price-quality resets for electricity distributors and Transpower.

⁴ We received submissions on the draft amendments from Transpower and Vector. These submissions are available at <http://www.comcom.govt.nz/further-work-on-wacc/> under the heading "Submissions on our proposal to amend the WACC determination date".

⁵ Commerce Commission "Proposed amendment to the WACC determination date for electricity lines services, including Transpower" (4 August 2014).

⁶ This was signalled in our Notice of Intention, and in our March process update paper and our draft decision on the WACC percentile. See Commerce Commission "Further work on the cost of capital input methodologies: Process update and invitation to provide evidence on the WACC percentile" (31 March 2014), and Commerce Commission "Proposed amendment to the WACC percentile for electricity lines services and gas pipeline services" (22 July 2014).

The change only affects the 2015 price-quality resets for electricity distributors and Transpower

- 2.5 In light of submissions received,⁷ we have decided to amend the applicable input methodologies so that these changes expressly apply only to the 2015 price-quality resets for electricity distributors and Transpower. The amendment is drafted so that the date by which we must determine the estimates of WACC will remain unchanged in years other than 2014.

Measurement date unchanged

- 2.6 We did not consider it necessary to change the 1st September measurement date used to calculate the determinants of WACC for the upcoming regulatory period. That is, we have retained the date for which estimates of the risk-free rate, debt premium, and the standard error of the debt premium and mid-point estimates of WACC are determined.

Date for publishing WACC determinations unchanged

- 2.7 We have not changed the timeframe in which our determinations and estimates must be published after they are determined. Our determinations and estimates in relation to WACC continue to be required to be published within one month after we make our determination and estimate.
- 2.8 We do, however, appreciate the need to publish the WACC determinations that will apply to the 2015 price-quality resets for electricity distributors and Transpower quickly after determining them.⁸ We endeavour to publish the WACC determinations that will apply to the 2015 price-quality resets for electricity distributors and Transpower immediately after they are determined.

Date by which we must determine the estimates of WACC for customised price-quality paths for electricity distributors unchanged

- 2.9 We have not changed the date by which we are required by the EDB IM Determination to determine the estimates of WACC used for setting customised price-quality paths (CPP) for electricity distributors. Therefore, we will be determining estimates used for setting CPPs in September 2014. Under the current EDB IM Determination, these estimates would remain in place until a further CPP WACC determination for electricity distributors is made in September 2015.

⁷ See Transpower "Submission on IM amendment for estimated WACC determination date" (29 August 2014); and Vector "Vector submission – Input methodologies amendment to the WACC determination date" (29 August 2014).

⁸ See Vector "Vector submission – Input methodologies amendment to the WACC determination date" (29 August 2014).

- 2.10 However, the Commission will be deciding prior to 31 October 2014 whether to amend the WACC percentile for CPP proposals (amongst other things) in the EDB IM Determination.⁹ If we do decide to amend the percentile, our current intention, subject to consultation, is that we would also amend the date by which the EDB IM Determination requires a vanilla WACC for CPP proposals to be determined. The aim of that amendment would be to allow a new vanilla WACC for CPP proposals, applying the new WACC percentile, to be determined early next year, prior to the May 2015 CPP application window.

⁹ The Commission's draft decision was to reduce the percentile estimate of the vanilla WACC from the 75th to the 67th percentile: refer Commerce Commission "Proposed amendment to the WACC percentile for electricity lines services and gas pipeline services" (22 July 2014), available at <http://www.comcom.govt.nz/dmsdocument/12143>.