

30 September 2014



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Brett Woods
Regulation Branch
Commerce Commission
Wellington

Dear Brett,

Further WACC percentile cross-submission

Introduction

1. Vector welcomes the opportunity to provide further cross-submissions to the consultation process on amending the WACC percentile.
2. This cross-submission responds to the new report by Ireland, Wallace and Associates (IWA) on behalf of MEUG¹.
3. Attached to this submission is a further report by Sapere Research Group, which responds to the new report provided by Professor Ian Dobbs to the Commission² and to the new report provided by NZIER to MEUG, dated 9 September 2014.³

Response to Ireland, Wallace and Associates

4. The new IWA Report provides new information regarding the implied RAB multiples for Horizon Energy and OtagoNet Joint Venture.

Horizon Energy

5. IWA utilise information regarding two partial takeover bids for Horizon Energy Limited from Marlborough Lines Limited. It appears that these bids occurred in October 2009 and in June 2010. Both of these bids therefore occurred before the input methodologies were determined and cannot be seen as

¹ Ireland, Wallace & Associates Limited, *Amendment to the WACC Percentile for Electricity Lines Services and Gas Pipeline Services dated 22 July 2014: Report to the Major Electricity Users' Group for Cross Submission*, 12 September 2014 (IWA September Report).

² Professor Ian M Dobbs, *Comments on the Application of the Dobbs [2011] model*, 17 September 2014.

³ NZIER, *Valuing investments in network reliability*, 9 September 2014.

relevant to investor perceptions of the value of Horizon Energy Limited in the light of the WACC determined under the input methodologies.

6. We note that in the analyst briefing on the WACC draft decision held on 22 July 2014 the Commission stated that it had not considered the purchase of the Wellington electricity network from Vector Limited in 2008 as this occurred prior to the IMs being determined. We expect the Horizon-Marlborough transaction to also be disregarded for the same reason.

OtagoNet Joint Venture

7. Vector acknowledges that the amount paid to Marlborough Lines for its shareholding in OtagoNet seems large relative to the underlying RAB value. We note the statement made by Alan Harper, Chairman of The Power Company, and reported in EnergyNews that the premium paid is “fully justified” by the advantages of greater ownership of the network which adjoins The Power Company’s boundary.⁴ We also understand that the price paid included items other than the purchase of the network business itself.
8. However, this event does not materially change the data in front of the Commission, which is now: two companies trading above RAB (Powerco and OtagoNet), one company at around the RAB value (Vector) and two companies close to or below the RAB value (Horizon and The Lines Company). This does not demonstrate that there is a consistent practice of valuing companies at more than their RAB, and certainly does not demonstrate the WACC is the reason for any valuations that differ from the regulatory RAB.

Contact details

9. If you have any queries in regard to this submission please contact me in the first instance on 09 978 8340 or at allan.carvell@vector.co.nz.

Yours sincerely,



Allan Carvell
Group General Manager Commercial and Regulatory Affairs

⁴ <http://www.energynews.co.nz/news-story/18554/marlborough-lines-sells-out-otagonet-jv>