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Cross-submission: WACC percentile, Molly Melhuish, molmel30@gmail.com

Five further consumer-oriented cross-submissions on the WACC percentile consultation support major points of my own earlier cross-submission¹.

1. **consumer benefit** - MEUG estimates that a 3% increase in line charges due to an increase in WACC from the mid-point to the proposed 67th percentile would lead to an increase in the average household power bill of \$26 per year, or \$44 million per year total.

I consider it possible that residential consumers would face higher costs from the “uplift” than business consumers, because the former are treated by retailers as relatively price-inelastic, thus charged what the market will bear. NZIER notes this is akin to Ramsey pricing, “the very practice regulation is trying to moderate”.

NZIER: “We remain particularly sceptical of WACC uplift because it represents certain consumer cost for uncertain consumer benefit.”

2. **optimal investment** - Incenta had argued that irreversible losses would occur from under-investment; Covec answered that the key to optimal investment is a robust asset management plan subject to proper scrutiny.

3. **tools other than allowable revenue** - NZIER: The Commission may use other tools from its regulatory tool-box to address either inadequate investment or poor quality of service, but using superprofit for this purpose is not lawful.

The asset management planning process is such a tool. Actual evidence of using “other tools” is rare indeed, but the Energy Management Association did lodge a submission² on a proposed Transpower upgrade claiming it could be deferred for two years by cost-effective demand-side management techniques. “It is an unfortunate reality that interruptible hot water load has been subject to perverse regulatory incentives on electricity lines businesses for close to a decade now, resulting in it becoming a neglected and undervalued asset.”

4. **real data needed, not intuition** – NZIER: “the attempts to develop analytic models ... in the absence of evidence have also failed to provide support for WACC uplift.”

Discussion

The purpose of Part IV begins, “...[to] have incentives to innovate and to invest...” But the WACC percentile only addresses investment by EDBs, effectively denying that competition from energy service providers is relevant. And throughout the cross-submissions, “innovate and invest” is treated as a single concept, implying that the investment is by EDBs, and therefore ignoring the role of small businesses in innovation.

1 <http://www.comcom.govt.nz/dmsdocument/12425>

2 https://www.transpower.co.nz/sites/default/files/plain-page/attachments/EMANZ%20submission_0.pdf

An over-generous WACC would only augment the freedom of the major players in the electricity market, gentailers and large EDBs (and Transpower), to invest. Investment in network assets squeezes out providers of energy efficiency and demand management, and leaves consumers largely passive. Competition through Powerswitch treats consumers as passive individuals able only to choose between whatever companies offer, not empowered to find their own alternative solutions, much less engage in policy debate.

Today's regulatory agenda appears to condone Government's stated agenda of developing energy infrastructure to promote economic growth, as noted in my previous cross-submission. The price rises supported by a 75th WACC percentile would enable further infrastructure development – alongside Transpower's ~\$2 billion recent investment in grid upgrades.

The relentless retail price rises of the 2000s did the same, enabling massive power station investment that leaves New Zealand with an electricity glut, paid for largely by residential consumers.

The WACC percentile submissions, like almost all the regulatory debate, are either legalistic, e.g. arguing whether consumer surplus or total surplus is the relevant standard, or reliant on economic models that calculate to several significant figures based on fairly arbitrary assumptions. Both types of “consultation” are carried on with support of legal or economic consultants unavailable to small players in the market, namely residential consumers and small energy service businesses.

We have thus had to rely on MEUG to counteract the continuing pressure to raise prices to support infrastructure investment. Our additional contribution to the debate is to emphasise the potential role of energy efficiency and small-scale distributed resources of generation and energy storage in making electricity more reliable and affordable to consumers, large and small alike.