



**T R A N S P O W E R**

Transpower House, 96 The Terrace,

PO Box 1021, Wellington,

New Zealand

Telephone +64-4-495 7000

Facsimile: +64-4-495 7100

[www.transpower.co.nz](http://www.transpower.co.nz)

[Jeremy.cain@transpower.nz](mailto:Jeremy.cain@transpower.nz)

04 590 7544

11 September 2014

Brett Woods  
Senior Analyst  
Regulation Branch  
Commerce Commission

By email: [brett.woods@comcom.govt.nz](mailto:brett.woods@comcom.govt.nz)

Dear Brett,

## **WACC percentile review: Frontier model interface**

As part of our recent submission on the WACC percentile review we included a report by Frontier Economics on their adaptation of the Dobbs loss function analysis.

In our submission we offered to make the model code available to the Commission for audit and, if required, to engage Frontier to produce a user friendly Excel interface for the model (which is written in the programming language 'r').

Last week the Commission asked Transpower to provide the model code, which the Commission published on 5 September, and to engage Frontier to produce the Excel interface. Frontier has completed the Excel interface and today we have provided the interface (and installation and operation instructions) to the Commission.

### **A step change – but further work is still required**

We believe that Frontier's work, coupled with robust inputs, can narrow the bounds of and better inform that judgement to a greater degree than any of the evidence put to the Commission to date.

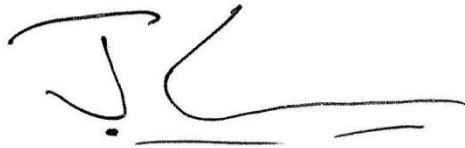
Although Frontier's work, and the model we have provided today, represents a step change in the evidence available to the Commission we recognise (and Frontier has also acknowledged) that this report reflects the first iteration of an application of the Dobbs model to the New Zealand electricity sector.

We also recognise that, while many of the modelling inputs could be estimated with some degree of accuracy (or were factual), some inputs had to be assumed and need to be tested (some empirically). In our view the model and some of the modelling inputs should be consulted on and would benefit from industry debate. Unfortunately these avenues simply were not available to us or Frontier during the consultation period.

Our understanding is that the Commission will publish the material that we have provided today. We consent (as does Frontier) to this.

The model and interface are relatively straight forward to install and operate. However, we are available as required to respond to questions and to participate in any subsequent workshops. We can arrange for Frontier to assist if necessary (please note that the lead modeller Frontier's modelling team will be unavailable from early October for several weeks).

Yours sincerely,

A handwritten signature in black ink, appearing to be 'JC' followed by a long horizontal stroke.

Jeremy Cain  
**Regulatory Affairs Manager**