

What's at stake? 3rd September 2012

Calculated assuming post-tax WACC at 75 th percentile unless otherwise stated		Indicative change in line charges paid by customers relative to CC decision ¹			Notes. Referenced values are highlighted	WACC CC IM = 7.22%
		Distribution \$m pa	Transpower \$m pa	Both \$m pa		
Associate Professor Lally view of "not trivial"			3 to 4		Lally, 20-Jun-12 ²	
MEUG's discrete cases	Asset beta =0.33; or Asset beta =0.28			(14)	MEUG, 20-Aug-12 ³	
				(84)	Scaled ⁴	
	Leverage = 0; or Positive debt beta	(75)	(57)	(132)	MEUG, 23-Jul-12 ⁵	6.47%
		(35)	(26)	(62)	MEUG, 23-Jul-12 ⁵	6.87%
	2-tier: sunk 50 th , new 75 th percentile		(48)		MEUG, 11-May-12 ⁶	
Transpower aggregate	75 th percentile; or 90 th percentile	340	257	597	MEUG, 23-Jul-12 ⁵	10.58%
		464	343	808	Calculated ⁷	11.80%
Powerco	Range	296 to 370	223 to 279	519 to 648	MEUG, 23-Jul-12 ⁵	10.14% to 10.87%
Difference between MEUG L=0 case and						
▪ Transpower's 75 th percentile claim		415	314	729		
▪ Transpower's 90 th percentile claim		539	401	940		
▪ EDBs, eg Powerco		371 to 445	280 to 336	651 to 780	Vector has similar claims	

- Key points:
- MEUG and other appellant claims are all very material compared to \$3m to \$4m pa considered by Dr Lally as "not trivial".
 - The difference between MEUG and other appellants is between \$651m to almost a billion dollars pa (\$940m at Transpower's 90th percentile).

¹ Change in annual charges equals difference between CC Input Methodology post-tax WACC at 75th percentile of 7.22% and claims by appellants using Regulated Asset Base (RAB) of \$5.4b for Transpower, \$7.3b for EDB. Sum total of RAB is \$12.7b, refer MEUG cross-submission on Transpower leverage re-consultation, 11-May-12, Appendix A, p22). The post-tax WACC times RAB equals post-tax income to the line businesses. Grossing up for company tax of 28% equals annual charges to customers.

² M Lally, *Leverage and WACC for Transpower*, 20 June 2012, page 12 [CB/Vol42/Tab350/21020]

³ MEUG reply submissions, 20 August 2012, at [3.2]

⁴ Scaled using reference estimate above (i.e. \$14m change for every 0.10 change in asset beta between IM decision of 0.34 and 0.33).

⁵ MEUG cross-submissions (Transpower), 23 July 2012, appendix 1, page 23

⁶ MEUG, *Cross-submission on Transpower Leverage reconsultation*, 11 May 2012, page 14, table 1 [CB/Vol42/Tab341/20907]

⁷ Estimate of Transpower's 90th percentile WACC of 11.80% (refer to MEUG cross-submissions (Transpower), 23 July 2012, appendix 1, page 23). Increase in annual charges for Transpower calculated as RAB * (11.80%-7.22%) and product grossed up for tax at 28%.