

16 October 2020

Dane Gunnell  
Manager, Price-Quality regulation  
Commerce Commission  
By email to [regulation.branch@comcom.govt](mailto:regulation.branch@comcom.govt)

Dear Dane

### Wellington Electricity CPP to DPP draft decision

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Commerce Commission draft decision reasons paper "Wellington Electricity Lines Limited's transition to the 2020-2025 default price-quality path" dated 25<sup>th</sup> September 2020.<sup>1</sup> This is referred to in abbreviated form as the WELL transition to the last 4-years of DPP3.
2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Several members intend making submissions.
3. MEUG:
  - a) Agrees with the draft decision to set starting prices on a building blocks approach rather than rolling over the CPP prices. Refer paragraphs [3.2] to [3.14].<sup>2</sup>
  - b) Does not agree with the draft decision to include \$0.287m to base opex in relation to ongoing earthquake readiness costs. Refer [3.20] to [3.26].

WELL have a problem but it is of their making. WELL chose to proceed at pace with the CPP capex and not to seek a full CPP knowing full well the DPP regime had no capability to cover opex before the next all-of-EDB DPP reset.

MEUG recommends the Commission ask WELL to either:

- Cover this cost by finding savings elsewhere; and or
- Absorbing the cost, i.e. WELL's shareholders bear the cost; and or
- Deciding to defer the expenditure until the DPP4 reset.

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<sup>1</sup> The draft decision and reasons paper and supporting materials were published at <https://comcom.govt.nz/regulated-industries/electricity-lines/projects/wellington-electricitys-20222025-dpp>

<sup>2</sup> This submission uses square brackets to refer to paragraph numbers or pages when citing references.

In other words, this is WELL's problem, and they have choices and incentive to decide whether the work is of sufficient importance to proceed in DPP3 and how to fund it.

The precedents for the Commission agreeing to add this work to DPP3 for WELL are understated in the draft decision paper. The paper does not consider the following detriments of including almost \$300,000 for the next 4-years:

- Future CPP applicants following the lead by WELL to have a trimmed down CPP to avoid a full CPP will rely on, or to be blunt exploit, similar be-spoke adjustments for transitions from CPP to DPP; and
  - The confidence of consumers in the regime will be eroded as a key design aspect of DPP, that is generic low cost regime with no be-spoke adjustments, will be viewed as malleable if it reduces costs and risks to an EDB transitioning from a CPP to a DPP.
- c) Agrees with the draft decision to not approve an adjustment to base opex to reflect insurance premiums. Refer [3.17] to [3.32].
- d) Recommends the Commission reduce the starting and subsequent "prices", that is maximum allowable revenue (MAR), to reflect the Commission's latest views of the effect of COVID-19 on the economy and hence demand for electricity distribution services to March 2025.

The draft decision used WELL's 2020 Asset Management Plan (AMP), refer [3.34.4]. That plan did not consider the effects of COVID-19 on demand growth projections for WELL. This is a material generic assumption that needs further analysis.<sup>3</sup> For example, every 5% decrease in operating costs and capital expenditure will decrease Maximum Allowable Revenue before tax (MAR) in the first year by \$1.707m and \$0.201m, respectively. Over the four years of DPP3 that will apply to WELL, the NPV at the vanilla WACC (67<sup>th</sup> percentile) of 4.57%, of decreasing opex and capex by 5% will reduce MAR by 1.9% and 0.2% respectively. The NPV saving in opex would be \$6.293m and NPV saving in capex \$0.741m. This is material and the Commission should test MEUG's proposition that demand projections for WELL over the next 4-years should be lower than those used in the 2020 AMP and that may lead to a material decrease in starting and subsequent "prices."

Yours sincerely



Ralph Matthes  
Executive Director

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<sup>3</sup> Forecast demand growth is a generic assumption for setting DPP and therefore is different from the be-spoke proposal to include ongoing earthquake readiness costs in [3] b) of this submission.