

29 April 2025

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Tēnā koe,

## Consumer outcomes can be improved by reducing WACC volatility

We welcome the opportunity to respond to the Commerce Commission's (**Commission**) Open letter on Fibre Input Methodologies Review. Our submission focuses on the Commission's proposal to review the methodology for the weighted average cost of capital (**WACC**) for Fibre and Part 4 of the Commerce Act.

The Commission's methodology for estimating the cost of capital is well established and suppliers regulated under Part 4 and Part 6 of the Commerce Act have raised significant capital and invested in the supply of regulated services. Historically, the economic components used to set the WACC have been relatively stable. However, in recent years we have observed large swings with the latest DPP4 electricity reset being an example, which resulted in a significant shock to consumers due to the substantial increase in WACC from 4.57% in DPP3 to 7.10% in DPP4, due to the volatility of the risk-free rate (1.12% and 4.26% respectively) – as the risk-free rate element is determined with reference to spot rates around the time of a determination.

However, the sector has been advocating for a while<sup>1</sup> that there is opportunity to reduce the volatility of the estimated WACC that occurs at the time of a price review, which in turn will reduce the volatility consumers face in their prices.

To summarise, we:

**Support review  
that delivers  
better outcomes  
for end-  
customers**

- The focus of the WACC review should be to improve outcomes for consumers.
- Current methodology has delivered successful outcomes when the economic environment is stable, however, when there is volatility, consumers face price shocks.
- This is an opportunity to align cost of capital methodology in New Zealand with Australia

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<sup>1</sup> ENA submission on Fibre Open Letter, 29 April 2025

**Support****proposed process**

- We support prioritising based on end-user impact, in particular focusing on WACC.
- Tranched approach to WACC is sensible to allow the right engagement on areas that are common to a range of stakeholders across both fibre and Part 4, as issues are going to be consistent across all sectors.
- The Commission will need to consider timing and implementation, particularly in relation to Gas DPP4, as companies will be needing to make hedging decisions before the settings have been finalised. A change in the Commission's methodology may necessitate changes in hedging strategies to manage interest rate risk.

We look forward to engaging on this further when the Process and Issues paper is released later this year, in the meantime if you have any questions or would like to discuss any points raised in this submission, please contact Emma Wilson ([Emma.Wilson@powerco.co.nz](mailto:Emma.Wilson@powerco.co.nz)).

Nāku noa, nā,



**Emma Wilson**

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