



COMMERCE COMMISSION

Cost of Capital

POST-WORKSHOP SUBMISSIONS

Invitation for Submissions

The Commission held its cost of capital workshop on 12 and 13 November 2009. As advised before and during the workshop, all interested parties are invited to make submissions on any matter raised during the workshop. Submissions are due by 5pm on Wednesday, 2 December 2009.

To assist parties in making their submissions, the Commission has identified matters on which workshop participants undertook to respond in their submission from the transcripts. These matters are set out below.

The Commission has posted the transcript for each day of the workshop on its website. The transcripts and this are available at:

<http://www.comcom.govt.nz/IndustryRegulation/Part4/DecisionsList.aspx>

Making a submission

To foster an informed and transparent process the Commission intends to publish all submissions received on its website (www.comcom.govt.nz). Accordingly, the Commission requests an electronic copy of each submission and requests that hard copies of submissions not be provided unless an electronic copy is not possible. Submissions should be emailed to:

NPB@comcom.govt.nz

Or send to:

Murray Reynolds
Economist
Economic Services Branch
Commerce Commission
P.O. Box 2351
Wellington

Confidentiality

The Commission discourages requests for non-disclosure of submissions, in whole or in part, as it is desirable to test all information in a fully public way. It is unlikely to agree to any requests that submissions in their entirety remain confidential. However, the Commission recognises there will be cases where interested parties making submissions may wish to provide confidential information to the Commission.

If it is necessary to include such material in a submission the information should be clearly marked and preferably included in an appendix to the submission. Interested parties should provide the Commission with both confidential and public versions of their submissions in both electronic and hard-copy formats. The responsibility for ensuring that confidential information is not included in a public version of a submission rests entirely with the party making the submission.

Parties can also request that the Commission makes orders under s 100 of the Act in respect of information that should not be made public. Any request for a s 100 order must be made when the relevant information is supplied to the Commission and must identify the reasons why the relevant information should not be made public. The Commission will provide further information on s 100 orders if requested by parties, including the principles that are applied when considering requests for such orders. A key benefit of such orders is to enable confidential information to be shared with specified parties on a restricted basis for the purpose of making submissions. Any s 100 order will apply for a limited time only as specified in the order. Once an order expires, the Commission will follow its usual process in response to any request for information under the Official Information Act 1982.

Network Performance Branch

18 November 2009

**Matters Identified from the Workshop Transcript of 12 and 13
November 2009**

Issue No.	Party raising Issue	Matter Discussed and Transcript Reference to Discussion	Party to Respond	Transcript Reference to Relevant Comment
Cost of Capital Framework				
1	Commission (Commissioner Mazzoleni)	Cost of capital framework – model (p. 38, line 9 – p. 40, line 23)	Mr Ford (for AirNZ)	p. 40, lines 20-23
2	Commission (Commissioner Mazzoleni)	Industry wide vs. firm specific (p. 40, line 24 – p.42, line 27)	Dr Layton (for BARNZ)	p. 42, lines 17-27
Expectation of Normal Return				
3	Commission (Commissioner Begg)	Expectation of normal return – NPV=0 (p. 55, line 11 – p. 57, line15)	Mr Balchin (PwC for Powerco and CIAL)	p. 56, lines 27-33 – p. 57, lines 1-11
4	Commission (Commissioner Duignan)	Real Options (p. 65, line 19 – p. 69, line 5)	Dr Guthrie (for Telecom)	p. 69, lines 1-5
5	Commission (Commissioner Duignan)	Real Options (p. 87, lines 23-33 – p. 88, lines 1-7)	All parties	p. 87, lines 23-33 – p. 88, lines 1-7
Leverage				
6	Commission (Commissioner Duignan)	De-leveraging and increasing WACC with SBL (p. 100, line 23 – p 101, line 29)	Dr Marsden (for NZAA and AIAL)	p. 101, line 30

Leverage (continued)				
7	Commission (Commissioner Duignan)	SBL increasing leverage and debt beta (p. 102, lines 9-32)	Mr Redmayne (PwC for Telecom and EDB's)	p. 102-lines 24-29
8	Commission (Commissioner Duignan)	WACC increasing with leverage in SBL model (p. 104, line 4 – p. 105, line 25)	Mr Balchin (PwC for Powerco and CIAL)	p. 105, lines 11-25
9	Commission (Commissioner Duignan)	De-leveraging and increasing WACC with SBL (p. 108, line 23 – p 109, line 24)	Prof Bowman (for Vector and Unison)	p. 108, lines 26-33
10	Commission (Commissioner Duignan)	WACC increasing with leverage in SBL model (p. 96, line 32- p.115, line 23	All parties	p. 110, lines 22-26 and p. 115, lines 22-23
Term of the Risk-Free Rate				
11	Commission (Commissioner Mazzoleni)	Term of the risk-free rate and interest rate swaps (p. 121, line 5 – p. 122, line 33)	Mr Morgan (for Unison Networks), Mr Carvell (for Vector) and Mr Gray (for MDL)	p. 122, line 7 and line 12 (Morgan) p. 122, lines 13-14 (Carvell) p. 122, line 15 (Gray)
Debt Premium				
12	Commission (Commissioner Mazzoleni)	Debt premium information to Commission (p. 143, line 2 – p. 145, line 3)	Mr Morgan for Unison networks	p. 144, lines 22-33, p. 145, lines 1-3
13	Commission (Commissioner Mazzoleni)	Estimation term of the debt premium (p. 149, line 25 – p. 150, line 8)	All parties	p. 149, lines 25-33, p. 150, lines 1-8

Debt Premium (continued)				
14	Commission (Commissioner Mazzoleni)	Debt premium in straw person (p. 152, lines 29- 30)	Mr Goodeve for Powerco	p. 152, lines 29-30
15	Commission (Commissioner Mazzoleni)	Debt premium (p. 153, lines 32-33, p. 154, lines 1-7)	Mr Morgan for Unison Networks	p. 153, lines 32-33, p. 154, lines 1-7
16	Commission (Commissioner Mazzoleni)	Debt issuance costs (p. 154, lines 8-29)	Mr Shelly (for Unison Networks))	p. 154, lines 22-29
17	Commission (Commissioner Mazzoleni)	Debt premium and hedging costs (p. 156, lines 7-25)	Dr Marsden (for NZAA and AIAL)	p. 156, lines 11-12 and p. 156, lines 22-23
18	Commission (Commissioner Duignan)	Debt premium and leverage (p.166. lines 1-7)	Mr Redmayne (PwC for Telecom and EDB's)	p. 166, lines 4-7
Financeability				
19	Commission (Commissioner Duignan)	Actual vs. industry (p. 171, lines 8-17)	All parties	p. 171, lines 8-17
Market Risk Premium (MRP)				
20	Commission (Commissioner Berry)	Further issues to discuss with expert panel on MRP (p. 183, line 33, p. 184, lines 1-30)	Prof Bowman (for Vector and Unison)	p. 184, lines 28-30
Beta (Systematic Risk)				
21	Commission (Commissioner Begg)	Systematic risk of Maui Development (p. 185, lines 31-33, p. 186 lines 1-22)	Mr Small (KPMG for Maui Development)	p. 186, line 16

Beta (Systematic Risk) (continued)				
22	Commission (Commissioner Begg)	Asset beta estimation (p. 195, lines 22-33, p 196, p. 197, lines 1-10)	Mr Ireland (for MEUG)	p. 196, lines 7-8
23	Commission (Commissioner Begg)	Systematic risk of Maui Development (p. 198, lines 17-31)	Mr Small (KPMG for Maui Development)	p. 198, lines 29-30
Comparable Companies				
24	Commission (Commissioner Begg)	Comparable company analysis straw person (p. 201, lines 21-29)	Dr Layton (for BARNZ)	P. 201, lines 26-29
Estimating the WACC Range				
25	Commission (Commissioner Duignan)	Estimating the WACC range using Monte Carlo (p. 212, lines 3-13)	All parties	p. 212, lines 3-7
Selecting a Point on the Range				
26	Commission (Commissioner Duignan)	Selecting the point on the range (p. 219, lines 30-33)	All parties	p. 219, lines 30-33
27	Commission (Commissioner Duignan)	Selecting the point on the range (p. 226, lines 5-9)	Dr Layton (for BARNZ)	p. 226, lines 5-9