

# TDB Digest, August 2016

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## Electricity prices

Conventional wisdom in the electricity sector over the last two decades has been that wholesale prices will rise over time faster than the general rate of inflation. It was seen that increasing demand for electricity combined with increasingly expensive sources of supply would place ongoing upward pressures on prices. The reality over the last twenty years, however, has been somewhat different. While wholesale prices have been volatile, the overall trend has been for annual average prices to remain remarkably constant at around \$75/MWh over the period as a whole. In a recently published article ([available here: https://www.tdb.co.nz/wp-content/uploads/2016/05/Phil-Barry-Forecasting-Electricity-Prices-2016.pdf](https://www.tdb.co.nz/wp-content/uploads/2016/05/Phil-Barry-Forecasting-Electricity-Prices-2016.pdf)) TDB Director Phil Barry looks at what has been happening to wholesale electricity prices and what it might mean for the future.

## Dairy Matters

The framework for managing Fonterra's domestic market dominance is the Dairy Industry Restructuring Act (DIRA) and its associated regulations. In May this year the Ministry for Primary Industries (MPI) released a Discussion Document proposing changes to this framework. Goodman Fielder engaged TDB to consider the implications. We concluded that the proposed changes would not encourage additional competition and would increase the cost of milk to Goodman Fielder significantly. The consequences would likely be that Fonterra's share of the domestic consumer market would increase or New Zealand consumers would face higher prices for dairy products or both. Our submission to the government can be found here: <https://www.tdb.co.nz/wp-content/uploads/2016/05/TDB-Advisory-Domestic-Dairy-Market-Implications-of-DIRA-2016.pdf>

## Commerce Commission and WACC

The Commerce Commission must estimate a return (a weighted average cost of capital or WACC) that companies can make on services that are subject to price or revenue control. TDB recently undertook for Contact Energy a review of the Commission's draft WACC analysis. We focused on the companies (compco) that the Commission uses as benchmarks when determining an appropriate return. We found that the Commission had included many companies in its compco set that had quite different – and typically higher- risk profiles than the New Zealand regulated energy network services. The impacts on consumers of the Commission's choices could be substantial. Our submission to the Commerce Commission can be found here: <https://www.tdb.co.nz/wp-content/uploads/2016/05/TDB-Advisory-Contact-Energy-ComCom-Submission-on-WACC-Compco.pdf>

## The Donald and Dairy Matters

The connection between Republican presidential nominee Donald Trump and dairy issues may be stronger than we thought. Have you heard ....

*“Donald Trump is going to ban sales of shredded cheese. He's going to make America grate again.”*

## New TDB Website

And finally for this edition of TDB Digest, you may be interested in the new TDB website. You can check it out at: [www.tdb.co.nz](http://www.tdb.co.nz)