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Common Cost of Capital IM Review: Tax-Adjusted Market Risk Premium

Transpower welcomes the opportunity to submit on the Commerce Commission's consultation for its revised draft decision on the tax-adjusted market risk premium (TAMRP) methodology.

Overall, Transpower supports the Commission's proposed changes. We consider the revised approach represents a sensible evolution of the methodology and is consistent with the Commission's objective of improving transparency, predictability and robustness in the estimation of the cost of equity.

We support the Commission's continued move towards a methodology-based approach to estimating TAMRP, rather than relying on a fixed parameter. We also support the Commission's efforts to reduce unnecessary volatility and improve the consistency of outcomes over time by using a more clearly specified framework.

Transpower agrees that a transparent and evidence-based methodology is preferable to one that relies heavily on regulatory discretion. A methodology that is well-specified, capable of replication and supported by publicly available analytical tools will improve confidence in the resulting estimates and provide greater certainty for both regulated suppliers and consumers. At the same time, we acknowledge that the Commission has used judgement in reaching some of its positions, including around the use of 25pp adjustments for the differences in the dividend growth model and foreign data.

The proposed 24-month reuse provision permitting the reuse of a recent TAMRP estimate, in many circumstances, may avoid unnecessary administrative costs and improve regulatory efficiency. However, the Commission should retain sufficient flexibility to provide an updated estimate where there has been a material change in market conditions or where there is evidence that reliance on an earlier estimate would no longer provide a reasonable basis for estimating the cost of equity. In our view, the effectiveness of the reuse provision will depend on maintaining an appropriate balance between efficiency and responsiveness to changing market conditions.

Overall, Transpower supports the direction of the Commission's proposed changes and considers they represent a pragmatic refinement to the existing framework.

Yours sincerely,

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Head of Strategy and Regulation