

31 October 2014



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John McLaren
Manager
Regulation Branch
Commerce Commission
Wellington

Dear Mr McLaren,

Proposed amendments to the input methodologies – first and second type

Introduction

1. Vector welcomes the opportunity to respond to the Commerce Commission's consultation paper "How we propose to implement amendments to input methodologies for electricity lines businesses subject to price-quality regulation: First and second type", dated 20 October 2014. This submission is not confidential.
2. Vector's contact person for this submission is:
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Draft amendments to Input Methodologies (IMs)

3. Vector has reviewed the Commission's proposed changes to the IMs. We broadly support the proposed changes, but make some suggestions for improvement below.

Reconsideration event allowance

4. Vector welcomes the proposed introduction of the reconsideration event allowance. This allowance ensures the DPP is able to deal with unexpected events during a regulatory period and, in our view, is consistent with the intent of the Merits Appeal judgment. Vector welcomes the engagement we have had with the Commission on this issue and the Commission's willingness to consider this proposal further.

Energy efficiency and demand incentive allowance

5. In the proposed definition of energy efficiency and demand incentive allowance, Vector **recommends** the word "and" in the second sentence is changed to "or". This reflects the fact that an initiative can be either an energy efficiency or a demand-side management initiative and will not necessarily be both.

Extended reserves allowance

6. Vector **recommends** the reference to "extended reserves regulations" in the definition of extended reserves allowance is changed to: "requirements in the Electricity Industry Participation Code 2010 relating to extended reserves". This will provide more clarity regarding which regulatory instrument is being referred to in the definition.

Quality incentive adjustment

7. Vector **recommends** the wording in the definition of "quality incentive adjustment" that states the purpose of the incentive is changed. We believe that the words "to maintain or improve quality of supply" should be changed to "to change or maintain its quality of supply in accordance with consumer interests".
8. The current drafting implies that it would be inappropriate (and arguably inconsistent with the IMs) for a supplier to increase their SAIDI or SAIFI and make penalty payments as a result through the quality incentive mechanism, even if this is what that supplier's consumers want and the supplier remains below the SAIDI and SAIFI caps. Vector's suggested wording is intended to ensure that consumer interests are not automatically assumed to be satisfied by constant or increasing levels of quality.

Capex wash-up amount

9. The current drafting of clause 4.7(8) largely repeats the text from the definition of 'capex wash-up amount'. The duplication appears unnecessary and has the potential to cause confusion. Vector **recommends** the duplication is removed.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'I. Ferguson'.

Ian Ferguson
Regulatory Policy Manager