

29 August 2014



Vector Limited
101 Carlton Gore Road
PO Box 99882, Newmarket
Auckland 1149,
New Zealand
www.vector.co.nz
Corporate Telephone
+64-9-978 7788
Corporate Facsimile
+64-9-978 7799

Mr Brett Woods
Regulation Branch
Commerce Commission
Wellington

Dear Brett,

Vector submission – Input methodologies amendment to the WACC determination date

Introduction

1. Vector welcomes the opportunity to respond to the Commerce Commission's (Commission) consultation paper *Proposed amendment to the WACC determination date for electricity lines services, including Transpower*, dated 4 August 2014. No part of this submission is confidential.

Proposed change

2. The Commission's draft decision is to:
 - a) Change the date by which they are required to determine the WACC estimates used for DPP regulation for EDBs and IPP regulation for Transpower from 30 September to 31 October.
 - b) Retain the 1 September measurement date at which the estimates of the risk-free rate, debt premium and standard error of the debt premium are determined.
 - c) Retain the one month lag between the date between the WACC estimate being determined and it being published (although we recognise this lag is usually not used in practice).
 - d) Most likely only apply this change to the 2015 reset. Although this is not specified in the draft decision, the Commission signals that the WACC determination and publication dates will be likely to revert back to 30 September and 31 October, respectively, as part of the 2017 IM review.

3. This proposed amendment will extend the WACC Determination timeframe by one month closer to the commencement of the regulatory period.

Impact of the Commission's change

4. Vector strongly opposes the Commission's draft decision. The Commission's proposal creates significant risks and challenges for all non-exempt EDBs and Transpower, while enabling the Commission to operate "as normal". We also oppose the Commission retaining the one month period between the determination of the WACC and the required publication date. As the cause of this proposal is a Commission-initiated review of the WACC percentile we do not believe the delay or the risks it causes are appropriate or justified. We discuss this below.
5. Transpower has notified EDBs that the Commission's proposed change will push out the date of its usual notification to EDBs for changes to its forecast charges. The Commission's proposed amendment means Transpower will need to delay its notification from the end of November to mid-December.
6. The new Transpower notification date has significant knock-on effects for Vector. Under Vector's use-of-system agreements with its retailers it is required to provide 60 working days' notice of price changes. The process to determine new prices is non-trivial and this year will also need to incorporate compliance with revised DPP requirements.
7. The proposed delay to the publication of the WACC determination would leave Vector a matter of weeks to undertake our price modelling and internal governance processes for new prices. This creates risk for the business in ensuring the accuracy and compliance of the prices. These risks are magnified by the effect of the Christmas/New year period where it can be more difficult to manage such processes.
8. We do not believe such a condensed timeframe is reasonable or practicable and that the Commission should be taking steps to amend their process rather than requiring industry to amend theirs.
9. We also consider it unnecessary for this change, if made, to apply other than for the current 2015 price reset WACC. The Commission makes it clear at paragraph 2.2 of the consultation paper that this is the sole purpose. The Commission provides no logic as to why the dates should be further considered as part of the 2017 review in order to reset them rather than addressing that issue in the change now proposed. Accordingly we prefer the option the Commissions alludes to in paragraph 2.4 of the consultation paper.

Recommendations

10. Vector **recommends** the Commission adjust its processes so it is able to make a WACC determination in the normal timeframe, thus avoiding the pricing issues highlighted above. If this cannot be done due to the review of the 75th percentile WACC adjustment, then in our view that proves the Commission has insufficient time to conduct the review prior to the 2015 reset and instead should heed the feedback from regulated suppliers and conduct a proper, non-rushed, review of the full WACC IM in accordance the with statutory requirements.
11. Vector also **recommends** the Commission commit to the publication of its WACC estimate at the same time of its Determination (31 October) instead of holding it over for one month.
12. Vector also **recommends** that, if the Commission's proposed amendments to the IMs are implemented, they are worded to expressly apply to the 2015 DPP/RCP price-quality resets for EDBs and Transpower only. This avoids the issue having to be revisited again during any future review into the Input Methodologies and, at least, provides confidence to EDBs that any unreasonably short process this year will not be repeated in future reset years.

Contact details

13. If you have any queries in regard to this submission please contact me in the first instance on 09 978 8340 or at allan.carvell@vector.co.nz.

Yours sincerely,



Allan Carvell
Group General Manager Commercial and Regulatory Affairs