

16 October 2019

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Dear Dane,

Vector cross-submission on DPP models

1. Vector has reviewed the submissions to the Commerce Commission's (Commission's) Default Price-Quality Path (DPP3) model consultation.
2. The matters raised in submissions generally covered critical matters which have had a material impact on the performance of Part 4 regulation in the current DPP and will continue to present problems in how they are represented in the Commission's modelling. These issues include:
 - CPI forecasting for revaluation income forecasts;
 - Normalisation of major event days; and
 - Appropriate regulation for planned outages.
3. We encourage the Commission to consider the impact these matters have on the models. The volume of work for the Commission and EDBs from having incorrectly specified inputs in the current DPP has been significant. Therefore, we encourage the Commission not to miss the opportunity to remedy these material issues for the forthcoming DPP.
4. As discussed in our submission, the recent final report by the Electricity Price Review (EPR) recommended the urgent need for the distribution sector to have a more consumer-focused approach to quality standards. More consumer-focused quality metrics do not seem to be considered in the models released by the Commission.
5. Another key recommendation of the EPR was the need for the DPP to encourage more innovation among distributors. This recommendation does not appear to have been incorporated in the tests and forecast modelling by the Commission.

Model corrections for disposals

6. Orion noted the draft DPP model included a projection for disposals based on five years of historical data which in its case included the impact of large disposals in RY2016. Orion does not expect this level of disposal to be repeated during the DPP3 period. Accordingly, the data point has a material impact on the forecast volume of disposals for DPP3 which is unlikely to match Orion's disposal activity in the DPP3 period. Vector has a similar issue with our disposals forecast being impacted by high one-off disposals in RY2016 and RY2017 which are unlikely to be repeated during the DPP3 period. We recommend the Commission ensure its forecasts for disposals reflect the anticipated level of disposals per annum for the DPP3 period.

Yours sincerely
For and on behalf of Vector Limited



Richard Sharp
Head of Pricing and Regulatory Compliance

