

21 February 2024

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## Transpower IPP 2025 – Issues Paper

1. This is Vector's submission on the Commerce Commission's (Commission) Issues Paper for Transpower's 2025 Individual Price-Quality Path (IPP). No part of this submission is confidential, and we are happy for it to be published on the Commission's website.

### Engagement and timing

2. We appreciate that the Issues Paper acknowledges the IPP consultation process is running in parallel with a number of significant electricity sector consultations, including DPP4.
3. We are also encouraged that the Commission, "*will work to build consistencies into our own processes, including incorporating changes stemming from the Transpower input methodologies and Capex IM review decisions into the IPP process, and aligning aspects of the IPP and DPP4 approaches where relevant.*"<sup>1</sup>
4. As recognised in the Issues Paper, a number of submitters encouraged the Commission to hold workshops to support engagement. Our submission on DPP4 set out a number of topics we consider would benefit from workshops.<sup>2</sup> These are:
  - Financeability;
  - Productivity;
  - Resilience expenditure;
  - EV growth uncertainty;
  - Simpler mechanisms to address uncertainty;
  - Impacts of future weather events; and
  - Innovation
5. Many of these topics are relevant for both EDBs and Transpower so holding a workshop would be an efficient means of engaging with stakeholders.

### Prices

6. The Commission is considering a range of options for Transpower's RCP4 revenue profile.
7. The Issues Paper notes that, "*While our focus will be on the pricing impacts to direct customers of Transpower's electricity transmission services, we are mindful of consumer price shock effects. We will consider whether the potential revenue step change results in*

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<sup>1</sup> Commerce Commission, *Transpower's Individualised Price-Quality Path for the Next Regulatory Control Period* (25 January 2024) at 1.14

<sup>2</sup> Available: [https://comcom.govt.nz/\\_\\_data/assets/pdf\\_file/0038/339779/Vector-DPP4-issues-paper-submission-19-December-2023.pdf](https://comcom.govt.nz/__data/assets/pdf_file/0038/339779/Vector-DPP4-issues-paper-submission-19-December-2023.pdf)

*a price shock from RCP3 into RCP4, in conjunction with the revenue impacts of our decisions on EDB DPP4.*<sup>3</sup>

8. We agree pricing impacts on consumers are an important consideration for the Commission. The large increases in revenue requirements for both Transpower and EDBs will necessitate careful consideration to manage price shocks and avoid undue hardship for suppliers.
9. This consideration should be guided by the Part 4 purpose. We note a revenue profile that ultimately undermines incentives to invest would not be in the long-term benefit of consumers.

### **Deliverability risk**

10. The Commission has identified deliverability risk as an issue for the entire electricity sector.
11. The Issues Paper notes the Commission is considering strategies, *“to ensure Transpower addresses this deliverability risk to consumers and to minimise the possibility that under-delivery is not seen as an efficiency, such as a top-down adjustment, a deliverability washup and some form of delivery reporting by Transpower.”*<sup>4</sup>
12. We recommend making better use of mechanisms such as use-it-or-lose it allowances for Transpower to ensure under-delivery is not seen as an efficiency. This would address any deliverability risk by returning these allowances to consumers if projects are not actually delivered.
13. We would have significant concerns if the Commission reduced allowances on the basis Transpower could not deliver proposed programmes. Rather than address deliverability risk, this would effectively ensure that Transpower was unable to deliver investment. Accordingly, this approach would undermine the long-term benefit of consumers.
14. For completeness, we do not consider it appropriate for the Commission to consider deliverability for EDBs in the context of a low cost DPP. This would require a granular and individualised assessment for each supplier that is not consistent with the DPP process.

### **Resilience and uncertainty**

15. We consider the use of use-it-or-lose it allowances an appropriate mechanism to manage resilience expenditure, although we have not had capacity to consider the mechanics of Transpower’s proposed allowances in detail.
16. Use-it-or-lose it allowances have a significant advantage over re-openers to manage uncertainty, as it provides suppliers and consumers greater certainty that funding for resiliency investment will be available where needed.
17. A resilient electricity system requires investment from EDBs and Transpower. If the Commission approves Transpower’s proposed use-it-or-lose it allowances for resiliency and customer electrification, similar mechanisms should be made available for EDBs as part of the DPP process.
18. The Issues Paper notes that, *“In our recent IM Review process, we considered UIOLI mechanisms for Transpower as a feature in the input methodologies. However, we decided*

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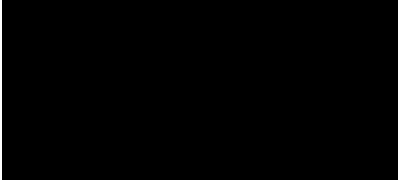
<sup>3</sup> Commerce Commission, *Transpower’s Individualised Price-Quality Path for the Next Regulatory Control Period* (25 January 2024) at 10.53

<sup>4</sup> Ibid at 8.56

*that the use of funding mechanisms like this needed to be considered on a case-by-case basis at each reset.”<sup>5</sup>*

19. The current DPP process should also provide an opportunity for the Commission to consider these funding mechanisms for EDBs.

Yours sincerely



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<sup>5</sup> Ibid at 5.33