



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

Regulation Branch
Commerce Commission
P.O. Box 2351
Wellington

Sent by email to: regulation.branch@comcom.govt.nz

27 September 2010

Cross-submission on starting price adjustments for DPPs

1. Vector welcomes the opportunity to provide this cross-submission on the submissions that were received on the Commerce Commission's ("**Commission**") *Starting Price Adjustments for Default Price-Quality Paths Discussion Paper*.
2. This submission responds specifically to points made in the submission of the Major Electricity Users Group ("**MEUG**"). Vector disagrees with MEUG's assertion that there is no need for an ROI band around a WACC point estimate.
3. MEUG suggests that the use of a band may incentivise regulated suppliers to misrepresent their ROI returns in order to influence the starting price adjustment. Vector disagrees for a number of reasons. Firstly, the ROI calculation is produced through audited information disclosures so opportunities for EDBs to misrepresent this information are limited. Secondly, using multi-year ROI data would minimise this risk (if it even exists). Thirdly, it is highly improbable that a regulated supplier would under-perform in the latter years of a regulatory period to gain a more favourable starting price adjustment for the next regulatory period as the amount of money "gained" would be roughly equivalent to the amount of money "lost", only with a two-year time lag.
4. MEUG claims that there are no circumstances which could cause sufficiently large economic fluctuations to require the use of an ROI band to address uncertainty. Vector suggests that some "fluctuations in economic factors" that could occur include a sudden change in global prices for asset component materials (e.g. steel) or a sudden change in global financial conditions which severely affect the cost of capital faced by regulated suppliers. A means of catering for the uncertainty created by these possibilities is required within a DPP.

5. Vector does not agree with MEUG's assertion that using multiple years of ROI data means that an ROI band cannot be used. The intention to use multiple years of ROI data is to smooth out any anomalies to help ensure that the starting price adjustment is appropriate for each regulated supplier. While using multiple years of ROI data may mean that a supplier is not (in a single year sense) moved exactly to the top or bottom of the band, that is implicit in the option of using multiple years of ROI data and is not a problem in itself.

6. Thank-you for considering this submission. If you require further information please contact me on 09 978 8340 or at allan.carvell@vector.co.nz.

Yours sincerely,



Allan Carvell
Group General Manager Regulation and Pricing