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Vector Limited
101 Carlton Gore Road
PO Box 99882
Newmarket
Auckland 1149
+64 9 978 7788 / vector.co.nz

Commerce Commission
44 The Terrace
Wellington, 6011

By email: regulation.branch@comcom.govt.nz

Cross submission - proposed amendments to cost of capital input methodologies for gas pipeline businesses related to the 2022 default price-quality paths

1. This is Vector's cross-submission to the Commerce Commission's (Commission) proposed amendments to the cost of capital (WACC) input methodologies (IMs) related to the 2022 default price-quality paths (DPP3) for gas pipeline businesses (GPB).

Tax adjusted market risk premium (TAMRP)

2. Of the four submitters, Powerco and Vector supported the Commission's decision to update the TAMRP to 7.5%, while MEUG submitted that the TAMRP should be lower and Greymouth Gas did not support an update.
3. There were few submissions received to this consultation, which was limited to technical updates to certain WACC parameters. However, as noted in the draft decision, all submitters to the *Process and Issues* paper that discussed the TAMRP supported updating the estimate.
4. Accordingly, we consider there is broad support for updating the TAMRP to 7.5%.
5. As a market wide measure, we do not see any credible argument against updating the TAMRP to be consistent with the Commission's most recent determination.
6. We note MEUG's submission, in line with its position during Fibre IM consultation, that the TAMRP should be 7.3% based on MEUG's objections to the Commission's approach to calculating the TAMRP. We have not addressed this argument on the basis it hinges on a substantive policy change by the Commission so is outside the scope of this s52x IM amendments consultation. However, we look forward to engaging further with stakeholders on the appropriate way to calculate TAMRP during the substantive IM review consultation.

Alignment with the regulatory period

7. We also note Greymouth Gas' submission which supported tying the WACC to the regulatory period and removing "reference to a 5-year period for the risk-free rate, debt premium and debt issuance cost inputs to the WACC."
8. Of these parameters, we note tying the debt premium to the regulatory period would amount to a substantive policy change around the Commission's view of efficient debt so is outside of the scope of the s52x IM amendments consultation. As above, we look forward to engaging with stakeholders as to the appropriate cost of debt during the substantive IM review consultation.

Yours sincerely



Richard Sharp

GM of Economic Regulation and Pricing