VECTOR LIMITED
101 CARLTON GORE ROAD
PO BOX 99882
AUCKLAND 1149
NEW ZEALAND
+64 9 978 7788 / VECTOR.CO.NZ

6 September 2018

Dane Gunnell
Senior Project Manager
Regulation Branch
Commerce Commission
44 The Terrace, Wellington 6011

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

Dear Dane,

Submission on proposed amendments to Electricity Distribution Services Input Methodologies Determination in relation to Accelerated Depreciation

1. In 2016 the Commerce Commission (Commission) amended the Input Methodologies (IMs) applying to the default price path (DPP) to allow for limited accelerated depreciation. At the time, the Commission noted the measure was precautionary to address the risk of partial capital recovery. The change was also included in the regulatory tool kit to limit the impact of future price shocks for consumers. Partial capital recovery would breach the principle of *ex-ante* financial capital maintenance (FCM) which has underpinned the Commission's approach to regulation under Part 4 of the *Commerce Act 1986.*

2. The principle of FCM and NPV=0 has provided investors with confidence that funding the physical needs of the electricity distribution system will deliver over the life of the asset a normal rate of return. This defining principle of Part 4 has ensured the physical assets of networks are able to be financed to meet customer expectations.

3. Accordingly, Vector agrees with the Commission that the principle for providing for accelerated depreciation is to enable an EDB to provide a recovery profile based on an appropriate economic life recovery rather than physical structure life.

4. This consultation appears to deal with mechanical issues for a Notice that could be lodged by an EDB for the resetting of the DPP at 1 April 2020. We have provided comments on the changes with that lens.

Change of date for receipt of a Notice to be lodged with the Commission

5. Vector supports the change to clause 4.2.2 of the IMs for a Notice to be validly lodged 13 months before the commencement of the next DPP period. The Commission informed stakeholders in an open email on 9 March 2018 that it intended to amend the date for a valid Notice to be received by it. The proposed change accords with stakeholder

expectations from that email that a valid Notice could be received later than 31 March 2018 – with the assumption that regulatory year 2019 is the base year for the next reset period.

Applicable adjustment factor of "1" for the final year of the current DPP

6. Vector sees the benefit with recognising an adjustment factor of 1 being applied to all existing assets in the final year of the current DPP, which is described in the Commission's consultation document as the "gap" year. The Commission note that applying the adjustment factor in the 'gap year' reduces the opening regulatory asset base which would be contrary to the policy intent of the 2016 IM review. Such an approach would have violated the NPV=0 intent of the inclusion of the adjustment factor in the IMs.

Amending the definition of 'adjusted depreciation' and remaining asset lives

7. The Commission note that the remaining asset lives for assets used when calculating 'adjusted depreciation' for 'amortisation of revaluations' and 'depreciation temporary differences' must be consistent in the DPP with the remaining asset lives for existing asset lives for calculating 'total depreciation'. This is consistent with our understanding on how the adjustment would need to be applied.

8. If you have any questions in relation to this letter please contact myself on (09) 213 1542 or Kelvin.Binning@vector.co.nz.

Kind regards

Kelvin Binning
Principal Regulatory Advisor