

31 July 2018

Mr Matthew Lewer  
Manager, Regulation Development  
Regulation Branch  
Commerce Commission  
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Dear Matthew,

**Feedback on recent customised price-quality path processes**

1. This is Vector's comments to the Commerce Commission (Commission) on its review of the recently completed customised price paths (CPPs) for Wellington Electricity and Powerco.
2. The completed CPPs give no direction how the applications met community expectations for security, safety, reliability and commercial responsibility. This does not provide stakeholders with a clear view about the Commission's expectations for how these responsibilities should be discharged.
3. The only difference with CPP decision-making is that it involves an ex-ante conversation about the resourcing required about delivering to the community's expectations for service quality and prices to be charged.
4. Electricity Distribution Businesses (EDBs) service delivery requires such decisions to continuously to be made i.e. each business decision involves trade-offs to operate within the defined price limit. Examples of business decision trade-offs include delivering reliability outcomes either via:
  - a. engineered solutions such as deterministically planned networks with system security criteria allowing very little energy at risk; or
  - b. probability based system planning allowing for more risk complemented with other management strategies.
5. Each of these courses of action have different implications for customer prices and the risk involved with delivering reliability outcomes. However, the recent CPP decisions provide no insight into how these types of trade-offs were considered by the Commission during the recent CPP assessment processes. This is a missed opportunity to provide guidance to all EDBs as well as other stakeholders on how such trade-offs should be considered within the existing regulatory framework.

6. While the Powerco CPP was premised on investment to rectify for a period where it managed its assets for the short term, the CPP also included \$281 million in system growth and security capital expenditure over the five-year period. For contrast, this exceeds Vector's system growth and security expenditure forecasted in Vector's 2018 Asset Management Plan over the next five years to meet demand growth and system planning for New Zealand's largest commercial precinct over the same time.
  
7. EDBs expect a consistent view across Part 4 decision-making about trade-offs between price and quality. A CPP should not have a different lens with which to assess price-quality trade-offs to other Part 4 decisions. We suggest the Commission considers providing more information on its expectations on trade-offs. This will help stakeholders understand how the Commission assessed trade-offs in reaching its CPP final decisions and its oversight of Part 4 of the Commerce Act.

Kind regards

A handwritten signature in blue ink, appearing to read "Richard Sharp".

**Richard Sharp**  
Head of Regulation and Pricing