

29 March 2019

Mr Dane Gunnell
Manager, Price Quality Regulation
Regulation Branch
Commerce Commission
44 the Terrace, Wellington 6011

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Dear Dane,

Expenditure inflators for Default Price Path 3

1. Vector engaged Infometrics to review the methodology and indices used by the Commerce Commission (Commission) in its default price path (DPP) model to assess whether they adequately reflect the cost and changes to costs for operating in the Auckland region.
2. Infometrics found there is indeed a cost premium for a business operating in Auckland relative to a similar sized firm operating in other parts of the country. More importantly, Infometrics found the relative cost for a business operating in Auckland has grown since the last DPP was set. In other words, the “wedge” between Auckland and other parts of the country has widened. This wedge was not addressed by the indices used by the Commission for inflating real expenditures which have no geographic disaggregation.
3. Attached to this cover letter is the Infometrics report which explores the cost pressures in Auckland compared to those in the rest of New Zealand. We encourage the Commission to consider the material and to provide a remedy for regional variation in cost drivers for the forthcoming DPP. Infometrics recommend a premium for an Auckland business on top of the cost indices used by the Commission to ensure its indices sufficiently capture the changes in costs required for operating in the region. Given the Infometrics Report was received in March 2019, we have not applied the recommendations to our 2019 AMP expenditure forecasts.
4. Most recently, when setting the default price path for gas pipeline businesses, the Commission identified ‘individual tailoring’ a matter able to be addressed within the low cost DPP and a means to better address a supplier’s circumstances.
5. Accordingly, we encourage the Commission to adopt consistent principles across DPPs so that stakeholders have certainty in the decision-making process. In this respect, we recommend regional adjustments to the indices for inflating expenditure as an appropriate

use of tailoring. This will ensure the DPP is appropriate for EDBs such as Vector which must provide its service in the Auckland region.

6. If you wish to discuss any matters raised in this submission, please contact myself, Richard Sharp: Richard.Sharp@vector.co.nz or (09) 978 7537.

Yours sincerely



Richard Sharp
Head of Regulation and Pricing