

29 March 2019

Mr Dane Gunnell  
Manager, Price-Quality Regulation  
Regulation Branch  
Commerce Commission  
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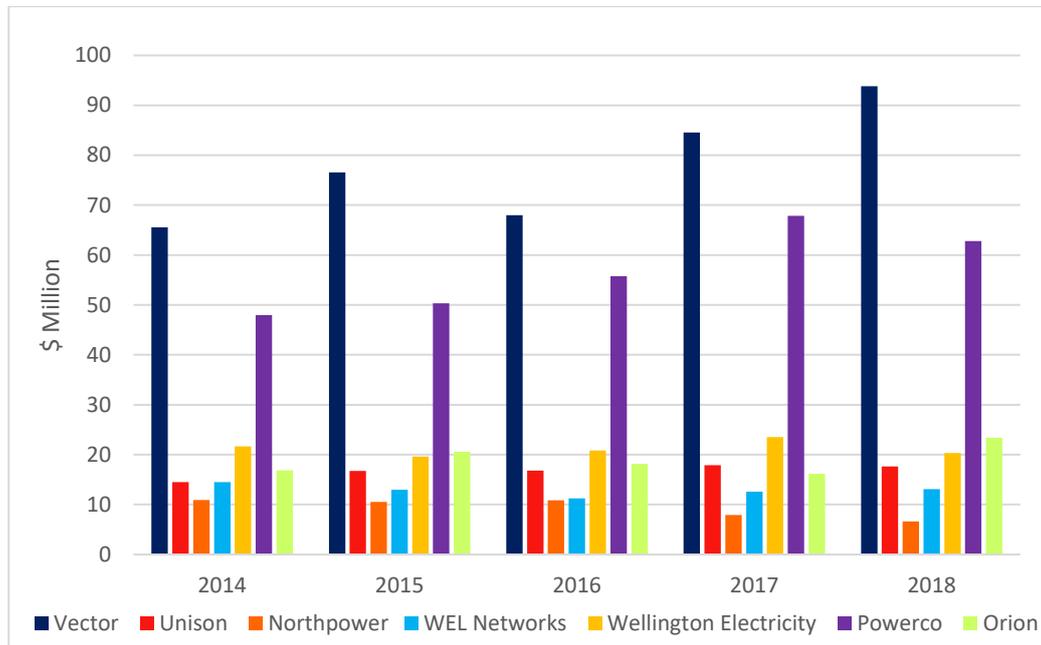
Dear Dane,

### **Vector – Accelerated depreciation application**

1. This is Vector's submission to the Commerce Commission's (Commission) request for feedback on Vector's notice for applying the depreciation adjustment factor in clause 4.2.2 of the Input Methodologies IM Determination (IM Determination) for the default price path (DPP) commencing 1 April 2020.
2. When the Commission amended the IM Determination it clearly indicated the depreciation adjustment factor was a *precautionary tool* and a *modest and partial solution* to the risks of partial capital recovery. In this regard, the Commission signalled it would act early where it became evident emerging technologies had increased the risk to investment recovery.
3. Vector has applied for the Depreciation Adjustment Factor for the upcoming DPP. We have taken this step as we are acutely conscious of the risks to our investment which is to a significant extent non-discretionary. Our investment programme is significant and has no equivalent in New Zealand.
4. Other EDBs may also have concern about the risk emerging technologies pose to their business and capital programme. However, the relative significance of our capital programme means we have sought to investigate the impact new technologies could have in the future. Our investigation highlighted a growing risk and uncertainty for investment sufficient enough to warrant the need to apply for a Notice.
5. Certainty is especially important given our capital programme. Our asset replacement and renewal programme has grown significantly over the three years and is expected to exceed \$100M per annum for the forthcoming DPP period. We are required to execute this programme while also meeting the growth needs of Auckland. Indeed, over the next DPP period Auckland's population is expected to increase by 36% to 1.9 million residents over the five years. The recovery profile of our replacement and renewal investment programme

is dictated by the Standard Asset Physical Life Schedule in the IMs. **Graph 1** shows the expenditure of several EDBs on asset replacement and renewal from 2014 to 2018.

**Graph 1: Replacement and renewal expenditure for EDBs for 2014 - 2018**

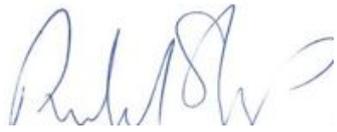


Source: Annual Electricity Information Disclosure

6. **Graph 1** shows Vector’s investment in asset replacement and renewal is significantly larger than any other EDB. Supporting this critical network investment programme is premised on the current Part 4 principles of NPV=0 and FCM enduring.
7. We consider our Notice and supporting material are consistent with the expectations set by the Commission when it introduced the depreciation adjustment factor. We consider the issues of intergenerational equity are significant enough for the Commission to act for 1 April 2020. The supporting macroenvironment will also limit the immediate consequences of rebalancing but serve the long-run interests of consumers by limiting the impact of investment recovery for future customers.
8. We have encouraged the Commission to produce guidelines or transparent criteria about how it would assess a claim. Such was our concern about the absence of guidance that we recommended the IMs include a requirement for the Commission to produce a guideline on how it would assess a Notice for the depreciation adjustment lever.
9. However, in the absence of any further guidance we have undertaken our investigation into investment risk using the reasoning included in the Commission’s final reasons paper. We welcome the opportunity to discuss how the Commission will assess our Notice and any guidance for the future for EDBs wishing to lodge a Notice for future DPP periods.

10. Please contact Richard Sharp on [Richard.Sharp@vector.co.nz](mailto:Richard.Sharp@vector.co.nz) or (09) 978 7547 to discuss further matters raised in this submission.

Regards,



**Richard Sharp**  
Head of Regulation and Pricing