

9 November 2017

Mr Matthew Lewer
Manager, Price-Quality Regulation
Commerce Commission
44 The Terrace, Wellington

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

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

Dear Matt,

Submission on proposed changes to Transpower' pilot asset health grid output measures November 2017

1. The reconsideration of Transpower's asset health grid output measures is an opportune time for the Commerce Commission (Commission) to consider the implications of the changing technology and energy environment for responsible electricity network asset management.
2. Historically asset management has involved replacing or augmenting assets well in advance of any future need. This approach has an implicit underlying presumption of increasing load growth and energy usage to cover the costs of investment.
3. The changing profile for customer energy usage over the last 10 years from increasing energy usage per customer to suddenly sustained declining usage was not foreshadowed by regulators and some asset managers. This change has challenged longstanding assumptions for investment decisions.
4. Accordingly, the design of regulatory schemes for efficient investment must reflect on the experience of recent history and not the experiences of previous decades where growing electricity usage could be reliably forecasted.
5. In our current uncertain environment, responsible network asset planning must address the heightened risks for network investments given the current rate of change in emerging energy technology is unprecedented since mass consumer electrification. This means suppliers must consider other alternatives to refurbishing or replacing assets. Responsible network management now involves harnessing innovative solutions for maintaining infrastructure given the changing risks involved with investment. We note the heightened risks for asset investment are even more pronounced for electricity distribution businesses given the impact of indexation to investment recovery.

6. We encourage the Commission to carefully consider any financial incentives for asset health indicators for Transpower to not unintentionally encourage outmoded models for asset management.

7. If you have any questions in relation to this submission, please contact myself on 09 978 7547 or Richard.Sharp@vector.co.nz.

Yours sincerely
For and on behalf of Vector Ltd

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

Richard Sharp
Head of Regulation and Pricing