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24 March 2016

Keston Ruxton
Manager, Input Methodology review
Regulation Branch
Commerce Commission
Wellington

By email: im.review@comcom.govt.nz

Dear Keston,

Input methodologies (IMs) review – Review of weighted average cost of capital (WACC) issues by Dr Lally

- 1 This is Vector's submission to the Commerce Commission's (the Commission) consultation on Dr Martin Lally's 'Review of WACC Issues', released on 29 February 2016.
- 2 Vector's contact person for this submission is:

Kelvin Binning
Senior Regulatory Analyst
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- 3 No part of this submission is confidential and we are happy for it to be publicly released.
- 4 Attached to this submission is an expert report titled *The Relative Risk of Gas Transport Services* by CEG.

The gas pipeline asset beta

- 5 Vector is concerned about Dr Lally's advice on recommending there be no difference between the electricity network asset beta (applicable to both Transpower and EDBs) and regulated gas pipeline asset beta. This advice appears to be based on a cursory review of the relevant issues. Dr Lally does not appear to apply the same degree of analysis as when he last considered this issue. We encourage the Commission not to merely accept Dr Lally's view when it considers this issue but to apply the same degree of rigour as when it was last considered in 2010.
- 6 Vector believes the issues relevant for applying an uplift in 2010 to gas pipeline asset beta are equally relevant today. Reticulated gas pipeline networks are a "fuel of choice" for North Island consumers with much lower household penetration. Therefore, such networks are subject to a relatively higher risk of asset stranding which must be addressed. We encourage the Commission to consider the issues raised in CEG's report for Vector suggesting that an uplift for the gas pipeline asset beta is still necessary.

Asset beta and form of control

7 Vector discusses its view on the interaction of the asset beta and form of control in its submission to the Commission's emerging view on form of control. Vector has also read the ENA's submission and supports its view on the interaction of the asset beta with the form of control.

Providing certainty to investors

8 Vector strongly encourages the Commission not to make any changes to the WACC IM that undermines the section 52R purpose of IMs to provide certainty to suppliers and consumers. To that end, Vector encourages the Commission not to make any unanticipated changes that undermine investor confidence in the purpose of the IMs to provide upfront certainty to investors for how DPPs will be reset.

Process update paper – cost of capital

9 This consultation on Dr Lally's advice only covers the issues of asset beta adjustments and the suitability of Black's simple discounting rule. The Commission is intending on releasing the rest of Dr Lally's advice on the cost of debt, RAB indexation and inflation risk in May. Vector is concerned about the May consultation and the Commission's proposed timing for its draft decision for mid-June 2016. The issues being considered by the May consultation are significant. We are concerned the Commission is not giving itself sufficient time to account for relevant stakeholder feedback on the May consultation for its draft decision.

Yours faithfully
For and on behalf of Vector Limited



Richard Sharp
Head of Regulatory