

Date: 12 April 2024

Attention: Mr Simon Wakefield
Principal Advisor, Price-Quality Regulation
Commerce Commission
Wellington 6011

Dear Simon,

RE: Letter from Vector on IAEngg 2023 AMP Review Report

I refer to the letter from Vector to the Commerce Commission dated 3 April 2024. In the letter, Vector reported an error in IAEngg's Stage 1 report, "NZ EDB 2023 AMP Review", published on 29 January 2024. Vector claims that the IAEngg report made an error by stating, in Section 7.15.3 of the report, that Vector's 2023 AMP did not consider, or contain expenditure provisions, for ageing assets as a driver for capex or opex growth.

IAEngg has carefully considered Vector's letter and believes the quoted section in IAEngg's report does not contain an error. The reasons are as follow:

- Section 7.15.3 does not state that "Vector's 2023 AMP did not consider, or contain expenditure provisions, for ageing assets as a driver for capex or opex growth."
- Section 7.15.3 provides, in table format, a list of drivers for capex and opex **growth** and marks that "ageing assets" is not a driver. **Growth** in this context refers to increase in forecast capex compared with historic spend. Section 7.15.1 provides a summary analysis of Vector's expenditure in the form of a dashboard. While Vector forecasts an overall increase in both capex and opex, the capex and opex relating to asset replacement and renewal have actually shown a decrease (-26% for capex and -7% for opex) compared with historic trend. This supports the assessment made in Section 7.15.3 that "ageing assets" is not a driver for capex or opex **growth**;
- Section 3.2 of the IAEngg report outlines the framework that was used by IAEngg to analyse EDB's forecast expenditure. Figure 2 in Section 3.2.6 provides the 2-step assessment process which starts with "identify the top 3 capex categories that contribute to the material increase". As Vector's forecast expenditure in "asset replacement and renewal" does not contribute to the overall capex and opex increase, no detailed assessment was performed by IAEngg for this expenditure category.
- Accordingly, in Section 4.5.13 EDB Assessment Summary and Section 7.15.4 Summary of Capex and Opex Categories assessed, IAEngg has marked Vector's assessment under "asset replacement and renewal" as "not assessed" because the expenditure category is not a major contributor to overall expenditure increase.



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If you have any queries, please don't hesitate to contact us.

Kind regards

[Redacted Signature]

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