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## **Input Methodologies (IM) Review 2023 – Response to Draft Decision on Transpower’s IMs and Capex IMs Determinations**

1. This is Vector’s (‘our’, ‘we’) response to the Commerce Commission’s (Commission) draft decision on Transpower IMs and Capex IMs. No parts of this submission are confidential, and it can be published on the Commission’s website.

### **Process and timeframes**

2. We reiterate some of our process points made in our response to the Commission on the wider suite of IMs submitted on 19th July. Vector believes that more time should have been allocated to consult on the draft decision. We do not accept that the statutory timeframes for the IM review means that short consultation periods are unavoidable. It is our view that the Commission should have anticipated that this IM review would be critical for setting the right IMs to support Aotearoa’s decarbonisation objectives. As a result, a more intensive engagement programme and longer consultation periods was required. To achieve this the Commission should have started its review process earlier. This did not occur leaving the industry and other interested parties scrambling to provide the input required into the Commission’s process.
3. Having only an extra week to focus on the Transpower issues has constrained our ability to respond fulsomely to this consultation and therefore our submission unfortunately reflects that constraint.

### **Alignment of treatment with Electricity Distribution Businesses (EDBs)**

4. As reported by the Boston Consulting Group (BCG)<sup>1</sup>, the future of Aotearoa New Zealand’s energy system is reliant on an unprecedented investment across the sector. Delivering this future will require \$42 billion in the 2020s split across:

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<sup>1</sup> BCG, *The Future is Electric*, Oct 2022, <https://web-assets.bcg.com/b3/79/19665b7f40c8ba52d5b372cf7e6c/the-future-is-electric-full-report-october-2022.pdf>

- Distribution – 52%
  - Renewable generation – 24%
  - Transmission – 19%
  - Flexible generation – 4 %
5. When more than half of the expenditure required will come from the distribution companies, Vector believes that the Commission needs to align the regulatory focus attributed to Transpower to EDBs.
6. For that reason we were pleased to see some proposals that went in that direction. The new Large Connection Contract (LCC) mechanism has been introduced for EDBs similar to Transpower's New Investment Contract (NIC). Disappointingly however, the LCC has a minimum capacity threshold whereas the NIC does not. We would like to see the minimum threshold removed for EDBs' LCC.

### **Regulatory asset base (RAB) indexation**

7. Similarly, we welcomed the Commission's proposal to index Transpower's RAB because this provides consistency with EDBs. However we would have preferred that the treatment was aligned in the opposite way and instead EDBs' RABs were un-indexed.
8. We have explained at length the reasons why un-indexing EDBs' RABs would assist with bringing forward cash-flows and assisting with the investment required for the energy transition in our response to the draft decision sent to the Commission on 19 July 2023.
9. We have also sought information from the Commission on their original decision to un-index Transpower's RAB back in 2010. We are still awaiting the receipt of that information and therefore may need to amend or add to this submission on receipt of that information.
10. Finally, we have taken stock of the other alternatives proposed by the Commission and we do not support a delay in the alignment of RAB indexation between Transpower and EDBs.

### **Independent verification**

11. We welcomed the Commission's draft decision to introduce an independent verification process in the Capex IM to assist preparation, and our review, of Transpower base capex proposals that support Individual Price-Quality Path (IPP) resets. We also believe stakeholders could benefit from a suite of tools being made available by Transpower to enable stakeholders to undertake their own analysis of Transpower's capital proposals. These tools should include models which enable stakeholders to look at the sensitivities of the allocation of costs of those capex proposals under the transmission pricing methodology (TPM).

12. We believe that independent verification is a useful tool to seek a robust review of some of the mechanisms that the Commission is sometimes not adequately resourced to deal with.
13. We suggest that the Commission uses independent verification in other areas of the regime such as the fast tracking or validation of reopener applications.
14. Whilst it is used for the Innovation Project Allowance, we are concerned that the definitions around 'innovation' are not robust enough, and that the Commission could use their discretion to disallow innovation funding even when it is signed off as 'innovative' by an expert and independent verifier.

Yours Sincerely  
For and On Behalf of Vector Limited,



Richard Sharp  
GM Economic Regulation and Pricing