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Commerce Commission  
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**Wellington**



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Dear Sue

### **Permitted asset adjustments for electricity distribution businesses**

1. Thank-you for your letter of 24 August in response to my letter of 18 August regarding differing asset valuation adjustments.
2. I note that you say that the treatment of the proposed asset value adjustments for the reset of the 2010-15 DPP is currently subject to public consultation. Vector was not aware that the recent consultation on the starting price adjustment draft decisions paper<sup>1</sup> was intended to be a consultation on the data provided to the Commission under the statutory notice process. This was not made clear in the draft decisions paper – in fact, in respect of RAB issues we understood the information had been reviewed and then re-reviewed again by Nel Consulting Limited and that these conclusions had been confirmed in its "Final Review Report"<sup>2</sup>. Vector notes paragraph 3.47 of the draft decisions paper:

As part of complying with the s 53ZD Notices, those EDBs that elected to undertake an asset adjustment process were required to provide a report from an independent engineer. The Commission engaged Nel Consulting Limited (NCL) to review and provide advice on the engineering reports submitted to support the asset adjustments. The initial review of the reports identified instances of non-compliance with the disclosure requirements prescribed for the engineering reports. Subsequent to the review of additional information requested from EDBs as a result, NCL concluded that all EDBs complied with the requirements.

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<sup>1</sup> Commerce Commission, *2010-15 Default Price-Quality Path for Electricity Distribution Draft Decisions Paper*, 19 July 2011.

3. In any event, Vector is not submitting or cross submitting on the approaches taken by other EDBs in their statutory notice responses. Nor do we take issue with the Final Review Report. Rather, we are seeking to resubmit corrected information on the basis of the principles that have now clearly emerged.
4. The current situation is that asset valuation adjustments made by EDBs have been approved by EDBs' Boards, auditors, independent engineers and the Commission's own expert reviewer. In particular the Commission's expert reviewer had confirmed that all EDBs complied with the requirements of the Input Methodologies. As discussed in my previous letter, this acceptance of the approaches has provided additional clarification and guidance on the appropriate interpretation of the asset valuation adjustment sections of the IMs (as set out in paragraph 8 of my letter of 18 August 2011). Vector agrees that these principles / parameters are appropriate. However, through an absence of previous clarity, we misinterpreted the IMs and are simply proposing to now correct those errors.
5. In your letter, you seek further information regarding:
  - a) the information Vector has identified about the differing treatments adopted by EDBs;
  - b) the references to the published asset valuation reports of those EDBs where those adjustments have been incorporated;
  - c) an explanation of how those approaches to making adjustments differ from those approaches adopted by Vector to date; and
  - d) how Vector proposes to apply a different adjustment approach.
6. In relation to items (a) and (b), differing treatment of EDBs would only become an issue, in our view, if the Commission refuses to allow Vector, or other EDBs, to resubmit information.<sup>3</sup> The point we are making is that principles / approaches have clearly emerged from the information made available by the Commission, which is principally the Final Review Report. Because of the previous lack of clarity about the meaning of relevant sections in the IM it is now clear that Vector misinterpreted / misunderstood the nature of the adjustments that would be allowed. The principles that have emerged are clearly set out in paragraph 8 of my letter of 18 August and are considered appropriate by Vector. The Commission and NCL will be aware that these are the principles / approaches that have been applied by NCL on behalf of the Commission in its Final Review Report.

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<sup>3</sup> See paragraph of my letter of 18 August 2011.

7. We are unable to provide the detailed explanations requested in items (c) and (d) above as we are still working through these issues. As noted in paragraph 11 of my letter of 18 August, Vector intends to make further asset valuation adjustments that we now understand are permitted and submit the new information to the Commission as soon as possible. When we provide this information we will provide additional commentary on the changes, which should address your request in items (c) (to the extent that Vector's approaches differed from the principles that have now emerged) and (d) above.
8. If you would like to discuss this matter further please contact me on 09 978 8340 or at [allan.carvell@vector.co.nz](mailto:allan.carvell@vector.co.nz).

Yours sincerely,



**Allan Carvell**  
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