



COMMERCE COMMISSION

Please refer to:

12165
1245946_1

24 August 2011

Allan Carvell
Group General Manager Regulation and Pricing
Vector Limited
101 Carlton Gore Road
PO Box 99882, Newmarket
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Dear Allan

Permitted asset adjustments for electricity distribution businesses

We refer to your letter of 18 August 2011 on the asset adjustment process undertaken for regulated electricity distribution businesses (EDBs). This process allows for changes to the initial regulated asset base value of EDBs, consistent with the asset valuation input methodology for EDBs.

Your letter states that approaches taken by some EDBs on certain types of asset value adjustments differ to those that Vector had assumed to be permissible under the input methodologies and that Vector intends to provide revised asset adjustment information.

The proposed asset value adjustments are based on information provided by EDBs and have been used to inform our draft decisions on resetting the 2010-15 default price-quality path (DPP).¹ The treatment of the proposed asset value adjustments for the reset of the 2010-15 DPP is currently subject to public consultation.

We published the asset value adjustment reports supplied by various EDBs on our website as part of the consultation on the reset of the 2010-15 DPP. We also commissioned an independent review report by Nel Consulting Limited to review the proposed adjustments and have also published this on our website. Many of the adjustments proposed by EDBs involve the exercise of engineering judgement and differences in view are therefore to be expected. Interested parties are able to review this information and then submit on any areas of concern as part of the consultation process.²

At paragraph 11 of your letter you state that Vector intends to provide the Commission with revised asset adjustment information for Vector that is consistent with approaches taken by some EDBs on certain types of asset value adjustments.

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

² We note that EDBs and their advisors were able to seek clarification from the Commission on technical matters relating to the asset adjustment process while EDBs were compiling that information.

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Thank you for raising your concerns about the potential for inconsistencies in terms of the information Vector has supplied to us. To allow the Commission to fully consider the implications of this issue in the timeframes available, we request that Vector provides further details on the particular instances of differences referred to in your letter, including:

- the information you have identified in order to make the statements at paragraph 8 of your letter about the differing treatments adopted by various EDBs
- the references to the published asset valuation reports of those EDBs where those adjustments have been incorporated
- an explanation of how those approaches to making adjustments differ from those approaches adopted by Vector to date
- how Vector proposes to apply a different adjustment approach.

We are treating your letter as a submission on our draft decision as to the reset of the 2010-15 DPP. We intend to publish the information that you provide on our website to make it available for all parties to consider prior to the due date for making cross submissions on our draft decisions for resetting the 2010-15 DPP (which is 5 September 2011). We therefore request that Vector provides this information by no later than 5pm **Friday, 26 August 2011**. (As you will appreciate, we are working to a tight timeframe to consider any reset of the 2010-15 DPP.)

Finally, we reiterate that the Commission has yet to make its final decision on resetting the 2010-15 DPP, including on the asset adjustment values provided by EDBs. We remain open to all submissions received as part of the current consultation process.

Yours sincerely



Sue Begg
Deputy Chair