



**Vector Limited**  
101 Carlton Gore Road  
PO Box 99882, Newmarket  
Auckland, New Zealand  
[www.vector.co.nz](http://www.vector.co.nz)  
Corporate Telephone  
+64-9-978 7788  
Corporate Facsimile  
+64-9-978 7799

Network Performance Branch  
Commerce Commission  
P.O. Box 2351  
Wellington

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### **Submission on Further Work Process Paper**

1. Vector welcomes the opportunity to provide this submission on the Commerce Commission's ("Commission") consultation paper *Further Work for the Reset Default Price-quality Path for Electricity Distribution Businesses: Process Paper* ("the Process Paper").
2. While Vector welcomes the general intent to resolve outstanding issues, we have some suggestions on how the proposals may be improved.

#### *Overall approach*

3. Vector submits that the Commission need not combine all of the "further work" issues into one general discussion paper in June/July 2010. The issues are largely unrelated and could be considered separately. To consult on all of them together will have the effect of making all issues move at the speed of the slowest, creating unnecessary delay in implementing certain decisions. Vector recommends the Commission consult on each issue when it is ready for consultation, subject to consideration of the number of consultations which stakeholders must consider at any one time.
4. The Commission particularly needs to have regard to both its own broader consultation processes on input methodologies and other critical external workstreams affecting regulated gas and electricity providers. Industry participants are aware of the tight deadlines faced by the Commission and the need to respond in a timely manner to the Commission, but capacity is not

unlimited. Vector recommends that the Commission coordinate internally across its DPP and IM workstreams and externally with the Electricity Commission, Gas Industry Company and Ministry of Economic Development, as the key agencies whose consultation workstreams may affect EDB and GPBs' abilities to respond.

#### *Incentive mechanisms*

5. The Commission appears to be focusing its efforts on resolving relatively technical (although still important) matters, such as the headroom issue. Vector recommends that the Commission focus the majority of its time and resources on innovations that can add real value to investors and consumers and improve the regulated services that are provided – specifically incentive mechanisms for improving quality of supply, demand management, energy efficiency and energy loss reduction. Well designed incentives are needed if quality and reliability of supply are to be improved significantly, energy losses are to be reduced and demand-side participation is to make its full contribution to meeting future demand. Compared to such high-impact potential, the benefits of technical pricing changes will be rather small. We recognise the Commission needs to prioritise, but it should prioritise in favour of those issues that can deliver the most value.

6. Vector is therefore concerned that there have been no attempts to schedule the process for developing incentive mechanisms after the General Issues Discussion Paper in mid-2010. In regard to incentivising demand management, energy efficiency and reduction in energy losses, the Commission is required to develop mechanisms to meet the clear legal requirement of section 54Q (of which the Commission is currently in breach). The debate should by now have moved from “whether” to “how” such a scheme could be implemented.

7. Vector recommends that the Commission use the previously provided ENA proposal for an s-factor incentive mechanism<sup>1</sup> as the starting point for its work on an incentive scheme to improve quality and reliability among EDBs.

#### *Scope for choice between price cap and revenue cap*

8. One further issue that is worthy of consideration is to allow suppliers to choose whether they are subject to a price or revenue cap for each regulatory period. This would help to remove disincentives for suppliers to engage in projects such as the development of time-of-use (TOU) tariffs for residential consumers which will be enabled by the advent of smart meters. EDBs are unlikely to risk the

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<sup>1</sup> *Submission on Developing a framework for establishing quality performance measures under the Commerce Act 1986*. From the Electricity Networks Association, 8 May 2009.

CPP process to achieve such structural changes due to the cost and riskiness of the CPP process. The chief difficulty for EDBs is that it is difficult to predict in advance how consumers may react to such tariff changes, and if consumers over-react compared to forecasts then EDBs/consumers may be subject to large changes in revenues. Allowing suppliers to choose between price and revenue caps (or allowing adjustments for unders and overs) would enable suppliers to negate this disincentive during the regulatory period in which the transition to TOU tariffs is made and would help the Commission to meet its objectives under section 54Q.

#### *Starting price adjustments and claw-back*

9. Vector agrees 1 April 2012 is a suitable date for the starting price adjustment. We note that the Commission will need to build sufficient time into its processes to allow EDBs to implement the input methodologies and determine the effects on their financial performance/position.

10. Vector believes the Commission's proposed timeframes for making decisions on starting price adjustments are workable, provided the final decision is not published any later than Q3 2011. A later decision would hamper our ability to adjust our prices for the 2012-13 year as prices for that year will need to be finalised by December 2011.

#### *Headroom*

11. Vector is pleased the Commission intends to resolve the "headroom" issue. However, we see the issue as being straightforward to resolve and it is not clear that the Commission needs to address it in three separate consultation papers and a decisions paper. We believe it could be resolved before 30 November 2010, at which point EDBs will have limited time available to adjust their prices before they need to be finalised to come into effect on 1 April 2011. Planning for a "just in time" decision increases the risk that delays will mean the issue cannot be resolved in time for the start of the second assessment period.

#### *Enforcement guidelines*

12. Vector notes that there is also no process or timeline provided for finalising the enforcement guidelines. Guidelines are necessary to provide certainty to industry of how breaches and potential breaches will be assessed and handled. Vector believes the guidelines could be developed reasonably quickly.

*Contact details*

13. Thank-you for considering this submission. If you require further information please contact me on 04 803 9039 or at [nathan.strong@vector.co.nz](mailto:nathan.strong@vector.co.nz).

Yours sincerely,

A handwritten signature in black ink, appearing to read "Nathan Strong". The signature is written in a cursive style with a large initial 'N' and 'S'.

**Nathan Strong**  
Manager Regulatory Affairs