

COMMERCE COMMISSION

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# Facsimile

Date	23 September 2005	From	Paula Rebstock
Attention	Mark Franklin	Subject	Proposed Amendment to Provisional Authorisation
Company	Vector Ltd		
Facsimile Number	09 978 7799	Number of Pages Including this Page	4

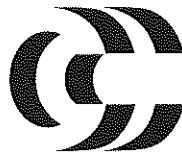
Letter follows.

Commerce Commission

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COMMERCE COMMISSION

Please refer to:

2.5/J7360  
410718.

22 September 2005

Mark Franklin  
Chief Executive Officer  
Vector Limited  
PO Box 99882  
Newmarket  
Auckland

Dear Mark

**Proposed Amendment to Provisional Authorisation**

Thank you for your letter of 20 September 2005 outlining how Vector proposes to comply with the Commission's Provisional Authorisation. The Commission is concerned as to how Vector proposes to comply with the requirement to apply an average 9.5% price decrease.

The approach Vector has adopted does not apply a price decrease across all customer classes. Rather Vector is:

- increasing prices to its residential customers by an average of 5%;
- reducing prices for small businesses by 5%; and
- reducing prices for medium and larger commercial and industrial customers by various amounts.

The Commission's Provisional Authorisation provided Vector with the flexibility to take account of its individual circumstances in reducing prices. The Commission expected that Vector would comply by applying an average 9.5% decrease broadly across all customer classes so that all customers would share in the benefit of the price reduction, at least on a provisional basis. Vector has decided to discriminate between its customers with its largest customer class, residential customers, receiving a price increase rather than a price decrease.

The Commission is considering amending the Provisional Authorisation for Vector to ensure that the price decrease is applied broadly to all customer classes and seeks Vector's comments on its proposal by 4.00pm Friday 23 September 2005.

In particular, the Commission is considering amending the Provisional Authorisation so that Vector:

- may maintain existing prices until 1 November 2005;
- from 1 November 2005, reduces its Standard Gas Network Line Charges by 10.4%;  
and
- from 1 November 2005, reduces its average prices for all other charges by 10.4%.

The Commission is considering this approach for the following reasons.

The Commission expected the price reductions specified in the Provisional Authorisation would be applied broadly across all customer classes until such time as the Commission had the opportunity to consider the most appropriate form of control as required by s 70A of the Commerce Act. The Commission adopted an approach of an average price reduction so that Vector could administer the reduction for all contract types. However, Vector is discriminating among its customer classes preferring medium to large commercial and industrial customers and increasing rather than decreasing prices to residential customers.

The Commission wishes to ensure that all customers receive the benefit of control. The Commission considers Vector may be discriminating against its largest, and arguably its most vulnerable, customer base preventing those customers from receiving the benefit of regulatory control. The Commission considers that it may be necessary to intervene to ensure that all customers receive the benefit of control.

The Commission cannot definitively test the reasons advanced in your letter of 20 September for Vector's approach to the provisional authorisation, however, the Commission has significant reservations as to whether Vector needs to address significant imbalances at this stage. The issues will need to be considered during the final authorisation process.

Should Vector comply in the manner stated in your letter and the Commission ultimately reduces prices in the final authorisation, the Commission would then face a number of difficulties in backdating reduced residential prices and ensuring consequential refunds to the large number of residential customers.

The Commission needs to determine this issue quickly given that Vector has notified retailers of its approach. Those retailers will be moving to implement any price changes as soon as practicable. Furthermore, Vector has also indicated that a public announcement is imminent. To assist Vector in implementing the proposed amendment to the Provisional Authorisation, the Commission is considering allowing Vector to maintain existing prices until 1 November to effect the terms of the amended authorisation. The price reduction would need to be varied accordingly in recognition of the additional month that Vector would be charging its existing prices.

Subject to any comments you may have, the Commission proposes to consider amending the Provisional Authorisation next Tuesday, 27 September 2005.

A copy of this letter is being sent to Vector's retailers so that they are informed as soon as possible of the Commission's approach.

Yours sincerely

A handwritten signature in cursive script that reads "Paula Rebstock".

Paula Rebstock  
Chair