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Networks Performance Group
Commerce Commission
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To whom it may concern

Vector submission on proposed Transpower administrative settlement

Vector welcomes this opportunity to comment on Transpower's proposed administrative settlement with the Commission. As Transpower plays a critical role in the electricity supply chain and Vector on-charges a significant part of Transpower's revenue requirement, we are keen to ensure that there is "value-for-money" from transmission services.

As Vector understands from both Transpower and the Commission, the settlement has been reached following an extensive period of negotiation, and the package of thresholds represents a number of concessions and compromises between the parties. There are some individual elements which taken by themselves Vector would consider inappropriate and expose Transpower to potential uncompensated risks, but perhaps these have been offset by concessions from the Commission. As such Vector does not express any support for or disapproval of any individual component, given that the concessions and trade-offs made by the two parties are unknown.

Vector therefore expresses support for the settlement on the basis that it represents an agreement between the Commission and Transpower, and such agreements are generally preferable to the imposition of control. At this juncture, given the importance of the task ahead of Transpower to ensure a resilient, reliable grid, it is important that there is a timely final decision and Transpower can move ahead with a degree of certainty about what regulatory constraints apply.

Settlement contains a number of beneficial features

In broad terms, Vector submits that Transpower's proposed settlement package contains a number of beneficial features, in that it:

1. Recognises the substantial investments that Transpower will need to make to increase the capacity of the grid;
2. Acknowledges that such investment is uncertain in relation to the costs of various projects and therefore Transpower's prices may change to take into account the costs of investments; and
3. Provides some incentive for Transpower to improve its efficiency in that there is a constraint on the amount of operating costs Transpower may pass on in prices / EV adjustments.

Compliance requirements high

One significant concern that Vector does wish to raise is that the settlement appears to introduce significant new compliance costs on Transpower to account for individual components of its performance and to justify on an ongoing basis its proposed investments. Given a substantial investment programme ahead of it, with a number of complex developments arising, Vector would be concerned if compliance processes impose significant burdens on Transpower, which distract from the overall task of significantly upgrading the grid.

In particular, Vector queries whether current non-Part F expenditure should be made subject to EC approval in the future and subject to a non-Part F threshold in the interim. Existing Part F expenditure scrutiny is a resource-intensive exercise, and will become more burdensome if extended. In particular, Vector is concerned that the proposal that Transpower should submit expenditure on the replacement of existing assets for EC approval will add to the cost of maintaining current network capacity and reliability without any material benefit. Vector therefore submits that there should be a careful cost-benefit analysis of the plan to extend investment scrutiny beyond grid upgrades. This analysis should cover both the proposal to extend the scope of the EC's supervision for non-Part F expenditure and Transpower's proposed non-Part F capital expenditure threshold. Given the nature of the non-Part F expenditure, it is difficult to envisage that such expenditure could be subject to any great inefficiencies in any event.

System operator threshold

Vector is unclear as to why Transpower is to be subject to a "system operator threshold". The system operator arrangement between Transpower and the EC is enforceable as a contract. The Commission has not explained why existing legal mechanisms to enforce a contract are insufficient. The threshold requirement would appear to add an additional compliance cost on Transpower, with no clear additional benefit.

Requirement for a deed

Transpower's settlement offer notes that if the Commission finally accepts the settlement then Transpower will enter into a deed setting out Transpower's commitments. The Commission would then revoke Transpower's existing threshold notice and replace it with a new notice to give effect to the terms of the deed. It is unclear to Vector why a deed is required given that the proposal is for Transpower to become subject to new thresholds that are more tailored to Transpower's circumstances relative to the previous thresholds. If the Commission intends to make a new threshold notice, it would seem that it is unnecessary for Transpower to enter into a deed.

Closing comment

Thank you for considering the points raised in this submission.

Kind regards

A handwritten signature in black ink, appearing to read "Nathan Strong".

Nathan Strong

Group Manager Regulatory Strategy