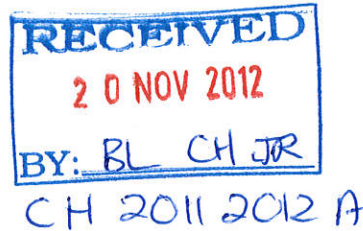


13 November 2012

Brent Layton  
Chair  
Electricity Authority  
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WELLINGTON



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Dear Brent

**Re: Inadequate process and information for determining whether to introduce the proposed TPM**

1. Vector does not believe the Electricity Authority (Authority) has provided a sound basis for its proposed new transmission pricing methodology (TPM), nor shown that it is in the interest of consumers in Auckland and in general.
2. We recognise that the Authority's decision to extend the consultation time-frame will assist submitters to better understand and assess the nature and complexity of the Authority's proposal. Despite the extension, our more significant concern - that the Authority is creating regulatory uncertainty through its approach - is not addressed. This uncertainty arises because the Authority has not provided the information required to demonstrate that its proposal best satisfies the statutory purpose of promoting the long-term interests of consumers, for example:
  - a. The Authority has not adequately identified and evaluated the range of credible alternative transmission pricing options<sup>1</sup> required to demonstrate that its proposal is the best option to satisfy its statutory purpose. In this regard, the Authority has not recognised that there is no "one correct" way of allocating Transpower's revenue requirement and therefore that any change results in winners and losers for no certain benefit to consumers; and
  - b. The Authority has failed to consider the pricing and financial impacts (both short and long-term) of its proposal on consumers, including wealth transfers between suppliers and consumers. As a result, the Authority is in danger of concluding that the proposal is to the long-term benefit of consumers even if consumers are made worse off.

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<sup>1</sup> For example, the Authority should at least consider refinements to the status quo, such as charging retailers rather than EDBs and splitting interconnection costs between generation and load, and locational pricing for transmission services. Evaluating the proposal against the status quo and the largely rejected TPAG "majority" recommendation is not adequate for this purpose.

3. The Authority has failed to consider the impact of its proposal on past and future investment decision making. For example, the choice to allocate a significant portion of Transpower's revenue requirement on the basis of consumer and producer surplus arising from investments made from 2004 is arbitrary and inconsistent with the investment decision-making framework in existence at the time.
4. For these reasons, we are very concerned that the current process falls short of any reasonable definition of good regulatory practice.
5. A pragmatic approach to addressing Vector's concerns may be to address them concurrently with the extended consultation on the TPM Issues and Proposals consultation paper. The Authority could release an addendum to the existing consultation paper that:
  - (i) fully assesses the impact of its proposal on consumers (pricing and efficiency impacts); and
  - (ii) considers in more detail a wider range of options. The Authority should then narrow these down to preferred option(s) and consult on them after this step.
6. We acknowledge that our suggestions are likely to further compromise the Authority's timing, including the proposed implementation on 1 April 2015, but we believe this is necessary given the issues we raise in this letter.
7. While we note that Vector may be responsible for paying a much lower portion of transmission costs under the proposed TPM, our interests are to ensure that the Authority employs sound processes to establish robust and durable outcomes that deliver long-term benefits to consumers. In other words, our perspective is to consider the full impact of any proposal on the interests of consumers in Auckland and in general.
8. We would welcome the opportunity to discuss our concerns directly with the Authority and its staff so that we can continue to contribute to the Authority's process in a constructive and robust manner.

Yours sincerely



Simon Mackenzie

**Group Chief Executive**