



Vector Limited
101 Carlton Gore Road
PO Box 99882, Newmarket
Auckland 1149,
New Zealand
www.vector.co.nz
Corporate Telephone
+64-9-978 7788
Corporate Facsimile
+64-9-978 7799

Submissions
Electricity Authority
PO Box 10041
Wellington 6143

Sent by email to: submissions@ea.govt.nz

11 March 2011

Submission on Regulatory Framework for the Transmission Pricing Methodology

1. Vector welcomes the opportunity to provide this submission on the Electricity Authority's (**Authority**) consultation paper *Proposed Code Amendment: Regulatory Framework for the Transmission Pricing Methodology*.
2. In general, Vector welcomes the Authority's willingness to review long-standing issues and reconsider whether previous decisions remain optimal in the new regulatory climate. We also welcome the approach of reducing regulation and making the Code shorter.
3. However, Vector has concerns about the timing and implications of the proposal to remove the pricing principles from the Code. As a result, our view is that no change should be made to the principles at this time.
4. Had this step been taken at the start of the transmission pricing review, it may have been useful. However, the review is now well underway and has already reached some broad conclusions. Vector would be concerned that this step changes one of the core building blocks of the transmission pricing methodology and that changing it may mean the transmission pricing review would need to re-start from the beginning.
5. More broadly, the existing transmission pricing approach is now long-standing and well understood within the industry. It has been reviewed three times and, broadly, found to be sound by being based on generally good pricing principles and in line with international best practice. To review the principles now will risk extensive re-litigation of old issues. In our view this would be inefficient and undesirable – the current approach is generally satisfactory and it would be a retrograde step to re-open previous

debates. It is preferable to place effort and resources into improvements in other areas.

6. The current approach is allocation-based assignment of charges to beneficiaries (where identifiable) through connection charges and HVDC charges, with the remainder assigned through a postage stamp. It is not clear to Vector that the current approach is failing, in a material way, to deliver efficient outcomes or that any alternative approach would produce a material improvement in efficiency. As a result, we suggest that the Authority provide some supporting information for its claim that the current pricing principles represent a “demonstrable regulatory failure” before progressing this issue further.
7. In addition, specifying that prices must be set in accordance with the Authority’s statutory objective provides limited guidance to Transpower as it designs its pricing methodology. The statutory objective can be interpreted in many ways and there is no explicit weighting between the three limbs of the objective. The greater degree of prescription in the current pricing principles may be more useful to Transpower and its customers than the Authority’s objectives on their own.
8. Any change to the pricing principles is likely to trigger a review of Transpower’s pricing methodology to ensure it is consistent with the new principles. Any resulting change to the pricing methodology is likely to create winners and losers. It is not clear that this will improve overall market efficiency. However, it is likely to create confusion and resentment and possibly lead to litigation.
9. With regard to the cost-benefit analysis, the quantitative analysis presented in the consultation paper only considers administrative costs – cost of judicial review, transaction costs, code change costs. A comprehensive cost-benefit analysis should also consider wider benefits and costs to the New Zealand economy as a whole. The uncertainty created by having more general principles and re-opening old debates could well lead to inefficient or delayed investment decisions while investors wait for certainty to be restored. This is likely to have costs for consumers and the New Zealand economy and should be reflected in the cost-benefit analysis.
10. Also, the benefit assigned to a reduced risk of Judicial Review by scrapping the existing principles is not proven. The shift to a new set of principles, with much less prescription, could lead to an increased risk of judicial review simply because inconsistency could arise from the change in principles and how they are interpreted.
11. Vector suggests the cost-benefit analysis is re-done with these points in mind before any final decision is made.

12. Thank-you for considering this submission. If you require further information please contact me on 04 803 9038 or at bruce.girdwood@vector.co.nz.

Yours sincerely,

A handwritten signature in blue ink that reads "R. Girdwood". The signature is written in a cursive style with a period at the end.

Bruce Girdwood
Manager Regulatory Affairs