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Electricity Authority
Wellington 6011

Vector Limited
110 Carlton Gore Road
PO Box 99882
Newmarket
Auckland 1149
+64 9 978 7788 / vector.co.nz

By email: network.pricing@ea.govt.nz

Transmission Pricing Methodology: Technical amendments - implementing regulatory asset base indexation and clarifying the simple method benefit-based charge cap

1. This is Vector's submission to the Electricity Authority's (Authority) technical amendments consultation on the transmission pricing methodology (TPM).
2. No part of this submission is confidential and we are happy for it to be published on the Authority's website

RAB indexation

3. We support the Authority's intent to amend the TPM to ensure Transpower is not doubly compensated for inflation, although we have not had a chance to consider the proposed drafting in detail to determine whether it achieves this intent.

Adjustment events

4. The Authority is proposing changes to improve the workability of adjustment events.
5. We consider further changes to overall approach to adjustment events are needed to ensure adjustment events are workable and to maintain the durability of the TPM. In particular, amendments are needed to manage:
 - The timing of transmission charges and the impact of multiple adjustment events in a single pricing year; and
 - The provision of information needed to calculate adjustment events.
6. This consultation provides an opportunity for the Authority to amend the Code to address these issues.

Timing of transmission charges and the impact of multiple adjustment events in a pricing year

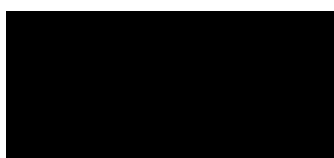
7. We understand Transpower's view is the TPM does not allow it to defer charges associated with adjustment events until the next pricing year.
8. This will cause difficulties where distributors have not factored adjustment events triggered by embedded plants into their prices. However, it is not straightforward to forecast new connections, particularly given connections may be added part way through a pricing year.

9. Changing our prices multiple times in a pricing year will create a workload burden for EDBs and retailers leading to increased costs and reduced efficiency. If we do not adjust our prices to recover costs associated with adjustment events, we must shoulder the increase in costs until subsequent pricing years. This will impact cashflows and potentially lead to financeability issues, particularly if there are a large number of adjustment events.
10. It is not reasonable for distributors to manage the cashflow implications of increased transmission costs triggered by a third party (i.e. the embedded plant). Indeed, this outcome would compromise the integrity of the TPM given it reflects a disincentive in the regulatory framework for distributors to connect new customers.
11. Continuing to face adjustment events in a single pricing year could lead to significant uncertainty and volatility in transmission charges
12. We strongly recommend the Code be amended to allow Transpower to delay its recovery of charges from adjustment events into the next pricing year.

Provision of information

13. We understand Transpower requires information about the consuming capacity of embedded plant to determine whether an adjustment event has taken place. However, this is not a measure industry participants have access to.
14. Vector holds information about the network capacity of connections. However, Vector does not necessarily have information about the consuming plant capacity, particularly if this is installed progressively. We understand that retailers do not hold this information either.
15. Accordingly, Vector must obtain this information from the customer directly. This is not straightforward as there is no streamlined mechanism to obtain the required information. Customers have no obligation to provide this information under the Code. Even if this information was obtained when the customer connected, we would not have access to it on an ongoing basis as the customer could change consuming capacity over time (e.g. installing or removing machinery).
16. In the absence of a specific mechanism for distributors to obtain information about consuming capacity, distributors must take a piecemeal approach for each potential adjustment event. This imposes a workload burden thereby increasing compliance costs and risks leading to delays and inefficiencies.

Yours sincerely



Richard Sharp

GM Economic Regulation and Pricing