

28 March 2019

Dane Gunnell  
Acting Manager, Price-Quality regulation  
Commerce Commission  
By email to [regulation.branch@comcom.govt.nz](mailto:regulation.branch@comcom.govt.nz)

Dear Dane

### **Vector – accelerated depreciation application**

1. This is a submission by the Major Electricity Users' Group (MEUG) on the notice of application by Vector for accelerated depreciation circulated by the Commerce Commission by email on 14 March 2019 with a further email 21 March extending the submission deadline.<sup>1</sup>
2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Some members may make separate submissions.
3. In a series of emails 14 to 16 March MEUG and NZIER, as advisor to MEUG, sought information and answers to questions from the Commission and Vector to enable us to start the process of validating the claimed benefits and costs of the application. That information has not been provided. The requested information follows:

Electronic copies of the models and scenarios referred to in the notice of application, particularly with respect to:

- 1) 'Our customer analysis of recent trends with new energy technology found a bifurcation of customers between those able to access new energy technologies and those without the means to access.' - see paragraph 9.
- 2) '... modelling of new technology adoption and customer behaviour through our customer technology scenario model to inform our asset management plan (AMP) under increasing uncertainty ... use more granular bottom-up analysis.' - see paragraph 10.
- 3) '... technology scenario customer modelling over a 30-year horizon to measure a range of credible alternatives for new key technology adoption and changing customer behaviour to determine the effects on network load growth, usage and our network response for the Auckland region.' - see paragraph 11.
- 4) 'Castalia developed a simplified building block allowable revenue (BBAR) model ... forecast tariff change levels for the different scenarios over a thirty-year horizon.' - see paragraph 12.

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<sup>1</sup> URL of Vector's notice of application at [https://comcom.govt.nz/\\_data/assets/pdf\\_file/0026/130598/Vector-Accelerated-depreciation-application-12-March-2019.pdf](https://comcom.govt.nz/_data/assets/pdf_file/0026/130598/Vector-Accelerated-depreciation-application-12-March-2019.pdf) at web page <https://comcom.govt.nz/regulated-industries/electricity-lines/electricity-lines-price-quality-paths/electricity-lines-default-price-quality-path/2020-2025-default-price-quality-path>

- 5) analysis of deprivation in the network, forecast of future deprivation and inter-generational inequity - see paragraphs 13, 29, 35, 47, 51 and 55.
- 6) analysis of quality of supply issues - see paragraphs 63 and 69.
- 7) modelling of technology scenarios - see paragraphs 89-92.

In addition, MEUG requested the following information:

- 8) For the technology scenario customer modelling over the next 30-years what assumptions have been made about changes to Vectors' tariff structures to become cost-reflective and service-based? Have asked this question because not clear Castalia's BBAR model is driven by either:
    - a. better reflection of costs at a more granular level to individual households including reflecting any change with adoption by a household of emerging technologies that shift costs to other consumers; or
    - b. is it assumed all current tariff group definitions are unchanged (i.e. retain grand averaging across most households) and only the tariff rates between different classes (household, C&I and very large customer classes) change?
  - 9) Graph 2: Auckland residential energy per floor area by level of deprivation, isn't a surprise. Have you a graph with deprivation index on the x-axis and average annual line charges on the y-axis? The greater the fixed charge component the less steep the curve will become. If there is still a wide margin between the lowest and highest deprived classes, the question then is whether the current tariff structure is truly cost-reflective?
  - 10) Please provide more details on the standing Customer Advisory Board (CAB) mentioned in paragraph 106, any materials they were given to facilitate the discussion they had about this proposal and minutes of any CAB meetings to validate the discussion in the application.
  - 11) Please provide the questions used and the raw data results of the online feedback survey discussed in paragraph 108 to 109. Note we appreciate the caveat to the use of the results of that survey discussed in paragraph 110.
4. Without answers to the above we are unable to make a view on whether MEUG supports or does not support the application. Note that the information requested above should be considered as an inaugural set of information requests. We expect that on receipt of the above information other questions and lines of enquiry are likely given the complexity and uniqueness of this first ever application under the untested accelerated depreciation option.
  5. It would be preferable to have access to the above information and any follow on information requests we have prior to the draft DPP3 decision to be published 29 May because from that date onwards MEUG and other interested parties will have a challenge to consider and give feedback on the parallel consultations on the draft RCP3 and IPP reset decisions, let alone adding at that date the complexity of considering this inaugural application for accelerated depreciation.

Yours sincerely



Ralph Matthes  
Executive Director