



# MAJOR ELECTRICITY USERS' GROUP

12 March 2012

John Rampton  
General Manager Market Design  
Electricity Authority

By email to [submissions@ea.govt.nz](mailto:submissions@ea.govt.nz)

Dear John

## **Cross-submission on Decision-making and economic framework for transmission pricing methodology review**

1. This is a cross-submission on the submissions of other parties on the Electricity Authority transmission pricing methodology review consultation<sup>1</sup>. This cross-submission follows the same approach as our submission of 24<sup>th</sup> February by including independent expert advice from NZIER. Accordingly attached is a report by NZIER, "Transmission pricing decision-making and economic framework, Submissions on the Electricity Authority's consultation paper", March 2012. The NZIER report should be read as part of cross-submissions by MEUG.
2. Our brief to NZIER was to focus on the decision-making and economic framework matters. Below we comment on two other matters mentioned by submitters.
3. First, referring to the prospect of a long and complex consultation to consider and implement market-based approaches, Carter Holt Harvey Pulp & Paper (CHH) submitted:

"We are very concerned that this debate will not be balanced in that the ability to apply resources both financial and technical by the supply and consumer sectors of the electricity market is significantly different.

We recommend that if the Authority elects to proceed with further investigation and consultation on market based approaches, then it reviews with consumer groups such as MEUG, Consumer NZ, Federated Farmers, Domestic Electricity Users Network and Greypower ways in which it can assist with provision of sufficient resources to allow the consumer sector to contribute fully to the issues."

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<sup>1</sup> <http://www.ea.govt.nz/our-work/consultations/transmission/tpm-economic-framework/submissions/>

4. MEUG agrees with CHH that the debate may become one sided because of resourcing asymmetries and that heightens the risk of less optimal outcomes. This risk applies to a number of electricity sector policy areas, not just transmission pricing. The CHH recommendation that the Authority reviews how resourcing asymmetries can be overcome is consistent with recent MEUG requests to the Authority<sup>2</sup> to consider this issue and ongoing discussions with government.
5. Second, Transpower submitted under a section titled "Increasing risk requires increasing returns"

"When assessing the costs and benefits of market-based versus administered decision-making processes, the need for commercial risk taking to be rewarded must be included. In the unlikely event that a market-based approach to investment and charging for interconnection assets were successfully developed that exposed Transpower to greater risk of recovering less than its cost of capital, a revenue margin to reward Transpower for this risk would need to be allowed for when assessing this option."
6. MEUG notes:
  - a) We disagree with Transpower that when comparing market-based versus administered decision-making processes that changes in commercial risks solely with respect to Transpower need to be considered. Risk is always present; what matters is which regime best aligns risk management and incentives and allocates those to various parties in order to maximise the long-term benefit of consumers.
  - b) MEUG sees no change to the status quo whereby the Transpower Board makes investment and operating decisions. The cost of capital set by the Commerce Commission as part of its approval process (but doesn't bind any decision by the Transpower Board) is related to the systematic risk of the enterprise as a whole rather than the risk of individual projects. The Transpower Board manages individual investment projects and management of existing services by way of contract with the back stop of legislative force requiring payment of Transpower invoices. At this level we think Transpower currently has poor incentives.
7. We look forward to discussing our submission and cross-submission with the Authority.

Yours sincerely



Ralph Matthes  
Executive Director

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<sup>2</sup> Refer MEUG submission to EA, Consultation Paper—2012/13 appropriations, 20 December 2011, paragraph 6. d) discusses engagement with all classes of consumers, resource asymmetries and "the need for the Authority to in effect 'step into the shoes of consumers'". Refer <http://www.ea.govt.nz/document/15939/download/our-work/consultations/corporate/proposed-appropriations-2012-3/submissions/>