



MAJOR ELECTRICITY USERS' GROUP

5 November 2012

Dr Brent Layton
Chair
Electricity Authority
C/- email to nicky.gane@ea.govt.nz

Dear Brent

Request for an extension of time for submissions on the Transmission Pricing Methodology consultation paper

The TPM consultation paper released by the Authority on 10th October 2012 has proven to be far more challenging to understand and respond to than we expected. As our analysis has progressed it is apparent that the proposal may have significant value implications for all members of MEUG in the initial years and no clear connection as to how that will reverse to be value enhancing in the long term and achieve the objectives expected by the Authority. We think this outcome applies to all end customers. To test the short, near and long term effects adequately will take much longer than any of us first anticipated.

The proposal breaks new ground with the SPD method. This has added to the complexity. All participants and end customers have been struggling to understand this important new feature. The Authority staff members have been very helpful in providing data and analysis to assist. Regular publication of data, generic analysis and answers to questions has helped us in our initial stages of analysis. In effect we have a rolling, interactive, evolving and transparent consultation process. The release of the consultation paper on 10th October was the start of that process and each week the Authority has facilitated the debate with the release of new information. MEUG suggests this is a good approach. However it needs a much longer ongoing consultation period to assist us and all other parties reach consensus on non-controversial aspects of the proposal, identify hot issues and facilitate a debate on solutions or alternatives to better achieve realisable net benefits to consumers.

Last week MEUG members commissioned NZIER to undertake a stage 2 analysis of the proposal after an initial investigation stage enabled members to have a broad understanding of the order of magnitude impacts and areas requiring greater focus. The scope and detail of the analysis we have asked NZIER to undertake is far more detailed than the work NZIER undertook for MEUG in July last year on the work of TPAG and in February and March this year on the TPM decision-making and economic framework. It took us almost two weeks to scope this work because of the unexpected complexity.

Level 1, 93 The Terrace, Wellington 6011, New Zealand
PO Box 8085, The Terrace, Wellington 6143, T +64-4 472 0128, info@meug.co.nz , www.meug.co.nz

Our initial work has raised significant concerns about the impact of both direct transmission charges plus indirect charges being passed through exceeding the status quo charges should the proposal go live in April 2015. These potential negative value effects will impact on all MEUG members and we believe all end customers. This risk has lifted the profile of the proposed TPM changes within MEUG member companies. All of the largest electricity users' within MEUG have advised that they will need time to consider the report back from NZIER on their stage 2 work and additional time to reach consensus as to the responses in submissions by MEUG. This additional requirement to engage at the highest level with MEUG members was not a feature of our work in the TPAG work last year or conceptual framework consultation at the start of this year.

Internalising this type of work for consideration of senior management within MEUG member companies requires several weeks. The added complexity and novelty of the TPM proposal gives no scope for short cuts for this process. If the current 30th November deadline were to remain unchanged then we would be unable to have a robust stage 2 analysis undertaken and allow MEUG members to have adequate feedback from senior management. MEUG suggests it would be essential to have an extension to the submission deadline to ensure all participants and end customers to have sufficient time to consider and contribute to this very important issue. It is not in the interest of any party to have a less than robust consideration and feedback by end customers on the proposal.

MEUG would prefer a long extension in time for submissions, along with a continuation of the evolving, interactive and transparent process already being facilitated by the Authority rather than a modest extension in time with the uncertainty of a possible and undefined second consultation round next year. Therefore we recommend the Authority revise the closing date for submissions from 30th November 2012 to March 2013. MEUG sees little difference between a 30th November deadline and three weeks later just before Christmas or for that matter the first half of February. In the lead up to Christmas, all of January and the first half of February it is always very difficult to find time to brief senior management within MEUG companies. Given the complexity of TPM it is all the more important to have adequate opportunity for those end customers to consider and contribute to the debate and caucus with other members of MEUG to agree MEUG's response; hence a March deadline is proposed.

The concern expressed by MEUG members on the potential value impacts to their businesses cannot be overstated. It is with dismay that end customers are starting to realise that the effects may be significantly adverse from April 2015. That was not apparent on 10th October. We believe the Authority did not understand the financial consequences either at that date. Or if those effects were understood but not disclosed to end customers on 10th October then that is a significant process failure. With uncertainty and such a compressed consultation timeframe it is inevitable emerging reaction will be negative towards the proposal. There is an opportunity for the Authority to allow proper and full engagement by end customers and other market participants by granting a long extension to the close of submissions commensurate with the complexity of the proposal. As far as we are aware there is no reason to warrant a very tight timeline that would outweigh the opportunity for proper consultation.

I understand several MEUG members will be sending letters in support of this request.

Yours sincerely



Ralph Matthes
Executive Director