

9 October 2013

Ralph Matthes
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Sent by email to ralph@meug.co.nz

Dear Ralph

EA Consultation – TPM CBA paper

As requested we have looked at this consultation paper from the Authority and would make the following comments.

1. Overall the paper is not controversial and describes an approach to CBA that is generally similar to how NZIER would approach this task. It is fairly high level, uses examples to illustrate the points being made but some parts lack a firm articulated structure.
2. The paper describes a number of approaches to estimating the economic effects of changes to the TPM but expresses a preference for the use of top down benchmarking. We would caution that the use of benchmarking can be problematic if it is assumed that the benchmarks can be transferred to NZ circumstances without a thorough testing process. This approach would leave the door open to on-going dispute about the TPM. While more work, a bottom up system approach to estimation should avoid this potential as it is more prescriptive and evidenced and the necessary assumptions are transparent to stakeholders.
3. Section 6 of the paper describes the Authority's views about the "problem" they are addressing. The paper takes the existence of a problem as pretty much a given, a view that is not shared by nearly all of the submitters on the 2012 TPM paper. We are of the view that a problem with a root cause needs to be categorically identified when the baseline is established.
4. The stylised example of the transmission system that is in section 6 is helpful to explain the trade-offs in the evaluation of the system efficiency and further reinforces our preference for a bottom up system analysis to compare with any top down benchmarking that is proposed in this paper. Section 6 analysis also points at examples of where dynamic gains could come from which is again helpful but the issues with the 2012 TPM paper were more to do with the analysis and evidence regarding the actual efficiency issues with the transmission system.

Yours sincerely



David de Boer