



# MAJOR ELECTRICITY USERS' GROUP

26<sup>th</sup> July 2016

Dr John Rampton  
General Manager Market Design  
Electricity Authority  
By email to [submissions@ea.govt.nz](mailto:submissions@ea.govt.nz)

Dear John

## **Second Issues Paper – Transmission Pricing Methodology: issues and proposal**

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Electricity Authority (EA) second issues paper "Transmission Pricing Methodology: Issues and proposal" 17<sup>th</sup> May 2016.<sup>1</sup> For convenience we term the second issues paper TPM2. TPM1 refers to the EA working paper, TPM options, dated 16<sup>th</sup> June 2015.
2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential.
3. Nothing in this submission should be taken as representing the views of individual MEUG members. Members may make individual submissions, in which case those submissions will accurately represent the views of those major users.
4. Separately MEUG is submitting on the EA consultation paper "Review of distributed generation pricing principles" also published 17<sup>th</sup> May (the DGPP review).
5. Attached and to be read as part of MEUG's submission is advice from the New Zealand Institute of Economic Research (NZIER) "TPM second issues paper – Advice to MEUG on TPM cost benefit analysis", 20<sup>th</sup> July 2016.
6. This submission has two parts:
  - a) MEUG comments on the CBA; and
  - b) MEUG comments on the proposed guidelines.

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<sup>1</sup> URL <http://www.ea.govt.nz/dmsdocument/20633> at <http://www.ea.govt.nz/development/work-programme/wholesale/review-of-scarcity-pricing/consultations/#c15960>.

## Part A: MEUG comments on the CBA

7. The long standing view of MEUG is that any changes must be supported by a robust Cost Benefit Analysis (CBA). In MEUG's advisor's, NZIER's view the current CBA has shortcomings.
8. NZIER advised "Although the net present value for the changes modelled by Oakley Greenwood is likely to be positive in most cases we expect that it will be much lower than the \$200 million estimated by Oakley Greenwood."<sup>2</sup>
9. MEUG did not ask NZIER to assess the view of the EA that there are substantial qualitative benefits that also need to be considered. Our preference is for the EA to obtain quantitative analysis of material benefits where possible.
10. Also important for the CBA is whether TPM2 adequately considered other solutions. NZIER advise "The CBA analysis does not provide compelling evidence that the best option has been chosen ..."<sup>3</sup>

## Part B: MEUG comments on the proposed guidelines

11. The proposed guidelines are overly prescriptive. It is the view of MEUG that the proposed guidelines stray into design of the TPM. The guidelines should set out the outcomes the TPM should achieve and provide Transpower with the discretion to design a TPM that meets those outcomes without constraining how Transpower does that.
12. An example of the type of outcomes the proposed guidelines should specify is "transmission prices should, as far as practicable, be service-based and cost reflective" and the TPM "should be practicable and involve reasonable transaction costs."<sup>4</sup> This provides Transpower with clear direction without constraining Transpower's ability to design a TPM that achieves these outcomes.
13. Examples of the proposed guidelines being overly prescriptive include but are not limited to the following:
  - a) **Prudent Discount Policy:** In relation to the proposed PDP NZIER advised "The current proposal does not appear to be practicable..."<sup>5</sup> To ensure any changes to the PDP are practicable it is important that Transpower are given the flexibility to design a PDP that works. Accordingly the guidelines in relation to the PDP should not be overly prescriptive.
  - b) **Recovery of unallocated operating costs:** The EA asked "Do you prefer the residual-based approach or the surcharge-based approach or some variant of the two and why?"<sup>6</sup> We agree with NZIER that "Ideally the first priority should be to identify beneficiaries of the unallocated operating costs. If this option is not available then alternatives of a surcharge or other options should be left as a question to be considered in the design proposed by Transpower."<sup>7</sup>

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<sup>2</sup> NZIER, p16

<sup>3</sup> NZIER, p14, advice on TOR Qu c).

<sup>4</sup> TPM2, paragraph 38.

<sup>5</sup> NZIER, p 24, s. 4.1 advice on TOR Qu g) ii)

<sup>6</sup> TPM2 paper, paragraph 7.220

<sup>7</sup> NZIER, s.3.3, TOR Qu f) i), p23.

### Concluding comments

14. The long standing view of MEUG is that any changes must be supported by a robust CBA. The advice of our advisors, NZIER is that the current CBA has shortcomings.
15. The proposed guidelines should set out the outcomes the EA expects any TPM to achieve. The proposed guidelines are overly prescriptive and should not constrain Transpower's ability to design a TPM that achieves the outcomes the EA wants to see.

Yours sincerely

A handwritten signature in black ink, appearing to read 'R. Matthes', with a long horizontal stroke extending to the right.

Ralph Matthes  
Executive Director