

27 May 2022

Rebecca Osborne
Head of Grid Pricing Strategy
Transpower
By email to tpm@transpower.co.nz

Dear Rebecca

TPM BBC draft assumptions book

1. This is submission from the Major Electricity Users' Group (MEUG) on Transpower's consultation paper "Part B - Assumptions Book: Draft for consultation" dated 29th April 2022 and related publications.¹ The assumptions book is required for implementing Benefit Based Charges (BBCs).
2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Members may lodge separate submissions.

Discount rate

3. MEUG agrees that the initial assumptions book should use the default discount rate of 7% p.a. (pre-tax, real).² This is a pragmatic interim approach. It is not a long-term solution as the optimal discount rate may now be higher or lower as factors may have materially affected global regulatory and commercial environments since the 7% discount rate was first set.
4. There is also a risk of inconsistency between government agencies and businesses on discount rates applied and therefore inconsistent views on what are optimal investment decisions.
5. MEUG suggest a cross-entity review of discount rates used for new infrastructure projects should be undertaken by the Treasury, the Ministry of Business Innovation and Employment (MBIE), the Commerce Commission, the Electricity Authority, the Infrastructure Commission, infrastructure providers such as Transpower, and users of infrastructure including generators and consumers such as MEUG.

¹ Document https://www.transpower.co.nz/sites/default/files/uncontrolled_docs/Part%20B%20-%20TPM%20Assumptions%20Book%20-%20Draft%20for%20consultation%20-%20April%202022.pdf at <https://www.transpower.co.nz/our-work/industry/transmission-pricing-methodology/tpm-consultations-2022>

² Consultation paper paragraphs [29] to [23].

Market scenario formation

6. MEUG notes it is a matter of necessity that Transpower's market scenarios must be used rather than MBIE updates of the 2019 Electricity Demand and Generation Scenarios (EDGS) as MBIE have yet to complete that work.³ In the future it is critical MBIE EDGS updates are used because Transpower has an incentive to forecast high demand for transmission services as this leads to more investment and higher returns.
7. The Emissions Reduction Plan published by the Ministry for the Environment on 16 May set a deadline for MBIE to update the 2019 EDGS by 2023.⁴ As soon as the MBIE update is available, Transpower should promptly revise the assumptions book.

Yours sincerely



Ralph Matthes
Executive Director

³ Ibid [35] to [37].

⁴ Aotearoa NZ's first emissions reduction plan, Table of actions, p41,
<https://environment.govt.nz/assets/publications/Files/Aotearoa-New-Zealands-first-emissions-reduction-plan-Table-of-actions.pdf>