



4 April 2017

Submissions
Electricity Authority
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By email: submissions@ea.govt.nz

Submission: Cost Benefit Analysis questions

Counties Power welcomes the opportunity to provide a submission on the cost benefit analysis (CBA) question and answer process that was run by the Electricity Authority (Authority). However, Counties Power notes the short timeframe for consideration of the critical issues raised and the lack of engagement in the process, which are highlighted in detail below.

Q&A process

Counties Power emailed Oakley Greenwood (OGW) twice to be included into the online forum but despite this Counties Power never received an email acknowledgement of this request nor the details of the forum. OGW did email the list of questions and answers. However, many of the answers were not fully answered or only partly answered. Furthermore, there was no opportunity for follow-up questions.

Economic value of including historic assets in the AoB charge

A critical question for Counties Power is the Authority's proposal to mandate under the Electricity Industry Participation Code that Transpower must include historical transmission assets constructed since May 2004 in the area-of-benefit (AoB) charge. Counties Power has maintained that there is no efficiency gain from this approach and so no basis under the Authority's objectives under the Electricity Industry Act 2010. Therefore, we find it unacceptable that Oakley Greenwood (OGW), when asked directly on the net benefits of excluding historic investments brushed off the question as "it was not clear from the question the alternative charging arrangement"¹. Clearly the alternative charging arrangement would be to apply the Authority's TPM, which would be to recover the costs through the residual charge. Given this is self-evident, Counties Power does not think the question has been answered on a material TPM matter.

Counties Power believes that from OGW's email numbered 15 that it can be concluded that the recovery of the historic transmission assets via the AoB charge has no economic benefit

¹ OGW response in email 17.

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over simply recovering all historic costs through the residual charge. As we have stated², John Small concludes that “My review of expert reports submitted since 2012 shows twenty expert reports opposing the EA’s proposal to include assets installed since 2004 in the AoB charge, with two in favour: Professor Littlechild and NERA’s second report.”³ The OGW answers appear to not support the Authority’s position to include historical assets in the AoB charge, therefore Counties Power’ questions the Authority’s position to proceed if it does not meet its objectives as set out under the Electricity Industry Act 2010.

Immateriality of benefits

A second critical question by numerous parties to the TPM process has been that the benefits determined by OGW are immaterial at only \$230m over twenty years. Counties Power is therefore surprised that OGW has not sought to address this issue and has instead stated “not to provide a broader commentary as to their “materiality”⁴”. The materiality of the benefits is a key issue that needs to be addressed because if the benefits are immaterial then they would be outweighed by the unquantified risks and costs of the TPM changes being proposed by the Authority. Consequently, this issue remains open and Counties Power believes that there is the potential for the TPM proposal to result in a net loss on the electricity industry given the immateriality of the benefits.

Consultation process

Counties Power believes that the Authority has failed to meet its consultation obligations in the question and answer process because of a lack of engagement by OGW in terms of both the process followed and the quality of the answers to critical TPM issues. In addition, we would like to remind the Authority of its obligation to consider the process with an open mind and for the feedback to be considered in its TPM determination.

Yours sincerely
COUNTIES POWER LIMITED



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² Counties Power submission: *Transmission pricing methodology: second issues paper supplementary consultation*, 24 February 2017.

³ Paragraphs 273 and 274, *Expert Review of Expert Reviews of Transmission Pricing Methodology Reform Proposals report*.

⁴ OGW’s email 16 third response.