



MAJOR ELECTRICITY USERS' GROUP

14 March 2011

Lisa Du Fall
Electricity Authority
By email to submissions@ea.govt.nz

Dear Lisa

Consultation paper – Regulatory Framework for the Transmission Pricing Methodology

1. This is a submission by the Major Electricity Users' Group on the Electricity Authority consultation paper "Proposed Code Amendment, Regulatory Framework for the Transmission Pricing Methodology" dated 16th February 2011¹.
2. MEUG agrees there has been and will continue to be a material policy conflict between the TPM Principles and the over-arching statutory objective of the regulator. Addressing this problem now is essential to first, realise improvements expected of the new governance arrangements that came into effect 1st November 2010. And second, to establish a sound basis for considering options in the TPM Review.
3. MEUG agrees the Authority has identified and reasonably compared all feasible alternative means to solve this policy issue. MEUG agrees with the preferred option (#1), ie² "*The proposal is to remove the pricing principles from the Code and assess the consistency of any proposals relating to the guidelines and TPM against the Authority's statutory objective.*" Responses to the questions in the paper follow:

Question	MEUG response
Q1. Do you agree there is sufficient reason to review the regulatory framework? If not, why not?	Yes. This is a long-standing problem. NZIER summarised the policy issue in a report for MEUG in October 2009 ³ , commenting on the work by NERA for the CEO's Forum:

¹ Refer <http://www.ea.govt.nz/our-work/consultations/priority-projects/regulatory-framework-tpm/>. The consultation paper dated 16th February replaced an earlier version published 14th February.

² Consultation paper paragraph 3.1.1

³ NZIER, report for MEUG, Alternative Options for Transmission Pricing – Suggestions for the Review by the CEO's Forum, 8th October 2009, refer <http://www.ea.govt.nz/our-work/consultations/transmission/tpr/submissions/>

Question	MEUG response
	<p><i>"In the Report NERA does not pay much explicit attention to the pricing principles in the Rules or the related guidance".</i></p> <p><i>"To pay limited attention to the pricing principles in the Rules is arguably a sound approach because they are not easy to understand and some industry participants have argued that they are not internally consistent and difficult or impossible to apply consistently in practice."</i></p>
<p>Q2. Do you agree with the objectives? If not, why not? Are there other objectives that should be included in the assessment?</p>	<p>Agree with the objectives as set out in paragraph 3.2.1 to overcome the policy issues listed in paragraph 2.5.1.</p>
<p>Q3. Do you agree with the assessment of option 1? If not, why not?</p> <p>Q4. Do you agree with the assessment of option 2? If not, why not?</p> <p>Q5. Do you agree with the assessment of option 3? If not, why not (e.g. if there are more appropriate principles)</p>	<p>Agree these options are an appropriate set of alternatives means to achieve the objectives in paragraph 3.2.1.</p> <p>The result of the qualitative analysis summarised in table 3 that for the four Code Amendment Principles and four Code Amendment objectives considered the proposal (option 1) is better than or equal to the alternatives is reasonable.</p>
<p>Q6. Do you agree that option 1 has a net benefit greater than the two alternatives? If not, why not?</p>	<p>Agree and note that option 1 always has a higher net benefit compared to the alternatives under a wide range of feasible sensitivity analysis. Agree with the comments in paragraph 5.1.7 of the consultation paper that the dynamic efficiency benefits of option 1 relative to the counterfactual could be many times greater.</p> <p>The base case assumes a 100% probability of a judicial review for the status quo (option 2). This is a reasonable scenario for a sensitivity analysis but seems pessimistic for the base case. Nevertheless even changing that assumption would not alter the overall conclusion that for all scenarios option 1 is preferred.</p>

4. This submission is not confidential.

Yours sincerely



Ralph Matthes
Executive Director