

Supplementary Information for Managing locational price risk: Proposed amendments to Code Consultation

Response to request for further
information #1



Responses to question re cost benefit estimates

Q1. In each of the high and low scenarios, what is the dollar value that has been assigned as a benefit arising from the option value provided by the inter island FTR. Only the formula is given in the paper, and thus it is difficult to verify.

It is not possible to assign a dollar value as the estimate is calculated as a percentage of the annual benefit (as described in table 4), which varies each year. The average amount of this benefit is \$311,821 under the low cost-low benefit scenario and high cost-low benefit scenarios and \$634,030 under the high cost-high benefit and low cost high benefit scenarios.

Q2. To calculate the benefits arising from the aforementioned option value, a number of 50% of the benefits that have not been addressed by the proposal is used. Has this number been derived through calculation or is it an assumption? If through calculation, please provide the details.

The 50% number is an assumption.

Q3. Please provide the spreadsheet that has been used to calculate the NPV. Ideally this will include details of the phasing in of certain benefits, as well as formulae linked to key input variables such as percentage of LPR covered by the proposal, price elasticity of demand etc. We feel that this information is necessary in order to provide an informed answer to question 17 in the consultation paper.

The spreadsheets are now available from <http://www.ea.govt.nz/our-work/consultations/priority-projects/lpr-proposed-amendments/>

The cost-benefit analysis incorporates estimates in relation to several projects from the integrated cost-benefit analysis undertaken in September 2010. These estimates have not been updated and do not incorporate more recent cost-benefit analysis undertaken in relation to some of these projects. Submitters wishing to comment on cost-benefit analysis undertaken in relation to these other projects should refer to the cost-benefit analysis released as part of consultation on those projects.

One point to note is that there is an error in Table 3. The figure for "Operating costs to FTR service provider, clearing manager, Transpower" should read "\$1,000,000 per year" not "\$1,500,000 per year" as listed.