

March 25, 2014

Dr Brent Layton
Chair
Electricity Authority
P O Box 10041
Wellington 6143

Dear Brent

We write in relation to the Electricity Authority's recent Working Paper on beneficiaries-pay options, which forms part of the Authority's review of the transmission pricing methodology (TPM). The Working Paper and the TPM review process raise concerns common to all of our businesses that we wish to convey.

First, the Working Paper misconstrues the level of support from submitters for the beneficiaries-pay approach as proposed in the Authority's 2012 TPM Proposal. A number of the signatories to this letter are cited as providing support or partial support for the beneficiaries-pay approach. We wish to be clear that we do not support the design of the beneficiaries-pay approach as proposed in the 2012 TPM Proposal, or the design of the options proposed in the Working Paper.

Second, the Working Paper reflects a policy development process that has become stuck on beneficiaries-pay approaches based on SPD¹ outcomes at the expense of considering other possible designs of the TPM and other possible ways of assessing feasible alternatives. This appears to be the result of the Authority employing its Economic and Decision-making Framework in a rigid manner and concluding that recovering a portion of Transpower's costs with the SPD-based beneficiaries-pay approach will (regardless of the costs of doing so) be superior to all other options. Perversely, using the Framework in this way smothers rather than assists sound development, discussion and assessment of feasible options.

Third, the Authority has yet to set out a clear problem definition to guide and focus the TPM review. The absence of this clarity is becoming more apparent as each TPM Working Paper is issued without a common assessment as to how each topic could contribute to resolving the perceived problem.

Fourth, while we have provided our views on the 2012 TPM Proposal and the various Working Papers, and many of us were represented at the TPM conference last year, we have yet to obtain a response from the Authority on its emerging views. In the absence of an overall Authority response to submissions thus far we simply do not know which of the many issues that have been raised the Authority considers remain relevant and which it perceives to have been resolved.

We encourage the Authority to step back from what has become an entrenched fixation on the SPD-based beneficiaries-pay approach and consider other possible designs of the TPM and other insightful ways of comparing and assessing TPM design options. It would also be useful if the Authority could summarise its position thus far in terms of the problem(s) it is aiming to address in this TPM review and its emerging views on a revised TPM.

Yours sincerely,

Submitters as listed overleaf

¹ The Scheduling, Pricing and Dispatch model

Submitters

Alpine Energy Ltd	Opuha Water Ltd
Auckland District Health Board	Orion New Zealand Ltd
Aurora Energy Ltd	OtagoNet Joint Venture
Buller Electricity Ltd	Palmerston North City Council
Centralines Ltd	Pioneer Generation Ltd
Contact Energy Ltd	Powerco Ltd
Counties Power Ltd	Pulse Energy Ltd
Eastland Network Ltd	Scanpower Ltd
Electra Ltd	Simply Energy Ltd
E A Networks Ltd	Tauhara North No 2 Trust
Electricity Invercargill Ltd	The Embedded Network Company Ltd
Horizon Energy Distribution Ltd	The Lines Company Ltd
Karaponga Hydro Ltd	The Power Company Ltd
Mainpower NZ Ltd	Top Energy Ltd
Marlborough Lines Ltd	Transpacific Industries Group (NZ) Ltd
Mighty River Power Ltd	Trustpower Ltd
Natural Systems Ltd	Unison Networks Ltd
Nelson Electricity Ltd	Vector Ltd
Network Tasman Ltd	Waipa Networks Ltd
Network Waitaki Ltd	Waste Disposal Services
Northpower Ltd	WEL Networks Ltd
NZ Energy Ltd	Wellington Electricity Lines Ltd
Omanawa Falls Hydro Ltd	Westpower Ltd