

From: [Andrew Springett](#)
To: [Andrew Springett](#)
Subject: Doc 4.2: FW: For review: Final draft of paper for Step 1 of CBA project
Date: Thursday, 26 September 2019 2:28:56 PM
Attachments: [image001.png](#)

From: Westergaard, Erik (Wellington) [mailto:Erik.Westergaard@Advisian.com]
Sent: Friday, 28 September 2018 1:38 PM
To: Jo Mackay; Flavio Romano (Sydney)
Cc: Tim Sparks
Subject: RE: For review: Final draft of paper for Step 1 of CBA project

Jo – please find set out below our comments on the final draft of the Phase 1 CBA paper.

Following a review of the document and an internal discussion we make the following high level comments:

1. Our overall comment is that this version has moved substantially towards a more conventional CBA framework.
2. We are still concerned (but less so) that CBA techniques and estimation methodologies are being conflated, and there is ongoing complexity around the latter.
3. We would also like to see more clarity about the market/s identified for analysis in the partial equilibrium model: is the market for electricity transmission or electricity consumption or both or others?
4. It is not clear how statistical significance of a change in the TPM will be assessed – given the likely correlation between variable.

Notwithstanding these comments, we believe it is prudent to proceed to Phase 2 rather than seek perfection at this juncture. As noted below, the key for Phase 2 will be constructively challenge the assumptions being made and the suitability of the tools being proposed to model their impact/implications.

More specific comments are set out below:

Clause	Text	Comments
1.1		The complete question to be analysed by the CBA is still wanting. That is, “the purpose of this paper is to recommend to the Authority the approach to be taken in conducting a Cost-Benefit Analysis of its proposed change to the TPM, namely to...
2.3.a	incentivise demand reductions, by recovering revenue using transmission charges levied on peak demand, even where transmission capacity is abundant, causing ...	This is saying that peak pricing is too high/not cost reflective and therefore demand is reduced despite surplus capacity. But is this just a locational issue? In some areas it might be sending the right price signal – for example upper South Island
2.3.a.iii	unnecessary (cost increasing) investment in distributed generation and demand response	This may be for local security of supply reasons and historical in nature, or it may relate to a fuel source that is economic to develop but of insufficient scale to

		connect directly to the transmission system.
2.4 (para 11)	Although the status quo is not really an "option", because it has been found to be inefficient, the status quo or "do nothing" option is a standard counterfactual option in a CBA. It provides the basis for analysing changes in costs and benefits under the proposal (or other options).	This is not correct – the current arrangement is the default and will continue in the event that the proposed changes do not meet the CBA test, until such time as another alternative is able to be developed which passes CBA.
2.5 (para 13)	The CBA will focus on the effects of transmission pricing on the efficiency of the electricity industry and impacts on long-term benefits for consumers. This is consistent with the Authority's statutory objective under the Electricity Industry Act 2010 (Act) to promote competition in, reliable supply by, and the efficient operation of, the electricity industry for the long-term benefit of consumers.	Should be clearer that the efficiency consists of static, allocative, and dynamic – with the key arguably being dynamic efficiency.
3.2 (para 24)	Transmission prices affect the behaviour of electricity consumers and suppliers of electricity and related services, including transmission services. Transmission prices can, for example, discourage consumers from using electricity at certain times of day or places, by increasing the cost of using electricity at those times or in those places.	Everything else being equal because it will be the aggregate price not the component process that affect demand.
3.3.2 (para 81)	However, there is no avoiding the need to specify the core components of long-run marginal costs. That is, estimates of long-run costs will need to be part of the database used to inform the CBA, even if the underlying cost models (equations) are not directly used to analyse the effects of changes in transmission prices.	Where ever possible the most up to date publicly available databases should be used.
3.3.5 (para 100)	However, this method does come with several, sometimes severe, weaknesses, ...	This and similar comments highlight the need to subject assumptions and proposed tools for analysing them to considerable scrutiny. In addition, the statistical significance of changes identified in modelling needs to be tested.

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4.3.2 (para114)	The ongoing costs for Transpower to administer the revised TPM would be higher than under the status quo, because of the more complex nature of the revised TPM. Examples of such costs would include data gathering costs, IT system costs and customer engagement costs. DTCs may incur higher ongoing costs verifying their transmission charges, if the more complex nature of the revised TPM requires them to use more complex models to verify their transmission charges ...	Need to be clear about development versus ongoing costs and costs under the current regime versus incremental/decremental costs of the proposed TPM.
4.4 (table 7)	Improved durability of TPM arrangements	The challenge in calculating this is that the currently proposed TPM will not be the last, regulatory, market and technology changes will force further changes.

If you have any questions please give me a call.

Kind regards
Erik

From: Jo Mackay [mailto:Jo.Mackay@ea.govt.nz]

Sent: Monday, 24 September 2018 12:34 PM

To: Westergaard, Erik (Wellington) <Erik.Westergaard@Advisian.com>; Flavio Romano (Sydney) <Flavio.Romano@advisian.com>

Cc: Tim Sparks <Tim.Sparks@ea.govt.nz>

Subject: FW: For review: Final draft of paper for Step 1 of CBA project

Hi Erik and Flavio

Please find attached the final draft report/working paper for Step 1 of the transmission pricing CBA, for you to check that the points you raised are addressed (as much as they relate to this stage of the CBA development).

Please provide a written comment on the working paper, **by COP Thursday 27 September at the latest** as discussed. This can be in an email or short Word doc/letter attached to an email as you prefer. Your written comments will be provided to our senior staff (GM, CE) to inform their decision to close out this stage and approve moving to the next stage.

If you see any issues in the working paper that need further work before it can be signed off can you please let Tim and me know asap so we can liaise with the CBA Preparer to address them as promptly as possible.



Regards

Jo

From: Phillip Beardmore [<mailto:phillip.beardmore@strataenergy.co.nz>]
Sent: Monday, 24 September 2018 10:36 AM
To: Jo Mackay
Cc: Bill Heaps; John Stephenson
Subject: For review: Final draft of paper for Step 1 of CBA project

Hi Jo,

Please find attached, for the Authority's review, a final draft of our working paper for Step 1 of the TPM guidelines CBA project.

We have updated the earlier draft of the paper, after considering the feedback received from the Authority and Advisian. This includes inserting a new section 2.

We look forward to the Authority's feedback.

Thanks,

Phillip

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