

Introduction

Review into the use of total factor productivity for the determination of prices and revenues

Anne Pearson
Senior Director

AEMC

OVERVIEW

- Objectives of the TFP Review
- Objectives of the Design discussion paper
- Purpose of the workshops
- Structure of today's workshop
- Way forward

OBJECTIVES OF THE TFP REVIEW

- The objectives set by the AEMC for this Review are:
 - stage 1: to advise the MCE on whether there are circumstances in which a TFP methodology would contribute to the NEO or NGO
and
 - stage 2: where appropriate, to recommend to the MCE draft rules to allow a TFP methodology
- The Review includes consideration of TFP for the electricity and gas distribution and transmission sectors.
- The Review is not considering whether TFP should replace the building block approach nor is it considering other possible revenue methodologies.

INFORMATION GATHERING

- A key aspect of the TFP Review has been gathering and sharing information:
 - Brattle Group International case studies (October 2008)
 - London Economics TFP experiences in North America (November 2008)
 - AEMC Issues Paper (December 2008)
 - Economic Insights TFP sensitivity analysis (June 2009)
 - Economic Insights Data availability report (June 2009)
 - Brattle Group Incentives report (June 2009)
 - AEMC Perspectives on the building block approach (July 2009)
 - NAS Expenditure profiles report (August 2009)

PURPOSE OF DISCUSSION PAPER

The Design discussion paper sets out an example of a TFP methodology design:

- to provide additional information on designing a TFP methodology
- to encourage and enhance discussion on the possible application of a TFP methodology
- to assist in considering whether a TFP methodology can be designed to meet the NEO and NGO
- to assist in the development of the draft report

The design example does not represent an AEMC preferred design nor does it suggest that the AEMC has concluded that TFP meets the NEO and NGO.

PURPOSE OF TODAY

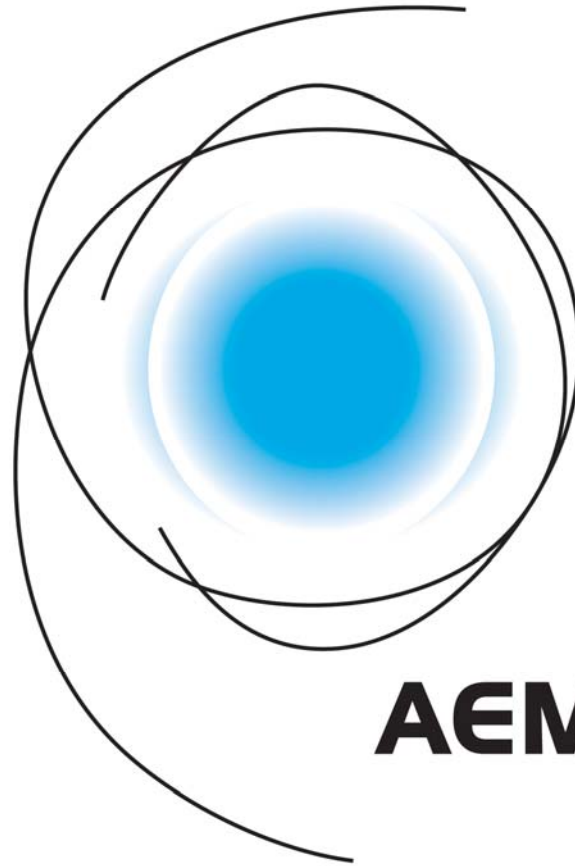
- Using the design example set out in the discussion paper as a starting point, to discuss and consult with stakeholders on:
 - the design of the elements within a TFP methodology
 - how the design elements interact
 - whether a TFP methodology may be relevant for energy regulation and, if so, under what conditions
- Focus on industry specific issues as answers may be different
- Today's workshop also seeks:
 - to obtain more information on TFP from stakeholders
 - to obtain stakeholders' views on TFP
 - aid in the development of the stage 1 draft report

WORKSHOP PROGRAM

Time	Agenda item
10.25am	Presentation – key issues for discussion
10.45am	Discussion session 1 – group work & presentations
11.45am	Presentation & discussion – setting the initial price
12.15pm	<i>Lunch</i>
12.45pm	Comments – TFP design discussion paper
1.00pm	Presentation – sunk costs & asset valuation
1.30pm	Discussion – calculating the TFP index
2.00pm	Discussion session 2 – group work & presentations
2.50pm	<i>Afternoon tea</i>
3.00pm	Presentation – assessment approach for draft report
3.20pm	Open discussion
4.00pm	Close

WAY FORWARD

- Submissions are invited on:
 - consultant reports
 - Design discussion paper
- Submissions are to be lodged through the AEMC website by Friday 30 October 2009
- Stage 1 draft report is scheduled for release in December 2009
- Public forum on the draft report is scheduled for late January 2010



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