

# Preliminary Findings: Way Forward

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

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TFP Review: Preliminary Findings Public Forum  
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Melbourne Airport Hilton

AEMC

# Summary of findings

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At this stage, we are minded to recommend that:

- Applying a TFP methodology would contribute to the promotion of the national electricity and gas objectives
- However, existing data is not sufficient to support application of TFP
- Generally, current data requirements not consistent with best practice regulation. This should be rectified not only to facilitate TFP implementation but also to improve the regulatory framework
- TFP methodology more suitable in distribution than transmission sectors
- More work is needed on finalising design, addressing TFP growth index specification, and assessing appropriate industry groups. A robust data-set is needed to do parts of this

Therefore our current view is that it is appropriate to move to stage 2 of the Review

## Stage 2 of the Review

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- The purpose of stage 2 of the Review is to draft rules which facilitate the implementation and application of a TFP methodology. The draft Rules would be submitted to the MCE for its consideration
- Draft Rules will need to address three issues:
  - data reporting requirements
  - the design of a TFP methodology that should be applied
  - specification of how to calculate the TFP growth index
- Important that stakeholders (regulators, service providers and users) are actively involved in this work

# Alternative options to TFP methodology

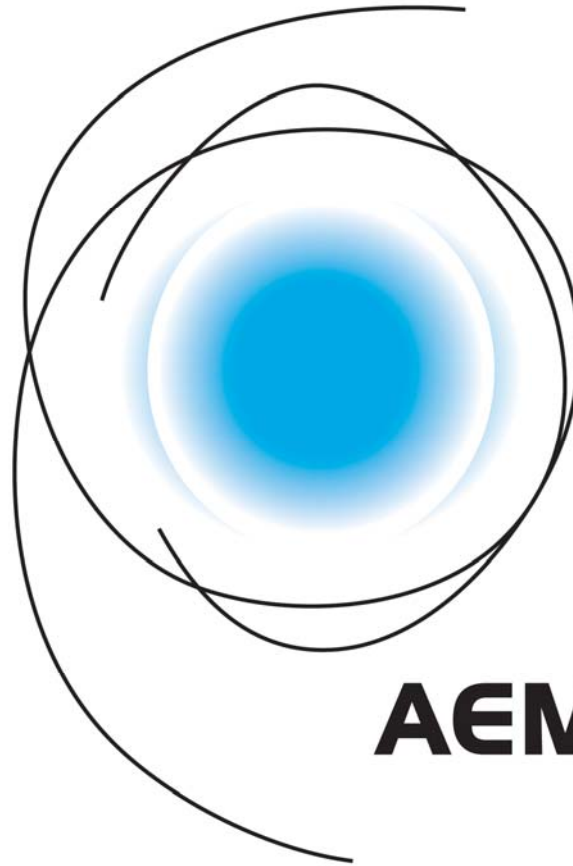
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- This Review has identified problems with the current application of building block approach and a preliminary case for the introduction of TFP
  - However, it will take time to develop the necessary data before a TFP methodology could be applied
  - Also, a TFP methodology will be optional and may not be suitable for all service providers
- Would there be any some merit in evaluating options for improving the current arrangements?
  - to initiate a discussion on potential options for improvements, the AEMC released a report from The Brattle Group
  - the AEMC welcomes stakeholders' comments on this issue

# Timetable for the Review

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- **Submissions due by 26 February 2010**
- Stage 1 Draft Report published in April 2010
- Stage 1 Final Report to MCE in July 2010
- If the Final Report finds that a TFP methodology would contribute to the NEO and/or NGO, the AEMC will then prepare and consult on draft Rules (Stage 2 of Review)



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