



MAJOR ELECTRICITY USERS' GROUP

31 May 2006

Jenny Walton
Electricity Commission
By email to info@electricitycommission.govt.nz

Dear Jenny

Submission on Transpower's Auckland 400 kV grid investment proposal: draft decision

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Electricity Commission (the "Commission") *Draft decision on Transpower's Auckland 400 kV grid investment proposal*, 27 April 2006. The Commission compared the proposal against alternative transmission options (the "alternatives").
2. MEUG commissioned the New Zealand Institute of Economic Research (NZIER), to undertake an independent report on the consultation paper. Attached to this submission is the report of NZIER dated May 2006.
3. MEUG note:
 - a) The key difference between the Transpower proposal and Commission alternatives is timing. In the absence of substantial new generation, sooner or later new lines will be needed. All consumers and in particular energy intensive industries require secure supplies of electricity and therefore will be monitoring this issue of timing very carefully. The Commission specifically asks for comments on the idea of a transmission corridor. NZIER note in response, "There may need to be legal changes to support private sector involvement in funding easements by providing compulsory purchase provisions." MEUG support the Commission along with Transpower, land owners and consumers developing the notion of a transmission corridor. This concept might benefit from Government involvement as other infrastructure might benefit from having corridors established.
 - b) The Commission draft decision not to approve the proposal appears consistent with the analytical approach and economic test required by the Grid Investment Test (GIT). MEUG participated in the consultation process the Commission undertook in designing the GIT and, other than the inclusion of a core grid definition, we agree with its current form. MEUG has concerns that some parties are now suggesting other factors should have been included in the test the Commission should apply. Any change to the GIT needs to be undertaken comprehensively as a specific work stream rather than ad hoc or part way during consideration of a Grid Upgrade Proposal (GUP).

- c) MEUG has limited technical expertise to assess the claims and counter claims of Transpower and the Commission regarding robustness of the proposal and alternatives to meet the minimum required reliability standard. Instead we must rely on the views of others with some experience in these matters. For example the well known industry commentator and engineer Bryan Leyland in the National Business Review (NBR) of 26 May 2006 noted:

"Many have criticised these (ie the Commission alternatives) on the grounds they don't provide adequate security and don't have the extra capacity that might be needed if large power stations or wind farms were built south of Auckland.

I attended the commission's technical presentation and believe the EC's best options provide equal or better security and capacity at a significantly lower cost than the 400 kV proposal."

This aligns with MEUG's preliminary view formed from studying the documents and attending technical briefings held by the Commission that technical concerns regarding the Commission's alternatives appear to be "noise" and do not materially close the \$250 million NPV cost difference between the proposal and alternatives.

Nevertheless MEUG looks forward to the opportunity to view the submissions of Transpower and others with technical expertise. Any change of view on the technical matters in the draft decision will be communicated by MEUG to the Commission at the conference on 6 and 7 July 2006.

MEUG also note that Bryan Leyland in his NBR article suggests that the Commission or a regulator with broader investment decision making powers over generation also, would be able to consider other longer-term options such as an HVDC the length of the South and North Island. MEUG acknowledges that the Commission alternatives, that better utilise the existing nine transmission lines into Auckland to meet reliability until 2017, also keep open the larger HVDC option in the longer term as suggested by Mr Leyland.

- d) NZIER comments on the roles of the Commission and Transpower (section 3.2, pages 5 and 6). MEUG agree with the views of NZIER regarding the fact that the Commission has undertaken more analysis given this was the first GUP but this level of work should not become the standard in future. Transpower have approached the Upper South Island GUP differently and the process appears to be on track towards the Commission being able to play the more appropriate role of "checking and reviewing."

MEUG remains concerned about the attendant risks of the process. First, the Commission may decide it wants to be the transmission planner. MEUG already has concerns about the propensity of the Commission to expand its role. For example the Commission is proposing to regulate interconnection services by reversing the Part F requirement the Commission establish benchmark agreements for those and other services.

Second, it assumes Transpower will be open to suggestions about alternative transmission and non-transmission solutions. The steadfast refusal to admit anything other than the 400 kV by 2010 option was needed has been undermined by Transpower's recent announcement of an amended proposal that will not require 400 kV by 2010. As noted above the Upper South Island GUP is being developed in a much more inclusive and open manner. It appears to MEUG that the Auckland GUP, being the first one up, has been a more difficult learning curve than expected for both Transpower and the Commission. MEUG trusts that the lessons will be heeded and that the consideration of the 400 kV line will not become the model adopted by the Commission.

4. This submission is not confidential and MEUG wish to have an opportunity to make submissions at the Commission conference on 6 and 7 July 2006.

Yours sincerely

A handwritten signature in black ink, appearing to read 'R. Matthes', written over a thin red vertical line.

Ralph Matthes
Executive Director