



MAJOR ELECTRICITY USERS' GROUP

22 November 2006

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

Dear Jenny

Initial comments on revised Grid Upgrade Plan seeking approval of \$824m for grid reliability investments at and between Whakamaru and South Auckland

1. On 24 October 2006 the Electricity Commission (the "Commission") published a revised Grid Upgrade Proposal (GUP) by Transpower for approval of grid reliability investments at and between Whakamaru and South Auckland costing \$824m (\$2011) to be completed by 2011. On the same day the Commission invited interested parties to make initial written comments on the proposal, including consideration of the possible alternatives. This submission by the Major Electricity Users' Group (MEUG) is in response to that invitation.
2. MEUG commissioned Dr Brent Layton, Director of the New Zealand Institute of Economic Research (NZIER) and Mr Bill Heaps, Managing Director of Strata Energy Consulting, to undertake an independent report on that revised GUP. Attached to this submission is the report of NZIER and Strata titled, *Transpower's Amended North Island Grid Upgrade Proposal*, dated 22nd November 2006.
3. Representatives of Transpower made a presentation to the MEUG Executive Committee on 15 November and also answered questions of MEUG members. Various MEUG members have also been briefed by Transpower staff on other occasions. Transpower also offered access to its expert staff if needed; although the relatively tight timeframe to provide initial comments has limited our ability to engage as much as we might have. More detailed discussion with Transpower and Commission staff is likely as we move into the second round of consultation following publication of a draft decision by the Commission.
4. It is evident that improvements have been made by Transpower in tabling the revised GUP compared to the original GUP to better align with the requirements of the rules. Some of the improvements to investment options identified by the Commission in the draft decision on the initial GUP have also been incorporated.
5. Some of the GUP still reflects a Transpower view of the world rather than the approach required by the rules. For example the proposal includes a ranking of projects using a deterministic basis, when the rules require the Commission to only use a probabilistic economic criterion. Continual re-litigation of this issue by Transpower is not helpful. Another Transpower "spin" is the reference in media statements and supporting material that the preferred option takes into account the outage at the Otahuhu substation on 12th June 2006. This is misleading because that failure was due to operating procedure failures rather than under-investment.

6. The attached NZIER and Strata report covers a number of initial comments on the revised GUP. The brief for NZIER and Strata was to report on any aspects of the proposal that are unclear and any issues that warrant particular attention and scrutiny by the Commission during the course of it reaching its draft decision. There are a number of key issues that need more detailed examination. MEUG is disappointed that some of the issues identified tend to have a bias in favour of the option preferred by Transpower. For example Transpower have used a longer timeframe for the analysis than allowed in the rules, have used a high peak demand scenario rather than an expected peak demand scenario, have been selective about generation scenarios and don't mention the potential for demand side management as a transmission alternative. There also appears there may be some bias in cost estimates that needs to be investigated.
7. All of these issues need to be worked through to ensure the "yes" or "no" final decision by the Commission meets the tests set out in the rules. These are not trivial issues. A robust process of consultation is essential.
8. MEUG is very conscious that there may be a political imperative to back the Transpower proposal. The Commission must consider this revised GUP with as much independence and detail as it did the initial GUP. This is needed to ensure the final decision is robust and to set aside any suspicion the Commission used anything other than the Grid Investment Test to assess the GUP.
9. Finally MEUG note that the Commission in advising the next steps of the process did not mention whether submissions with initial comments by interested parties would be published. MEUG suggest the Commission clarify this and publish all submissions along with an invitation that cross-submissions can also be lodged. Adding this step into the process may delay the Commission from issuing a draft decision; nevertheless a cross-submission step is likely to provide more useful information to assist the Commission in preparing a draft decision. A cross-submission process in this first consultation round would also assist allay concerns by the public that Ministers might directly or indirectly be pressurising the Commission to rubber stamp Transpower's proposal.
10. MEUG members have been consulted in the preparation of this submission and the independent advice of NZIER and Strata Energy. Some MEUG members have advised they are likely to also make separate submissions.

Yours sincerely



Ralph Matthes
Executive Director