



# MAJOR ELECTRICITY USERS' GROUP

11 June 2007

Mr Peter Harris  
Deputy Chair  
Electricity Commission  
By email to [info@electricitycommission.govt.nz](mailto:info@electricitycommission.govt.nz)

Dear Peter

## **Request for a public conference in relation to the notice of intention to approve Transpower's Otahuhu Substation GUP**

1. On 25<sup>th</sup> May 2007 the Electricity Commission (the "Commission") gave notice of an intention to approve Transpower's Otahuhu Substation Grid Upgrade Plan (GUP) proposal submitted on 11<sup>th</sup> December 2006. On 25<sup>th</sup> May the Commission also published Reasons for the Decision (the "Decision"), four supporting consultant reports and 13 pieces of correspondence between the Commission and Transpower dated between 12<sup>th</sup> January and 8<sup>th</sup> May 2007 bundled in a zipped file published on the web as "Correspondence zip".
2. The intended capital works to be approved is substantial amounting up to \$99m.
3. This letter is a formal request by the Major Electricity Users' Group (MEUG) in terms of Rule 15.2 of Section III, Part F of the Electricity Governance Rules, for the Commission to conduct a public conference to consider submissions on the notice of intention.
4. MEUG has not undertaken a comprehensive analysis of all the material published on 25<sup>th</sup> May; however the following are illustrative of why we believe a conference is required:
  - a) Rule 12.3<sup>1</sup> requires a GUP to include, amongst other things, "a comprehensive plan for asset management and operation of the grid" (refer rule 12.3.1). It's difficult to reconcile how the GUP meets this requirement when Transpower are only part way through a condition assessment of the existing switchyard.

MEUG believe the Commission should not have considered this GUP until the condition assessment has been completed and a comprehensive plan for Otahuhu substation is prepared. The failure for the GUP to be comprehensive means it fails rule 13.4.1.2 that requires compliance "with the processes set out in these rules."

- b) Even if the Commission have a robust legal opinion that the GUP meets rule 12.3.1, then MEUG agree with the point by Commissioner Pinnell that there is a feasible option comprising under-grounding of overhead lines and bus sectionalising by 2009 followed at that point by considering further options for the entire Otahuhu substation site on the basis of information obtained from the condition assessment work.

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<sup>1</sup> All references to rules refer to the Electricity Governance Rules 2003, Part F, Section III

This is in effect the minimum incremental option tabled by Transpower in the Interim Grid Expenditure (IGE) proposal dated 11 August (capital cost of \$14m) followed from 2009 onwards by various options. This minimum incremental option is the basis for all three Options considered by Transpower. But there may be more options that arise following the condition assessment. One of those options would be that no further capital works are needed for the balance of the 20 year Grid Investment Test (GIT) period. It would seem to be a reasonably simple analysis to test these other alternatives against the GIT.

MEUG note that the decision paper in paragraph 4.4.5 comments on the issue raised in the NZIER and Strata Energy report for MEUG that core grid related reliability investment proposals beyond the minimum necessary to achieve GRS rule 4.2, should be considered under GIT rule 4.2. The Commission in paragraph 4.4.5 state:

*"The Commission does not agree with this interpretation. It would lead only to the approval of least initial cost projects, and incremental, piecemeal developments. The interpretation does not reflect that the GIT requires a long term view of investment proposals."*

MEUG is surprised at this comment by the Commission for 2 reasons:

- i) Neither MEUG nor our advisors have suggested any option, including the minimum incremental option without any post-2009 capital works, should be considered on anything other than the 20 year timeframe stipulated in the GIT;
- ii) If on analysis the minimum incremental option without any post-2009 capital works actually has a Net Market Cost less than other options, then that is indeed the best minimum cost. There is an interesting balance between this minimum cost option which has the lowest capital cost but the highest cost of un-served energy versus the Gas Insulated Switchgear (GIS) Option (option 3) which has the highest capital cost and the lowest cost of un-served energy. That analysis needs to be made so the Commission can make a more informed decision.

If the Commission fails to examine the lowest cost option originally proposed in the IGE then we believe there is a risk that Transpower will use this as a precedent in future GUP to only submit high capital cost alternatives.

MEUG also believe that in this instance the Commission should have exercised rule 13.3.3.3 and asked Transpower to consider the minimum incremental option with and without further developments post 2009.

- c) Transpower frequently state that this GUP and the Upper North Island GUP are consistent. MEUG query whether this is correct with respect to the treatment of possible connection of a second CCGT plant, ie Otahuhu C (although in the Transpower papers this is often referred to as OTA D). In the Transpower report to the Commission of 23<sup>rd</sup> March 2007 titled, "Otahuhu Substation Diversity Proposal – Response to Electricity Commission correspondence of 12 March 2007," (page 11) Transpower have responded to a question on Otahuhu C by acknowledging that assets have been included in the GUP for Otahuhu C "*given the perceived probability of it proceeding.*" Furthermore Transpower note that in 2006 Contact had requested a connection in 2008 to enable commissioning by March 2009, but as Transpower report "*It is public knowledge that Contact has recently agreed to defer OTC by up to 12-18 months.*"

It is inconsistent that for this GUP Transpower perceive Otahuhu C likely and probably before the middle of the next decade, whereas for the Upper North Island GUP Transpower have assumed little prospect of generation in Auckland over the next decade. This does raise the question about any other inconsistencies between GUP proposals and therefore if they can reasonably be considered to be comprehensive.

The report by Connell Wagner<sup>2</sup> for the Commission also raises concerns as to the consistency of this GUP with the Initial GUP.

5. As noted beforehand the above are only initial views based on a quick perusal of the papers released on 25<sup>th</sup> May. There may be other material matters that are raised at the conference, not just by MEUG, but by other interested parties given the materiality of the difference between the proposed option of \$99m and the yet to be fully considered incremental option of \$14m.
6. To assist MEUG in preparing for a conference the following information is requested:
  - a) The Commission letter of 13<sup>th</sup> October 2006 to Transpower suggesting the IGE should be resubmitted as a GUP.
  - b) An electronic copy of the spreadsheet(s) that underlie the results in table 7.1 and 7.2 of the Decision paper.
  - c) Copies of any legal advice or Commission staff reports the Commission Board has received to substantiate the opening comment in paragraph 4.4.5 of the decision, in relation to the application of the GIT set out in the NZIER and Strata report for MEUG, that states, "*The Commission does not agree with this interpretation.*"
  - d) Copies of all Commission Board minutes in relation to any discussion regarding exercising rule 13.3.3.3 in relation to the minimum incremental option, ie that rule allows for "*The Board may ask Transpower to evaluate alternative reliability investments including those which would result in differing probabilities of meeting the grid reliability standards.*"
  - e) A detailed reconciliation between the GUP economics submitted by Transpower (refer table 6.1 and 6.2 of Transpower report titled "Otahuhu Substation Diversity Project Proposal – Attachment B, Revision 2, Economic Assessment application of the Grid Investment Test," December 2006) and that in the Decision paper on tables 7.1 and 7.2.

The reason for this request is because we have been unable to track all the changes agreed between the Commission and Transpower from the array of documents released. Presumably the Commission will have already compiled this summary.
  - f) The "indicative pricing impacts of investment proposals." Rule 12.3.4 provides for the Commission to request this information from Transpower. MEUG believe this information should be provided for every GUP.
7. Today MEUG have also made a request for information and or comments from Transpower relating to the Otahuhu substation GUP. A copy of that request is attached for information.
8. MEUG suggest that the information requested in paragraph 6 above and from Transpower in the attached letter is also likely to be of interest to other interested parties. It would therefore be useful if that material were published on the Commission web site and sufficient time give to allow interested parties to consider prior to the public conference.
9. This request for a conference is not confidential.

Yours sincerely



Ralph Matthes  
Executive Director

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<sup>2</sup> Connell Wagner report for Electricity Commission, *Review of Transpower's Proposal – Otahuhu Substation Diversity Project*, 28 March 2007, page 4, paragraph 5.