



MAJOR ELECTRICITY USERS' GROUP

4 April 2008

Mr Peter Griffiths
Transpower New Zealand Limited

By email to peter.griffiths@transpower.co.nz

Dear Peter

Submissions on the HVDC Pole 1 replacement Grid Investment Test

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Transpower report *Inter-Island HVDC Pole 1 Replacement Investigation: Grid Investment Test Consultation*, dated 7 February 2008.
2. MEUG represents parties that may be substantially affected if, for example, the application of the Grid Investment Test (GIT) for the HVDC Pole 1 Replacement Investigation project is not robust. MEUG is also interested in ensuring good precedents are established with this first ever economic investment project and thereby assist efficient consideration of other economic investment projects in the future.
3. Transpower are to be congratulated on the extent of consultation in the preparation of the GIT and willingness to answer questions on what is a very complex analysis.
4. Responses to each of the questions in the report follow:

No.	Question	Response
1	Do you consider that the short list of options for the HVDC Pole 1 Replacement Investigation project is reasonable?	<p>MEUG has concern with the screening criteria of "facilitating renewables" in deciding the short list of options. The term "facilitating renewables" could mean ensuring removal of any unnecessary economic barriers to renewable generation. That would be acceptable.</p> <p>However it may also mean promoting renewables irrespective of the economic cost. That would not be acceptable to MEUG. Because there is some ambiguity as to what "facilitating renewables" means, MEUG consider it prudent to exclude that criteria.</p> <p>MEUG do not consider that excluding the "facilitating renewables" criteria would result in any change to the short list proposed by Transpower. Therefore the short list appears reasonable even though we disagree with the selection criteria.</p>

2	Do you consider that the development plans for the short list of options for the HVDC Pole 1 Replacement Investigation project is reasonable?	MEUG has not undertaken a technical review of the development plans and therefore cannot make any comment.
3	Do you consider that Transpower's approach to generation modelling for the HVDC Pole 1 Replacement Investigation project is reasonable?	<p>MEUG has not run GEM/SDDP nor undertaken a detailed evaluation of the material published on PLEXOS. WE have attended several briefing sessions by Transpower and the EC on the models to gain some overview of how they work.</p> <p>The use of two separate models for such an important decision is helpful. That both models had similar results is also helpful. On balance the generation modelling approach appears reasonable.</p>
4	Do you consider that Transpower's demand growth assumptions for the HVDC Pole 1 Replacement Investigation project are reasonable?	<p>These were reasonable at the date the EC advised such to Transpower. They may need updating following feedback to the EC on the recent Grid Planning Assumptions (GPA) consultation paper. MEUG expects any changes to be within the sensitivity range considered by Transpower. However a materiality check against the final GPA demand forecasts may be prudent.</p>
5	Do you consider that the weightings Transpower used for low, medium and high demand forecasts, in calculating expected net market benefits for the HVDC Pole 1 Replacement Investigation project are reasonable?	<p>Weighting the medium 70% and each of high and low at 15% appears reasonable.</p>
6	Do you consider that the generation scenarios and weightings Transpower used in calculating net expected net market benefits for the HVDC Pole 1 Replacement Investigation project are reasonable?	<p>If possible the scenarios and their weighting should be discussed with the EC and other parties taking into consideration comments to the EC on the recent draft GPA generation scenarios consultation.</p> <p>The 50% weighting on the "90% renewables by 2025" scenario because it¹ "<i>should be considered likely, given it is government policy</i>" is a very flimsy reason. Government has not passed any legislation to support this target and we think the chance of the ban on new thermal generation being enacted is low.</p> <p>Government's makes various policy announcements over time but whether they actually result in a difference should be considered on a case by case basis.</p> <p>For example not long ago the government announced a policy of returning New Zealand to the top half of the OECD in terms of GPD per head. If Transpower believed that, then power demand forecasts would be much higher than that assumed in the GIT because the primary driver for demand would be very high rates of GDP growth.</p> <p>Just as Transpower (and the EC) do not assume government pronouncements on target GDP growth will eventuate, neither do we think the "90% renewables by 2025" target should be accepted without very good reason.</p>

¹ Transpower HVDC GIT consultation report, paragraph 5.1.5, 7 February 2008

7	Do you consider that Transpower's approach in applying the GIT to the HVDC Pole 1 Replacement Investigation project is reasonable?	The approach in applying the GIT appears reasonable.
8	Do you consider that the input assumption, parameters and sensitivities used in applying the GIT to the HVDC Pole 1 Replacement Investigation project are reasonable?	<p>Agree these have been reasonable subject to noting:</p> <ul style="list-style-type: none"> Some assumptions regarding New Plymouth power station and the continuation of the Rio Tinto contract need to be updated. MEUG notes the report does comment on these more recent events and provides a reasonable view that even if included in the analysis the overall result would not change. The report assumes carbon prices and gas prices are correlated, ie if carbon prices are high then gas prices will also be high and vice versa. That may not be true. Rather than review the assumptions, this is more a matter of reviewing the generation scenarios assumed as commented on in question 6. MEUG has no expertise to assess if the various capital, operating and maintenance and fuel cost assumptions have been reasonable.
9	Do you consider that the results of applying the GIT to the HVDC Pole 1 Replacement Investigation project are reasonable?	<p>MEUG has not checked the detailed models used by Transpower or run separate models to validate the results.</p> <p>We have participated in workshops where the results have been considered and debated in detail. We have also considered the detailed report itself. There does not appear to be any unexplained serious aberrations in the results.</p> <p>On that basis the results appear reasonable.</p> <p>If as a result of this consultation round there are:</p> <ul style="list-style-type: none"> Materially different cost information and/or Large changes to demand forecasts and/or; Significant changes to the definitions and weightings of credible scenarios; <p>Then the preferred option may change.</p>
10	Do you consider that there are other factors that Transpower should consider when selecting a preferred option for the HVDC Pole 1 Replacement Investigation project are reasonable?	No comment.

5. This submission is not confidential.

Yours sincerely



Ralph Matthes
Executive Director