



MAJOR ELECTRICITY USERS' GROUP

4 August 2008

Maree McGregor
Electricity Commission
By email to info@electricitycommission.govt.nz

Dear Maree

Submission on draft 2008 Statement of Opportunities

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Electricity Commission (EC) "2008 Statement of Opportunities – Draft for consultation, July 2008." Each section of this submission considers the points in our earlier submission on the Grid Planning Assumptions (GPA) consultation round during February and March 2008¹.
2. This submission is one business day later than the deadline set by the EC. We hope that the EC can accommodate this delay by MEUG.

Regulatory timetable for publishing SOO

3. MEUG suggested a rule change to specify a pre-defined timetable for publication of a SOO (eg biannually). We believe the EC is not considering such a proposal. MEUG still believe there is merit in comparing the costs of have a regulated SOO timetable with the benefits that certainty of timing would give the market, the benefit to Transpower in preparing reports dependent on the SOO and to assist dispel questions of political bias.

Impact of TPM on future peak demand

4. MEUG suggested the forecast regional peak demand forecasts need to be dampened due to the change in behaviour by consumers in response to the new Transmission Pricing Methodology (TPM). The draft 2008 SOO notes²:

"Recent changes to the transmission pricing methodology may have implications for the incentives for electricity lines businesses to use their load management assets to reduce peak demand. At this stage, the impact of these changes on coincident peak demand is unknown and has not been modelled."

5. MEUG suggest the Commission commence a work stream to examine the impact of the TPM on future peak demand to ensure future Grid Upgrade Plan (GUP) requests take those effects into account. Without that work there is a risk of over-investment in transmission assets.

Higher C price assumption needed to reflect feasible upper bound

6. The draft GPA assumed an upper price bound for carbon of \$50/t CO₂-e in 2018. MEUG suggested this upper bound was too low. The draft SOO has increased the upper price bound

¹ Refer <http://www.electricitycommission.govt.nz/opdev/modelling/gpas/index.html>

² Draft 2008 SOO, page 54

to \$60/t CO₂-e. The EC decided against a higher C price upper limit because of the³ “need to get a better understanding of the economics of peaking renewable generation ...”

7. We don't think the lack of a precise understanding of the economics of peaking renewable generation is sufficient reason not to use a more realistic higher upper range for C prices⁴. The EC should use a more realistic and higher carbon price for the upper price range along with its best estimate at the moment of peaking renewable generation costs.

The scenarios

8. MEUG made detailed submissions on the generation scenarios in the draft GPA and we concluded a better boundary for credible scenarios could be described by 2 main uncertainties:
 - a) Will the world become more C constrained?
 - b) Will New Zealand have more thermal options?
9. Some changes have been made to the draft 2008 SOO compared to the draft GPA; however those have not altered our view that the scenarios are clustered towards a renewables future and fail to consider alternative futures such as New Zealand being rich in thermal generation options but the world having a more stringent CO₂ emissions regime. Specific comments on the draft 2008 SOO assumptions for the scenarios follow:
 - a) All the scenarios assume a thermal moratorium. That assumption increasingly looks uncertain. The EC could reflect this uncertainty by including some scenarios with and some without a legislative restriction on new base-load thermal generation.
 - b) We see no reason why there should be any exogenous driver assumed by the EC to put⁵ “more weight on early Huntly decommissioning (partial or complete).” The Generation Expansion Model should be left to decide when each unit at Huntly power station is retired based on the relevant cost assumptions.
 - c) Given announcements by Meridian and NZ Aluminium Smelters to enter into a new long term contract then there is little reason to assume the aluminium smelter will close in any scenario. Things do change of course and there is a probability of an early closure. Equally there is also a probability the smelter will expand. We suggest the likelihood of expansion and early closure effectively cancel each other out and therefore no specific assumption is needed. Put another way, effectively assigning a 20% probability (ie one of the five scenarios) that the smelter will close without any evidence or rationale does seem “over-the-top.”
 - d) The assumed costs for new wind generation in the near term we believe are too low. As the SOO scenarios are used in the Grid Investment Test, and that is a Net Present Value analysis, it is important near term assumptions are more accurate than longer term assumptions. Therefore MEUG recommend the EC revise the wind generation costs in the near term to reflect current market conditions of much higher capital costs for wind generation.

Yours sincerely



Ralph Matthes
Executive Director

³ Refer EC workshop on Draft 2008 SOO, Generation Scenarios slide 10, 21 July 2008

⁴ Refer MEUG submission on draft GPA that referred to the Minister's expectation of the range of high C prices.

⁵ Refer EC workshop on Draft 2008 SOO, Generation Scenarios slide 5, 21 July 2008.