



MAJOR ELECTRICITY USERS' GROUP

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Project Manager
Wairakei Ring Investigation Project
Transpower New Zealand Limited
By email to gridinvestmentprojects@transpower.co.nz

Dear Project Manager

Submission on Wairakei ring Grid Investment Test

1. This is a submission by the Major Electricity Users' Group on Transpower's application of the Grid Investment Test (GIT) on short-listed options for the Wairakei ring proposal¹.
2. The market development scenarios (MDS) in the August 2008 Statement of Opportunities that largely form the basis of the GIT assessment favoured renewable generation. The prior government's bias favouring renewables is inconsistent with the incoming government's agenda of lifting New Zealand's productivity and competitiveness. For example the recent amendment to the Electricity Act imposing a ban on new thermal generation is to be repealed. Accordingly either the GIT should be re-assessed using a new set of MDS that have a more balanced mix of generation, or less weight be given to the existing renewable biased scenarios. This could make a material difference to the preferred option. For example using the analysis in Attachment A, Table 4.2, if MDS1 (the very high renewable scenario) is given a low or nil weighting, then the weighted NPV for option 5 (new single circuit B line) may be greater than that of the current preferred option 4 (new double circuit B line). In addition note that the NPV transmission related costs for option 5 are \$10m less than the costs for option 4.
3. If more thermal generation is assumed and less renewables then the expected net market benefit will be lower than the current base case of \$444m. The GIT assessment demonstrates that even with more thermal and less renewables the expected net benefit will still be positive. The reason this investment is required is to allow up to 700 MW of proposed new generation in the region to be connected to the grid. There is an argument that those generators that benefit from connecting to the grid should pay the cost. The transmission investment cost involved is not trivial, being \$68.8m in NPV terms if option 4 proceeds. With weak competition some or perhaps most of the GIT assessed net market benefits will be captured by the owners of those new generation projects. While these are points in relation to the debate on Transmission Pricing Methodology (TPM); the Wairakei ring proposal is a good example of why the Electricity Commission needs to review the TPM for the AC network as soon as possible.

Yours sincerely

Ralph Matthes
Executive Director

¹ Refer <http://www.gridnewzealand.co.nz/wairakei-ring-publications>, published 30th October 2008.