



MAJOR ELECTRICITY USERS' GROUP

19 February 2009

Bronwyn Christie
Electricity Commission
By email to submissions@electricitycommission.govt.nz

Dear Bronwyn

Submission on Notice of Intention in relation to North Auckland and Northland Grid Upgrade Plan

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Electricity Commission (the "Commission") Notice of Intention ("NOI") published 19th December 2008¹
"... that it intends to decline to approve the investment described as Transpower's North Auckland and Northland Grid Upgrade Proposal 1" (the "NAaN GUP").
2. MEUG commissioned Strata Energy Consulting ("Strata") to provide independent expert technical advice on the nine questions set out on the Commission web site referring to the detailed report *Reasons for decision set out in notice of intention to decline Proposal One in Transpower's North Auckland and Northland Investment Proposal* published 19th December 2008². A copy of the Strata report is attached and should be read as part of the MEUG submissions.
3. This submission commences with a background on how members of MEUG are affected by decisions on NAaN. We then consider the NOI. Finally we suggest possible improvements to the GUP process as a result of experience with the NAaN process and next steps.

How MEUG members and consumers in general are affected

4. Members of MEUG are affected by decisions on NAaN in two ways:
 - Every electricity consumer in New Zealand will pay for NAaN works approved by the Commission. Every MEUG member therefore will pay a share of approved NAaN expenditure broadly in proportion to their consumption; and
 - The actual transmission reliability of electricity consumers supplied power in north Auckland and further north will be dependent on NAaN decisions. Several members of MEUG take power in Northland and Auckland.
5. We raise this point because it highlights the difference between the parties that "benefit" from ensuring reliability as set out in the rules and those that bear the cost. This misalignment between who pays and who benefits from reliability investments³ is probably the most important policy problem in the electricity transmission sector because it results in:

¹ Notice of Intention refer <http://www.electricitycommission.govt.nz/pdfs/opdev/transmis/gup/naan/May2008/NOI.pdf>

² Refer <http://www.electricitycommission.govt.nz/opdev/transmis/gup/naan-subs>

³ The same argument that beneficiaries should pay applies to approval for economic investments.

- Those consumers that pay but have no reliability benefits cross-subsidising those that benefit; and
 - Those consumers that benefit have a lower price signal than the true marginal cost and therefore make inefficient decisions on:
 - Alternatives to the proposed transmission upgrade, eg using another fuel or changing demand to avoid peak demand periods that drive the need for transmission investment; and
 - The efficient level of reliability they demand.
6. If the gazetted Transmission Pricing Methodology (TPM) that came into effect on 1 April 2008 as recommended by the Commission had better aligned those that pay for AC network transmission upgrades like NAaN with those that benefit, then we believe a lot of the public controversy on this proposal would have not occurred. We reaffirm our prior recommendations⁴ to the Commission that amending the TPM to improve AC locational signals should be a high priority.
7. MEUG does not wish the forthcoming conference on NAaN to be about the Transmission Pricing Methodology as previously we argued TPM matters were not relevant to the Commission consideration of the HVDC GUP. The points raised in this section are therefore provided to the Commission as background context on a major issue that has and will continue to affect GUP applications. The focus of the Commission conference must be on whether the proposed GUP meets the requirements of the rules or if there are alternatives that meet the reliability standard but at lower cost.

The Notice of Intention

8. Based on the assumptions and analysis by the Commission we agree with the decision not to approve Proposal One in its entirety because there is likely to be greater benefit to New Zealand to split the proposal into urgent works (the Pakuranga to Penrose line and new transformer at Penrose) and consider the Penrose to Albany cable in a future GUP because in the meantime other lower cost options may arise.
9. However we do not agree with the reasoning behind the decision as explained in detail by the report by Strata. We believe Strata have raised some very important questions on the assumptions and analysis by the Commission.
10. In addition Strata have identified possible other options that might arise were consideration to build the Penrose to Albany cable deferred closer to the need date. There may be other options also. Our agreement with the NOI decision (but not the reasons) is subject to no material change in the underlying assumptions. We acknowledge that the best solution for New Zealand may differ if in this consultation round or at the conference new factual evidence is tabled that materially changes assumptions used. In that case MEUG and other interested parties request an opportunity to consider any such material.
11. We also note that one of the key assumptions is the Value of Unserved Energy. The Commission has an extensive and detailed work stream on reviewing the default values in the rules. That should not though preclude Transpower investigating and tabling any NAaN specific data ahead of that work being completed.

The process

12. With each new GUP the process has been improving and we hope that will continue.
13. MEUG also understand there has been a constructive and pragmatic approach by the Commission and Transpower to ensure initial work to commence the agreed urgent works at Penrose.
14. Some aspects of the process may need to be re-evaluated such as:

⁴ A recent example is the MEUG submission to the Electricity Commission on proposed 2009/10 work priorities and appropriations, 26 January 2009.

- Should the Commission be required to advise Transpower of its view of alternatives ahead of a GUP being tabled or make it easier for Transpower to revise a GUP if the Commission in its evaluation identifies options not considered beforehand?

Had this been in place then possibly Transpower could have split Proposal One into two parts and the evaluation and approval decision timing for the agreed urgent works would not have been unnecessarily delayed.

- Where complex projects might be capable of being considered as a suite of separate but related projects, then it would be preferable for those to be submitted as a suite of GUP. It is noted that this already happens to some extent as related projects such as the 400 kV transmission line from Whakamaru to Otahuhu and the Otahuhu substation upgrade are covered by separate GUPs.

If this approach had been in place, then the work agreed as being urgent by the Commission and Transpower in Proposal One probably would have been approved early last year.

- Should the Commission have the ability to approve part of the GUP?
- Does the current practice of allowing direct communication between Commission and Transpower staff improve or hinder the progress of complex GUP?

For example should the Commission change to the very formal approach usually adopted by the Commerce Commission?

15. MEUG is not advocating for the above changes; rather we think they and other possible solutions need to be considered to overcome observed problems in the NAaN process that included dealing with the complexity of such a large project and clarity of communications and lines of delegation.

Next steps

16. MEUG will not be presenting at the NAaN conference in Auckland because of financial constraints and hence Commissioners will be unable to ask us questions. As an alternative we suggest the Commission write to MEUG asking any questions and we will respond. Any such correspondence would be made public.

Yours sincerely



Ralph Matthes
Executive Director