



# MAJOR ELECTRICITY USERS' GROUP

1 September 2014

Matt Lewer  
Chief adviser, Regulation  
Commerce Commission

By email to [regulation.branch@comcom.govt.nz](mailto:regulation.branch@comcom.govt.nz)

Dear Matt

## **MEUG submission on expert reports for Transpower NIGU Project**

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Commerce Commission consultation paper<sup>1</sup> "Reviews of the Alliance contract arrangements, and property and easement acquisition for Transpower's North Island Grid Upgrade Project" (NIGUP) dated 11<sup>th</sup> August 2013. The consultation paper refers to two expert reports for the Commission:
  - Strata Energy Consulting Ltd, Report on the Transpower NZ Ltd NIGUP Alliance Contract Arrangements, report to the Commerce Commission, 30<sup>th</sup> July 2014 (the "Strata review"); and
  - Calverton, Evaluating Transpower's property and easement acquisition strategy and implementation for the NIGU project, report prepared for the CC, 30<sup>th</sup> June 2014.
2. Members of MEUG have been consulted in the preparation of this submission. This submission is not confidential.
3. MEUG's submissions on why the Commission should decline the request by Transpower to approve the \$52m cost-overflow in our letter of 17<sup>th</sup> January 2014 and cross-submission of 31<sup>st</sup> January 2014 still stand and are not repeated in this submission. This submission relates solely to the Strata review of the Alliance Contract.
4. The cost-overflow of 40% on the overhead lines sub-project Alliance works for the 400 kV overhead lines and dismantling of the ARI-PAK 110 kV line is staggering. The fact that the \$237m budget for this sub-project blew out to \$332m resulting in a \$94m (40%) cost overrun (Strata paragraph 97) points to major systemic and or project specific problems in project management or implementation.

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<sup>1</sup><http://www.comcom.govt.nz/regulated-industries/electricity/electricity-transmission/transpower-major-capital-proposal/amending-the-allowance-and-outputs-for-the-north-island-grid-upgrade-project/> document  
<http://www.comcom.govt.nz/dmsdocument/12242>

5. Transpower subsequently negotiated a settlement with the Alliance contract partner that mitigated the cost overrun and Strata view this as (paragraph 24) "an overall lower cost outcome for Transpower than could have reasonably been expected". However that negotiated settlement, in MEUG's view, does not offset the major shortcomings Strata identify and summarise in paragraph 26 as follows:

26 Notwithstanding the above, it is important that when assessing the broader aspects of the NIGUP, the Commission takes into account our findings on the shortcomings and inadequacy of Transpower's analysis of identifiable and foreseeable risks. In particular, account should be taken of our findings regarding the:

- (a) the timing and appropriateness of entering into an alliance contract;
- (b) management of availability of adequate resource contingencies; and
- (c) inadequacy of the wording of the agreement to mitigate financial risk.

6. Rather than Transpower's customers paying \$52m cost overrun as a net all up project cost overrun, MEUG suggests the Commission should consider the Alliance contract works for the 400 kV overhead lines and dismantling of the ARI-PAK 110 kV line separately. Consumers should benefit from efficiency gains against the P90 project budget achieved elsewhere for NIGUP rather than, as appears to be Transpower's proposal, those efficiency gains being used to subsidise in part cost overruns for the Alliance work that were avoidable by Transpower. That cross-subsidy only partly meets the Alliance works cost-overrun with the balance being covered by the \$52m cost-overrun application.

Yours sincerely



Ralph Matthes  
Executive Director