

# MAJOR ELECTRICITY USERS' GROUP

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Media release by the Major Electricity Users' Group (MEUG)

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## **Consumers object to paying for Transpower's cost overrun**

The original approved cost for Transpower's North Island Grid Upgrade (NIGUP) was set by the Electricity Commission at \$824 million; however costs overran this by \$70 million. Now the Commerce Commission has released a draft decision approving \$52 million of the over spend.

"This means it is the consumer who will be picking up the tab," says Ralph Matthes, Executive Director of the Major Electricity Users' Group.

"We don't mind paying for things we actually use, and get value from, but no one wants to pay for things that add no value."

NIGUP is the first and only 400kV alternating current (AC) voltage line in NZ. It was designed to operate for a few years at 220kV and then as Auckland demand increased it would be re-rated up to 400kV.

"Transpower went ahead with this extremely expensive upgrade even though, as MEUG pointed out, we expected demand in Auckland would fall or grow modestly. This is what has happened and it is unlikely NIGUP will ever be used to its full capacity.

In a competitive market the entity that overinvested is the one which bears the costs and so should Transpower, not electricity consumers."

The Electricity Authority estimated the original approved budget for NIGUP of \$824 million costs consumers \$112 million per year but only produces \$16 million per annum of benefits. MEUG estimate the \$52 million cost overrun will add another \$5 million to annual charges.

"Consumers are now expected to pay a further \$5m per year on top of the \$101 million for services they derive no benefit from. This is galling for all consumers and particularly for South Island consumers that benefit little if anything from NIGUP but must pay whereas North Island generators shipping electricity into Auckland that have benefited from NIGUP pay nothing.


This draft decision might be correct according to the rules but that merely demonstrates that the rules are tilted in Transpower's favour."

The Commerce Commission is seeking submissions on 21<sup>st</sup> May ahead of a final decision.

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### Notes for editors

1. Commerce Commission media release can be found at <http://www.comcom.govt.nz/the-commission/media-centre/media-releases/>.
2. Commerce Commission draft decision can be found at <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 URL <http://www.comcom.govt.nz/dmsdocument/13184>.
3. The estimate of \$116 m per year charges for NIGUP in 2015 is sourced from the Electricity Authority "TPM Issues and Proposal Discussion Forum" 19<sup>th</sup> October 2012, slide 26 found at <http://www.ea.govt.nz/development/work-programme/transmission-distribution/transmission-pricing-review/events/issue-paper-forums/>, document URL <http://www.ea.govt.nz/dmsdocument/13855>. A copy of that slide follows:



**ELECTRICITY  
AUTHORITY**  
TE MANA HIKO

**SPD charge may not cover all costs (projections for 2015 based on 2010-12 data)**

\$ million	Pole 3	NIGUP	WRK Ring	Islington-Kikiwa	Woodville-Masterton	Pole 2	NAaN
Expected cost	101.12	116.93	20.01	4.50	2.47	70.00	58.89
Revenue from SPD charge	37.40	15.78	8.96	1.40	0.70	64.26	5.54
Residual	63.71	101.14	11.05	3.10	1.77	5.74	53.35
Percent covered by SPD charge	36.99%	13.50%	44.78%	31.11%	28.34%	91.80%	9.41%