



MAJOR ELECTRICITY USERS' GROUP

14th May 2015

Bryan Field
Manager, Modelling & Sector Trends
Ministry of Business, Innovation & Employment
By email to EDGS@mbie.govt.nz

Dear Bryan

Submission on draft Electricity Demand and Generation Scenarios

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Ministry of Business, Innovation & Employment (MBIE) consultation guide "Draft Electricity Demand and Generation Scenarios" dated 2nd April 2015 including a number of detailed materials¹. Attached and to be read as part of this submission is a report by the New Zealand Institute of Economic Research (NZIER) "Electricity demand forecasting, Assessment of the draft Electricity Demand and Generation Scenarios (EDGS)" dated 14th May 2015.
2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Some members may make separate submissions.
3. The consultation process by MBIE has been very good. Access to models, availability of staff to answer questions and the workshop held by the Ministry on 21st April 2015 have all contributed towards collectively improving the EDGS. We are very appreciative of the summary of the stakeholder workshop held on 21st April 2015 published on MBIE's web site and agree with the five main feedback points listed. MBIE's follow up actions and publication of further information requested at the workshop have been helpful.
4. MEUG recommend MBIE continue on this collaborative approach in developing the EDGS. We see no need to rush this work. A robust and high quality EDGS is needed.
5. MEUG sees no evidence that Transpower urgently needs a final EDGS. The Commerce Commission has published² three potential capital proposals under development that Transpower may seek approval for by the Commission and therefore need demand and generation scenarios assumptions. One of the proposals, Pakuranga-Whakamaru series compensation, had an indicative application date of 2014 but we have not seen that application yet. The other two projects have indicative application dates of 2015 and 2017 though all three proposals have no estimated cost. The lack of a final EDGS has not stopped applications for approval of major capex being considered. The last approved

¹ <http://www.med.govt.nz/sectors-industries/energy/energy-modelling/modelling/electricity-demand-and-generation-scenarios/draft-edgs-2015>

² <http://www.comcom.govt.nz/regulated-industries/electricity/electricity-transmission/transpower-major-capital-proposal/>

project was an amendment to Upper South Island Grid reliability stage 1 on 26th February 2015. In that application Transpower consulted extensively including on demand and generation scenarios assumed. There is no evidence Transpower has very large capex proposals pending that urgently require a final EDGS. There are smaller capex proposals mooted though MEUG suggests we can continue with the pragmatic approach used for Upper South Island Grid reliability stage 1 for those leaving time to develop a robust EDGS.

6. In the longer term a robust EDGS is needed for assumptions for larger capex proposals and when Transpower and the Commerce Commission commence discussions on base capex for the next IPP 5 year price-quality path starting 1st April 2020. The need for an independent and robust EDGS is well explained in the NZIER report.
7. Without a robust EDGS we risk a repeat of consumers being charged for transmission capital for which they receive no benefit. The primary example is the North Island Grid Upgrade Project (NIGUP). MEUG's media release of 22nd April 2015 in response to the Commerce Commission draft decision to approve a cost overrun is a good summary of the problems with NIGUP and material detriment to consumers of building NIGUP. A copy of that media release is attached. We think a primary reason poor investment decisions were taken with NIGUP were because both the Electricity Commission failed to update the Statement of Opportunities, the predecessor to EDGS, and Transpower failed to act as a reasonable and prudent operator or to act in good faith to revise those forecasts.
8. MEUG asked for NZIER's advice on the draft EDGS and views on the questions in the consultation paper. NZIER's report is attached and MEUG agrees with the views of NZIER and answers to the questions. The NZIER report should be considered as a whole though we think it worth quoting paragraph 38 in the section titled "What do we suggest":

"To improve the fitness for purpose of the EDGS forecasts MBIE should:

- Implement the actions accepted by MBIE after the workshop and summarised in paragraph 28 above (referring to paragraph 28 of the NZIER report)
- develop a forecast approach that explicitly considers:
 - the expected level of variation in future electricity demand and generation, preferably with some assessment of the relative likelihood of scenarios or of different outcomes within the forecast range,
 - the expected location of demand and supply as Transpower investments are essentially about correcting the mismatch between the location of generation and demand, and
 - analysis of the potential that factors may add measurable uncertainty to the forecasts but are not included explicitly in the forecast because the data is not available or does not reflect their expected impact.
- Describe the degree of independence/correlation for the various assumptions and provide a rating of their relative likelihood of different combinations of the assumptions to make it easier for the Commission to consider the risks and uncertainty in Transpower capital expenditure proposals."

9. MEUG looks forward to working with MBIE and other parties in development of the EDGS.

Yours sincerely



Ralph Matthes
Executive Director

Attachment: MEUG media release 23rd April 2015



**MAJOR ELECTRICITY
USERS' GROUP**

Thursday, 23rd April 2015

Media release by the Major Electricity Users' Group (MEUG)
Contact: Ralph Matthes, Executive Director, T (04) 472 0128, M 0274 760 500

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 overrun 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 21st May ahead of a final decision.

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MEUG media release, NIGUP, 23-Apr-14

Major Electricity Users' Group

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Notes for editors

- Commerce Commission media release can be found at <http://www.comcom.govt.nz/the-commission/media-centre/media-releases/>.
- Commerce Commission draft decision can be found at <http://www.comcom.govt.nz/regulation/industry/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/131784>.
- The estimate of \$116 m per year charges for NIGUP in 2015 is sourced from the Electricity Authority TPII Issues and Proposal Discussion Forum - 19th 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/138555>. A copy of that slide follows:



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

\$ million	Pole 3	NIGUP	WBK Ring	Transpower Auckland	Transpower Manawatu	Pole 2	MAAN
Expected cost	101.12	110.93	20.01	4.50	2.47	70.00	58.89
Revenue from SPD	37.40	15.78	8.86	1.40	0.70	64.26	5.54
Change	63.71	95.15	11.15	3.10	1.77	5.74	53.35
Percent covered by SPD charge	38.89%	13.95%	44.73%	31.11%	28.34%	91.80%	9.41%