

28 May 2020

Stacey Newlands
Senior Regulatory Advisor
Transpower
By email to communications@transpower.co.nz

Dear Stacey

Clutha Upper Waitaki Line Project invitation to comment

1. This is a submission by the Major Electricity Users' Group (MEUG) on Transpower's consultation paper "Clutha Upper Waitaki Lines Project (CUWLP) – Invitation to comment on proposal to progress remaining projects" May 2020.¹
2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Some members may make separate submissions.
3. Responses to questions in the consultation paper follow:

Question	MEUG comment
1. Do you consider there is sufficient risk (i.e. chance and impact) that Tiwai will close or reduce output at short notice before upgrades can be completed such that we should seek to mitigate those risks now? Note we consider three summers may be required to complete the work once we commit to it depending on when that decision is made?	MEUG has no information and we do not expect any new credible and robust new evidence will emerge to assist Transpower. In that case we do not think Transpower should exercise discretion to invest when: <ul style="list-style-type: none"> • That decision may lead to wasted expenditure should no change in demand at Tiwai occur; and • Not investing in CUWLP now does not foreclose the option of investing later, albeit a risk of up to 2-years of "dispatch benefits" forgone if both:

¹ <https://www.transpower.co.nz/clutha-upper-waitaki-lines-project-consultation-2020>.

Question	MEUG comment
	<p>~ The closure of Tiwai is the fastest possible timeframe. There is no guarantee that if a decision to exit is made that the timeline will be as fast as possible; and</p> <p>~ The inflows in the maximum time of 2-years that there may be no Tiwai load coincides with very wet years in the lower South Island lakes.</p> <p>In the current COVID-19 affected economic climate businesses are even more cautious of gambling on investments that may have some upside but also downside risks like CUWLP. Transpower should also not take such risks and even more so given the weakness of the economy and hardship facing many consumers who ultimately pay for transmission.</p>
<p>2. New generation in the Otago/Southland region would also support the need to complete the two sections of CUWLP discussed in this paper. Are you aware of any new committed or consented generation in that region we should consider in our analysis?</p>	<p>MEUG has no new information on possible generation in the Otago/Southland region.</p>
<p>3. Large new loads in the Otago/Southland region would reduce the benefits of CUWLP. Are you aware of any new committed projects that would significantly increase load in the lower South Island?</p>	<p>MEUG has no new information on new committed load in the lower South Island.</p>
<p>4. A Tiwai closure may accelerate plans for existing thermal plant to decommission and could delay the commissioning of new plant. This will influence generation costs and the benefits from relieving this constraint. What do you think is likely to happen post a Tiwai closure (specific reference to generation plants would be appreciated)?</p>	<p>The generation market would rebalance in an economically efficient manner provided the effect of existing market failures are mitigated and no new distortionary interventions are introduced.</p> <p>A decision by Transpower to proceed urgently with CUWLP when the range of possible outcomes includes scenarios where present worth costs exceed present worth benefits is an avoidable distortionary intervention.</p>

Question	MEUG comment
<p>5. Do you agree a 4% real, pre-tax discount rate (based on our RCP3 WACC and the lower range of discount rates in the Capex IM) is appropriate for this assessment?</p>	<p>Best practice would be to use a range of discount rates to test the sensitivity of the proposal relative to the most likely counterfactual. Economic cost-benefit-analysis should use an appropriate social rate of time preference discount rate as prescribed by Treasury for infrastructure investment analysis. The Treasury set discount rate may or may not be equivalent to the current regulated WACC for Transpower.</p>
<p>6. Feedback welcome on the broader economic benefits outlined in the section above.</p>	<p>Three comments.</p> <p>First more information should be provided on the estimate of approximately \$5m pa for “system deficit costs” and how that fits with the estimate of “dispatch benefits.” For example, “dispatch benefits” will occur in very high inflow scenarios but presumably in that case there will be low if any “system deficit cost” benefits?</p> <p>Second is CUWLP the best use of capital across all the New Zealand grid to realise the benefit of “facilitating renewable electricity generation”? It would be wasteful to spend \$92m earlier than needed when better wind farm opportunities with lower grid reinforcement costs and closer to high demand growth regions were available elsewhere in New Zealand.</p> <p>Third MEUG rejects the suggestion “economic stimulus and employment” benefits can be credited to CUWLP or any other specific new grid investment:</p> <ul style="list-style-type: none"> ~ Without evidence to assess the scale and timing of those claimed benefits; and ~ Without recognising there are detriments that need to be weighed against claimed benefits as discussed in response to question 7 below.

Question	MEUG comment
<p>7. Feedback welcome on other broader economic benefits you are aware of that would or may arise as a result of commencing the remaining stages of CUWL.</p>	<p>There are two aspects of the cost-benefit-analysis missing.</p> <p>First investor confidence will be undermined if Transpower proceeds before certainty on the future of Tiwai is known. New investors and current asset owners of generation and large grid or near-grid connected load making investment/divestment decisions will be unsure if Transpower will repeat a decision to invest early in CUWLP, i.e. to make grid investments that are not clearly economic and thereby distort otherwise efficient market outcomes.</p> <p>Second if Transpower proceeds with CUWLP based on unquantified claimed benefits without regard to detriments then this will create an incentive for beneficiaries of other similar investments to lobby Transpower for other projects solely on unquantified claimed benefits. This will heighten the risk of grid over-build and over-payment by users of the grid relative to benefits received.</p>

4. If after Transpower has considered submissions, there is still a preference to proceed with early construction of CUWLP, MEUG recommends Transpower publish all submissions promptly and undertakes a cross-submission round. That additional step we think would be prudent and justified given proceeding early would be a controversial, and from MEUG’s perspective, an unwelcome decision.

Yours sincerely



Ralph Matthes
Executive Director