

8 June 2020

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

Dear Stacey

Clutha Upper Waitaki Line Project cross-submission

1. This is a cross-submission by the Major Electricity Users' Group (MEUG) on the 22 other submitters to 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. There were no submissions by other parties to change the view of MEUG in our "original" submission of 28th May.
4. MEUG agrees with the other 11 submitters recommending Transpower defer a decision on CUWLP until certainty on the future of Tiwai is known. Those 11 submitters comprised a cross-section of businesses and representatives of consumers, large and small suppliers (and traders), and distribution companies:

Consumers	Larger suppliers	Smaller suppliers	Lines businesses
NZAS	Mercury Nova Energy	Haast Energy Trading Ventus	Aurora Energy Electricity Networks Association Northpower Orion Powerco Vector

5. MEUG agrees with the submission of Haast Energy that (quotes from section headers):
 - a) A further detriment to be considered is that "the existing transmission capacity is not being fully utilised due to the exercise of market power"²; and
 - b) "Transpower modelling likely overestimates the annual dispatch benefit because market power is not accounted for."

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

² This was a detriment not considered in the original MEUG submission.

MEUG is waiting for the Electricity Authority (EA) to publish a decision on the Undesirable Trading Situation (UTS) claim lodged 10th November 2019 that may assist advance the debate on exercise of market power. We suggest Transpower should also wait to assess if there is any progress on estimating that potential detriment once the EA's decision is published.

It is possible the UTS decision may also fail to advance the debate leaving Transpower to consider the qualitative relevance of market power to the CUWLP decision to construct early or defer.³

Irrespective of whether Transpower agrees market power is a new detriment to be considered, there are sufficient detriments, including those raised in MEUG's original submission, to offset the claimed benefits to support the conclusion CUWLP should be deferred.

6. The submissions by Haast Energy in relation to market power of the large South Island generators discussed above are also a relevant countervail to the submissions of Contact Energy and Meridian Energy arguing Transpower has understated dispatch benefits.
7. MEUG agrees with the submission of Ventus that a new detriment to be considered is "... the presumption that Transpower should upgrade the network and foist some of the cost of that upgrade on Tiwai may well result in the perverse outcome of Tiwai closing".⁴
8. ENA submitted "... transmission pricing (the recovery of sunk costs in particular) is a very sensitive subject. This sensitivity flows from an unsatisfactory history of making investments in transmission assets without appropriate consideration of how the investment costs would be recovered and from whom. This has resulted in years of dispute over who receives benefits over time from grid upgrades versus who is charged for them." Further on ENA submitted "... it would be helpful if the proposed beneficiaries-pay framework could be tested against this investment proposal. It would be particularly galling for consumers if the investment proceeded, but NZAS remained and the beneficiaries-pay analysis shows that most benefits accrue to generators."

MEUG agrees with the action requested by ENA in the underlined text above.

The above proposed action by ENA aligns with the view by Vector (and shared by MEUG) that "On a related note, we have been concerned about the lack of emphasis on end customer impacts in the modelling in Transpower's Te Mauri Hiko documents. This is a critical component when assessing any transmission upgrade proposal and we encourage Transpower to keep the impact on the end customer at front of mind during any decision-making process, including the CUWLP proposal."

³ MEUG is investigating a quantitative approach to estimating if there has been sustained market power over time. That approach uses published audited financial statements to calculate the economic profits of suppliers. MEUG last discussed that approach in a submission to MBIE on the Fuel Industry Bill regulations, 29th May 2020, paragraphs 9 to 18, refer <http://www.meug.co.nz/node/1072>. MEUG's work will not be completed until later this year.

⁴ This is a detriment not considered in the original MEUG submission.

9. It is not just the allocation of incremental new transmission costs that are important. New transmission does affect the energy market, energy costs, and energy prices. Transpower cannot be expected to perfectly forecast the effect on energy prices though it should consider if the proposal has potentially perverse outcomes for price effects on end consumers not just generators. An example of the possible effect on energy prices for an early commencement to CUWLP to consumers was considered by Nova Energy. Nova submitted “Increasing the transmission capacity merely serves to displace one source of generation with another in the short term; benefiting the lower South Island generators only. There is no surety that consumers will experience lower net costs if the investment is made.” This observation is also relevant to the question of considering the possible market power detriment discussed in paragraph 5 above.
10. MEUG appreciates Transpower publishing submissions promptly and allowing parties an opportunity to make cross-submissions. However, that does not meet the request we made in our original submission for Transpower to consult “If after Transpower has considered submissions, there is still a preference to proceed with early construction of CUWLP ...” Therefore, MEUG reaffirms the recommendation in the concluding sentence of our original submission “That additional step (i.e. consultation Transpower if after considering submissions and cross-submissions there is still a preference for early commencement of CUWLP) 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