

21 September 2020

Rebecca Osborne
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Transpower
By email to TPM@transpower.co.nz

Dear Rebecca

Consultation on Connection Charges cross-submission

1. This is a cross-submission by the Major Electricity Users' Group (MEUG) on the submissions by 18 other parties that closed 14th September on the Transpower paper "TPM Development: Connection Charges Consultation Paper" 24th August 2020.¹
2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Some members also make submissions.

Focus area 6: Investment contract arrangements

3. Thirteen submitters, including MEUG, agreed with Transpower's initial view that option 2 in conjunction with option 3 be adopted. The remaining five submitters made no comment on this topic. While those that submitted were unanimous with Transpower's preference, two details of Investment Contract arrangements were mentioned that MEUG agrees need to be addressed:
 - a) The Electricity Networks Association (ENA) submitted on Investment Contract payment terms as follows [p3], and then [p4]

"ENA supports Transpower's proposals, but we think that Transpower should consider the wider implications of the approaches to recovery of contracted connection assets and regulated connection assets."

"ENA would like either more assets to be included as regulated connection assets, or consistency of treatment between regulated and contracted connection assets. For example, some of these new or

¹ Document URL

https://www.transpower.co.nz/sites/default/files/uncontrolled_docs/All%20submissions%20received%20on%20TPM%20Connection%20Charges%20Consultation.pdf found at <https://www.transpower.co.nz/industry/transmission-pricing-methodology-tpm/tpm-development-project-connection-charges>.

upgraded assets could be classified as connection assets. This would allow for cost recovery over the extended life of the assets accompanied by a return set by the Commerce commission through the regulated WACC.”

Supporting submissions and further details on these issues were made in submissions by Unison-Centralines, Vector and other EDB.

MEUG agrees with ENA’s submission that consistency is needed in the treatment of regulated and contracted connection assets. If possible, MEUG’s preference is to increase potential and actual competitive friction at the boundaries of regulated and unregulated services provided by line monopolies and between regulated monopolies. A wider review of how Part 4 and Investment Contracts work and integrate for connection services aligns with MEUG’s submission in relation to first-mover perceived issues and considering what risk Transpower might bear [paragraph 19],

“If that means Transpower requires a different WACC from the Commerce Act Part 4 WACC then MEUG is open to commencing that discussion provided that is conducted as part of a broader consideration of how that risk fits with the current matrix of risks and incentives governing Transpower.”

b) Orion submitted [paragraph 15. B.],

“Secondly, in relation to operating and maintenance costs, we are concerned that a provision that recognises situations where these costs are accommodated under a new investment contract might lead to situations where lower cost opportunities are cherry-picked and recognised under a new investment contract, and higher costs instances socialised across NZ via the wider pool of operating and maintenance costs.”

Northpower made the same point to clarify the intended outcome [p4],

“We note that where a customer is contributing or part contributing to a new asset, this needs to be reflected in the maintenance and operating costs paid being lower to reflect the newer value of the asset contributed. We assume this is the outcome sought by allowing part or all of maintenance and operating costs to be recovered through investment contracts rather than connection charges.”

MEUG recommends further analysis is required of the submissions by Orion and Northpower. Ideally an analysis of the “wider implications” called for by ENA and MEUG’s suggestion (both referred to in paragraph [3 a]) above) of a “broader consideration of how that risk fits with the current matrix of risks and incentives governing Transpower” would include the effect on allocation of and incentives by connected parties and Transpower to drive down operating and maintenance costs.

Focus area 7: Connection asset decommissioning costs

4. There was no single option for who pays for decommissioning connection assets that submitters unanimously preferred or a majority preferred as follows:
- Option 1 is the status quo, i.e. socialisation in the residual or similar such as allowing an EDB a prudential discount mechanism for stranded connection assets. Option 1 was not as much preferred, but rather the best of a poor choice, or the default until more analysis is undertaken, by Counties Power, NZ Steel, Northpower, Refining NZ and Trustpower. MEUG and the Electricity Networks Association (ENA) both preferred option 1 as a second best with the preferred approach being the new option 4 discussed below.
 - Option 2, remaining connected parties pay, was preferred by Meridian Energy, and Unison-Centralines.
 - Option 3, connected party(s) that are the exacerbators pay and if that is not feasible option 1 applies, was preferred by Mercury Energy, Nova Energy and Orion.
 - Option 4 was an option not considered in the consultation paper. This option proposed using the contracting arrangements between Transpower and a connection party. This option was suggested and preferred separately by MEUG and, from MEUG's reading, by ENA. ENA explained this option as [p5],

“In principle, connection assets could be decommissioned from either an agreed connection contract which should set out where and how the decommissioning costs fall.”

Northpower might also, though we cannot say for sure, be aligned with option 4 as they submitted [p4]:

“We agree in principle that a disconnecting party should pay for their decommissioning costs, but consider that the ‘devil is in the detail.’”

And later submitted [p5]:

“As such we consider this should be applied to new connection assets going forward. A retrospective change is likely to drive a rush to disconnect historic assets before the new TPM is implemented.”
5. Having considered submissions MEUG remains of the view that going forward all new Investment Contracts should have an explicit provision between Transpower and the connection customer on the treatment of decommissioning costs, i.e. option 4. That contractual basis will bind Transpower and the connection customer in terms of treatment of decommissioning costs and therefore preclude any claim on other parties.

6. How to deal with existing assets that were built under prior Investment Contracts is problematic and, as other submitters showed, a one-size-fits all approach may have unintended consequences. For example, Northpower discussed the problem and incentives of the “Last man standing” [p4]. Accordingly, MEUG reaffirms its submission that:
 - Further analysis is needed on, amongst other things, [MEUG, paragraph 16, second bullet point]:

“The impact on Transpower’s economic return due to lower average operating, and maintenance costs due to early decommissioning of connection assets.”
 - Subject to the outcome of the above analysis and absent Transpower bearing net decommissioning costs, allocating decommissioning costs for assets built under prior Investment Contracts is to choose the best of what are all poor options, and that is option 1.

Focus area 8: First-mover disadvantage

7. Genesis Energy [p2] submitted, with text underlined by MEUG for emphasis,

“Socialising the cost of connecting new renewable sources of electricity and new demand sources would remove one of the biggest barriers, beyond the cost of electricity, to decarbonising New Zealand over the next few decades. It would also result in a fairer outcome where those who benefit from the infrastructure share in meeting the cost of that infrastructure.”
8. And later, in relation to the type 2 issue [p2],

“Of the three allocation options outlined, we suggest simplicity should be preferred, and so would support the cost of excess capacity being allocated to all offtake customers through the residual charge.”
9. It is not clear to MEUG how the two preceding quotes are consistent in the case where an injection connection asset is over-built in the expectation of future new generators connecting. In particular:
 - Generators connecting after the first generators will only connect if they expect to make a commercial benefit, and the first-mover generator will benefit by others connecting through lower unit connection costs. All the generators are beneficiaries as described by GNE in the quote in paragraph 7 above; however
 - Genesis Energy propose it is only offtake customers that will pay for the over-build in the quote in paragraph 8 above.
10. Nothing in the submission of Genesis Energy persuades MEUG to alter the view in our submission that Transpower needs to explore commercial solutions that create incentives on parties to mimic outcomes expected in workably competitive markets.

11. Mercury Energy’s submission took a diametrically opposite view from Genesis Energy and helpfully gave real world evidence with the Turitea windfarm experience to support their view, submitted to the Electricity Price Review in 2019, [p1],
“... that the first mover disadvantage as described was not a concern in practice.”
12. Later Mercury Energy submitted [p1],
“Mercury would also negotiate in good faith with any third party wanting to connect to its transmission asset on an appropriate cost sharing access arrangement.”
13. MEUG supports the submission of Mercury Energy as evidence that first-mover disadvantage is more a perceived than a material issue in the market.

Concluding comments

14. We look forward to reading the cross-submissions of other parties.

Yours sincerely



Ralph Matthes
Executive Director