Major Electricity Users' Group

25 November 2020

Rebecca Osborne
Head of Grid Pricing Strategy
Transpower
By email to TPM@transpower.co.nz

Dear Rebecca

TPM: First Mover Disadvantage cross-submission

1. This is a cross-submission from the Major Electricity Users' Group (MEUG) on the views of nine other submitters lodged by 18th November on Transpower's consultation paper "TPM Development, First Mover Disadvantage (FMD) Consultation" published 28th October 2020[1].

2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Members make also make separate submissions.

Type 1 FMD for connection investments

3. Apart from MEUG and Vector, all other submitters supported some mechanism to manage Type 1 FMD with some having unqualified support for Transpower's proposed Funded Asset Component (FAC) Option and others less enthusiastic but not providing an alternative formula. Some submitters supported the FAC options or similar mechanism event though they cast doubt on whether it would arise or was the best solution, e.g.

    - Mercury restated their preference from the preceding consultation on connection charges to let the market decide, i.e. "… the problem is described it is essentially a free-rider problem and conventional economic theory suggests a range of potential solutions with the best being a negotiation between individual parties (Coase Theorem)."

    - Northpower (p2) stated "The proposal appears to be unchanged and we still query the degree to which this issue will arise. New connection assets are likely to be sized only for the incremental customer (who will pay the incremental costs) and therefore, there is unlikely to be any available capacity for them to "free ride" on."

[1] https://www.transpower.co.nz/sites/default/files/uncontrolled_docs/All%20FMD%20Submissions%20received.pdf contains all submissions, at web site https://www.transpower.co.nz/industry/transmission-pricing-methodology-tpm/tpm-development-project-first-mover-disadvantage

Northpower also noted the risk of a generator paying for an 80 MW connection in the expectation of their use growing from 50 MW at the outset to 80 MW in 5-years, only to have another party start and continue to use the "spare" opening 30 MW, leading to the original generator having to pay for another 30 MW after 5-years.

- Unison and Centralines noted problems in applying the FAC formula where a transmission customer pays for a New Investment Contract up-front (p2).

4. The above examples by other submitters casting doubt on Transpower's proposal has reinforced our submission of 18th November opposing having a mechanism in the TPM for Type 1 FMD for connection investments.

5. MEUG's submission of 18th November, quoting from Transpower's consultation paper, noted there are no current Type 1 FMD issues. We presented evidence this is unlikely to be a problem this decade. No other submitter provided any example of an actual historic or current FMD type 1 problem for connection investments. There was some speculation of hypothetical scenarios but nothing concrete and no view on when these might start. For example:

- Contact Energy (p1) "Potential industrial clients looking to decarbonise are often put off by the complexity of electricity network access and pricing. Simple questions on the potential quantum of transmission charges under the new TPM are all but impossible to answer with any degree of certainty. In some cases, a business case to switch to electricity that would likely have proven economic under the current TPM will no longer be economic under the new TPM, even though this new load would operate during off-peak periods and place no additional pressure on the grid."

  The Contact scenario is not clear on details and how existing interconnection and new benefit-based charges plus residual charges are separated in the example from connection charges. For example, the reference in the last sentence of the above quote to off-peak periods would not apply to connection assets. Hence, we do not think this is an example strictly relevant to current Type 1 FMD issues for connection investments.

  The Contact Energy example might, though again the details are not clear, be more relevant to the option of a Transitional Congestion Charge rather than a Type 1 FMD for connection investments problem.

- Mercury Energy restated their observation they had not found FMD to be a problem and explained the resources and incentives to right-size their investment in the soon to be largest wind farm in New Zealand. Almost as a footnote Mercury stated, with underlined text by MEUG, "We do however accept <u>there may be</u> scope for FMD to occur in the future, particularly for load customers, and possibly for renewable energy projects where consenting for transmission is problematic." The main take-out for MEUG from Mercury's submission is that it is a hypothetical possibility only.

6. Therefore, as MEUG submitted on 18th November, there is time to consider other options or if a problem emerges, to then consider the pros and cons of changing the TPM.

7. One solution to future Type 1 FMD problems if they arise, over and above the solutions submitted by MEUG, included Contact Energy (p1, 2) supporting the submissions of the Electricity Networks Association (ENA), Unison, Centralines and Vector in the original connection charges consultation of "… an inconsistency in Transpower's approach to recovering capital costs under an investment contract for a connection asset and the way capital costs are recovered for interconnection assets." Northpower submitted (p2) n the term of New Investment Contracts being less than the economic life of the assets. MEUG also has had problems with Transpower's unilaterally set terms and conditions for New Investment Contracts and therefore we agree this is an option to be considered.

Type 2 FMD for connection investments

8. MEUG has no changes to the submission made on 18th November on Type 2 FMD for connection investments.

Type 2 FMD for interconnection investments

9. MEUG has no changes to the submission made on 18th November on Type 2 FMD for interconnection investments.

10. Helpfully, support for MEUG's submission noting concern at Transpower's scepticism of the value of increased scrutiny of investment proposals was made by Counties Power: "… better outcomes are obtained if Transpower's traditional centralised planning mindset is replaced by a customer centralised mindset."

Yours sincerely

Ralph Matthes
Executive Director