Major Electricity Users' Group

18 November 2020

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

Dear Rebecca

TPM: First Mover Disadvantage

1. This is a submission from the Major Electricity Users' Group (MEUG) 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.

3. The views in this submission may change after we have considered the views of other submitters. References in parenthesis to "Qu." refer to the questions, and numbers in square brackets refer to paragraph numbers in the consultation paper.

Type 1 FMD for connection investments

4. MEUG does not consider there is evidence of a FMD problem currently. There is no analysis in the consultation paper to support Transpower's view FMD will become a material problem. Critically, without an analysis to identify when FMD may become a material problem, the paper skips consideration of other process and policy options that could be used in the next few years to manage FMD risks that may emerge. Accordingly, MEUG does not agree Transpower need address in the TPM starting April 2023 possible future FMD risks (Qu, 1.1) and do not support including the Funded Asset Component (FAC) Option in the TPM (Qu. 1.2).

5. In support of this submission note:

    a) The consultation paper concedes there is currently no FMD problem and the options proposed are to address a possible problem emerging:

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[1] Document URL https://www.transpower.co.nz/sites/default/files/uncontrolled_docs/TPM%20Development%20First%20mover%20disadvantage%20consultation%20-%20final.pdf at https://www.transpower.co.nz/industry/transmission-pricing-methodology-tpm/tpm-development-project-first-mover-disadvantage

> "While FMD may not be a significant problem currently, it may become one in future with increased electrification of the economy and encouragement of renewable generation. We consider now is the right time to consider how FMD can be addressed in the TPM," refer [21.1].

b) The consultation paper has not considered when FMD issues may arise. Transpower's just published Net Zero Grid Pathways Phase one timeline does not envisage interconnection capex investment cases being lodged with the Commerce Commission until at earliest end of 2021 with actual delivery of approved investments 2022-2030.[2] The initial Phase one capex proposals have been well signalled. They are about shifting an over-supply of lower South Island hydro-generation electricity northwards assuming scaling down and eventual exit of Rio Tinto load over the next few years. It is therefore unlikely there will be any surprises or material new generation to be included in Transpower's Phase one plans that could give rise to unexpected new requests for connection that would have FMD issues. Therefore, only in future phases of the Net Zero Grid Pathways, at earliest closer to the end of this decade and more likely next decade, might connection investment FMD issues emerge.

c) If, as MEUG suggests, there is no urgency to accommodate in the TPM mechanisms for possible future FMD issues, then Transpower and regulators have time to consider other options such as:

- A revision to the TPM. This is an involved process. Nevertheless, if there is a clear material problem and a change to the TPM is a robust solution, then that is a better option than inserting in the TPM effective April 2023 mechanisms that may result in continuing risks of cross-subsidisation and stranded asset costs being borne by customers.

- Changes to the Input Methodologies (IM) that govern the Part 4 regulation of Transpower. The Commerce Commission must conclude the next review of IM by the end of 2023 and will likely commence work early 2022. That review will consider, amongst other factors, recent changes to the electricity sector that have become or may become relevant to IM for the next 7-years. That will, in our view, include the topic of allocation of risk to Transpower, refer [61] and [62], i.e. possible FMD risks, the treatment of stranded assets, and asset costs in the residual that Transpower cannot prove infer any benefit on any customer.

- Changes to the next Individual Price-Quality Path (IPP) reset by the Commerce Commission that will come into effect 1st April 2025. Transpower and the Commission are likely to commence work on preparing a proposed IPP for that reset in 2023. The outcome of the IM review in 2023 will be an important precursor and facilitator of improvements to the next IPP.

[2] Refer https://www.transpower.co.nz/net-zero-grid-pathways-latest-updates

Type 2 FMD for connection investments

6. Consistent with the reasons MEUG is not supportive of the proposals for Type 1 FMD, MEUG is also not supportive of the proposed departure from the TPM Guidelines for Type 2 FMD (Qu. 2.1 and Qu. 2.2).

Type 2 FMD for interconnection investments

7. The second sentence in the final paragraph of this section of the consultation paper states [68]:

> "While we are sceptical increased scrutiny of investment proposals would completely address the risk of future customers not appearing, given the clear direction in the Guidelines and comments in the Authority's Final Decision, we do not consider there is any scope for us to include any additional mechanisms in the TPM to address Type 2 FMD for interconnection investments."

8. Referring to the above MEUG:

   - Agrees there is no scope for Transpower to include any additional mechanisms in the TPM to address Type 2 FMD for interconnection investments (Qu. 3.1).
   - Notes that, the same as set out in the preceding sections of this submission on possible FMD risks for connection investments, the consultation paper provides no evidence of when a potential problem may merge or canvas feasible policy options that will mitigate that risk.
   - Is concerned at Transpower's scepticism of the value of increased scrutiny of investment proposals. For MEUG, increased accountability of Transpower's decision making is an important issue for both new interconnection and new connection assets. Rather than scepticism we would prefer Transpower's mind-set to be attuned to the long-term benefit of consumers and see this as a challenge and opportunity to innovate in finding ways to improve their decision-making and accountability. A case in point is Transpower's reluctance to venture even a high-level view on which parties may be beneficiaries for the consultation mid this year on the stage 1 Waikato and Upper North Island Voltage Management staged major capex project. If Transpower's reluctance to assist interested parties persists, an option to consider is to use the next reviews of IM and the IPP discussed in paragraph 5 c) above to facilitate improved means for interested parties to scrutinise investment proposals.

Yours sincerely

Ralph Matthes
Executive Director