

14 June 2022

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

Dear Rebecca

TPM CUWLP BBI

1. This is a submission from the Major Electricity Users' Group (MEUG) on Transpower's paper "TPM consultation: CUWLP proposed starting BBI customer allocations, Part B – Application of the price-quantity method" dated 17th May 2022 and related publications.¹ CUWLP refers to Clutha Upper Waitaki Line Project and BBI refers to Benefit Based Investment.
2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Members may lodge separate submissions.
3. The BBI for CUWLP is in part a good test of the concurrent consultation on the draft BBC assumptions book. In other respects, it is not.
4. The useful tests of the draft assumptions book cover most of the assumptions and methodology for implementing BBI for future similar large projects. The suggestions covered in MEUG's submission and cross-assumption on the draft BBC assumptions book are relevant for future BBI.²
5. The 2020 decision by Transpower to build CUWLP was controversial.³ That debate centred on whether building CUWLP immediately or delaying would be best relative to the counterfactual not to proceed with CUWLP. In our view, in 2020 there was a case that potentially a two-year delay may have resulted in a higher NPV for NZ Inc. The BBC assumptions book should facilitate options to consider the best timing for a project should similar circumstances arise as those in 2020 for CUWLP. This consultation on the CUWLP BBI does not test if the draft assumptions book enables best timing of an investment to be considered before investment decisions are made.

¹ Document

https://www.transpower.co.nz/sites/default/files/uncontrolled_docs/Part%20B%20CUWLP%20BBI%20consultation.pdf at <https://www.transpower.co.nz/our-work/industry/transmission-pricing-methodology/tpm-consultations-2022>

² Draft BBC assumptions book consultation papers, submissions, and cross-submissions at the same web page as footnote 1 above.

³ Refer <https://www.transpower.co.nz/clutha-upper-waitaki-lines-project>

6. An issue raised in the 2020 consultation was how potential market power exerted by lower South Island generators may be mitigated or enhanced by CUWLP under various scenarios. The CUWLP BBI consultation has limited consideration of prices or generator offer behaviour in the assessment of share or benefits other than defining regions and benefit periods. The BBI modelling forecasts price differentials when constraints bind with underlying generation prices in separated regions based on short-run marginal generation costs. There is no consideration of sustained market power. This generic issue is not considered in the draft BBC assumptions book. The mismatch between modelled prices and actual observed spot and futures prices is highlighted in the time-weighted average prices (TWAP) for representative nodes where prices do not exceed \$100/MWh until 2037 at OTA220. The difference between the BBI forecast of prices (based on SRMC) and much higher current spot prices and futures prices is partly explainable over the longer term because generator offers, and the futures curve include return of capital (depreciation) and return on capital (WACC). There remains an open question whether there is a further uplift or margin difference between observed futures prices and modelled TWAP due to sustained positive economic profits (returns greater than WACC). If price separation is a function of sustained market power, then that may result in regions and benefit periods for the BBI that are markedly different than those currently modelled.
7. The BBI for CUWLP is interesting for information that might be provided by Transpower when consulting on a Major Capex Proposal (MCP) to be submitted to the Commerce Commission for approval. Transpower acknowledge the set of information using the BBC assumptions book to derive estimated BBI for MCP has yet to be developed. This submission confirms our expectation that more work and discussion is needed with parties that will pay transmission costs of future MCP for the information needed when consulting on the short-list and preferred option. The detailed spreadsheets summarising inputs and outputs for CUWLP BBI are comprehensive and it may be that the needs of consumers for future MCP proposals may be meet by further processing and alternative ways of summarising that data rather than additional model runs.

Yours sincerely



Ralph Matthes
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