

8 April 2022

Nicolas Vessiot

Transpower

By email to REZ@transpower.co.nz

Dear Nico

New Zealand REZ consultation

1. This letter has feedback from the Major Electricity Users' Group (MEUG) on the Transpower consultation paper Renewable Energy Zones (REZ) – National Consultation published 28 February 2022.¹
2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Members may lodge separate submissions.
3. The case for REZ depends on a market failure by competing suppliers to find ways to reach commercial arrangements to collectively lower their local network and grid connection costs. MEUG is wary of interventions where commercial incentives to lower costs have not been exhausted. We put the same argument to Transpower on proposed various options to solve the perceived problem of First Mover Disadvantage (FMD) as part of preparing a new Transmission Pricing Methodology (TPM). A final decision on the treatment of FMD in the TPM is to be announced soon by the Electricity Authority². Consideration of potential FMD issues at the edge of EDB networks may need further work as solutions to FMD on the grid may not be optimal for EDB networks.
4. On balance and assuming Transpower's investigation costs to be modest, MEUG supports Transpower continuing investigation into REZ considering the findings on FMD in the new TPM and developing quantitative estimates of any market failure(s) and quantifying the costs of implementing REZ and other options to mitigate identified disbenefits. The examples from overseas are interesting though it's unclear if the claimed additional new generation is the total associated with REZ or the incremental new generation over and above generation that would have been built in a counterfactual where there had not been REZ.³

¹ https://www.transpower.co.nz/sites/default/files/uncontrolled_docs/REZ_National_2022_FINAL.pdf at <https://www.transpower.co.nz/REZ>.

² FMD and the TPM process are discussed in the consultation paper on page 11 and in detail on pages 38 and 39.

³ Ibid pages 18 and 19.

5. MEUG agrees further investigation of REZ should be on the edge of the national grid and the edge of EDB networks rather than for generation near the core grid. Once the REZ investigation gets to the stage where a cost-benefit-analysis (CBA) can be prepared, then MEUG recommends the default benefit and cost components to be considered should be those used by the Commerce Commission in assessing requests for authorisation by Transpower of Major Capital Projects (MCP), i.e., the “Investment Test” applied by the Commission.⁴ Caution should be taken in considering adding new benefit and cost components or subtracting existing MCP Investment Test components to a CBA for REZ, because of the risk of misalignment between a go/no-go decision to start a REZ and problems later in the process when seeking from the Commerce Commission final investment approval.
6. MEUG strongly supports proposed Guiding principle for developing REZ 03 “Local consumers will be no worse off as a result of developing a REZ” provided “Local consumers” is replaced by “Local and NZ wide consumers.”⁵
7. The primary tool proposed to implement REZ is a tender process, and a potential process is outlined in figure 12. This is where MEUG’s comment in paragraph 3 above on being wary of an intervention where commercial incentives to lower costs have not been exhausted is relevant. It is conceivable a generator could develop a tender to attract other generators to arrive at a commercial arrangement using a different process than that outlined in figure 12. Multi-party arrangements in the energy sector are not uncommon. Some MEUG members have experience in multi-party arrangements with Power Purchase Agreements. One aspect of such multi-party arrangements that may also apply to the REZ process is the need to have legal advice to comply with Part 2 of the Commerce Act provisions covering discussions between competing buyers and sellers.
8. Finally, MEUG recommends Transpower and local EDB be agnostic in terms of implementing network investment whether it be a product of a REZ proposal that emerges from this Transpower initiated process, or an independently derived commercial REZ proposal, or a standalone supplier request per the status quo.

Yours sincerely



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Executive Director

⁴ Ibid page 22 discussion of claimed REZ benefits.

⁵ Ibid page 25.