



# MAJOR ELECTRICITY USERS' GROUP

29<sup>th</sup> July 2015

Dr Stephen Jay  
General Manager Grid Development  
Transpower  
By email to [grid.investments@transpower.co.nz](mailto:grid.investments@transpower.co.nz)

Dear Stephen

## North Taranaki Interconnection Investigation

1. This is a submission by the Major Electricity Users' Group (MEUG) on Transpower's paper<sup>1</sup> "North Taranaki Interconnection Investigation – Long-list consultation and request for information on non-transmission solutions" dated June 2015 and notified to Transpower customers on 16<sup>th</sup> July 2015.
2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Some members may make separate submissions.
3. Feedback on the questions in the consultation paper follow:

Question	MEUG feedback
1. Are there any other considerations relating to the need that we should incorporate into this project?	It is important that Transpower and Powerco co-ordinate their investigations to arrive at a solution that maximises the long-term benefit of consumers. That co-ordination needs to be demonstrated to parties that will be paying for any new costs.  It may be the solution is a set of new transmission connection assets rather than interconnection assets.
2. Is our long-list of options reasonable? Should any other options be added to the list?	No comment.

<sup>1</sup> URL <https://www.transpower.co.nz/sites/default/files/plain-page/attachments/North%20Taranaki%20Interconnection%20Security%20Long%20List%20Consultation%20Paper.pdf> at <https://www.transpower.co.nz/north-taranaki-interconnection-investigation-provide-your-input>

Question	MEUG feedback
<p>3. Are our short-listing criteria reasonable?</p>	<p>The engineering focus of the criteria should be broadened to consider incentive mechanisms and financial robustness to Transpower.</p> <p>For example the preferred solution should align the parties that are the exacerbators or beneficiaries of the need for any new costs with the parties that pay for those costs. To do this requires Transpower to have clearly identified and communicated with those that cause the need and those that will pay for new costs to understand if there is alignment or not.</p> <p>An option with poor alignment should be ranked below other options because it may not be durable leading to:</p> <ul style="list-style-type: none"> <li>• Future inefficient upstream and downstream investments contrary to maximising the long-term benefit of consumers; and</li> <li>• Because of the above inefficiencies be prone to regulatory intervention that may include Transpower's shareholders having to bear the cost of asset write downs.</li> </ul>
<p>4. Are our demand forecast assumptions appropriate for this investigation? If not, please outline any significant (&gt;5 MW) increases or decreases in load you expect to occur in the region.</p>	<p>We requested historic data from Transpower by email on 17<sup>th</sup> July 2015 that may have assisted make a view but as at the date of preparing this feedback have not received a reply.</p> <p>MEUG will be interested to see the views of other parties on the demand forecasts. In particular any demand forecasts by Powerco and whether there are plans to change from a GXP pricing basis to an ICP methodology and any other changes in pricing methodologies for North Taranaki that will modify consumer demand.</p> <p>MEUG expects GXP pricing by distributors will be unsustainable. For example in a submission on the Electricity Network Association discussion paper on distribution pricing stated<sup>2</sup> "MEUG suggests GXP pricing is not appropriate for scenarios whereby individual consumers choose the level of line services they want, are prepared to pay for and are charged accordingly."</p>
<p>5. What is your expectation of the solar and storage uptake in the Taranaki region?</p>	<p>No comment.</p>

<sup>2</sup> MEUG submission of 12<sup>th</sup> June 2015, response to question 7 d), found at [http://www.electricity.org.nz/Site/Reports/Distributed\\_Pricing.aspx](http://www.electricity.org.nz/Site/Reports/Distributed_Pricing.aspx)

Question	MEUG feedback
6. Are these generation scenarios appropriate for this project? If not, we would welcome specific information regarding changes.	No comment.
7. Do you consider the proposed calculation period of 40 years appropriate for the New Plymouth Exit investigation?	<p>No. The default of 20 years should be used and as a sensitivity other periods such as 40 years.</p> <p>MEUG submits the reasoning in the Transpower paper is not compelling to change from the regulated default period for this particular investigation relative to all other Major Capex Proposals, ie there is nothing unique about this investigation to warrant a change. If Transpower wish to change the default period then that should be considered in the review of the Transpower Capex IM.</p>
8. Do you consider this VoLL (\$26,000/MWh) appropriate for valuing unserved energy in the Taranaki region?	<p>Transpower should check with the Electricity Authority because the Authority has undertaken more detailed analysis of VoLL that could be used.</p> <p>MEUG notes that the original basis of the \$26,000/MWh used for VoLL is unclear and we think it is probably unsuitable. If demand for peak transmission services grows in North Taranaki and there was no new investment then at some point in time intermittent non-supply would occur. In the early years where non-supply occurred this may be only for a few trading periods and then increasing in later years. The incremental VoLL for non-supply for a few trading periods is likely to be less than the VoLL if, for example, no supply were to occur for ½ of all trading periods. This illustrates the critical importance of estimating the incremental VoLL over time as the risk and frequency of non-supply increases because if the incremental VoLL is low in the first few years then low cost options can be employed as substitutes to defer large step changes in transmission investment. It's easy to see how the use of the legacy average rate of \$26,000/MWh for VoLL is unsuited for such an analysis.</p>
9. Do you consider this VoLL appropriate for valuing lost load for your business? If, not, what alternative VoLL would you recommend and what evidence are you able to provide to support your recommendation?	No comment.

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10. Is 100/MWh appropriate for valuing losses for this analysis?	No. The longest dated futures price should be used for the expected case because that is a market derived estimate and then sensitivity analysis can be used.
11. Do you consider a discount rate of 7% appropriate for this investigation?	This is a requirement of the Capex IM so must be used. MEUG will be suggesting a topic to be discussed in the review of the Capex IM is whether this is the correct discount rate?
12. Are there other market costs or benefits which should be reflected in the analysis?	No comment

4. We look forward to Transpower's next consultation round.

Yours sincerely



Ralph Matthes  
Executive Director