

17 July 2020

Commerce Commission
Wellington

Re: Cross submission on draft decision for Stage 1 Waikato and Upper North Island Voltage Management staged capex project proposal (WUNIVM).

We have reviewed the five submissions published by the Commission earlier this month and write to highlight and support a number of the points raised. These include:

1. During the submission stage two significant announcements were made that impact the Commission's review of this, and other, Transpower proposed capital projects.
 - a. On 10 June the Electricity Authority released the final Transmission Pricing Methodology (TPM) Guidelines. These Guidelines are prescriptive in terms of the Methodology Transpower must develop and potentially places most of the cost relating to new works on consumers by way of a long-term benefits charge. This is relevant to point 2 below.
 - b. Last week the announcement was made that the Tiwai Point Aluminium Smelter is to close August 2021. The implications for New Zealand, and in particular the electricity system, are being talked about, but the impacts are yet to be fully understood. Not surprisingly the large South Island generators are pleading for urgent Transmission grid upgrades to get their product to the North Island load centres. However, under the new TPM potentially most of the associated costs will be met by consumers whether, or not benefits result by way of lower electricity prices.
2. As pointed out on page 4 of the ETNZ submission (quoting X8) the draft decision to approve stage 1 is largely to provide for demand growth and should the Genesis Rankine units be removed from service. The expectation being Transpower will second guess what the actions of others may be (in particular generators). This uncertainty is confirmed in the Genesis Energy submission cautioning "...against participants making large capex commitments based on an expectation of reduced generation capacity at Huntly".

Ironically there is no financial risk to Transpower or its shareholder because the majority of the cost is effectively underwritten by existing consumers. As pointed out in point 5 of the Vector submission, under the new TPM Guidelines the project costs will likely fall on consumers even though it "...has arisen largely due to commercial decisions by large generators around their generation assets."

In the case of NZ Steel we do not want to place additional load on the grid. In fact, we currently work to minimise load coincidental with upper north island (UNI) peaks. This delays the need for grid upgrades. Ironically the new TPM will remove the current coincidental peak charge and replace it with an untested nodal pricing signal (and possibly a transitional congestion charge). NZ Steel has submitted¹ to the Electricity Authority on the likely implications with an immediate increase in UNI peaks. NZ Steel provides support to grid stability with significant interruptible load offered into the reserves market. Also, the onsite cogeneration at Glenbrook provides voltage and power factor support to the grid. (as an aside the Glenbrook generation is now the largest generation north of Huntly. The only other generation of any size being the Ngawha geothermal plants in the far north). However, it should be noted the significant regulatory headwinds and associated costs, including the new TPM, faced by NZ Steel make it even harder for our shareholders to continue reinvestment and operations in New Zealand².

3. We draw attention to the wider comments in the ETNZ submission and in particular concerns around the existing market structure and regulatory framework. We agree with ETNZ that these have contributed to the need for the project under review. Of concern the new TPM Guidelines and pending surplus hydro generation in the South Island will lead to Transpower putting forward further proposals (CULWLP already underway) whereby most of the risk and cost passes to existing consumers.

We request the Commission pause, step-back and relook at the cause and effect, and where the risks and costs will fall, before approving this and other projects.

NZ Steel will be pleased if there is an opportunity to discuss further our thoughts on these matters.

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¹ Paragraph 84 of the NZ Steel submission, <https://www.ea.govt.nz/development/work-programme/pricing-cost-allocation/transmission-pricing-review/consultations/>

² Page 2 ASX release, Bluescope business update 17 July 2020, <https://www.asx.com.au/asxpdf/20200717/pdf/44klycj8rkn9ft.pdf>