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Mr Matthew Clark
Acting Manager Regulation Development
Part 4 Branch
Commerce Commission
44 The Terrace, Wellington 6011

Vector Limited
101 Carlton Gore Road
PO Box 99882
Newmarket
Auckland 1149
+64 9 978 7788 / vector.co.nz

E: regulation.branch@comcom.govt.nz

Dear Matthew,

Re: Bombay-Otahuhu Regional Major Capex Project

1. Transpower has sought approval for a major capex project (MCP) for a reconfiguration of its network for the supply of Auckland. As an off-take customer for the supply from the affected grid assets, Vector has considerable concerns with the project proposal, consultation process and timing for the investment.

Consultation

2. Vector has significant concerns about the timing and engagement with this project. This is especially as it is being commissioned at a time when Transpower is radically reforming its transmission pricing for the grid. Transpower notes its implementation of the new Transmission Pricing Methodology Guideline (TPM Guideline) relies on a key relationship with the Commission's MCP. The administration of the Capex Input Methodology and MCP by the Commission is intended to ensure stakeholders can effectively engage in the capex process to shape the investment decision so that the investment design meets the customer's interests.
3. However, to date key aspects of the engagement including the financial impact for Aucklanders under the new TPM for the MCP have not been discussed as part of the engagement process. The fundamental omission of how this project will affect transmission customers would appear to be a key feature for any consultation and project alternatives. Unfortunately, we have not been able to effectively assess how the MCP will impact our transmission charges which may in fact be fixed for generations under the new TPM which is how the TPM Guideline requires Transpower to price beneficiary based investments under a reformed TPM.

Benefits of the project – do not factor the reduced resilience

4. Vector also has considerable concern that the proposed benefits of the project – including increased reliability fail to account for the loss in resilience from the new grid configuration. The decommissioning of the Bombay-Wiri 110KV circuits will limit the alternative supply options available to Transpower to supply the Wiri region.
5. Both Transpower and the Commission have suggested the MCP is an improvement for reliability given the new upgrading of the supply to Otahuhu will increase to 220KV. However, we see considerable risk with the de-commissioning of assets that were being used to supply a high growth corridor in Auckland.
6. The separate alternative supply alternative to Wiri provided Auckland with far greater resilience to manage the impacts of significant climate events which have the potential to impact critical network elements such as transmission towers. Indeed, the effects of climate change can already be seen in recent natural events such as the recent damage to the Auckland harbour bridge and the 2016 state-wide blackout in South Australia where two tornadoes in quick succession were able to knock out transmission towers and disrupt transmission circuits supplying the South Australian grid. Under the MCP, Wiri will be solely supplied by a double circuit on single towers located in close proximity to the motorway.

Vector can contract with Transpower for the same level of resilience

7. The Commission has indicated that Vector could contract with Transpower to maintain the Bombay-Wiri circuits under the new investment contract (NIC) arrangement available under the Transpower IMs.
8. However, our recent experience with Transpower's revised standard NIC has been for it to offer unreasonable terms without any reasonable negotiation. Indeed, Transpower's standard five-year recovery time for assets commissioned under a NIC is more than nine times faster than the standard physical lives set in its IMs. Transpower has even proposed applying an additional term premium to the weighted average cost of capital it uses for NIC. These terms highlight the inability of contracting parties to obtain reasonable terms for assets Transpower will only provide under a NIC.
9. Accordingly, for the NIC to be considered a reasonable alternative for parties this mechanism requires significant reform as there are insufficient safeguards to require Transpower to offer mutually beneficial commercial outcomes. Therefore, Vector does not

consider the NIC as an effective alternative for maintaining the current resilience we have from the grid.

Conclusion

10. We strongly encourage the Commission to have full regard to stakeholder feedback on Transpower MCPs. Especially when the impact such as removing 110KV circuits will have a significant impact on the resilience stakeholders expect from the grid.
11. We note the Bombay-Otahuhu transmission grid is but one project where the issues we have described will have a material impact on future supply conditions. We note as more transmission circuits require refurbishment these types of alternative arrangements may become more frequent. Therefore, we encourage the Commission to have full regard to the range of issues involved with the new supply reconfigurations proposed by Transpower.

Yours sincerely



Richard Sharp
GM Economic Regulation