



meridian

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Florian Steinebach  
Commerce Commission  
**By email: [regulation.branch@comcom.govt.nz](mailto:regulation.branch@comcom.govt.nz)**

Dear Florian

**Meridian submission on reconductoring the Churton Park section of the Oteranga Bay to Haywards A line**

Meridian is comfortable with both Transpower's application and the Commission's evaluation and draft decision as it relates to the forecast \$23.5 million in forecast reconductoring costs.

Our only comments relate to the estimated \$2 million covering the incremental HVDC reserve costs. As we understand it, although the P50 estimate is \$2 million, the Commission's draft decision would allow Transpower to recover the actual HVDC reserve costs incurred. These are estimated to range anywhere between \$1,000 and \$6 million. Transpower has submitted and the Commission seems to have accepted that these costs are completely outside of Transpower's control and will simply be driven by the hydrology experienced during the reconductoring outage window. Accordingly, the Commission seems to accept that Transpower should have no incentive to try to minimise these costs.

Meridian disagrees. We believe Transpower can influence the amount of reserve costs incurred. Most obviously the construction of a bypass line would reduce the reserve costs significantly. Yet this benefit does not seem to have been taken into account in the assessment of the full bypass option (C 78 of the Commission's paper and page 9 of Attachment D to Transpower's application which indicates that a full bypass saves only \$2.9 million in system costs).

In addition, Transpower indicated during the forum held as part of their consultation process that they were progressing several initiatives which could reduce the additional reserve requirements on the HVDC during these works and hence also the reserve costs incurred – options possibly available in our view include treating the HVDC as an ECE risk rather than a CE risk, removing the modulation risk and otherwise adjusting the way the HVDC is modelled in Transpower's Reserve Management Tool. In the wholesale market reserve costs are generally incurred by risk setters based on the principle that it is the risk setter who has the greatest ability to define the quantity of risk they are exposed to through the design of their plant or through their operation and maintenance decisions. It is important that Transpower as the owner and operator of the HVDC plant has an incentive to manage the risk their plant introduces to the market.

Please contact me if you have any questions.

Yours sincerely

Jason Woolley  
Regulatory Affairs Manager