

14 December 2023

Matthew Clark
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Commerce Commission
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Sent via email: infrastructure.regulation@comcom.govt.nz

Dear Matthew

Draft decision and reasons paper: Transpower's NZGP stage 1

1. This is a submission from the Major Electricity Users' Group (MEUG) on the Commerce Commission's (Commission) consultation paper "*Transpower's Net Zero Grid Pathways stage one major capex proposal: Draft decision and reasons paper*"¹ published for consultation on 16 November 2023.
2. MEUG members have been consulted on the approach to this submission. Members may lodge separate submissions. This submission does not contain any confidential information and can be published on the Commission's website unaltered.

Support process to develop stage one of NZGP

3. MEUG appreciates the engagement with Transpower throughout the development of this major capex proposal (MCP), through both the submission process² and the opportunities to meet with Transpower staff to discuss our concerns around analysis undertaken.
4. We support the overall objectives of the Net Zero Grid Pathways (NZGP) programme which aims to ensure that "the grid backbone has enough capacity to accommodate new renewable generation and maintain a secure and reliable supply of electricity."³ We consider that investment to support an increase in renewable electricity generation will be essential to achieve the country's 2050 net zero target, and enable the greater electrification of our economy, including industrial process heat.

¹ https://comcom.govt.nz/_data/assets/pdf_file/0022/334282/NZGP-draft-decision-reasons-paper-16-November-2023.pdf

² Submission on short-list of options:

https://static.transpower.co.nz/public/uncontrolled_docs/Major%20Electricity%20Users%20Group%20submission%20on%20NZGP1%20Stage%201%20shortlist.pdf?VersionId=Uw64pKNYuZ3r49NxhoZ5ABQkalAjCZvj and EDGS scenarios https://static.transpower.co.nz/public/uncontrolled_docs/MEUG%20submission%20on%20Draft%20EDGS%20Variations%20Feb%202021.pdf?VersionId=9ydumfoC_3.bCWJp8uv_BSo4ZwhD3Oj

³ Page 7, *Net Zero Grid Pathways 1: Major Capex Proposal (Staged)*, Transpower, 2 December 2022, https://static.transpower.co.nz/public/uncontrolled_docs/Net%20Zero%20Grid%20Pathways%201%20major%20capex%20proposal.pdf?VersionId=zUYZyRs9SFTGbC3Fts8NzTBNWKQy3GN

5. We also note that an increase in renewable electricity generation (alongside an increase in competition from existing and new entrants) will be key to putting downward pressure on current wholesale prices,⁴ which have more than doubled in the last five years, significantly impacting businesses.

Agree with Commission's draft decision but HVDC assurance will be important

6. MEUG supports the Commission's draft decision to approve stage one of the NZGP, given that the proposal has been shown to be beneficial overall. We welcome the Commission individually analysing the three investment packages that make up stage one of the NZGP, as well as collectively analysing the full project. From this additional analysis, it is clear that the Central North Island Upgrade and the Wairakei ring upgrade are both beneficial, even as standalone projects. There is also a clear demonstrable link to the purpose of this MCP, to meet power demand in Waikato and the upper North Island.⁵
7. However, as the Commission notes, the decision around the HVDC upgrade is less clear. We support upgrading the HVDC in order to enable greater electricity flow from the South to the North Island (noting the need to ensure sufficient North Island reserves) and appreciate that decisions will need to be made in adequate time to order equipment, particularly those items with long lead times. However, decisions made about the future of the Tiwai smelter will clearly impact the estimated benefits and needed timing for this investment, with decisions not expected until next year.
8. Given this uncertainty, we support the Commission requiring HVDC assurance before Transpower can proceed with the HVDC investment. We encourage the Commission to require Transpower to make the decision public, even if it is not subject to further scrutiny by the Commission.⁶ This reassurance is necessary to ensure that consumers are confident that Transpower are investing in projects where there is a clearly defined need and a positive market benefit associated with the project.

Long term interest of consumers

9. While the Commission has correctly assessed this proposal against the Capex Input Methodologies (IMs) and the purpose / outcomes sought from Part 4 regulation, we question whether this framework is sufficient to understand if proposals such as this are truly in the "long-term benefit of consumers".
10. Transpower notes that recovering of this MCP is likely to occur from 2025 (Central North Island upgrade) and 2028 (Wairakei Ring upgrade), which is during the next regulatory period for Transpower (RCP4, 2025 – 2030). Transpower has helpfully provided indicative transmission charges for every connected party impacted under the NZGP1 proposal. However, to correctly understand the price / affordability impact on consumers, you also need to look at the other components of price increases that consumers are likely to face during the 2025 – 2030 timeframe:
 - There is expected to be an uplift in transmission charges from Transpower's base expenditure sought through RCP4, with a forecast 39.5% increase in revenue requirements.⁷

⁴ As outlined in our submission to MBIE, on *Strengthening national direction on renewable electricity generation and electricity transmission*, 1 June 2023, <http://www.meug.co.nz/node/1292>

⁵ See paragraph X13 of the Commission's consultation paper.

⁶ As per paragraph X35 and paragraph 4.12 which requires Transpower to quantitatively demonstrate to interested persons a positive net electricity market benefit associated with the investment.

⁷ Page 18, *Regulatory control period 4 proposal*, Transpower, November 2023, <https://static.transpower.co.nz/public/2023-11/RCP4%20Main%20Proposal%202023.pdf?VersionId=TRqSogShhDfomL4gVwFzlzzzGSfRjz30>

- There will also be an uplift in electricity distribution charges from the upcoming Default Price-Quality Path (DPP) reset for the 16 regulated electricity distribution businesses, with the total investment needed in 2026–2030 forecast to be 30% higher than 2021–2025.⁸
 - Alongside these regulated components, there is also an expected increase in the wholesale electricity price, which has more than doubled in the last five years.
11. The current framework only enables the Commission to analyse each of the regulated components (transmission and distribution) for an individual regulatory control period, with the transmission and distribution components also analysed in isolation from the other. We believe that this current approach, as governed by Part 4 of the *Commerce Act 1986*, does not enable the Commission to make a proper assessment of whether projects are indeed in the “*long term benefit of consumers*”.
12. What is missing from the framework is consideration of the overall impact of electricity prices and whether the total level of investment into the electricity system results in affordable prices for both consumers and businesses. We recommend that this issue be addressed as part of the Government’s work on an Energy Strategy and its priorities around ensuring “*there is sufficient electricity infrastructure to ensure security of supply and avoid excessive prices*”,⁹ separate to this current regulatory process.

Comments on other aspects of the draft decision

13. MEUG has the additional comments to make on the NZGP1 and the Commission’s draft decision:
- **Support decision on exempt major capex:** We consider it prudent to treat identified cost contingencies as exempt major capex¹⁰ and agree with the Commission’s view that “*Transpower should not be rewarded through incentives for saving cost contingency amounts*”.¹¹
 - **Agree with adjustments made to scenarios:** MEUG appreciates that Transpower was required to adjust MBIE’s electricity demand and generation scenarios (EDGS),¹² as the most recent EDGS (2019) was not sufficiently updated for the analysis required. We understand that Transpower is also likely to have to adjust the EDGS again, as part of stage 2 of the NZGP.
 - **Treatment of future proposals:** Going forward, we consider that it may be preferable for Transpower to separate distinct investment projects and submit them as separate MCPs. We support the Commission’s observation that “*future proposals should need to link discrete investment drivers more explicitly to individual investment proposals*”.¹³ However, we appreciate the need to balance this approach with the cost of developing and submitting multiple MCPs, on not only Transpower, but also the Commission and stakeholders who engage in the process.

⁸ Page 3, Boston Consulting Group. (October 2022). The Future is Electric - A Decarbonisation Roadmap for New Zealand’s Electricity Sector. Available at: <https://webassets.bcg.com/b3/79/19665b7f40c8ba52d5b372cf7e6c/the-future-is-electric-full-report-october-2022.pdf>

⁹ Page 6, Coalition Agreement: New Zealand National Party and New Zealand First, https://assets.nationbuilder.com/nzfirst/pages/4462/attachments/original/1700784896/National_NZF_Coalition_Agreement_signed_-_24_Nov_2023.pdf?1700784896

¹⁰ Paragraph C88 of the Commission’s consultation paper.

¹¹ Paragraph C92.

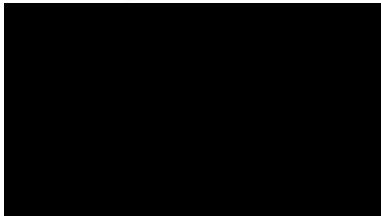
¹² Paragraph B51.

¹³ Paragraph D123.

Next steps

14. We look forward to engaging with other stakeholders and the Commission during the cross-submission phase. If you have any questions regarding our submission, please contact MEUG on [REDACTED]

Yours sincerely



Karen Boyes

Major Electricity Users' Group