



TRANSPOWER

Keeping the energy flowing

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Matthew Clark
Manager Price-Quality Regulation
Commerce Commission
PO Box 2351
WELLINGTON

Dear Matthew

Matters to agree in relation to NZGP1 major capex project (staged)

This letter is initial advice, as described in clause 3.3.1(3) of the Transpower Capital Expenditure Input Methodology Determination 2012 (Capex IM), of our view in regard to the matters that the Commission and Transpower should use reasonable endeavours to agree in respect of a major capex project, following notification to the Commission.

In a letter dated 23 July, 2021 we advised our intention to plan the NZGP1 major capex project (staged) (MCP). That MCP has emerged from our Net Zero Grid Pathways (NZGP) project, which is considering the potential impact of New Zealand's climate change mitigation ambitions on the interconnected grid.

Clause 3.3.1(3) of the Capex IM requires that the Commission and Transpower, in the two-month period following notification of an intention to plan a MCP, use reasonable endeavours to agree, in respect of that major capex project:

- (a) a consultation programme for a transmission investment or non-transmission solution, in accordance with clause 8.1.3;
- (b) an approach to ensure appropriate consideration of non-transmission solutions to meet the investment need giving rise to the major capex project in accordance with clause 8.1.3;
- (c) an application submission date; and
- (d) an approval timeframe.

We outline our initial view on each of these below, as a starting point for the discussion.

Consultation programme for a transmission investment or non-transmission solution

Transpower has been working on our NZGP project since the second half of 2020 and a full description of the project and interactions with stakeholders to date, can be found on our website at:

<https://www.transpower.co.nz/NZGP>

We recognised early in the project that we would need to use scenarios to explore the effect of the considerable uncertainty facing the future of electricity in New Zealand. Expecting that major capex projects would be required, we reviewed the suitability of the most recent Electricity Demand and Generation Scenarios (EDGS) published by the Ministry of Business, Innovation and Employment (MBIE). We found that the EDGS were too out-of-date to be useful, so have developed some variations for use in this MCP.

The variations were developed through consultation with stakeholders. We used a panel of external (to Transpower) experts initially and recordings of the online meetings we held with them are available at the web link above. The conclusions from those meetings were then included in a written consultation paper, which was published on our website. That consultation was open for 8 weeks.

Feedback confirmed that we had good information to produce reasonable EDGS variations in terms of electricity demand scenarios, but not enough information in regard to electricity supply scenarios.

We therefore undertook a further consultation, through a written consultation paper published on our website, targeting potential generation investors, but open to all stakeholders. That consultation confirmed there is too much uncertainty regarding future possibilities for grid-connected generation in New Zealand, to reflect in just five scenarios, as per the published EDGS.

The approach we will be describing in any NZGP MCP, including this one, reflects the development of a matrix of scenarios and an approach for sampling from that matrix to ensure the full range of future uncertainty is analysed, but using a manageable number of scenarios.

For our NZGP1 MCP we envisage the following:

Long-list consultation published August 2021, with consultation being open for 6 weeks.

The long-list document will be consistent with the requirements outlined in clause 12 of Schedule 1 of the Capex IM, including being a Request for Information for potential proponents of non-transmission solutions (NTS). Our intention is to describe the service we would be looking for from NTS and ask potential proponents to flag their interest in providing those services. Should there be interest, we will

undertake more detailed discussions with those parties and if desired, will issue a Request for Proposal (RFP) for such services¹.

Having regard to feedback received to our long-list consultation and any RFP for NTS, we will prepare a short-list of options to meet the MCP need and apply the Investment Test (IT) to that short-list. Presuming an option passes the IT, we will then undertake a short-list consultation.

The short-list consultation will be published in April 2022 and be open for 6 weeks.

The short-list consultation will be consistent with the requirements outlined in clause I3 of Schedule I of the Capex IM. Having regard to the feedback received, we will proceed accordingly. If it is appropriate to prepare and submit a MCP to the Commission, we envisage doing so in October 2022.

Although the new Transmission Pricing Methodology (TPM) will still be under development throughout this process (hence the needs are not clear), we will attempt to be consistent with the needs of the new TPM as we proceed.

Consideration of non-transmission solutions

Our approach to consideration of NTS is described above, but for clarity is repeated in this section.

We will include an indication of NTS that may be useful for addressing the need, in our draft long-list.

Our long-list consultation paper will include a description of how NTS could be used to defer, or substitute for transmission solutions, including a description of the service Transpower would require from NTS.

The long-list consultation will be a RFI for NTS. We will seek interest from potential proponents in providing the service described and an explanation, from them, of how that would be provided.

If we receive interest from proponents of NTS, we will have further discussions with them. If both parties then agree to explore the use of NTS further, we will issue a RFP for those NTS services. The RFP will seek advice on the cost for providing the services, amongst other information.

We will then automatically include those NTS on our short-list of options for IT analysis.

Actions after that depend upon the outcome of the RFP and IT. If the NTS does not pass the IT, it will progress no further. If the NTS does pass the IT, it will be progressed accordingly.

¹ Note that we are also issuing a RFI for NTS for WUNIVM in August. It is plausible that a NTS service provider could meet both the WUNIVM and our NZGP1 needs.

Application submission date

If applicable, we will be looking to submit the first stage of our NZGP1 MCP in October 2022.

Approval timeframe

Assuming our application conforms with the requirements of the Capex IM, we would expect Commission approval by April 2023.

Summary of proposed timetable

Subject to agreement with the Commission, a summary of the high-level timetable for this MCP is:

Date	Milestone
20 Aug 2021	Publish long list consultation, including a RFI for NTS
1 Oct 2021	Long list consultation closes
Apr 2022	Publish short list consultation
Jun 2022	Short list consultation closes
Oct 2022	Submit major capex proposal for first staging project(s)
Apr 2023	Potential Commission approval

We note that this timetable is subject to change as the investigation proceeds. We will discuss and agree any changes with the Commission.

We look forward to discussing and agreeing these matters with the Commission.

Yours sincerely

Stephen J Jones
Strategic Asset Manager