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Transpower NZGP1 stage one major capex proposal

1. This is Vector's cross submission to the Commerce Commission's (Commission) draft decision on Transpower's Net Zero Grid Pathways stage one major capex proposal.

HVDC upgrade

2. The majority of submitters discussed the Commission's draft decision to approve the HVDC upgrade contingent on Transpower quantitatively demonstrating positive net market benefit following one or more of the HVDC assurance triggers.
3. We agree with submissions calling for more scrutiny from stakeholders around the HVDC assurance triggers. For example, the Consumer Advocacy Council submitted that:

"Our primary concern is that there must be an opportunity for adequate public scrutiny of Transpower's future assessment of the net market benefit of the HVDC project. This scrutiny is essential to gauge the project's expected benefits (and costs) to consumers.

Without independent scrutiny, there is also a heightened risk that errors will not be detected. As the draft decision and reasons paper notes, there have been previous instances of Transpower errors.

We therefore suggest the commission considers including additional details in its final decision about the consultation process that Transpower would be expected to undertake to ensure there is adequate public scrutiny.

We consider this is important, given the commission's draft decision proposes that the commencement of the HVDC upgrade would not be dependent on a further decision or analysis by the commission itself."¹

4. We recommend the Commission require Transpower to consult publicly on its assessment of net market benefits ahead of commencing the HVDC upgrade.

¹ Consumer Advocacy Council, *Submission on: Transpower's Net Zero Grid Pathways stage one major capex proposal: Draft decision and reasons paper* (14 December 2023) at paras 6-9

5. The draft decision, quoting Transpower's updated proposal, notes the assurance triggers, "*could be confirmation of Tiwai's departure date, modelling to show the additional redundancy benefits from the STATCOM, or more certainty in the generation mix or load forecasts.*"²
6. We consider further detail is needed on how these assurance triggers are met. In the absence of appropriate stakeholder scrutiny, it appears Transpower could have significant discretion as to whether an assurance trigger has occurred.

Managing peak capacity issues

7. Both Contact and Meridian submitted in support of Transpower progressing the HVDC upgrade ahead of any assurance trigger. They submitted the HVDC upgrade would have the additional benefit of increasing firm peaking capacity in the North Island.
8. The Electricity Authority (Authority) is currently consulting on potential solutions for peak electricity capacity issues.³ However, the Authority's consultation document doesn't refer to the HVDC upgrade.
9. It would be beneficial if peak capacity – and the impact of the HVDC upgrade – could be considered more holistically by a single regulator rather than the fragmented approach under the current regulatory framework.

Long term benefit of consumers

10. We note MEUG submitted on the Commission's approach to assessing the long-term benefit of consumers under Part 4 of the Commerce Act.
11. MEUG submitted that:

"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".

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

² Commerce Commission, *Transpower's Net Zero Grid Pathways stage one major capex proposal: Draft decision and reasons paper* (16 November 2023) at para X33

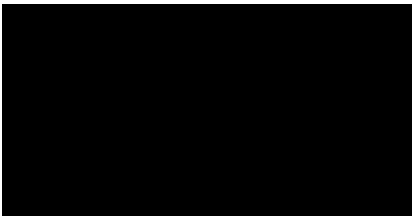
³ Electricity Authority, *Potential solutions for peak capacity issues* (12 January 2024)

Strategy and its priorities around ensuring “there is sufficient electricity infrastructure to ensure security of supply and avoid excessive prices”, separate to this current regulatory process.”⁴

12. We agree the long term benefit of consumers would be more appropriately considered in terms of the whole electricity supply chain.

13. We also note that the Commission should take the same approach to assessing the long term benefit to consumers under Part 4 for both Transpower and EDBs. If the Commission deems a mechanism is in the long-term benefit of consumers under Transpower’s IPP, it should generally follow this is the case for the DPP.

Yours sincerely



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⁴ MEUG, *Draft decision and reasons paper: Transpower’s NZGP stage 1* (14 December 2023) at paras 11-12