



Chairman: Warren McNabb,

Secretary: David Inch,

14 August 2023

Vhari McWha
Commissioner
Commerce Commission
P O Box 2351
Wellington 6140

By email: IM.review@comcom.govt.nz

Dear Vhari and team,

RE: Cross-submission on Transpower Capex and Input Methodologies

The Independent Electricity Generators Association (IEGA) welcomes the opportunity to engage on the Commerce Commission's (Commission) review of the Input Methodologies applied to non-exempt electricity distribution businesses (EDBs).¹

This submission can be published on Commission's website and does not include confidential information.

IEGA members own small commercial scale generation assets that are connected to local distribution networks. These investments, while not connected to the transmission grid, can be an alternative to investment in transmission network infrastructure.² At the interface of a distribution network and the transmission grid, Transpower can influence the connection of distributed generation. The IEGA's principal interests in the Transpower Input Methodologies is to ensure:

- timely, efficient and cost effective connection of generation assets to local distribution networks; and
- a level playing field for the consideration of non-network solutions that defer or avoid investment in traditional network infrastructure.

Alternatives to transmission investment

The draft Capital Expenditure IM and Input Methodology introduce a number of different definitions and requirements for alternatives to traditional transmission infrastructure investment:

¹ The Committee has signed off this submission on behalf of members.

² Analysis in 2016/17 identified that ~80% of the installed distributed generation capacity was necessary for Transpower to achieve its grid reliability standards during winter peaks.

- ‘E&D base capex transmission alternatives’ (valued at up to \$30m) – this used to be called an ‘E&D non-transmission solution’. This is an investment in the grid which is used by Transpower to avoid or defer transmission investment or manage operational risks due to [short-term] unavailability of grid assets during an E&D base capex project; and
- ‘Transmission alternative’ which is an alternative investment in the grid used by Transpower to avoid or defer transmission investment which would be base capex; manage operational risks due to [short-term] unavailability of grid assets during a base capex project; or manage operational risks or network constraints due to temporary unavailability of grid assets; and
- ‘Non-transmission solution’ for major capex over \$30m. This is expenditure incurred to meet grid reliability standards or provide a net electricity market benefit. This cost is not included in Transpower’s Closing RAB but is a recoverable cost for the duration of the project, and
- For a staged project, the aggregate cost of all stages of a major capex project must exceed \$30m but components of the stage project can include traditional capex and non-transmission solution/alternative which individually are less than \$30m.³
- The definition of ‘new investment contract’ only refers to ‘transmission alternatives’. This definition implies a new investment contract is signed only for Base capex projects. An investment option is a technically feasible solution, including non-transmission solution, designed to facilitate or meet a specific investment need, other than an option fully funded under a new investment contract – this implies an investment option is something related to Major capex projects.

In addition, the IM defines alternatives to E&D base capex projects as a ‘transmission alternative’ and the Capex IM an ‘E&D transmission alternative’? The definition requires the investment to be an alternative to E&D expenditure.

E & D non-transmission alternative solution

means an alternative to an investment in the grid, which is used by Transpower to-

- (a) avoid or defer transmission investment, where the transmission investment would be an **E & D base capex project**;
- or
- (b) manage operational risks due to unavailability of grid assets during an **E & D base capex project**;

Commented [A6]: We consider that the E&D reopener, if specified in the IMs, should be specified in the Capex IM.
Also this should be **transmission alternatives**.

We query:

- Why have the definitions been changed?
- Is a ‘Transmission alternative’ a base capex investment that is not displacing E&D expenditure? This category of expenditure has an additional test compared with ‘E&D base capex transmission alternative’.
- Do these changes provide greater clarity / simplicity for providers of any type of investment that is not in traditional infrastructure investment?

³ Relevant extracts from the Commission’s documents are copied in the Appendix.

- Is there sufficient information provided by Transpower at the ‘long-list’ consultation phase for a third party to be able to propose an ‘E&D base capex transmission alternatives’, a ‘Non-transmission solutions’ or a Transmission alternative when a Major Project might be staged?

The IEGA agree with Transpower that this definition needs to be amended:

<p>non-transmission solution</p> <p>means an alternative to an investment in the grid, which is used by Transpower to-</p> <p>(a) avoid or defer a transmission investment, where the transmission investment would be major capex; or</p> <p>(b) manage operational risks due to unavailability of grid assets during a major capex project;</p>	<p>Commented [A7]: This term is for major capex (the term is proposed to be used for E&D, but we consider that term for E&D is "transmission alternatives"). Or amend this definition to include E&D base capex.</p>
---	---

The IEGA disagrees with the proposal (c.8.1.3(2)(b)) that Transpower does not need to consult on a long-list of options if the Major Capex project costs less than \$100m because the long-list process is when non-transmission solutions are specifically sought⁴.

This proposal could be appropriate if the short-list consultation is required to actively seek out, and allows for initial information about non-transmission solutions – on the basis that at the short-list stage Transpower will be disclosing more detail about the value and complexity of the project. These solutions may not be fully developed but Transpower should allow time to discuss these options with proponents.

As discussed above, the Commission allows for ‘E&D transmission alternatives’. However the evaluation criteria for an IPP Proposal does not include any reference to evaluation of these activities (that is, the Commission is not evaluating whether lower cost E&D transmission alternatives have been sought, investigated or adopted)⁵. In fact there are very few references to ‘transmission alternatives’ in the IM. This maybe because the IM is less prescriptive in relation to base capex compared with Major Capex Projects – but the IM includes a significant number of requirements in relation to non-transmission solutions. For example Division 2 of Schedule I Major Capex Consultation Requirements includes consultation requirements to reveal non-transmission solutions to Major Capex Proposals.⁶ We query how the ‘identification’ process going to occur for E&D transmission alternatives?

The opex of a transmission alternative is a ‘recoverable cost’.⁷ However, this opex must be incremental to the operating expenditure allowance approved by the Commission in its IPP determination. We query whether the fact that this cost is over and above the costs approved by the Commission makes recovery of these cost less certain and therefore Transpower less likely to contract a transmission alternative? We are unsure if Transpower expenditure on an ‘E&D transmission alternative’ a reason for a reopener (c3.7.9(2) and (3))?

The IEGA disagrees with the proposed definition of ‘calculation period’. Why would Transpower be making a Major capex investment if the significant electricity market benefits are not expected to be realised for at least 20 years? How is the cost of this investment going to be recovered by a Benefit-

⁴ See SCHEDULE I MAJOR CAPEX CONSULTATION REQUIREMENTS Division 2 clauses (e) to (g)

⁵ See Schedule A IPP Proposal evaluation criteria c.A1

⁶ See G5(2)(a)

⁷ See clause 3.1.3(c)

based Charge? A non-transmission solution will be considered if it provides electricity market benefits but will never be viable if Transpower is comparing its proposal where the cost includes making a positive return at least 20 years away with a non-transmission solution where the investor/owner expects a commercial return.

Similarly, its unclear how the base capex incentive rate of 15% impacts Transpower’s consideration of non-transmission alternatives.

The IEGA agrees with Transpower’s suggestions in relation to the use of the term ‘grid outputs’.⁸

intended scope of the **listed project**, including specification of grid outputs or deliverables ~~the grid outputs~~ that apply in respect of the **listed project**;

all relevant technical and costing information used to estimate both the cost of the **listed project** and alternative options, including details on risk

Commented [A20]: Grid outputs pertain to the grid, but the policy now includes non-grid - either suggest a new general term deliverables, or include the words "if relevant" to mean that non-grid projects don't need grid outputs

We also agree with Transpower that the definition of anticipatory capacity and anticipatory connection asset need further work.

anticipatory capacity

means, in relation to an **anticipatory connection asset**, the amount of capacity of the asset that is not subject to a **new investment contract**;

anticipatory connection asset

means an asset that has been designated, or a part of which has been designated, as anticipatory by **Transpower** in accordance with clause 26(1) of Schedule 12.4 of the **code**;

Commented [A4]: How does this apply if the ACA is an additional bay at a substation for a transformer for a future connectee?

The only reference to ‘innovation’ in the IM Determination is in ‘Schedule FA Opex Proposal Information’ which requires a description under ‘Current regulatory period opex’:

- (c) a description and the amount spent on innovation initiatives in the period, including how customers will benefit in the long term from those initiatives; and

It is unclear how Transpower will have / be recovering these ‘innovation’ costs or if the innovation is an ‘E&D transmission alternative’ or a ‘transmission alternative’ or a MCP ‘non-transmission solution’.

We would welcome the opportunity to discuss this submission with you.

Yours sincerely


Warren McNabb
Chair

⁸ See Page 39

Appendix – Extracts from Commission documents

major capex

means expenditure that-

- (vv) is incurred to:
 - (i) meet the **grid reliability standards**;
or
 - (ii) provide a **net electricity market benefit**; and
- (ww) is forecast to be-
 - (i) **capital expenditure** included in a **project** or **programme** whose aggregate forecast **capital expenditure** exceeds the **base capex threshold** (subject to clause 3.3.3(2));
 - (ii) expenditure on a **non-transmission solution**; or
 - (iii) **consequential opex**;

Clause 3.3.3(2):

- (2) Where **Transpower** seeks approval of one or more **staging projects**-
 - (a) the aggregate forecast **capital expenditure** and forecast **maximum recoverable costs** for all **staging projects** that comprise the **major capex project (staged)** must exceed the **base capex threshold**;
 - (b) the forecast **capital expenditure** and forecast **maximum recoverable costs** for a **staging project** for which approval is sought need not exceed the **base capex threshold**.

E & D base capex project

means a project of E & D base capex;

E & D base capex programme

means a programme of E & D base capex;

E & D non-transmission alternative solution

means an alternative to an investment in the grid, which is used by Transpower to-

- (a) avoid or defer transmission investment, where the transmission investment would be an E & D base capex project; or
- (b) manage operational risks due to unavailability of grid assets during an E & D base capex project;

maximum recoverable costs

means:

- (a) maximum amount of **major capex** which is not included in a **closing RAB value** in respect of a **non-transmission solution**; and
- (b) **consequential opex**, approved by the **Commission** as **recoverable costs** over the duration of the **project**;

transmission alternative

means an alternative to an investment in the **grid**, which is used by **Transpower** to-

- (a) avoid or defer a need for a **transmission investment** which would be **base capex**;
- (b) manage operational risks due to unavailability of **grid** assets during a **base capex project**; or
- (c) manage operational risks or network constraints due to temporary unavailability of **grid** assets;

Long list consultation:

(b) need not cover a matter specified in Schedule I where, on account of the investment need in question, the Commission is satisfied that ~~its inclusion exclusion would be a prudent supplier of -transmission services would not undertake them in the -unreasonable in the~~ circumstances. This includes, that Transpower need not undertake long list consultation for the following reasons:

- (i) the need is to meet the deterministic standard for **grid reliability standard**;
- (ii) the proposed investment is below \$100m;
- (iii) have limited technical and economic solutions to resolve the constraint or the technicalities has limited stakeholder interest;
- ~~(vi)~~(iv) directly follow on from previously approved MCPs; ~~-and~~

new investment contract

means a contract between **Transpower** and another person for the provision of **electricity transmission services, including for transmission alternatives,-** that are new or that have been previously provided using an **anticipatory connection asset**, in respect of which-

- (yy) the other person has agreed in writing (whether in the same contract or not) that the terms and conditions of the contract-
 - (i) are reasonable; or
 - (ii) reflect workable or effective competition for the provision of the **electricity transmission services**; or

lifetime solution costs

means, in relation to a **project or programme** that includes the purchase or **supply of flexibility**, an amount that is the sum of-

- (a) the forecast **opex** to be incurred in the purchase or **supply of flexibility**; and
- (b) if it is anticipated that **capex** related to the **project or programme** will not be able to be delayed beyond the end of the next **regulatory period**, the forecasted total value of **commissioned** assets for the **project or programme**, less any **capital contributions**,

on the basis that any expenditure included in that sum that is forecast to be incurred in a **disclosure year** after the **disclosure year** in which the **reopener event** is nominated is included at its net present value calculated using a discount rate that is the mid-point estimate of vanilla **WACC** (as estimated in accordance with clause 2.4.1);

investment option

means a technically feasible solution, including a **non-transmission solution**, designed to facilitate or meet a specific **investment need**, other than an option fully funded under a **new investment contract**;

Clause G5(2)(a) - Information to be provided on a Major Capex Project includes non-tx solutions:

- (2) detailed description of the components of the **major capex project** or **staging projects**, including at least-
 - (a) identification of the extent to which the major capex project or each staging project includes a **transmission investment** or a **non-transmission solution**;

Clause 3.1.3(c):

- (c) a **transmission alternative** operating cost, subject to the requirements in subclause (3), not to exceed the-
 - (i) actual transmission alternative operating cost incurred by **Transpower**; or
 - (ii) upper limit of transmission alternative operating costs approved in accordance with subclause (3),
whichever is lower;

calculation period

means 20~~0~~-year period commencing on the **commissioning date** of the last asset to be delivered by the **proposed investment**, save that where significant **electricity market benefit or cost elements** and **project costs** are expected to-

(ff) cease to arise or be incurred during that period; or

(gg) arise or be incurred thereafter,

it means the period commencing on the **commissioning date** of the last asset delivered by the **proposed investment** and terminating on the last date that significant **electricity market benefit or cost elements** and **project costs** are expected to arise or be incurred;