MAJOR ELECTRICITY USERS' GROUP

4 May 2017

Matthew Lewer
Commerce Commission
By email to regulation.branch@comcom.govt.nz

Dear Matt

MEUG submission on reconductoring the Central Park Wilton B line

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Commerce Commission Draft decision on Transpower's Central Park Wilton B Line listed project dated 13 April 2017.[1]

2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Some members may make separate submissions.

3. MEUG agrees with the proposed adjustments in the draft determination to use the P50 rather than P90 estimate, changes for inflation and netting off costs already provided in the RCP2 Base Capex.[2]

4. The draft determination states the Commission is "satisfied that … Transpower has met the consultation obligations and taken these into account when developing options."[3] MEUG acknowledges the productive ongoing interaction with Transpower on queries we have had on the proposal and the impact on end consumers. Transpower have over the years progressively improved their estimates of the impact on consumers for requests for approval of major capex proposals. Further advances have been made with this proposal including transparency by Transpower on detailed estimates of the effect on interconnection and connection costs. This journey has not ended and will likely be a topic for consideration in the about to commence review of the Capex IM.

5. MEUG has taken the opportunity to use the Central Park Wilton B line listed project application to ask NZIER for their advice on how Transpower might in future provide better estimates of the cost effect on consumers. An NZIER memorandum to MEUG titled "Wilton re-conductoring project cost allocation" 4 May 2017, is attached as part of this submission.

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[1] Document URL https://www.transpower.co.nz/sites/default/files/projects/resources/Bunnythorpe-Wilton%20%28JFD-WIL%29%20Reconductoring%20Long-list%20Consultation_1.pdf.at https://www.transpower.co.nz/bunnythorpe-wilton-reconductoring-investigation,
[2] For details refer draft determination, paragraph 20.
[3] Draft determination, paragraph 21 and sub-paragraph 21.1.

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6. There is also a commercial aspect when consulting on listed project and major capex proposals we think is missing. For example, using very rounded estimates, Pacific Aluminium (PacAl) pays approximately 10% of Transpower interconnection charges. In present value terms PacAl will pay 10% of the final approved value of this project. Using the draft determination proposed approved project cost of $9,800,000 that results in PacAl having a new contingent liability in PV terms of $980,000. MEUG suggests a supplier in a competitive market setting would advise customers of such expected future increases in charges and explain the additional benefits that customer will receive. The same commercial approach should apply to Transpower enforced either by a new term in the Transmission Agreement (pursuant to the Code) or a requirement in the Capex IM.

7. On 1 May MEUG received copies of two spreadsheets relevant to this application. We welcome this increased level of transparency as it has helped MEUG appreciate the complexity and detail required, including estimating cost ranges, anticipating and budgeting for uncertainty with some cost items and budgeting for contingencies. Two observations on that material so far:

    a) The assumed LRMC value of $100/MWh for line losses may be too high.[4, 5] In this case a lower value has no effect on the ranking of the three detailed cost options considered. However, in considering applications for approval of other listed projects or major capex the materiality of the assumed value of line losses may be sufficiently important to justify more accurate forecasts of future wholesale prices.

    b) In broad terms the spreadsheets set out costs for each alternative option and then rank those with the preferred option having the lowest PV of costs using a 7% discount rate. Having selected the preferred option using the above methodology the charges to be paid by Transpower's customers are then calculated using the current regulated WACC. It's not clear whether or if there should be a correlation between the 7% and the regulated WACC. In this case changing the 7% discount rate, within reasonable bounds (+/- |3%|) for ranking PV costs makes no difference in the ranking of the options. It might make a difference in other future applications for approval of major capex and listed projects; hence this could be a topic to consider in the review of the Capex IM.

Yours sincerely

Ralph Matthes
Executive Director

[4] Spreadsheet 2813013_CPK_WIL cost model.xls, Tab "Losses", cell C3.
[5] An example of why MEUG believe $100/MWh may be too high is an assumption of $80/MWh in the recent Electricity Authority information paper on normal frequency management strategic review (p42).