

28 May 2020

Submissions
Transpower New Zealand
Via email: communications@transpower.co.nz

Clutha Upper Waitaki Lines Project: consultation

Dear Transpower

We write in response to the invitation to comment on the proposal to start work on the remaining stages of this project that was approved in 2010 but has two stages remaining for completion.

We understand the drivers for Transpower to now consider looking to complete this project and we are also mindful of the uncertainties that exist around the need for the upgrade to Lower South Island capacity to move (potentially) excess electricity northwards to load centers.

Our recommendation is that Transpower should pause with implementation and pull together an appropriately scoped options analysis that evaluates the costs and benefits associated with the Project, including appropriate consideration of the value of timing options, given uncertainty about NZAS's intentions.

Our comments relate to two 'in-principle' aspects of the project:

[Options analysis and cost-benefits](#)

ENA members have a range of views on this project and several members have been involved in a series of Q&A sessions with Transpower over the last couple of weeks. One area of questioning related to the need for a structured assessment of the options that are available to deal with the potential for excess electricity in the Lower South Island. One of the options obviously is to complete the CUWLP but we would like to see how this, and other options would play out over time, given the material uncertainties that exist at present.

There is value in doing a detailed review of options especially if the analysis includes the costs and benefits of each over time. The \$92m cost to complete the Project is non-trivial and it is important to know who is likely to benefit now and in the future. We consider that Transpower should pause with implementation and pull an appropriately scoped options analysis together.

In particular, we think that Transpower should evaluate the costs and benefits associated with different build timetables, so that the impacts of uncertainty about NZAS's future intentions can be fully understood. As we understand it, if NZAS continues in operation then the \$92 million project would result in higher transmission charges for end consumers (either higher inter-connection charges or higher residual charges under the proposed TPM since there is no obvious beneficiary) and no net benefits to consumers. Conversely, if NZAS ceases operations, then a one-year delay in the project would result in a lost opportunity to New Zealand to dispatch lower cost generation for that one year. On the face of it, there appears to be a high value to waiting for NZAS to reach a decision on its operations.

Recovery of the costs – who pays.

ENA members are mindful that transmission pricing (the recovery of sunk costs in particular) is a very sensitive subject. This sensitivity flows from an unsatisfactory history of making investments in transmission assets without appropriate consideration of how the investment costs would be recovered and from whom. This has resulted in years of dispute over who receives benefits over time from grid upgrades versus who is charged for them.

The CUWLP has the potential to add to this sensitivity unless it is very clear up front who benefits from the investment (where does the value from the investment go) and how are the project costs going to be allocated across grid users. A fundamental element of this piece of the analysis is how the 'costs' are defined, given that the \$92m of capex is the final increment of a more substantial investment that would allow generators in the deep south to access the wholesale market with generation that would otherwise be spilled.

The proposals from the Authority to revise the current TPM are yet to be approved by its Board and, given that Transpower has considerable work to do on the details of a revised TPM, it could be many years before there is certainty around the mechanisms for charging for new grid investments like this one. Nevertheless, it would be helpful if the proposed beneficiaries-pay framework could be tested against this investment proposal. It would be particularly galling for consumers if the investment proceeded, but NZAS remained and the beneficiaries-pay analysis shows that most benefits accrue to generators.

Overall, the decision to proceed with the remaining parts of the CUWLP has significant implications for consumers. ENA's recommendation is that Transpower undertake further cost-benefit analysis, including evaluation of timing options, to ensure that the final decision is made in the best interest of consumers.

Kind regards



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