



MAJOR ELECTRICITY USERS' GROUP

14th July 2015

Dr John Rampton
Electricity Authority
By email to submissions@ea.govt.nz

Dear John

Consultation Paper - HVDC component of Transpower's proposed variation to the TPM

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Electricity Authority (EA) consultation paper¹ "HVDC component of Transpower's proposed variation to the Transmission Pricing Methodology" dated 23rd June 2015.
2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Some members may make separate submissions.
3. Comments on the questions in the consultation paper follow:

Question	MEUG comment
1. Do you have any comments on the problem definition?	<p>Section 3 on pages 14 and 15 of the consultation paper set out the problem definition.</p> <p>On the potential for static efficiency detriments due to the current HAMI allocation MEUG and NZIER as advisor to MEUG have consistently submitted that the various investigations into possible distortionary have overstated the likely risk.</p> <p>For example the NZIER report² "Transmission pricing problems – Assessment of the 2014 EA problem definition" of 28th October 2014 set out a detailed response to questions 20 to 23 on HAMI in the EA working paper on TPM Problem Definition dated 16th September 2014. NZIER concluded:</p>

¹ URL's <http://www.ea.govt.nz/dmsdocument/19497> and <http://www.ea.govt.nz/dmsdocument/19498> at <http://www.ea.govt.nz/development/work-programme/transmission-distribution/transpower-tpm-operational-review/consultations/#c15388>

² URL http://www.meug.co.nz/system/files_force/2014-53%20Attachment%20-%20TPM%20Problems%20final.pdf?download=1, p16

Question	MEUG comment
	<p>“We were previously of the opinion that TPAG overstated the costs that stem from the HVDC charges under the TPM and we believe that the EA also do this. While we have sympathy with the arguments about the possible effects of the HVDC charges, we believe that the costs, if they exist, are likely to be very small.”</p> <p>NZIER’s advice on possible static efficiency detriments due to HAMI remain unchanged in their report dated 19th December 2014 submitted³ to Transpower in their second consultation round on proposed TPM changes within the ambit of the cl. 12.85 review by Transpower.</p> <p>There has been no new evidence since the above two expert views of NZIER. Accordingly MEUG does not agree with Transpower that there are proven and material static efficiency detriments in relation to current HAMI charges.</p> <p>More importantly is whether there are any potential dynamic efficiency detriments due to the current HAMI charges. That question has not been, and cannot be, addressed by Transpower in their proposed change to HAMI under a cl. 12.85 review. This constraint on the scope of the Transpower analysis was noted in paragraph 3.1.5 of the EA consultation paper.</p> <p>Who pays for HVDC charges has been one of the key issues for political instability on consumer and industry acceptance of the TPM. And for good reason. HVDC costs have increased significantly⁴ with construction of Pole 3 and the beneficiaries of HVDC links varies from year to year depending on the volume, market value and direction of electricity flows across the HVDC. HAMI charges are not adaptable to allow those dynamics to be reflected in HVDC charges. The lack of adaptability of the current HVDC TPM is set out in the EA working paper Transmission Pricing Methodology Review: TPM options, 16th June 2015, paragraph 1.28.</p> <p>The second key issue for political instability on consumer and industry acceptance of the TPM has been why consumers should pay for HVAC assets that are neither used nor useful. NIGUP is the classic example. This is not relevant for this</p>

³ Refer URL http://www.meug.co.nz/system/files_force/Memo%20re%20Transpower%20TPM%20consultation%20-%20final%2019%20December%202014.pdf?download=1 at www.meug.co.nz

⁴ EA’s TPM options working paper, 16th June 2015, paragraph 1.14 (e) and footnote 9 reports the HVDC rate increased 65% between 2008 and 2015 due to a combination of HVDC upgrade costs and a reduction in the HAMI denominator. The EA do not disaggregate the 65% increase between these two factors.

Question	MEUG comment
	<p>submission on HVDC pricing apart from noting that a principled approach to pricing on both HVDC and HVAC is likely to be a more durable solution</p> <p>Transpower's proposals do nothing to address these dynamic efficiency and political durability issues. On the other hand the options in the EA working paper of 16th June 2015, or improved options following feedback, are likely to be developed into proposals next year as part of the EA concurrent cl. 12.86 review. That process has the potential to address the more important and material problem's of dynamic efficiency, durability and adaptability for pricing HVDC services.</p>
<p>2. Do you consider that the proposal is preferable to the status quo and other options? If not, please explain your preferred option in terms consistent with the Authority's statutory objective</p>	<p>MEUG does not consider that the proposal is preferable to the status quo because, as explained in response to question 1 above, we do not accept there is a proven material static efficiency detriment and if even if there were, it would be less important than finding a solution to dynamic efficiency detriments.</p> <p>MEUG considers pricing for HVDC services is best considered as part of the concurrent cl. 12.86 review.</p> <p>It would be detrimental, in terms of implementation costs, if the Transpower proposal were to proceed only to have a further change should any of the options or variations on those options that the EA is currently consulting on be implemented.</p>
<p>3. Do you consider that the proposal complies with section 32(1) of the Act, and with the Code amendment principles, and should therefore proceed?</p>	<p>No we do not believe the stand alone change to HVDC pricing proposed by Transpower is welfare enhancing compared to either the status quo or possible options that may emerge from the concurrent cl. 12.86 review.</p>
<p>4. Do you have any comments on the drafting of the proposal?</p>	<p>No because we do not support the amendment.</p>

4. We look forward to the final decision by the EA.

Yours sincerely



Ralph Matthes
Executive Director