



Summary of submissions

HVDC component of Transpower's proposed variation to the Transmission Pricing Methodology – consultation paper

August 2015

Introduction

- 1 Transpower New Zealand (Transpower) has carried out an operational review of the transmission pricing methodology (TPM). The TPM is Schedule 12.4 of the Electricity Industry Participation Code 2010 (Code).
- 2 Transpower proposed a variation to the TPM, with five components, in February 2015. Subsequently, in March 2015, Transpower added two further components to the variation.
- 3 The Electricity Authority (Authority) considered the proposed variation and, in April 2015, published a consultation paper titled 'Transpower's proposed variation to the Transmission Pricing Methodology', discussing four components of Transpower's proposed variation (the 'four components consultation paper').¹ After considering submissions, the Authority published a decisions and reasons paper.²
- 4 In June 2015, the Authority published a second consultation paper titled 'HVDC component of Transpower's proposed variation to the Transmission Pricing Methodology' (the 'HVDC consultation paper').³
- 5 The HVDC consultation paper:
 - (a) set out that the historical anytime maximum injection (HAMI) allocation of the charge for the high voltage direct current (HVDC) interisland transmission link can distort operation of, and investment in, South Island generation
 - (b) proposed to address this problem by amending the TPM to allocate HVDC charges on a per-MWh basis, with an initial transition period (the 'HVDC component')
 - (c) sought submissions on the proposal.
- 6 The consultation questions are reproduced in Appendix A of this paper.
- 7 This paper summarises the submissions received in response to the HVDC consultation paper.

¹ The four components consultation paper is available on the Authority's website at <http://www.ea.govt.nz/development/work-programme/transmission-distribution/transpower-tpm-operational-review/consultations/#c15231>.

² <http://www.ea.govt.nz/development/work-programme/transmission-distribution/transpower-tpm-operational-review/development/decisions-and-reasons-paper-published/>

³ The HVDC consultation paper is available on the Authority's website at <http://www.ea.govt.nz/development/work-programme/transmission-distribution/transpower-tpm-operational-review/consultations/#c15388>.

8 The Authority's decisions on the HVDC component, and the reasons for its decisions, are described in a separate paper, available on the Authority's website.⁴

Who made a submission

9 The Authority received twelve (12) submissions on the HVDC consultation paper, from the parties listed in Table 1.

10 This summary does not contain the full text of the submissions. However, the submissions have been published on the Authority's website.⁵

Table 1 List of parties making submissions

Generators, retailers and their representatives	Consumers and consumer representatives	Distributors and distributor representatives	Other
Contact Energy <i>(Contact)</i>	Fonterra Co-operative Group <i>(Fonterra)</i>	Powerco Unison	Transpower
Genesis Energy <i>(Genesis)</i> – including a report by Castalia	Major Electricity Users Group <i>(MEUG)</i>		
Meridian Energy <i>(Meridian)</i>	Winstone Pulp International <i>(WPI)</i>		
Mighty River Power <i>(MRP)</i>			
Pioneer Generation <i>(Pioneer)</i>			
Trustpower			

11 This summary also covers comments specifically relating to the HVDC component that were included in submissions on the four components consultation paper. The submissions concerned are those of:

- (a) Independent Electricity Generators Association (*IEGA*) – including a report by Andrew Shelley Economic Consulting (*ASEC*)
- (b) MEUG – including a report by the New Zealand Institute of Economic Research (*NZIER*)
- (c) MRP
- (d) Trustpower.

⁴ <http://www.ea.govt.nz/development/work-programme/transmission-distribution/transpower-tpm-operational-review/development/decisions-and-reasons-paper-published-hvdc-component>

⁵ <http://www.ea.govt.nz/development/work-programme/transmission-distribution/transpower-tpm-operational-review/consultations/#c15388>

12 These submissions have also been published on the Authority's website.⁶

⁶ <http://www.ea.govt.nz/development/work-programme/transmission-distribution/transpower-tpm-operational-review/consultations/#c15231>

Comments on the HVDC component

There was mixed support for the HVDC component (Q1, Q2, Q3)

- 13 Nine submitters expressed support for the HVDC component.⁷
- 14 Specific points raised in support included that the proposal:
- (a) is simple⁸
 - (b) would result in additional generation capacity being made available⁹
 - (c) would reduce spill of water and wind¹⁰
 - (d) would improve system security¹¹
 - (e) would reduce spot price volatility¹²
 - (f) would improve operational efficiency and could also improve investment efficiency¹³
 - (g) would support regional economic development, increase the amount of renewable energy produced and diversify New Zealand's generation capacity¹⁴
 - (h) would result in efficiency gains or material net economic benefits, according to Transpower's analysis.¹⁵
- 15 Some submitters emphasised the importance of proceeding to approve the proposal in a timely manner.¹⁶
- 16 Under the proposal, the HVDC charge would be transitioned in over five years. Five submitters expressed support for this transitional approach.¹⁷ No submitters expressed opposition to the transition.

⁷ ASEC (submission on four components consultation paper, p3) and IEGA (submission on four components consultation paper, p1), Contact (p1), Genesis (p1) and Castalia (p1), Meridian (p1), MRP (p1), Pioneer (p1), Powerco (p1), Trustpower (p1), Unison (p2). Pioneer's support was based on the assumption that the HVDC component would be levied only on South Island generators, which Pioneer opposes.

⁸ IEGA (submission on four components consultation paper, p1), Pioneer (p2), Trustpower (submission on four components consultation paper, p12)

⁹ Contact (p1), Castalia (p2), IEGA (submission on four components consultation paper, p1), Trustpower (p2), Unison (p2)

¹⁰ Pioneer (p2)

¹¹ Contact (p1), Castalia (p2)

¹² Contact (p1), Genesis(p2)

¹³ Genesis (p2) and Castalia (p2), IEGA (submission on four components consultation paper, p1)

¹⁴ IEGA (submission on four components consultation paper, p1), Pioneer (p2)

¹⁵ ASEC (submission on four components consultation paper, p3), Pioneer (p2), Trustpower (submission on four components consultation paper, p12)

¹⁶ e.g. Contact (p1), Trustpower (p1), Unison (p2)

¹⁷ Contact (p2), Genesis (p3) and Castalia (p3), Meridian (p1), Pioneer (p2), Trustpower (p2)

- 17 Three submitters expressed opposition to the HVDC component.¹⁸ In addition, some submitters who expressed overall support for the proposal raised some concerns with the proposal.¹⁹
- 18 Specific points raised in opposition included that:
- (a) it has not been demonstrated that existing arrangements lead to material efficiency losses²⁰
 - (b) the benefits to intermittent and embedded generation identified in the consultation paper are overstated or are not true economic benefits²¹
 - (c) adopting the proposal would result in implementation costs, particularly if the Authority's review of the TPM results in further changes²²
 - (d) adopting the proposal would result in an increase in spot prices²³
 - (e) the proposal is no more durable than the status quo²⁴
 - (f) the proposal does not deal with some distortions or inefficiencies arising from current arrangements²⁵
 - (g) the proposal is 'novel or unexpected'²⁶
 - (h) adopting the proposal may lead to the Authority's own review being delayed, or the outcomes of the Authority's review being 'watered down'.²⁷
- 19 Some submitters indicated a preference for resolving the problem through the Authority's review of the TPM (see below). Otherwise, no submitters expressed support for alternative options.

Some submitters indicated a preference for resolving the problem through the Authority's review of the TPM (Q1, Q2, general comments)

- 20 Some parties submitted that both the proposal and the status quo share the following problems:
- (a) they result in dynamic inefficiency, by creating a disincentive to invest in South Island generation²⁸
 - (b) they are not cost-reflective²⁹
 - (c) they are not adaptable to changes in the beneficiaries of the HVDC link³⁰

¹⁸ Fonterra (p2), MEUG (p3), WPI (p1)

¹⁹ Meridian (p2-3)

²⁰ MEUG (p2)

²¹ Meridian (p3), Fonterra (p3)

²² Meridian (p3), MEUG (p3)

²³ WPI (p1)

²⁴ Meridian (p3), MEUG(p3)

²⁵ Meridian (p3), MEUG (p3)

²⁶ Fonterra (p2)

²⁷ Meridian (p3)

²⁸ Meridian (p3), MEUG (p2-3), Pioneer (p1)

²⁹ Meridian (p3)

³⁰ MEUG (p3)

- (d) they are not durable³¹
 - (e) they distort competition.³²
- 21 Meridian and MEUG both considered that these problems would be better addressed through the Authority's review of the TPM:
- (a) MEUG recommended that the Authority should not approve the HVDC component, and should instead progress its own review of HVDC pricing³³
 - (b) Meridian submitted that these problems cannot be addressed within the current TPM Guidelines. Meridian submitted that the Authority should 'probably' approve the HVDC component, but that it should not defer or 'water down' its own review of HVDC pricing as a consequence.³⁴
- 22 However, Unison submitted that, by allowing improvements in efficiency from 1 September 2015, the benefits of implementing Transpower's HVDC proposal would outweigh the costs of waiting for the Authority to complete its review.³⁵

Two submitters recommended drafting changes to the HVDC component (Q4)

- 23 Transpower recommended changes to the drafting of the proposed amendment, to better align the way in which HVDC charges would be calculated with current practice.³⁶
- 24 Transpower also provided a table describing the transition from HAMI to SIMI and recommended that this table should be included in the Code, to reduce ambiguity.³⁷
- 25 Transpower also provided several minor drafting suggestions.
- 26 Meridian submitted that clauses 34(2d) and 34(12) of the TPM should refer to SIMI.³⁸

³¹ Meridian (p1, p2), MEUG (p3)

³² Meridian (p3)

³³ MEUG (p3)

³⁴ Meridian (p2-3)

³⁵ Unison (p2)

³⁶ Transpower (p1-2)

³⁷ Transpower (p2)

³⁸ Meridian (p3)

Other comments

Some submitters commented on the process for considering USI derating, and/or the merits of USI derating

- 27 The Authority had previously referred the HVDC component back to Transpower for more development, on the basis that derating the HVDC charge on Upper South Island (USI) generation could better promote the statutory objective. Transpower's response was to resubmit the proposal without modification, while undertaking to investigate USI derating separately over the coming year. The Authority agreed that this is an appropriate approach.
- 28 Three submitters expressed support for the approach described above.³⁹
- 29 Three submitters expressed opposition to USI derating.⁴⁰
- 30 Specific points raised in opposition included that USI derating:
- (a) would not be consistent with the TPM Guidelines⁴¹
 - (b) would not be consistent with the *rationale* for the TPM guidelines⁴²
 - (c) would be a bespoke solution, and hence would be poor regulatory practice, and fail to promote durability of the TPM, dynamic efficiency and the Authority's statutory objective⁴³
 - (d) might not result in an economic benefit, or a material economic benefit.⁴⁴

Miscellaneous comments

- 31 Genesis submitted that any changes to the TPM as part of Transpower's operational review should become part of the counterfactual used by the Authority when considering other changes to the TPM. Genesis and Castalia submitted that Transpower's proposed changes would reduce the scale of problems with the TPM.
- 32 MEUG queried why consumers should pay for high voltage alternating current (HVAC) assets that are '*neither used nor useful*', citing the North Island Grid Upgrade as an example.
- 33 NZIER (for MEUG)⁴⁵ submitted that the ongoing difference between Transpower and the Authority on HVDC charging, combined with the Authority's belief that there are superior alternatives that are inconsistent with the TPM Guidelines and should be considered as part of the Authority's review, create considerable uncertainty about the scope of consultation on Transpower's proposed variation, and the durability of any decisions made by the Authority.

³⁹ Genesis (p2) and Castalia (p3), MRP (p1) and Unison (p2)

⁴⁰ Powerco (p2), Genesis (p2) and Trustpower (submission on four components consultation paper, p11)

⁴¹ Powerco (p2), Trustpower (submission on four components consultation paper, p11)

⁴² Powerco (p2)

⁴³ Powerco (p2)

⁴⁴ Genesis (p2), Trustpower (submission on four components consultation paper, p11)

⁴⁵ NZIER (submission on four components consultation paper, p4)

- 34 Pioneer supported the use of transitional approaches when amending the TPM. Pioneer agreed with the problem definition, but submitted that it is unfair and economically inefficient for the HVDC charge to be levied only on South Island generators.
- 35 Powerco submitted that the Authority's inclusion of the 'four components' in Appendix B, which provided the drafting of the proposed amendment, was confusing. Powerco recommended that *'in future consultation documents, the Authority [should] include only the amendments actually being consulted on'*.

Appendix A Consultation questions

#	Question
Q1	Do you have any comments on the problem definition?
Q2	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.
Q3	Do you consider that the proposal complies with section 32(1) of the Act, and with the Code amendment principles, and should therefore proceed?
Q4	Do you have any comments on the drafting of the proposal?