



Chairman: Warren McNabb, warren.mcnabb@altimarloch.com
Secretary: David Inch, david@nzenergy.co.nz

10 August 2018

Micky Cave
Transpower New Zealand Limited
P O Box 1021
Wellington

By email: micky.cave@transpower.co.nz

Dear Micky,

Re: Transmission Alternatives engagement process: consultation paper

The Independent Electricity Generators Association Incorporated (IEGA) welcomes the opportunity to make this submission on Transpower's proposed process to engage with providers of transmission alternatives.

The IEGA's comments reflect our members' focus on investment in generation assets connected to the local network (distributed generation) which are an alternative to transmission infrastructure.

We acknowledge that Transpower has an obligation to consumers, as well as a long-standing regulatory incentive, to find least cost solutions to grid investment needs. This should be positive for transmission alternatives. However, Transpower has not, as yet, contracted with any transmission alternative via a grid support contract.

We strongly believe that distributed generation, and other forms of transmission alternatives, can be a least regrets opportunity to achieve incremental increases in the ability to deliver electricity, especially in the current environment when the outlook for regional growth in net electricity demand continues to be uncertain.

The IEGA is available to offer any information or assistance it can to Transpower to 'walk the talk' and contract distributed generation as a lower cost transmission alternative solution than transmission infrastructure.

Our key points are:

- i. Transmission alternatives have numerous attributes and benefits that are different from traditional transmission infrastructure. Transpower's analysis of transmission alternatives has to be able to value these attributes and benefits, which include:
 - o Distributed generation provides the benefits of being a quicker solution, can be movable, stackable and incremental.

- Transmission alternatives have difference performance criteria compared to transmission assets. Transmission alternatives should not be required to meet the same standards otherwise there is an inherent bias to transmission assets.
 - Transmission alternatives may be connected to a local network and not the transmission grid. The IEGA submits that Transpower's analysis must assess the distribution network benefits as well as transmission needs. Local network companies need to be involved and part of the solution to get the most from transmission alternatives.
- ii. The IEGA supports Transpower's proposal to improve the information asymmetry between it, as a significantly resourced monopoly, and individuals or small business with transmission alternative proposals. In addition, we strongly recommend standard form agreements are essential to reduce contracting costs. Individual owners of distributed generation cannot effectively engage with a natural monopoly the size of Transpower to negotiate bilateral agreements. The analogy we use is a farmer with two cows negotiating with Fonterra.
- iii. As well as information on Transpower's need (location, capacity, type of service etc) the IEGA believes Transpower can and should provide an indication of the value it is prepared to pay for a transmission alternative as early as possible, and no later than at the stage of publishing a long-list of options. At this stage, the options for investment in transmission infrastructure can be estimated (using options pricing theory) and published in a range. Alternatively, the IEGA strongly supports transmission charges indicating a developing transmission constraint or including an LRMC charge.
- iv. An asset that can be used as a transmission alternative is likely to create other services or income streams. For example, a generator is going to be able to produce voltage support as well as electricity for sale into the wholesale spot market. Principal iv. states Transpower will have to be careful not to invest in transmission alternatives that:
- will provide transmission benefits even without Transpower's support; and
 - are uneconomic even with transmission benefits.

The IEGA is concerned that this analysis will be difficult to undertake and could be highly subjective. We suggest that Transpower's principal concern should be to support a new investment providing a transmission service at a price that is least cost for Transpower. The financial consequences of an investment being uneconomic even with transmission benefits fall on the investor, not Transpower. Principal iv. Is also inconsistent with Transpower's approach in its Demand Response programme which is open to any existing (or new) activity.

- v. The term of contracting for transmission alternatives is also an issue that must be addressed. A new generation plant or transmission alternative provides benefits for the life of the asset. As demand increases transmission services could be provided by an additional new generation asset, transmission alternative or transmission infrastructure. This additional investment is cumulative and does not displace the benefit provided by the initial generation plant. The term of any contract will have a significant impact on the funding and financing cost of transmission alternative investments. This compares with Transpower's investment in transmission infrastructure assuming a life of ~50 years at a WACC determined by the Commerce Commission taking into account Transpower's statutory right to be paid for services. Transmission alternatives may never be the least cost option if only short term contracts are offered.

- vi. Transmission alternatives need to be procured in a way that there is no bias towards a particular technology solution.

Appendix 1 overleaf has the IEGA's response to the specific questions in the consultation paper.

The IEGA would welcome the opportunity to discuss this submission with you in more detail.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Warren McNabb', written in a cursive style.

Warren McNabb
Chair

Appendix 1: IEGA response to consultation paper questions

Question 1: What comments do you have on the principles we apply when assessing potential TA services?

The IEGA suggests Transpower review the list of principals with a lens – ‘is it possible any transmission alternatives will be contracted after applying all of this extensive list of principals or criteria?’

Please see point iv. from our cover letter.

Question 2: During an investigation, what information would help to determine whether TAs could be an option?

Please see point iii. from our cover letter.

Question 3: Do you think the simple changes we have suggested would help enable greater visibility of TA options for our grid planning processes and investment decisions?

The IEGA agrees the simple changes suggested will help enable greater visibility of TA options. However, there remains a question about whether there is enough public information available, and the timing of contracting a transmission alternative, will provide an investor in transmission alternatives enough time to develop a proposal and invest so that the service is ready for the need date.

Question 4: What level of information do you think we should hold on a register – if you are potential TA provider what would you want to provide?

At a minimum contact information and the potential nature of the providers’ transmission service could be held by Transpower on a register. The IEGA suggests individual transmission alternative providers have incentives to provide as much information as they are individually comfortable with to facilitate becoming a provider.

Question 5: Do you think the methods we propose for engaging with potential TA providers during investigations will help us identify TA options when we need them? Do you have other ideas?

The IEGA is uncertain whether publication of the ‘long-list’ is the right stage to engage with transmission alternative providers – it may be too late as Transpower has already spent some time preparing this list before it is published.

The IEGA suggests Transpower provide information about which project is the ‘next cab off the rank’ for a grid planning investigation. This could be achieved by a public statement that Transpower is commencing work on a particular issue in the network or prioritising future projects/investments in the Transmission Planning Report, for example provide a list of major and base capex in order of approximate investment timing.

Question 6: Are there other options or initiatives we should consider to facilitate or better utilise TA to reduce transmission costs over time?

Please see points i. and v. and vi. in our cover letter.