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Keston Ruxton  
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Dear Keston,

**RE: Transpower Capital Expenditure Input Methodology - emerging views on incentive mechanisms**

The Independent Electricity Generators Association (IEGA) welcomes the opportunity to make this submission on the emerging views of the Commerce Commission (Commission) on incentive mechanisms in the Transpower Capital Expenditure Input Methodology.

The IEGA comprises about 40 members who are either directly or indirectly associated with predominantly small scale power schemes connected to local networks throughout New Zealand for the purpose of commercial electricity production.<sup>1</sup>

Distributed generation competes with transmission (and distribution) infrastructure to deliver electricity to end consumers. The plant of some of our members was in place prior to the transmission grid; in other areas our distributed generation has deferred or avoided the need for transmission investment.

Our interest in the Capex IM review relates to the role of distributed generation as a transmission alternatives. Transmission alternatives, such as investment by third parties in distributed generation, provides Transpower with flexibility to manage uncertainty about the future need for, or timing of, transmission investment.

We acknowledge the Commission's emerging views on incentives and engagement on transmission alternatives. Consistent with our submission<sup>2</sup> on the focus areas for the Commission's review of the Capex IM, we support the Commission's proposals to:

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<sup>1</sup> The Committee has signed off this submission on behalf of members.

<sup>2</sup> See <http://www.comcom.govt.nz/dmsdocument/15538>

- introduce a staged approval process before the final costs and completion date are approved by the Commission (paragraph 38)

A staged process will enable consideration of transmission alternatives, including distributed generation, as a way to service demand growth in an incremental manner. This flexibility is a no regrets approach. With an uncertain outlook for the need for lumpy new transmission infrastructure (as acknowledged by Transpower in its *Transmission Tomorrow* report) transmission alternatives may become the ‘baseline’ investment with actual transmission assets being the ‘alternative’.

- require consideration of transmission alternatives for both opex and capex projects (paragraphs 63 to 73)

Transpower should be incentivised to consider all available options and have no particular bias towards opex or capex and actual transmission infrastructure or transmission alternatives. Transpower should also be able to consider aggregated transmission alternatives, such as aggregation of distributed generation, at each stage of an investment decision. There is most likely to be a significant difference in scale between the step change in capacity provided by investment in transmission infrastructure (reflecting economies of scale) and the capacity provided by distributed generation – this ratio could be 10:1. The ability to aggregate is important. Aggregation of a number of transmission alternatives may be a more efficient option for achieving a staged increase in transmission capacity than a one-off step change from investment in transmission assets.

- introduce additional engagement requirements on Transpower for the investment process for certain types of capex projects and programmes which could relate to longer-term planning and/or specific projects that fall under the \$20 million threshold (paragraph 67)

However, we suggest that this additional engagement process should apply to all types of capex - replacement, refurbishment and enhancement projects. We are cautious about relying on Transpower to trigger the engagement on the basis of their own view of whether there are potential transmission alternatives. Transpower will continue to be the expert in transmission infrastructure investment and, as the saying goes, ‘won’t know what they don’t know’ about potential transmission alternatives.

- introduce a new project cost threshold of \$5 million for increased third-party engagement with Transpower allowed the discretion over the level of engagement for smaller projects below this threshold (paragraph 72)

We support this threshold on the proviso that projects are not ‘staged’ to the extent that a project falls below a threshold for increased engagement .

- identify projects or types of projects that may benefit from increased engagement:

The IEGA suggests this ‘list’ should be subject to review as new technologies and alternatives to transmission infrastructure emerge.

Our previous submission included two additional points, which we reiterate below (as it is not clear if these form part of the Commission’s overall review). The new framework requiring consideration of transmission alternatives must:

- incorporate a process of engaging with Transpower and the Commission, and negotiating a signed contract, that is manageable for smaller potential alternative providers: IEGA members are, and other owners of transmission alternatives maybe, small businesses with limited resources to apply to complex negotiations with a large corporate entity with asymmetry of information. IEGA

submits that the process of engaging with Transpower and the Commission on transmission alternatives, negotiating and signing a contract should be proportionate to the scale of the alternative provider or size of investment.

- ensure distributed generation contracted as an alternative to transmission investment is compensated on the same basis as Transpower's transmission assets for the life of the investment. Once signed up as an alternative to investing in transmission infrastructure, the cost of this alternative must be recovered in the same way as Transpower's transmission assets and for the life of the investment. The alternative forms part of the integrated transmission grid. The value of the alternative is not eliminated when the next tranche of transmission assets are installed even if that tranche of transmission investment results in excess capacity. In addition, a peak demand price signal is important to signal the upcoming need for more capacity – which could be provided by a transmission alternative. This price signal (has been the RCPD charge and maybe an LRMC charge) would incentivise third parties to investigate options to be paid or avoid the LRMC charge.

We would welcome the opportunity to discuss this submission with you.

Yours sincerely

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

**Warren McNabb**  
Chair