

Transmission Pricing Advisory Group ::: Meeting number five

Venue ::: Meeting room 1, Electricity Authority

Time and date ::: 09:00 to 03:00 ::: 8 April 2011

## Minutes

### Present

#### Members

::: Graham Scott (Chair)  
 ::: Ray Deacon  
 ::: Guy Waipara  
 ::: David Reeve  
 ::: John Clarke  
 ::: Peter Calderwood  
 ::: John Woods  
 ::: Glenn Sullivan  
 ::: Bruce Girdwood (from 9:10)  
 ::: Bob Weir (from 9:10)

#### In attendance

::: Peter Smith  
 ::: Kate Cruickshank  
 ::: Katherine Moore  
 ::: John Culy  
 ::: Catherine Ross (from 9:15)  
 ::: Bruce Smith (from 9.25)  
 ::: Tim Street (item 4 only)  
 ::: Alistair Dixon (item 4 only)

The meeting opened at 09:00.

### 1 Welcome, introduction and apologies

The chair opened the meeting.

### 2 Minutes and actions of the last meeting

The minutes of the 25 Mar 2011 meeting were approved with the following amendments:

Item 5. Replace the fifth bullet point with the following:

- There was general agreement that the current HVDC cost allocation provides an additional locational signal between North and South Islands that creates a disincentive for investment in South Island generation and that the modelling provides an estimate of resulting inefficiencies. However, there was not unanimity on the materiality of the resulting inefficiencies.

The following points were raised in discussion on the minutes:

- Item 6: The group noted Bruce Girdwood's e-mailed comments on the 'Gem analysis paper' and the secretariat agreed to incorporate Bruce's comments for subsequent drafts of the discussion paper.
- Item 9: The need to clarify the implications of the revised timetable for Transpower's pricing round.

#### Action

Confirm with Transpower the implications of the proposed revised

#### By

Secretariat

#### Date for action

For next

timetable for Transpower's transmission pricing round.

meeting.

### 3 Chair and Secretariat reports from the Authority Board

The chair and secretariat attended an Authority Board meeting on 6 April to provide an update to the Board on TPAG progress. The chair noted that he had taken account of TPAG members' comments on his progress report presentation to the Board and that the Board had been reassured by TPAG's progress to date.

The Secretariat reported that the Authority Board has made its decision on the proposed Code amendment on the regulatory framework for transmission pricing. The resulting Code amendment will remove the pricing principles.

### 4 Locational Price Risk Management

Tim Street presented a brief outline of the locational price risk management proposal that will be subject to consultation during April/May, and distributed a short outline and a copy of an Energy Link on Loss and Constraint Excess (LCE) projections. This report will be available on the Authority website.

TPAG discussed the following issues:

#### Rentals and FTR residual revenue.

- Who should consider how these are allocated? The LPR project team and the secretariat proposed that both TPAG and LPRTG should consider the implications of different treatments of rentals and FTR residual revenue but that:
  - TPAG to consider the allocation of those LCEs not allocated to FTRs in particular; and
  - the LPR project to consider the allocation of the 'FTR residual revenue' – principally auction proceeds.
- Whether it will be possible to distinguish different 'pots' of revenue within the FTR residual and allocate them differently.
- The problem of how to allocate rentals and residual FTR revenue during a possible 'interim period' when the FTR proposal may be in place but any new TPM may not.

#### Other issues

- Factors that influence FTR revenue adequacy such as possible capacity constraints including those caused by reserves.
- 'Firmness' of FTRs offered.

#### Action

Discuss possible allocation options for FTR residual, and ability to distinguish different 'pots' of revenue within the FTR residual and practical implementation of options.

#### By

John Culy/  
Alistair Dixon

#### Date for action

Before next  
meeting

### 5 Transmission pricing discussion paper

TPAG considered sections 4, 5, 7 in particular and provided amendments. Some high-level comments are noted in these minutes.

### General comments

- Redrafting should focus on brevity, clarity, accuracy and neutrality.
- A consideration of rentals should be included in the paper.
- Use 'inefficiency' in place of distortion, where possible.

### Sections 4 and 5 (Analysis framework and approach to assessment)

- TPAG accepted a proposal from the secretariat to consolidate these sections.
- Clarify the description of the counterfactual to reflect the counterfactual used and the sensitivity analysis undertaken.

### Scope of work and priorities

Prompted by Section 5.7 of the discussion paper, TPAG discussed what aspects of the transmission pricing review it had agreed to progress given the timeframe. Members agreed that TPAG:

- should be clear in its approach to the HVDC as a priority;
- has considered the HVDC as a priority for the following reasons:
  - Several members stated at the first meeting that it was the most urgent issue because the potential impacts of it on efficiency is probably larger than the other two items on the work program;
  - Others (some or all of whom accepted that the HVDC warranted priority) were concerned to be sure that the same framework of principles, criteria and analysis were used for considering all issues on the work program to avoid contradictions in analysis and advice over time,
  - Given the very short time frame (6 weeks) in the initial schedule other issues were unlikely to be resolved in time and prioritising topics was necessary; and
  - TPAG was guided by the Authority that it may be appropriate to consider dealing with the HVDC issues in advance of others;
- In view of the extended timeframe for preparing the discussion paper and the importance of consistency TPAG agreed to give priority to the HVDC but will also progress work on deep versus shallow connection at its next meetings.

As the subcommittee on SRC is beginning work there will be advice on the prospects and timing of that workstream available soon also.

### Section 8 (assessing options for HVDC charges)

- Explain what MWh-based charging is more clearly.
- Expand section on relevance of beneficiary pays to incorporate argument that it is not necessary to identify all beneficiaries, just those who value the assets sufficiently. Include discussion of decision rights and private v national benefit.
- Include descriptions of both types of capacity rights: the two-solve type suggested by NZIER and the simplified 'offer option'.
- Further develop table 17 (pros and cons of HVDC options).
- Extend description of transition option.

- Revise appendix F. This appendix should be purely a description of the analysis to support conclusions in the main body.

**Action**

Redraft discussion paper taking into account TPAG comments.

**By**

Secretariat

**Date for action**

For next meeting

**6 Next steps**

The agenda for the next meeting should include:

- A report from the Static Reactive Compensation sub-committee
- A deep connection workshop
- Review of the redrafted discussion paper
- A discussion on the depth of consensus going forward, and identification of the key differences.

**7 Deep/shallow connection**

Members gave their views on issues for this topic. These are included in the attached table. Members also discussed the following issues:

- The differences between 'flow tracing' and earlier load-flow approaches. (Flow-tracing uses half-hourly data from SPD rather than averaged or approximated flows, and can be applied to solely the fringes of the grid although this requires a threshold to be identified).
- The Commission's position with regard to NIGUP at the time a decision was made.

**Action**

Provide a bullet point note setting out the questions that TPAG would need to consider around deep/shallow connection

**By**

TPAG

**Date for action**

By next meeting

Meeting closed 15:00

**TPAG Meeting 8 April 2011****Schedule of actions**

1. Confirm with Transpower the implications of the proposed revised timetable for Transpower's transmission pricing round.

Secretariat

For next meeting.

2. Discuss possible allocation options for FTR residual, and ability to distinguish different 'pots' of revenue within the FTR residual and practical implementation of options.

John Culy/  
Alistair Dixon

Before next meeting

3.	Redraft discussion paper taking into account TPAG comments.	Secretariat	For next meeting
4.	Provide a bullet point note setting out the questions that TPAG would need to consider around deep/shallow connection	TPAG	By next meeting

## Summary of members views on deep v shallow connection issues

Member	Summary of views
Ray Deacon	<ul style="list-style-type: none"> <li>• Should strive for as deep a connection as practical.</li> <li>• Allocation to interconnection (postage-stamped) should be for any residual where a direct allocation cannot be found.</li> <li>• Describing allocations as ‘directly allocated’ and ‘indirectly allocated’ would be more appropriate.</li> </ul>
Glenn Sullivan	<ul style="list-style-type: none"> <li>• Flow-tracing would be the technically most accurate way of defining a deep connection, but implementation may take too long.</li> <li>• In principle should allocate costs directly as far as possible.</li> </ul>
David Reeve	<ul style="list-style-type: none"> <li>• Connection should be as deep as possible but decision rights need to be considered in parallel.</li> <li>• If deeper connection is pursued, it may need to be progressed cautiously to avoid false starts – ie it might be possible to have a definition which starts ‘shallow’ but can gradually push deeper.</li> </ul>
Guy Waipara	<ul style="list-style-type: none"> <li>• Deep connection is not a bad idea in itself, but faces issues around: <ul style="list-style-type: none"> <li>• decision rights; and</li> <li>• potential shifts in costs between customers.</li> </ul> </li> <li>• Where decision-rights cannot be aligned with deeper connection may indicate an appropriate boundary.</li> </ul>
John Woods	<ul style="list-style-type: none"> <li>• There is an efficiency argument for deeper connection but there are issues around: <ul style="list-style-type: none"> <li>• cost shifts between customers; and</li> <li>• transitional arrangements (for example how to treat assets where decisions have already been made versus those where there will be future decisions).</li> </ul> </li> </ul>
Peter Calderwood	<ul style="list-style-type: none"> <li>• The ‘But-for’ approach has attractions.</li> </ul>
Bruce Girdwood	<ul style="list-style-type: none"> <li>• Generally deep connection is a good principle.</li> <li>• Defining boundaries, however, was one of the most difficult things in previous TPM developments. Deciding between network analysis and a static approach is also hard.</li> <li>• Assets are intended for the long-term and a load-flow approach will not reflect the long term.</li> </ul>

	<ul style="list-style-type: none"><li>• Any approach should be simple and pragmatic.</li><li>• On balance, prefer a shallower connection.</li></ul>
John Clarke	<ul style="list-style-type: none"><li>• The difference in pushing for a deeper connection in the last TPM development was around \$24 million costs, but it creates significant transaction costs and creates perverse incentives for distributors (for example, distributors reconfiguring networks to avoid additional connection costs.)</li><li>• Prefers a shallower connection, and extending the interconnection boundary.</li></ul>