

Transmission Pricing Advisory Group ::: Meeting number eight

Venue ::: Meeting room 1, Electricity Authority

Time and date ::: 12:30 to 18:00 ::: 09 May 2011

Minutes

Present

Members

::: Graham Scott (Chair)
 ::: Ray Deacon
 ::: David Reeve
 ::: John Clarke
 ::: Peter Calderwood
 ::: John Woods
 ::: Bob Weir
 ::: Glenn Sullivan (by conference phone)
 ::: Guy Waipara (from 12.55)

In attendance

::: Katherine Moore
 ::: John Culy
 ::: Catherine Ross (until 16:00)
 ::: Bruce Smith
 ::: Lee Wilson
 ::: Clive Bull (until 13:35)
 ::: Peter Smith (from 13:10)
 ::: Paul Foley (from 16:00)

The meeting opened at 09:00.

1 Welcome, introduction and apologies

Apologies received from Bruce Girdwood.

The chair opened the meeting and noted that it would be appropriate to review the register of conflicts of interest in order to publish it at the same time as the Discussion Paper.

Action	By	Date for action
Provide details of conflicts of interest to the secretariat.	All members and consultants	By next meeting

2 Minutes of 2 May meeting

The minutes of the 2 May 2011 meeting were approved with the following amendments:

- Item 2 (minutes of 14 April meeting): The final sentence of the summary of David Reeve's views on HVDC cost allocation in the 14 April minutes should read:
 'Shifting from the status quo to postage stamp would be a change with significant wealth effects.'
- Item 3: Section 5.2, bullet 2. The last sentence should be amended to read: 'Members agreed that the HVDC charge creates a disincentive for new investment in the South Island but held different views on whether this disincentive creates a material inefficiency that would be significant enough to make a change from the status quo, particularly as this might result in a wealth transfer.'
- Item 3: Section 5.4, Good regulatory practice, bullet 3, second sentence. This should be amended to read:

‘It is hard to estimate the likelihood of disputes under new arrangements relative to the likelihood of disputes under the existing arrangements.’

3 **Draft discussion paper: section 7, assessing options for static reactive compensation**

Clive Bull presented an overview of section 7 of the draft Discussion Paper provided to TPAG.

TPAG discussed the following points:

- The method for calculating a possible kvar rate. The secretariat confirmed that under the proposal the rate would be calculated by Transpower based on the LRMC of static reactive investments and that the LRMC calculations could be based on the Commerce Commission’s building block data.
- Potential wealth transfers. The proposed changes could lead to wealth transfers, albeit relatively small wealth transfers predominantly away from one large distributors.
- Regions. The secretariat confirmed that the kvar charging approach would adopt the existing Upper NI, Upper SI regions.
- Risk of stranded assets. There is a risk of stranded assets under the proposal but this is small because:
 - investment in static reactive compensation is incremental, and
 - and Transpower’s investment in assets would be subject to the grid investment approval process including consultation.
- The cost benefit analysis. The numbers may be on the large size as the counterfactual used may not be appropriate.
- The need for a default minimum power factor in the Connection Code. Some members considered that a default minimum is required to indicate a standard, or to provide a backstop. Others argued that the Grid investment process provides the backstop rather than a power factor limit and that the default minimum should be removed if a price signal is introduced.
- Other details that need to be considered. Other details noted by members included which forecasts to use – P50 or P90 – for assessment of LRMC, consistency with distributors treatments, how the preferred option fits with the Commerce Commission thresholds.

TPAG members recommended that the sub-committee should seek views from a distributor expert.

Action	By	Date for action
Members to provide e-mail comments on the draft section 7 to the secretariat.	Members	By next meeting
Provide a marked up second draft of section 7 to the next meeting.	Secretariat	By next meeting

4 **Draft discussion paper: Section 6 Assessing options for deeper or shallower connection**

The chair canvassed high level views from members which included:

- The analysis in this section repeatedly ‘bumps up against’ the transmission alternatives regime, and suggests that there needs to be coordination with the Commerce Commission’s work in order to progress further.

- There need to be a strong case for change in order to justify potential wealth transfers.
- Some options depend on a set of guidelines for identifying beneficiaries which would need to be consistent with any approach used by the Commerce Commission.
- The transmission alternatives regime is open to a range of participants, and available to groups of participants, whereas the flow-trace option is targeted at distributors only and not necessarily to groups.
- There may be an option that involves redefining the connection boundary somewhere between the status quo and shallow connection, however it will be hard to tweak the definition without introducing contentious ‘special cases’.

TPAG agreed that it is difficult to assess the options because of the need to make assumptions about the behaviours of the Commerce Commission and of Transpower and that it is not possible to make progress on this issue without coordination with the Commerce Commission. TPAG agreed that it should provide its analysis to the Electricity Authority and make recommendations that this should be considered further, either in coordination with the Commerce Commission.

Actions	By	Date for action
<p>Provide a new draft of this section that sets out the following issues:</p> <ul style="list-style-type: none"> • the transmission alternatives regime already exists, and the Commerce Commission is working through issues with it; • the interconnection charge includes the RCPD allocation; • the beneficiary-pays principle suggests that a deeper allocation of costs to specific beneficiaries is appropriate; • there are different ways to go implement a deeper allocation of costs; but • making progress depends on coordination with the Commerce Commission. <p>Amendments should be highlighted or marked up.</p>	<p>Secretariat</p>	<p>By next meeting</p>

5 Draft Discussion Paper sections 4 and 5 (analysis framework and assessment of HVDC options)

TPAG members suggested a number of amendments that the secretariat noted. TPAG particularly discussed the following points:

- Beneficiary pays. The relevant parts of sections 4 and 5 should be redrafted to clarify that where the benefits of applying the beneficiary pays principle arise from the likelihood of better information provided to the investment decision process:
 - the beneficiaries should be the correctly identified in order that they are appropriately incentivised to to improve the information provided; and
 - that there might be costs if the wrong participants are charged as beneficiaries or they are allocated the wrong amounts.
- Beneficiary pays benefits. The drafting should give a view of the scale of the possible benefits.

- RCPD. Members discussed whether the paper should discuss possible changes to the RCPD allocation. This has previously been seen by TPAG as a second order issue, and has been noted in footnotes.
- The paper should avoid suggesting that transmission investment should be avoided.
- Variants of postage stamp or MWh options. The paper should be clear which options are considered in the analysis, why others are not, and whether some of the variants would change the underlying economic analysis.

Actions

By

Date for action

Redraft sections 4 and 5, highlighting those parts that have changed

Secretariat

By next meeting

Provide an estimate of the investment in a second cable for Pole 3

John Clarke

By next meeting

6 Transition options

TPAG members made the following points:

- The paper should explain the link between the transition approach and the benefits to consumers from a declining LRMC of generation investment.
- The chart in figure 2 should be rescaled.
- The \$4/MWh increase in charges as a result of AC investment should be confirmed.

Members discussed their preferred options for a transition arrangement, if this was to be recommended. The chair suggested that the arrangement should be one that leaves the consumer no worse off during the transition and better off in the medium to longer term. Members discussed two objectives in setting a transition option: that a transition option should not put in more at the start than the existing costs, and that transition length should be the shortest possible transition with the consumer the net winner.

Actions

By

Date for action

Redraft transition options paper, highlighting those parts that have changed

Secretariat

By next meeting

7 Draft discussion paper: sections 5.5 onwards

TPAG members discussed the following points:

- What the beneficiary pays line in table 1 means. This is not clear and should be drawn out of the earlier discussions in section 5.
- The beneficiary pays consideration should be fleshed out in this section including recapping the decision to charge the SI generators and the change in regulator and consequent change in evaluation criteria.
- The factors that might influence generator investment decisions (5.6.15). Some members considered that these factors should average out across all NI and SI generation investment scenarios.

Actions

By

Date for action

Sections 5.5 onwards: E-mail the secretariat any further comments on this part of the paper.

Members

By next meeting

Sections 5.5 onwards: Prepare a redraft of this part of the paper that is structured as a decision process.

Secretariat

By next meeting

Meeting closed 18.00

TPAG Meeting 9 May 2011

Schedule of actions

1.	Provide details of conflicts of interest to the secretariat.	All members and consultants	By next meeting
2.	Members to provide e-mail comments on the draft section 7 to the secretariat.	Members	By next meeting
3.	Provide a marked up second draft of section 7 to the next meeting.	Secretariat	By next meeting
4.	Provide a new draft of this section that explains that works through the following issues: <ul style="list-style-type: none"> the transmission alternatives regime already exists, but the Commerce Commission is working through issues with it; the interconnection charge includes the RCPD allocation; the beneficiary-pays principle suggests that a deeper allocation of costs to specific beneficiaries is appropriate; there are different ways to go deeper; but making progress depends on opening up discussions and coordination with the Commerce Commission. Amendments should be highlighted or marked up.	Secretariat	By next meeting
5.	Redraft sections 4 and 5, highlighting those parts that have changed	Secretariat	By next meeting
6.	Provide an estimate of the investment in a second cable for Pole 3	John Clarke	By next meeting
7.	Redraft transition options paper, highlighting those parts that have changed	Secretariat	By next meeting
8.	Sections 5.5 onwards: E-mail the secretariat any further comments on this part of the paper.	Members	By next meeting
9.	Sections 5.5 onwards: Prepare a redraft of this part of the paper that is structured as a decision process.	Secretariat	By next meeting