

Transmission Pricing Advisory Group

# **TPAG Report: 6 Sept 2011**

TPAG Chair, Dr Graham Scott

# Approach to TPAG report

- Sought consensus where possible
- Provided analysis of issues where there are alternative views
- Considered Submissions
- Considered Biggar Report, with Guidance from the Board

# Submitters: high-level views

- HVDC cost allocation: Views split on whether HVDC charge creates material inefficiencies:
  - doubtful consumers will see wholesale price reductions (e.g. Large consumers, Genesis, DEUN, Greypower. SI generators should continue to pay.)
  - HVDC charge creates inefficiencies: cost allocation should transition to postage stamp to offtake over 10 years (e.g. Meridian, Contact, TrustPower, MRP, Powershop, Transpower)
- Deeper/shallower connection: Mostly agreement that requires coordination with ComCom.
- Static reactive: general support for kvar charge

# Approach to Biggar Report

- Followed Guidance from Board, July 2011.
- TPAG contests Biggar's approach to public policy analysis of comparing reality to a perfect world.
- Biggar's framework is too far removed from NZ regulatory and market context.
- Reconsidered problem statement.
- Considered Biggar recommendations where Board gave guidance to do so, and have reflected this consideration in the report.

# Key issues identified from Submissions and Biggar (1)

Key issue	TPAG approach
Problem statement	Link to Stage 1 and 2 work Consider regulatory and market context Articulate problem more clearly
Gem analysis	Consider appropriateness of modelling approach Further testing of GEM constraints (on-going)
Efficiency considerations	Consider appropriateness of considerations and compare to other economic criteria
Analytical approach to HVDC issues	Consider and better articulate the HVDC analysis approach, explain appropriateness of modelling approach and its limitations Apply more scenarios to HVDC modelling Review use of baseload expansion
NZIER analysis	Review NZIER analysis Revise analysis with different counterfactual and assumptions Consider competitive detriments

# Key issues identified from Submissions and Biggar (2)

Key issue	TPAG approach
Impacts on prices	Consider link between LRMC and wholesale prices Present narrative on impacts on prices
Deeper/shallower connection	Reconfirm TPAG view on interaction with ComCom
'Incentive-free'	Further consider practicalities of a design of an 'incentive-free' option Review conclusion on 'incentive-free'

Other submitter issues are considered in the relevant sections of the report.

# Problem statement

- Regulatory and institutional context
  - Investments approved by ComCom, investment test
  - Transmission agreements
  - Nodal pricing
  - Rentals insufficient to cover costs of transmission
- Ancestry of TPAG analysis
  - Stage 1 and 2 analysis of problems particularly locational signalling
  - GEM analysis of benefits of locational signalling

# Problems identified by TPAG

- **HVDC:** locational signal leads to inefficient price signals for generation investment
- **Boundary of interconnection/connection:** may not provide efficient incentives, may be possible to identify beneficiaries further
- **SRC:** may not provide efficient incentives, may be possible to identify beneficiaries further