

Transmission Pricing Advisory Group ::: Meeting number one

Venue ::: Meeting room 1, Electricity Authority

Time and date ::: 09:00 to 13:00 ::: 16 February 2001

Minutes

Present

Members

::: Graham Scott (Chair)
 ::: Bruce Girdwood
 ::: Ray Deacon
 ::: Glenn Sullivan
 ::: Guy Waipara
 ::: David Reeve
 ::: John Clarke
 ::: John Woods
 ::: Peter Calderwood
 ::: Bob Weir (11.30 to 13:00)

In attendance

::: Carl Hansen (09:00 to 09:30)
 ::: Ross Hill (09:00 to 10:15)
 ::: Bruce Smith
 ::: Katherine Moore
 ::: Peter Smith
 ::: Catherine Ross
 ::: Lee Wilson

The meeting opened at 09:00.

1 Welcome and introduction

Carl Hansen thanked members including the chair for making themselves available for TPAG. Carl provided clarification on the following issues raised by members.

- *Independence of members.* Recognising that members are not independent, members are tasked to operate as if they were and work within the regulatory framework. The role of TPAG is to reconcile divergent views in a way that satisfies the statutory objective.
- *Decision framework.* TPAG should consider options against the new statutory objective. The Authority is consulting on a proposal to remove the pricing principles from the Code. The outcome of this proposal will be decided in April.
- *The 'foundation documents'.* The Consultation Charter, the Charter about Advisory Groups and the Interpretation of the Statutory Objective have been finalised and are available on the website.
- *The weighting of the three limbs of the statutory objective.* None of the limbs is given a higher weighting than the others, but outcomes relevant to each limb are measured by reference to efficiency gains and losses.

The chair invited all present to set out their involvement with transmission pricing and their expectations for TPAG. A recurrent comment from members was the importance of resolving HVDC pricing.

These minutes record the members' current and previous affiliations. These will be entered into the conflicts

register, which will be updated as required.

Member	Affiliations/conflicts
Graham Scott	Sapere Consultants, has advised BusinessNZ on electricity issues.
John Clarke	Transpower, member of the CEO Forum working group.
Bruce Girdwood	Vector, previously pricing manager at Transpower.
Peter Calderwood,	Trustpower, member of the Transmission Pricing Technical Group (TPTG), member of the CEO Forum working group.
Ray Deacon	RTANZ, member of TPTG and CEO Forum working group.
John Woods,	Contact, member of CEO Forum working group on transmission pricing and chair of Energy Hedge.
David Reeve,	Previously with Mighty River Power, currently consulting for Mighty River Power and other participants. Member of TPTG, substitute for member of the CEO Forum working group.
Guy Waipara	Meridian Energy, previously with Transpower.
Glenn Sullivan	Fonterra, previously with Norske Skog.
Bob Weir (not present for this part of meeting)	Genesis Energy, member of CEO Forum working group.

Action

E-mail web link to Interpretation of the Statutory Objective

By

Secretariat

Date for action

16 Feb 11

2 Terms of reference and regulatory framework

Ross Hill provided a presentation on the regulatory framework including the Statutory Objective, the Consultation Charter, the Code Amendment Principles and the Charter about Advisory Groups.

Ross provided clarification on the following issues raised by members.

- *Publication of discussion papers.* TPAG can publish its own discussion papers and consult on them.
- *TPTG role.* The TPTG remains a technical group providing advice to the Authority, but TPAG can request advice or analysis from the group via the Authority.
- *Legal status of the outputs of TPAG.* The Authority is required to consider the outputs of TPAG, but final decisions remain with the Authority Board.
- *Personal legal risks.* There are the standard protections under the Crown Entity Act and the Authority has indemnity insurance.

The group discussed whether draft documents provided to the TPAG for comment will be published on the website.

Action	By	Date for action
Provide advice on the policy for publication of draft TPAG papers.	Secretariat	Next meeting

3 Transmission pricing background

The Authority provided a summary 'roadmap' paper. TPAG noted the paper and discussed issues around:

- the transmission pricing guidelines and the transmission pricing methodology (TPM). Members discussed what guidelines are and how detailed or broad they should be; and
- the relationship between the Commerce Commission's regulation of Transpower's revenue requirement and the grid investment process and the role of transmission pricing methodology to promote transmission investment outcomes.

Other comments provided by members were as follows.

- The items mentioned on page 10 of the roadmap paper have been presented to the TPTG but not completed.
- TPAG needs to be confident that the Generation Expansion Model (GEM) analysis will support filtering of options according to the statutory objective.
- The conclusion noted in 2.4.4 of the roadmap paper is important. TPAG members who are also members of TPTG noted that TPTG members had generally agreed with the first bullet in 2.4.4 (that there did not appear to be a benefit in locational signalling for economic investments). There was more concern about the possible benefits from signalling for reliability investments (the second bullet in 2.4.4).

Actions	By	Date for action
Provide a copy of the current guidelines	Secretariat	Provided at 16 Feb meeting
Provide a note on appropriate policy for setting guidelines	Secretariat	By next meeting
Discuss with Transpower its views on the prescriptive nature (or otherwise) of the guidelines.	Chair	By next meeting
Discuss with the Commerce Commission the role of the Transmission Pricing Methodology in signalling investment given the Commerce Commission's roles.	Chair	By next meeting
Provide a link to the paper mentioned in the roadmap paper that details the GEM analysis carried out in stage II (Appendix 2 of the stage II consultation paper.)	Secretariat	16 Feb 11

4 Draft TPAG work plan

TPAG agreed the draft work plan, but noted the tight timeframe might present problems for the timely completion and quality of the deliverables. Members agreed to an additional workshop in order to progress

analysis of options.

Members raised the following issues in discussing the work plan.

- *Timeframes.* These are extremely tight, and there are substantial constraints within the process. It will be easier to understand the constraints when the options have been sifted and considered. This is particularly the case for Transpower's development and implementation times.
- *Loss and constraint rentals.* Members noted the importance of understanding – in tandem – both what will happen to the rentals and auction proceeds under the locational hedging proposal and what might be the changes to transmission pricing.
- *The sequencing of work.* Some members would like to see the HVDC pricing considered as a priority, but there are concerns that considering options for HVDC pricing separately might create an inefficient framework for considering the allocation of costs for other interconnection or connection assets (i.e. one that could not be applied for various reasons).
- *Understanding the changes to the regulatory regime and the impacts on transmission pricing.* There are a number of changes involving, for example, the relevance of considering wealth transfers, the importance of a beneficiary-pays principle and the emphasis on efficiency. TPAG needs to understand what might be the resulting adjustments to the view of the status quo and the analysis already undertaken of alternative options.

The group agreed the workshop should include:

1. A paper on regime changes (i.e. the change to the Authority's statutory objective and functions) and the resulting impacts.
2. Fifteen minute presentations from each member on their issues and options.
3. Presentation of strawman options by the Authority representative.
4. Identification by the chair of issues for further discussion at the workshop.

Action	By	Date for action
Communicate TPAG's concerns over the work plan timeframe to the Authority chief executive.	Chair	By next meeting
Arrange a workshop for 24 Feb, and meetings for 28 Feb and 25 Mar.	Secretariat	16 Feb 11
Prepare a short paper on the regime changes and the resulting impacts.	Secretariat	22 Feb 11 (in advance of workshop)

5 Outline discussion paper

TPAG noted the outline discussion paper and agreed that the content and structure would be shaped by the outcomes of the workshop.

6 Draft high-level analysis framework

TPAG:

- a) agreed that the decision framework applied to the evaluation and development of a preferred TPM should be derived from the Authority's statutory objective and the Code amendment principles;
- b) agreed that the evaluation criteria set out in section 7 of the paper should be applied to the evaluation of TPM options;
- c) noted the on-going relevance of the pricing principles while the Code Amendment Proposal, Regulatory Framework for Transmission Pricing, is underway. The outcome of the Code Amendment Proposal will determine the final content of the analysis framework; and
- d) noted that amendments should be made the paper to address the following issues:

- concerns over the description of the counterfactual:

The use of the SOO scenarios in the counterfactual in 3.5 should be varied appropriately where there may be material differences in the results.

Other options for both scarcity pricing and locational hedging should also be considered in the counterfactuals, where these are possible outcomes for these projects.

- Paragraph 3.2.1 should refer to the revised objectives.
- Section 5: The discussion around the use of the Code amendment principles for assessing the guidelines needs to be amended, as the current descriptions are incorrect.
- Table 4: Durability should be marked as an on-going issue.

Action	By	Date for action
Amend the draft high-level analysis framework.	Secretariat	22 Feb 11

7 Overview of options

TPAG agreed:

- a) that a high level mixed qualitative/quantitative assessment should be applied to narrow down and confirm the elimination of some of the high-level options outlined in the stage 1 consultation paper; and
- b) that a more detailed mixed qualitative/quantitative assessment (based on the evaluation criteria set out in the High Level Analysis Framework Paper) should be applied to the TPM options set out in sections 3, 4 and 5 of the paper.

The group discussed the following issues:

- The origin of the NZIER options as these appear to come from a different paradigm.
- Wealth transfers and possible transitions issues.
- The relative priority of different options and the arguments for and against concentrating on quick wins.
- The need to justify any decision to discount an option as part of a principle-based approach.
- The recognition from a number of consultants and comparisons with other jurisdictions that the current regime taken in its totality is fundamentally sound.

8 Next steps

The group agreed to arrange meetings as set out in item 4. The next meeting is a workshop on 24 Feb 2011.

Meeting closed 13: 15