

Transmission Pricing Advisory Group ::: Meeting number three

Venue ::: Meeting room 1, Electricity Authority

Time and date ::: 09:00 to 01:00 ::: 14 March 2011

## Minutes

### Present

#### Members

::: Graham Scott (Chair)  
 ::: Bruce Girdwood  
 ::: Ray Deacon  
 ::: Guy Waipara  
 ::: David Reeve  
 ::: John Clarke  
 ::: Peter Calderwood  
 ::: Bob Weir (until 11.15)  
 ::: Glenn Sullivan  
 ::: John Woods

#### In attendance

::: Bruce Smith (from 09.10)  
 ::: Peter Smith  
 ::: Katherine Moore  
 ::: Catherine Ross  
 ::: Lee Wilson  
 ::: John Culy  
 ::: Ramu Naidoo (from 12.15)

### Apologies

The meeting opened at 09:00.

#### 1 Welcome and introduction

The chair noted some members may need to leave the meeting early.

#### 2 Minutes and actions of the last meeting

The minutes of the 24 Feb 2011 meeting were approved with the following amendments:

- The date of the meeting should be 2011.
- Item 4. Delete a superfluous 'and' in the third bullet.
- Add an additional comment in the attached summary of member presentations for Ray Deacon: 'The inability to identify every beneficiary of an investment is not sufficient to dismiss this approach to cost allocation. Free-riding is only a problem if the sum total of the free-riders ability to hold-out prevents welfare enhancing investments occurring. It is sufficient to allocate the costs of an investment to a subset of beneficiaries such that the benefits this subset receive from the investment exceed the costs that are allocated to them; and in aggregate the cost of the investment is recovered.'
- Item 7, final bullet. Replace 'Upper South Island' with 'Upper North Island'.

As part of this agenda item, TPAG noted:

- the paper: ‘Note on postage-stamped pricing’.
- the indicative breakdown of transmission revenue requirement provided by John Clarke. John confirmed that the breakdown was based on analysis provided for customers for 2011, and that the breakdown includes some investments that are envisaged but not approved. For example: the breakdown includes around \$20 million investment in HVDC assets and a number of AC projects that are not yet approved.

### 3 **GEM analysis paper**

The secretariat provided a paper on the draft rationale for determining there is limited value in enhancing locational signals for economic investments.

TPAG requested that the secretariat:

- Amend the paper to explain more clearly what the model does and does not do.
- Amend the paper’s recommendation to more closely reflect what conclusions can be drawn from the analysis.
- Note that the GEM analysis does not lead to any assumptions on the potential disbenefits of existing locational signalling with the TPM. Although there may be no benefit according to the GEM analysis in sending a locational signal, an existing allocation that sends such a signal is not necessarily inefficient and therefore should not necessarily be abandoned.

#### **Action**

Circulate an amended GEM analysis paper for approval by TPAG.

#### **By**

Secretariat

#### **Date for action**

By next meeting

### 4 **‘Regime change’ paper**

The secretariat provided a paper on the draft impact of regulatory change on Review analysis to date

TPAG requested that the secretariat make the following changes to the paper:

- Amend the recommendations to more clearly set out the conclusions TPAG has reached.
- Amend the paper and recommendations to make it clear that TPAG may still review some of the stage 1 and 2 work.

In addition, TPAG discussed the importance of clearly communicating the justification for TPAG’s decision not to review all previous work against the new objectives.

#### **Action**

Circulate an amended ‘regime change’ paper for approval by TPAG.

#### **By**

Secretariat

#### **Date for action**

By next meeting

### 5 **“Beneficiary-pays’ paper**

The secretariat provided a paper: ‘Note on beneficiary-pays and related HVDC allocation issues.

TPAG discussed the following points:

- Charging participants can incentivise them to get involved in decision making, but this does not mean it is good practice to charge those on the basis that they have the resources and information to assist decision making.
- Generally, the deeper you go in identifying core grid beneficiaries the harder it gets.
- It is important to understand the efficiency consequences of free-riding and hold-out that could be associated with a beneficiary-pays principle.
- Beneficiary-pays is a good principle, but it does not direct what to do about the HVDC or flow-tracing. It is important to watch out for transaction costs and good regulatory practice.
- It is not necessary to identify all beneficiaries; free-riders are not a reason to avoid a beneficiary-pays principle.

**Action**

Provide a paper on the application of beneficiary-pays to the core grid.

**By**

Secretariat

**Date for action**

By next meeting

## 6 Static reactive compensation

TPAG agreed to set up a sub-committee to make a recommendation to TPAG on options for the treatment static reactive compensation. The sub-committee consists of John Clarke, Guy Waipara and Bruce Girdwood. This sub-committee may invite advice from other industry participants, particularly from the distributors.

## 7 HVDC analysis (and deep v shallow connection)

(Bob Weir left part way through the discussion.)

John Culy gave a presentation on potential impacts of the HVDC cost allocation on generation investment. TPAG discussed the following points:

- *Materiality of impacts.* The NPV of the impacts on generation investment is of the order of tens of \$millions whereas the total costs are of the order of \$billions.
- *Rentals.* The analysis does not take account of rentals which effectively reduce the HVDC charge for generators. The analysis may therefore overestimate the impacts, but there is some uncertainty over whether generators will get the rentals in the future.
- *Market dominance effects.* There may be a negative impact in the counterfactual through the market dominance of existing generators.
- *Political risk.* There is a political risk around increasing interconnection charges to offtake.
- *Possible distortions from including beneficiary pays into pricing.* Ideally a beneficiary would agree to a contract, however, if the beneficiary-pays principle is applied through a pricing methodology, there may be resulting distortions.
- *Whether there is anything unique about the DC link that is relevant to transmission pricing.*
- *Previous studies of who are the beneficiaries of the HVDC link.* Transpower undertook some analysis of the beneficiaries for the existing link, but the analysis for the upgrade is based on a national benefits test.

There was some discussion of the deep v shallow connection issue in relation to beneficiary pays.

#### Actions

Prepare a paper on the HVDC analysis presented. This paper is intended for inclusion in the draft discussion paper. It should be rewritten in a manner that captures the analysis but without a conclusion.

#### By

Secretariat

#### Date for action

By next meeting

Prepare a 'road map' or progress report that sets out the issues that have been agreed, and decisions that are required. This should link the analysis to the analysis framework agreed in meeting 1.

Secretariat

By next meeting

#### 8 Capacity rights

The item on capacity rights was deferred to the next meeting due to time constraints.

#### 9 Work plan and next steps

TPAG reviewed the work plan and agreed that it was not able to meet its deadlines and approve a discussion paper at the next meeting on 25 March 2011. This meeting will be extended to an all day meeting.

Meeting closed 16:00

#### Schedule of actions

1.	Circulate an amended GEM analysis paper for approval by TPAG.	Secretariat	By next meeting
2.	Circulate an amended 'regime change' paper for approval by TPAG	Secretariat	By next meeting
3.	Provide a paper on the application of beneficiary-pays to the core grid.	Secretariat	By next meeting
4.	Prepare a paper on the HVDC analysis presented. This paper is intended for inclusion in the draft discussion paper. It should be rewritten in a manner that captures the analysis but without a conclusion.	Secretariat	By next meeting
5.	Prepare a 'road map' or progress report that sets out the issues that have been agreed, and decisions that are required. This should link the analysis to the analysis framework agreed in meeting 1.	Secretariat	By next meeting