



TRANSPOWER

Keeping the energy flowing

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Mervyn English
General Manager
Electricity Commission
PO Box 10041
WELLINGTON

Dear Mervyn

Draft 2010 Statement of Opportunities

Thank you for the opportunity to comment on the draft 2010 Statement of Opportunities (SoO). As a general comment, the new 2010 SoO, appears to build on experience and feedback provided to the Electricity Commission, and overall is an improvement upon previous SoO's.

Given that the 2010 SoO will be used as the basis for assessing Grid Upgrade Plans to be submitted to the Commerce Commission, for at least the next 12 months, our comments focus upon the 2010 SoO's suitability for that purpose.

Demand forecasts

New Zealand energy demand is forecast to increase at a higher rate than in the 2008 SoO. The new forecast is close to that used in our 2010 Annual Planning Report and we consider it a reasonable basis for the preparation of Grid Upgrade Plans for the next twelve months.

We note that the top down methodology used for deriving regional and grid exit point forecasts does not account for the significant growth observed recently in some energy intensive industries. As a result, forecasts may be significantly understated in some regions, e.g. South Canterbury. Our approach of combining top down forecasts with customer input picks up these regional differences. We will continue with this practice and continue to explain any such differences with the SoO in our Grid Upgrade Plans.

Generation scenarios

Our experience in developing Grid Upgrade Plans is that relying on five specific generation development futures, assumed to have equal likelihoods, is not suitable for application of the Grid Investment Test. We acknowledge that the Electricity Commission is bound by the approach required in the Part F rules.

The range of potential generation development futures to be included in Grid Upgrade Plans is specific to the investment being considered. On occasions we have found that generation development is irrelevant to an investment decision, at other

times only a single generation development future is relevant or in some cases it is preferable to consider wider range of possible futures.

Hence, we support a more flexible approach, whereby the generation development outlined in the SoO are future paths for the drivers of various generation technologies e.g. capital and operating (including fuel) assumptions, only. These can then be used in generation expansion modelling where a relevant range of generation development would be developed on a case-by-case basis, for each Grid Upgrade Plan.

This has several advantages, for example:

- it allows for externalities to be accounted for that would otherwise be difficult to model. For example in the 2010 SoO some decisions are hardwired into the generation expansion model (GEM) - such as the decommissioning profile for Huntly;
- it avoids an issue with the existing generation development futures, whereby new generation is balanced on a national basis, but may be unrealistic for particular regions. Ultimately, Grid Upgrade Plans typically address regional issues and the existing generation development futures often need to be modified to make them reasonable for a particular region;
- in the medium term, wind and geothermal appear to be the most economic new generation development (based on what investors are currently investing in). The 2010 SoO appears to overstate the likelihood of fossil-fuel development given the relative move away from renewable into more thermal weighted scenarios when compared with the 2008 SoO. This problem would be avoided using the approach described above.

We plan to discuss the application of independently produced demand and generation assumptions to Grid Upgrade Plans with the Commerce Commission during development of their Input Methodology in 2011. Until then we will continue with our current practice of updating the scenarios as appropriate for each investment. This approach updates the SoO scenarios (for current committed generation) and modifies both the generation development futures and scenario weightings as appropriate for each investment being considered.

Yours sincerely



John Clarke
General Manager Grid Development