

First Mover Disadvantage

NZ Wind Energy Association Cross-submission

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TPM Development Project Team
Transpower

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Introduction

1. The New Zealand Wind Energy Association (NZWEA) welcomes the opportunity to provide a cross-submission on the TPM Development First Mover Disadvantage (FMD) Consultation.
2. Three members of NZWEA (Mercury, Meridian Energy and Trustpower) submitted on the First Mover Disadvantage Consultation paper. The Association notes their high level of alignment in addressing type 1 FMD and support for Transpower's funded asset component option. In respect of type 2 FMD two of the Association's members commented that there was a lack of evidence of a material problem but all had concerns around Transpower having the ability to incur and socialise costs at its own discretion.
3. In this cross submission NZWEA supports the views of members and considers that, given the high level of forecast investment in new renewable generation, it is prudent to consider potential outcomes where the overbuild of transmission at a point in time delivers a longer term efficiency benefit and supports New Zealand's economic recovery. The Association notes that Transpower has also expressed a view increased electrification may create future FMD problems in its Consultation Document ¹.

Type 1 FMD

4. NZWEA supports Transpower's approach to FMD and, as noted above, that this is also supported by Association members who submitted.
5. Further we agree that revaluing assets to replacement cost for later customers creates complexity and does not reflect the intent of addressing the FMD free-rider issue.

Type 2 FMD

6. NZWEA's principal objective is to promote responsible wind development and by definition the Association has a focus on enabling new connections and ensuring the timely development of interconnected grid capacity.
7. It is clear that a transformation of both the electricity industry and wider energy sector is necessary for NZ to achieve its net zero target. The industry must plan for accelerated change and an incremental approach to core infrastructure investment may prove to be inefficient especially with demand growth forecasts and identified skill shortages.
8. Transpower's own Whakamana i Te Mauri Hiko Report ² has identified a forecast significant increase in electricity demand with rapid growth in wind energy to comprise 28

¹ FMD Consultation para 21.1.

² Transpower, Whakamana i Te Mauri Hiko , Empowering our Energy Future, March 2020.

percent of total generation by 2050. The Report estimates that approximately 40 new power stations will need to connect to the grid plus another 10 -15 large interconnection grid upgrade projects.

9. The potential for type 2 FMD situations for both connection and interconnection assets are therefore significantly greater than in past years and may be warranted for a number of reasons. The Association appreciates Transpower taking the time to fully consider and consult on FMD.
10. The Association wrote to Minister Woods in relation to New Zealand's Plan for Economic recovery in May 2020 ³. The letter commented on transmission investment as follows:

The Association supports Transpower progressing the Clutha Upper Waitaki Lines Project (CUWLP) at a cost of \$92 million. As outlined in Transpower's recent Whakamana i Te Mauri Hiko Report ⁴ it is one of 7 major interconnection upgrades required to build a low carbon infrastructure.

The recent Transpower CUWLP consultation ⁵ further confirmed the project is "shovel ready" for development.

In addition to CUWLP, the Association considers there would be merit in evaluating a wider initiative to progress other future focused transmission spend to enable renewables development. This has been considered in the past in New Zealand through the Electricity Commission's Transmission to Enable Renewables project. That project has not advanced, whereas other countries including Australia are progressing with large-scale renewable energy zones to provide the transmission infrastructure required for bulk renewable energy connections. The Global Wind Energy Council has also recently highlighted the need for adequate investment flows towards critical infrastructure including power systems and grid infrastructure ⁶. Doing so would bring forward transformational climate change investments that have been identified as necessary to support expected North Island thermal power station retirements and growth in electricity demand as a result of the decarbonisation of the energy sector.

11. Contact Energy in their FMD submission has also noted the opportunity for a future focus that may involve building additional capacity in expectation of future increases in demand and the need for a wider discussion between the government, regulators and the industry as to how transmission can accelerate New Zealand achieving its decarbonisation goals.
12. Meridian Energy in their FMD submission effectively summarised the Association's view that overbuild costs should not be socialised and the Crown as Transpower's shareholder had options to enable Transpower to invest for the future where this could be shown to be in New Zealand's long term interests.
13. The Association also commented in its May letter to Minister Woods that:

Balancing speed with a future focus to ensure initiatives deliver long-term climate benefits will be a priority for the Government in its decision-making process. The Association supports the principles outlined by the Chair of the Climate Change Commission in his letter to Minister Shaw ⁷ and considers that the energy sector offers many opportunities to apply principle 2, which is about bringing forward transformational climate change investments that need to happen.

³ Minister of Energy and Resources Letter 27 May 2020 <http://www.windenergy.org.nz/store/doc/Minister-of-Energy-and-Resources-NZWEA-letter--200527.pdf>

⁴ Transpower, Whakamana i Te Mauri Hiko, Empowering our Energy Future, March 2020.

⁵ Transpower, Clutha Upper Waitaki Lines Project, Invitation to Comment, May 2020.

⁶ GWEC Statement wind power a cornerstone of the global economic recovery - <https://gwec.net/wp-content/uploads/2020/05/Untitled-design-41.png>.

⁷ Transpower, Clutha Upper Waitaki Lines Project, Invitation to Comment, May 2020.

14. Transpower with its net zero grid project is best placed to determine optimum capacity and timing of investment and in doing the potential for FMD situations to occur as part of a longer-term strategic build programme to enable energy sector decarbonisation.
15. The Association's position is also supported by Trustpower in para 5.1.2 of its submission:

We do not think this 'just enough incremental investment just in time' in the current grid is in the long-term interests of consumers, particularly given New Zealand's electrification aspirations.
16. The challenge with grid investment, in seeking to balance the decarbonisation and economic recovery imperatives with long term efficiency outcomes, is to not socialise costs today that disadvantage accelerating electrification. As both Meridian and Contact have articulated this requires a broader discussion than just allocating type 2 FMD costs to the industry as they occur by a pre-set formula.

About the NZ Wind Energy Association (NZWEA)

- The NZWEA is an industry association that promotes the development of wind as a reliable, sustainable, clean and commercially viable energy source
- We aim to fairly represent wind energy to the public, Government and energy sector
- Our members are involved in the wind energy sector and include electricity generators, wind farm developers, lines companies, turbine manufacturers, consulting organisations and other providers of services to the wind sector
- By being a member of NZWEA you are assisting the development of wind energy in New Zealand and helping to reduce our greenhouse gas emissions to meet climate change targets.

The Association's strategy focuses on three key areas:

- Leveraging NZ's emission reduction imperative to enable the energy transition to renewables, particularly wind energy.
- Optimising wind energy's position and ensure the regulatory environment supports wind farm development.
- Expanding the opportunity for wind energy development to enable community and industrial projects including wind's integration with other technologies.

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