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Submissions
Transpower
PO Box 1021
Wellington

By email: REZ@transpower.co.nz

Submission – Renewable Energy Zones

Thank you for the opportunity to provide a submission on the consultation paper titled *Renewable Energy Zones* and *Renewable Energy Zones: Northland Pilot Concept*.

Contact Energy is fully supportive of efforts that will facilitate New Zealand's long-term objective to decarbonize its energy sector. Based on the evidence provided in the consultation paper, we are uncertain as to whether Renewable Energy Zones offer any significant advantages relative to existing processes.

We believe more work should be done on the problem definition. Specifically, we think more detail could usefully be provided on the shortcomings of existing processes and how these align with the new transmission pricing methodology before any assessment of the potential benefits of Renewable Energy Zones can usefully be made. Any assessment of Renewable Energy Zones should be ranked against other viable options to address any identified shortcomings of the status quo. For example, one possible option to drive decarbonization would be to look at how connection and interconnection assets are defined. Long spur lines with multiple parties connecting into the main grid might be more viable if they were classified as interconnection assets rather than connection assets. This is particularly so for wind generation where much of the potential resource is electrically remote and existing connection charge arrangements discourage investment.

From the material provided, the following challenges have been cited:

- First-mover disadvantage, of which there are two types:
 - Type 1 relates to a customer who funds the capital cost of a connection asset under an investment contract does not get a contribution to that cost even if other customers later connect to the asset. This is a free-rider problem.
 - Type 2 relates to a situation where a customer only needs a connection asset of capacity C , but Transpower invests in a connection asset of capacity $C+X$ in the expectation other customers will come along or the first customer will increase its capacity requirements in future. In the meantime, the first customer pays for the full capacity (capital, maintenance and operation).
- A coordination issue where it would be economic to share the connection costs of building a new transmission asset across multiple parties, but it is not economic for a single party to fund this new transmission asset alone. The consultation paper does not explain whether this coordination issue between generators can be overcome within existing legislative and operational settings but puts forward Renewable Energy Zones as the potential solution.

Both types of first-mover disadvantage are explicitly being addressed by the Electricity Authority in the new transmission pricing methodology. Even if Transpower felt that the EA's proposals in this

area were inadequate, this is a policy matter for the EA and should not be unintentionally undermined by complementary policies developed by Transpower.

We have more sympathy with the coordination issue, but we are unclear as to how material this issue is in practise. We would like to see more evidence on the nature and extent of this issue before forming a view as to the potential merits of Renewable Energy Zones as a concept. How many of the recent enquiries Transpower has received are credible? If the standalone economics of building a new connection asset are uneconomic for a single party, what does that say about the financial capability of the party seeking to connect?

In addition, it is also unclear whether the proposal encourages or discourages transmission developments by electricity distribution businesses to connect new renewable generation projects. This is potentially an important issue as a significant amount of new generation projects will be connected to the core grid using new spur lines rather than new interconnection assets. These spur lines may complement existing distribution networks and the independent development of spur lines might be faster and more cost effective compared with Transpower.

At this stage Contact Energy is non-committal as to the potential merits of Renewable Energy Zones but is a strong proponent of any concept that will reduce costs and accelerate the development of new transmission assets. We would like to see more evidence on the nature and extent of the market failure being addressed, whether there are other options that could address this market failure, and some analysis that shows that Renewable Energy Zones are demonstrably better than other options.

If you have any questions, please contact David.Buckrell@contactenergy.co.nz or myself.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Chris Abbott".

Chris Abbott
Chief Corporate Affairs Officer