



20 May 2020

To: Rebecca Osbourne, Transpower

Stacey Newlands, Transpower

By email: Rebecca.Osborne@transpower.co.nz, communications@transpower.co.nz

Feedback on the Clutha Upper Waitaki Lines Project

Dear Rebecca, Stacey,

Thank you for the opportunity to comment on the Clutha Upper Waitaki Lines Project (CUWLP), and whether conditions support Transpower continuing with the project at this stage.

The existing transmission capacity is not being fully utilised due to the exercise of market power

We would like to draw attention to the UTS complaint we made to the Authority on 12 December 2019 regarding the behaviour of generators in the Clutha and Manapouri catchments¹. We used the Authority's VSPD model to simulate how much energy could have been exported from the lower South Island had the Manapouri, Clyde and Roxburgh plant been offered at efficient prices, rather than at prices that reflected the exercise of market power. Our simulations showed that over the period from 11 November 2019 to 9 December 2019 an extra 70 GWh of generation could have been dispatched from the Manapouri, Clyde and Roxburgh power stations if they had been offered efficiently. Our simulations accounted for all transmission and system security constraints that existed through that period. Our simulations showed that particularly in the overnight periods significant generation was held back and water instead spilled with the likely motivation to improve the generators generation weighted average price at a portfolio level. Our simulations are available to be scrutinised on the Authority's VSPD online website.

Transpower modelling likely overestimates the annual dispatch benefit because market power is not accounted for

When making decisions on whether the CUWLP project should proceed, Transpower should assume that market power will continue to be exercised and that the transmission capacity will continue to be utilised below efficient levels. While there are limited details disclosed on the modelling techniques used by Transpower to estimate the annual dispatch benefits, in our experience stochastic hydro-thermal optimisations such as SDDP assume efficient decisions are made at the system level rather than profit maximising strategies are adopted by participants with market power. We believe this means Transpower is likely overestimating the annual dispatch benefit in Table 2. We believe this means the annual dispatch benefits of the project are only likely to justify the investment in the 0 MW Tiwai offtake scenario.

¹ <https://www.ea.govt.nz/code-and-compliance/uts/undesirable-trading-situations-decisions/10-november-2019/>



Transpower should commit to CUWLP only after the smelter announces a full closure

Meridian and Contact have a clear commercial incentive to see this project commence and are the electricity market participants closest to Tiwai's decision making process. They have chosen not to commit more funds to help the CUWLP progress suggesting they don't have confidence that the smelter is likely to completely exit the market. We believe a prudent approach from Transpower would be to commence with the CUWLP only after Rio Tinto announced the smelter was closing and the 0 MW Tiwai scenario is locked in.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Phillip Anderson", is positioned below the "Yours sincerely," text.

Phillip Anderson

Managing Director

Haast Energy Trading

