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**Re Submission on HVDC Link Upgrade Programme – short-list consultation May 2025**

We thank Transpower for the opportunity to comment, and commend Transpower for forward planning. The HVDC link is a critical part of NZ's electricity and energy infrastructure and core to electrification as part of the zero net carbon journey.

The technical evaluations are not something we can make useful comment on and accept the rationale for evaluation and planning replacement cables at this time.

We note the proposal includes work at the termination points of the cables. NZ Steel is also mindful of the over-head, over-land part of the link that was compromised about five years ago. This highlighted deficiencies with Pole 2 and Pole 3 conductors in close proximity over difficult terrain and necessitating a shut-down of both poles. We urge that such weaknesses be addressed as part of this planning.

The high-level cost and benefit analysis has been looked at on a collective basis. From a New Zealand Inc perspective Option 3 makes sense for a forty-year investment.

However, there are two areas in option 3 that require further consideration; in particular why should they proceed and who should pay? 1: 1200MW vs upgrade to 1400MW – this is an investment that MAY provide benefits into the future. 2: Removal of the 'old' cables – is this really necessary? These two components make up approximately 20% of the total project cost.

The lens of individual Transpower connected customers is coloured by the Regulatory settings as to how the costs of this $1.2b investment would be recovered. The annual cost allocation to NZ Steel could exceed $3m (if the indicative % allocation[1] for application of the BBI programme is applied). This requires deeper reflection. Expenditure beyond what is technically essential may seem sensible for the longer term on a macro basis, but when current customers are required to pay for enhanced investments the regulatory settings come into question.

Determination by the Commerce Commission sets the maximum allowable revenue for Transpower based on the regulated asset base. This provides a 'guaranteed' revenue to Transpower on an investment that may or may not provide benefit to customers in the future. In the 'world' where Transpower consumers operate investment risk is borne by the asset owner. If the cost and risk is to be borne by the customer, then a risk-free rate is appropriate for the WACC for Transpower revenue determination.

[1] Attachment 6, table 2.

The Transmission Pricing Methodology relating to the HVDC places a large part of the risk (of over or under assets build) and costs (by way of annual pricing) on NI consumers. When in fact the key beneficiary of the HVDC assets are the owners of lower South Island generation getting their product to the NI market.

The paper states[2] "Should we proceed with submitting a formal proposal to the commerce commission following this consultation, we will formally consult on the proposed BBI customer allocations for that investment." How is it proposed this will proceed when the BBI methodology has been established by the Electricity Authority? The TPM logic is flawed and as stated above the costs and risks largely fall on consumers when it is generation that necessitates these assets. The paper states the same[3], "Our expectation is that a significant transmission investment may influence where generation is built" and "We expect that HVDC link investment will influence both the location and type of new generation."

Affordability (at the individual consumer level) determines what the consumer may require in the future. As has been seen in the past few years with the closure of some businesses, affordable energy is an essential component for short-term viability, and without this there is no log-term future for some businesses. The $1.2b proposed investment under Option 3 is a very significant investment for the NZ electricity system when affordability is the critical uncertainty reflected in the recent WEC report[4]. Economic stability and growth is reliant on available and affordable electricity.

We suggest the next stages of the HVDC link project require the Transpower Board, Commerce Commission and the Electricity Authority to dig deeper as to the appropriateness of the current regulatory methodologies and resulting allocations for such a significant investment in this long-life asset.

New Zealand Steel

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[2] Page 17
[3] Attachment 4, Page 5, para 1.2.3
[4] Perfect paradox: Urgent focus on affordability and infrastructure in global energy report | BusinessNZ Energy Council