

27 May 2020

Transpower New Zealand Limited

Wellington

by email: communications@transpower.co.nz

SUBMISSION ON CLUTHA UPPER WAITAKI LINES PROJECT (CUWLP) CONSULTATION

Introduction

- 1 Orion New Zealand Limited (**Orion**) welcomes the opportunity to submit on the “Clutha Upper Waitaki Lines Project- invitation to comment on proposal to progress remaining projects” (the **paper**) released by Transpower on 8 May 2020.
- 2 We consider end-use customer cost impact from bringing the projects forward, from the original planned dates of 2030-2035¹, in a post Covid-19 environment is an important factor in this decision. A balance must be struck between the long-term benefit for New Zealand including climate change objectives, the lead time required to complete the project and gain its benefits, and the short-term additional costs for end-use customers some of whom are experiencing hardship. This is overlaid by the significant uncertainty attached to a Tiwai decision to close.

Answers to specific questions

- 3 Question: do you consider there is sufficient risk (i.e. chance and impact) that Tiwai will close or reduce output at short notice before upgrades can be completed such that we should seek to mitigate those risks now?

We acknowledge that for some time there has been a potential risk of Tiwai closure. We do not however believe that this would occur at short notice. We understand that there exist contractual notice requirements and in addition the nature of the Tiwai production process

¹ *Whakamana i te mauri hiko, empowering our energy future page 46 figure 17*

would require a managed and staged process for close-down. It is likely this could take some years. This then mitigates the three summers delay required for the CUWLP project to be completed. The Tiwai shutdown profile and the construction lead-time could occur in parallel.

- 4 Question: New generation in the Otago/Southland region would also support the need to complete the two sections of the CUWLP discussed in this paper. Are you aware of any new committed or consented generation in that region we should consider in our analysis?

We are not aware of any new committed or consented generation in the Otago/Southland region.

- 5 Question: Large new loads in the Otago/Southland region would reduce the benefits of CUWLP. Are you aware of any new committed projects that would significantly increase load in the lower South Island?

We are not aware of any new committed projects that would significantly increase load in the lower South Island.

- 6 Question: A Tiwai closure may accelerate plans for existing thermal plant to decommission and could delay the commissioning of new plant. This will influence generation costs and the benefits from relieving this constraint. What do you think is likely to happen post a Tiwai closure (specific reference to generation plants would be appreciated)?

No comment.

- 7 Question: Do you agree a 4% real, pre-tax discount rate (based on our RCP3 WACC and the lower range of discount rates in the Capex IM) is appropriate for this assessment?

Yes, we agree that the discount rate is appropriate.

- 8 Question: Do you have feedback on the broader economic benefits outlined in the paper or are there any others you wish to raise as a result of commencing the remaining stages of CUWLP?

It is suggested in the paper that commencement of the two further CUWLP projects will inject economic activity into the lower South Island however the paper provides no commentary on where this would create new jobs. While possible broader economic benefits are discussed

there is no quantification of the potential value and in the absence of this the significant uncertainty attached to Tiwai means the project remains uneconomic.

Our recommendation

9 We do not believe conditions or timing is right to support Transpower proceeding with the two further CUWLP sections and recommend that Transpower hold off until mid-2021 and review conditions then. We recommend this because:

9.1 We do not believe that the Tiwai smelter would reduce or close at short notice. It would take some time to wind down the business especially given the nature of the production cycle and any mothballing process. The economic case doesn't support the work even with some reduction in Tiwai offtake.

9.2 Additional costs on end-use customers in the near future (following Covid-19 lockdown) is undesirable even though the project is predicted to have a positive effect on wholesale electricity prices toward the end of the three-year project period.

9.3 Waiting until mid-2021 may provide more clarity on Tiwai's plans and provides time to understand the potential for any renewable generation or load reductions in the lower South Island that includes the early impacts of Covid-19.

Concluding remarks

10 Thank you for the opportunity to make this submission. Orion does not consider that any part of this submission is confidential. If you have any questions, please contact Alex Nisbet (Pricing Manager) on 03 363 9737 or alex.nisbet@oriongroup.co.nz.

Yours sincerely



Dayle Parris

Regulatory Manager