



**TRANSPOWER**

*Keeping the energy flowing*

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Mike James  
The Executive Director  
National Infrastructure Unit  
The Treasury  
PO Box 3724  
Wellington

**Transpower New Zealand Limited's submission to your discussion paper  
*Infrastructure: Facts and Issues (September 2009)***

We welcome the opportunity to make this submission on the *Infrastructure: Facts and Issues* paper.

We support the government's focus on infrastructure. The challenge is evident: the recent Global Competitiveness report<sup>1</sup> places New Zealand 20<sup>th</sup> overall but 35<sup>th</sup> for infrastructure, the lowest of all the elements that comprise the rank.

A resilient and reliable national transmission system is a platform for growth, and our concentrated period of high reinvestment in the grid will play a key role in advancing both economic development and public welfare of New Zealand.

Overall, we support the development of a national infrastructure plan and consider it a good opportunity to bring together a view of infrastructure across the sectors involved in its development and a good place to describe the elements of good infrastructure decision making. However, we do not consider that the infrastructure plan should supersede sector - specific initiatives where the Government is already making good progress.

Attached to this letter is our response to the questions posed for feedback listed in the same manner as requested in your paper. Our main points are:

- We are actively engaged with current government reviews of legislation pertinent to our ability to invest in, build and maintain the Grid, specifically the Ministerial Review of electricity market performance, and phase II of the Resource Management Act reforms and the Infrastructure Bill;
- We regard our Grid Investment Test (GIT), the designation process, and land access issues to be key areas for consideration;

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<sup>1</sup> World Economic Forum Global Competitiveness report 2009 / 2010 published 8<sup>th</sup> September 2009

- We support decision-making for projects that utilise a cost-benefit test where both costs and benefits are 'measured comprehensively'. In this regard we consider the current cost-benefit test (the GIT) to be too narrow in its application (please refer to our response to question 3). We also consider that there is considerable merit in allowing for greater customer and stakeholder involvement with setting service levels that are delivered by the grid;

Yours sincerely

A handwritten signature in cursive script, appearing to read 'John Clarke', written in black ink.

John Clarke  
General Manager – Grid Development

## ***Response to: Infrastructure: Facts and Issues***

Our responses below are set out in the order requested in the *Infrastructure: Facts and Issues* paper (the **paper**).

### **Q1. Base Information**

Overall the information contained in the paper appears correct. However, there are a few cases where corrections should be made:

- paragraph 24 - the North Auckland and Northland Grid Upgrade investment cost is \$473Million (not \$420M) as approved by the Electricity Commission 30 April 2009; and the \$82M indicated for the South Island Grid Upgrade project is more accurately \$38M (committed) for the Islington SVC<sup>2</sup> with the work titled 'Geraldine Bussing' noted as at investigation stage<sup>3</sup>.
- At paragraph 158 the separation of Transpower from ECNZ took place on 1 July 1994.
- At paragraphs 241, 245 and 247 we identified some information issues relating to telecommunications. To this end we support the TUANZ submission in relation to the corrections they have identified.

### **Q2. Missing Issues**

The paper covers a range of infrastructure issues and we support the focus on identifying and reducing existing hurdles to infrastructure investment. We set out below some of the aspects that significantly impact on our ability to build and maintain grid infrastructure that do not appear to be covered in as much detail in the paper. We have primarily focused on the issues not already covered by the government review of the electricity industry<sup>4</sup>. Our response is split into two areas:

- Land and environmental issues that impact development of new infrastructure
- Issues surrounding maintaining and improving existing infrastructure

#### ***Development of new infrastructure***

Transpower has supported many of the amendments in the Resource Management Act (Simplifying and Streamlining) Bill which have now been enacted (1 October 2009). We are actively engaged in the next phase of the RMA review, including the infrastructure workstream that is part of the Phase II RMA reforms.

We agree with the intent to streamline the processes for both Resource Management Act designations and Public Works Act processes. Streamlining these processes would assist transmission projects in obtaining approvals and being constructed in a timely manner. Already in place is the National Policy Statement on Electricity Transmission (2008) which recognises the national significance of the electricity

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<sup>2</sup> Static Var Compensator

<sup>3</sup> The information in the business plan has been superseded in this case.

<sup>4</sup> For our submission to the electricity market review, it's number 95 on the MED website [http://www.med.govt.nz/templates/Page\\_41966.aspx](http://www.med.govt.nz/templates/Page_41966.aspx)

transmission network and the establishment of new transmission resources to meet the needs of present and future generations.

We also support the intent expressed paragraph 343 of the paper to review the role of designations to facilitate infrastructure development. It is a key issue for us to work towards creating mechanisms that both establish and preserve corridors for future transmission investment. The designation process and mechanism is very relevant to networks (like transmission) that cross multiple districts and regions. We do not consider that designations necessarily need to be replaced with an alternative. However the designation process could be improved and this would assist with investment certainty in infrastructure.

### ***Maintaining and improving existing infrastructure***

Most public attention to Transpower focuses on our new-build projects. However, equally important is getting the most out of the infrastructure that exists already. Maintaining and improving existing infrastructure is consistent with Principle 5 of the discussion paper (after paragraph 76), which is about achieving value for money through sound asset management.

We look forward to the promulgation of the proposed National Environmental Standards for Electricity Transmission Activities (which has Cabinet approval) to provide a consistent planning framework throughout the country for the operation, maintenance and upgrading of existing transmission line assets.

Further issues for maintaining and improving existing assets are the ambiguities in the Electricity Act 1992 regarding activities that may be lawfully undertaken by Transpower under its “existing use rights” (including the concept of ‘injurious affect’).

Currently, Transpower is allowed to access private land to “maintain” works and to “upgrade” them as long as any upgrade does not cause “injurious affect”. However, there is significant uncertainty around the distinction between “maintaining” and “upgrading” and around the concept of “injurious affect”. Transpower and landowners need to grapple with that uncertainty for everything but the most basic work. It is common for work on existing assets to be delayed for long periods while disputes are resolved. We consider that this issue needs to be urgently addressed in order for the continuing safe and efficient operation of the grid.

We continue to work with stakeholders to manage the risks arising from development occurring under our transmission lines and to mitigate the chance of this practice occurring in the future. The National Policy Statement on Electricity Transmission (2008) requires decision-makers to manage development and activities that pose a risk to, or are at risk from, the efficient operation of the electricity transmission network. Transpower’s Corridor Management Policy seeks to ensure that only activities compatible with high voltage transmission lines occur within transmission corridors.

Finally we intend to pursue legislative change<sup>5</sup> for better protection of our undersea High Voltage Direct Current (HVDC) and fibre optic cables from potentially damaging activity. These links are critical infrastructure for security of supply and a national electricity markets and telecommunications. Outages on these links could have serious economic consequences.

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<sup>5</sup> The Submarine Cables and Pipelines Protection Act 1996

### **Q3. Decision-making**

The paper describes a project selection framework based on projects being chosen when they can be shown to contribute to public welfare and economic growth, using cost-benefit analysis where both costs and benefits are measured 'comprehensively'.

In our submission to the August 2009 discussion paper "Improving Electricity Market Performance" (a report to the Ministerial Review of Electricity Market performance) we proposed that the regulated investment test should move from its current, narrowly-focussed market benefit test to a wider, national cost benefit test. This would be consistent with New Zealand's infrastructure projects in other sectors and means that our investment selection can factor in broader assessments of investment benefits to such things as market competition and investor confidence. Importantly, we would also be able to include assessments of environmental and social benefits and costs arising from our investments.

As a regulated monopoly, our ability to recover the capital costs of investment depends on obtaining regulatory approval of investment appraisals. We support the recommendation of the 2009 Ministerial Review of Electricity Market Performance to have all transmission investment approvals subject to a single economic regulator to ensure consistent and integrated consideration of transmission revenue, performance and prices.

### **Q4. Cross-sectoral issues**

The Infrastructure Bill (currently before the Transport and Industrial Relations Committee) intends to encourage efficient infrastructure investment and reduce waste through greater coordination and consistency of rules across the different infrastructure sectors. Transpower supports the Bill.

We continue to work with the National Utilities' Advisory Group (who have developed a National Code of Practice for Utilities' Access to the Transport Corridors) on aspects of that Code we think could be improved to ensure that additional "value" for New Zealand is created from making better use of existing and new road and rail corridors for electricity and telecommunications infrastructure. We hope and expect that Code will eventually become the approved code under Part 1 of the Infrastructure Bill.

### **Q5. Regulatory Reform**

We are closely involved with all aspects of the government's regulatory reform programme to address infrastructure development and agree that the paper has covered the major regulatory constraints.

### **Q6. Aspiration**

Transmission service levels are currently regulated by the Electricity Governance Rules. However, we consider that greater customer and stakeholder involvement in establishing service levels is appropriate and welcome. To this end Transpower is working closely with customers when considering investment in the grid.

However, any detailed future changes to regulated service levels need to be made through a change in the rules that govern transmission investment.

## **Q7. Link to economic growth**

We note that the paper didn't use the quote from the World Economic Forum Global Competitiveness Report 2008/09 (referenced) which states

*"The country's competitiveness would be enhanced by upgrading infrastructure, especially roads and the electricity supply".*

We concur with the electricity aspect of the World Economic Forum's conclusion. The fact that the OECD quote is used instead leaves the reader with the impression that Treasury supports the idea that it is only roads that contribute.