



29 May 2009

Mervyn English
General Manager
Electricity Commission
PO Box 10041
Wellington 6143

Dear Mervyn

Transmission Code

- 1 Thank you for the opportunity to discuss with you on Wednesday the future direction of the Transmission Code. I appreciate the interest the Commission has shown in the Transmission Code initiative.
 - 2 As we discussed, there a number of technical issues in relation to the content of the Code that we will discuss further with the Commission. In the meantime, and as had already been indicated to consultees, we intend to produce an updated draft of the Code and associated commentary in response to submissions received in April.
 - 3 I wish to address in this letter the more fundamental issue you have raised, that is the consistency of the Code with the Electricity Governance Rules. We think the Code has an important role to play in giving effect to the Electricity Governance Rules in a transparent and efficient way.
- GEIP and the Electricity Governance Rules**
- 4 Good Electricity Industry Practice (GEIP) is a key planning criterion under the Rules, along with the GRS and the GIT. The Rules expressly provide that Transpower's upgrade investment proposals must reflect GEIP.¹ The Commission has also acknowledged in its decisions on Transpower's investment proposals that the Commission must be satisfied that a proposed investment reflects GEIP.²
 - 5 Furthermore, investment options considered as an "alternative project" under the Rules must be reasonably likely to proceed if a proposed investment, or another alternative, does not proceed. This means that only options that reflect GEIP can be considered an "alternative project" in applying the GIT. Again, this is consistent with the Commission's own practice in applying the Rules.³

¹ Electricity Governance Rules, Part F, Section III, Rule 13.4.1.1

² Reasons for Decision set out in Notice of Intention to Approve Transpower's West Coast Grid Upgrade, para 4.3.4.

³ See for example, Para 5.5.2 of the Reasons Decision set out in Notice of Intention to Approve Transpower's North Island Grid Upgrade Proposal.

- 6 As such, economic analysis (contemplated by both the GRS and the GIT) cannot alone be the determinant of options for consideration under the Rules. Nor can it more generally be the simple arbiter of a secure and reliable transmission system. That would be inconsistent with the Electricity Governance Rules. As is contemplated by the Rules, economic analysis must be considered alongside the requirement to, in managing the grid, exercise the degree of skill, diligence, foresight and economic management, as determined by reference to good international practice, which would be reasonably expected from a skilled and experienced asset owner in conditions comparable to the New Zealand grid.

Objective of the Transmission Code

- 7 We recognise that GEIP can be difficult to identify. But this does not detract from its importance as a planning criterion under the Rules.
- 8 The intention of the Code is to capture in an open and transparent way the practices, judgements, and standards that Transpower considers reflect GEIP in relation to the matters covered by the Code. The Code has been developed to assist with the efficient and prudent assessment of projects and investment options. It is intended to strengthen the linkage to GEIP through a systematic and documented approach. In this regard it is very much consistent with the Rules and I hope the Code will provide a platform for the future by establishing a format for capturing best practices, knowledge and experience in these matters.
- 9 The Code also seeks to temper some of the drawbacks of the current approach that, as we have experienced, can lead to lengthy delays in the planning and implementation of much needed transmission reinforcement, repeated rework from first principles and unproductive exchanges over the interpretation of GEIP. The Code also provides a mechanism for the controlled implementation of new technologies and methods, seeking to avoid moving unknowingly into uncharted territory with unintended risks to security of supply.

Content of the Code

- 10 Reflecting the definition of GEIP in the Rules, the practices, judgements, and standards that Transpower considers reflect GEIP have been determined by reference to international practice. But the assessment is grounded in a context relevant to New Zealand, taking into consideration conditions comparable to the relative size, duty, and technological status of the New Zealand grid. Again, this is expressly required by the Rules.
- 11 That there may be discussion about the content of the Code is not only expected, it is a welcome and important part of the Code's evolution. The intention of the Transmission Code is not to close off debate about the correctness of a statement of GEIP as set out in the Code. As the Code expressly contemplates, the Code is a living document that will be updated and expanded from time to time to reflect:
- Additional matters Transpower considers ought to be included in the Code;
 - Changes in good international practice (including in response to new technologies and methods);

- Further analytical work that may, from time to time, be undertaken;
 - The relative size, duty, age, and technological status of New Zealand's transmission network from time to time.
- 12 The Code cannot be, and is not intended to be, all embracing and to the exclusion of options not expressly reflected in the Code. Indeed, there may be circumstances where it is appropriate to deviate from the Code, where there is a clear and justifiable reason for doing so in those circumstances, and while continuing to act in accordance with GEIP. Any such derogations will be recorded, including the reasons for derogating from the Code in those circumstances. This is currently contemplated by the Code.
- 13 In this way, the Code becomes a framework for ensuring that planning decisions reflect GEIP in an open and transparent way, by reference to practices, judgments and standards that are documented in a systematic manner.
- 14 Finally we note your suggestion about other areas the Code can be extended to such as dynamic line ratings, advanced maintenance techniques, and reconductoring. As mentioned earlier, we will follow up again to discuss a number of technical issues. We look forward to continuing the discussion with the Commission on the content of the Code.

Kind regards



Bob Simpson
Chief Engineer