

Ref: 26001

30 January 2026

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Tēnā koutou

SUBMISSION ON TRANSPOWERS REDCLYFFE MAJOR CAPEX PROJECT

Unison Networks Limited (Unison) and Centralines Limited (Centralines) are consumer-owned electricity distribution businesses serving communities in Hawke's Bay, Taupō, Rotorua, and Central Hawke's Bay. We appreciate the opportunity to respond to the Commerce Commission's draft decision: Transpower's Redclyffe Major Capex Project.

As consumer-owned entities, we operate in the best interests of the communities we serve. Guided by our vision, and values, we strive to deliver economic benefits to both our customers and community shareholders, while championing a sustainable energy future. We are committed to maintaining the right balance between keeping electricity affordable and making strategic investments that secure the long-term reliability and resilience of our network. In all aspects of our operations, we place strong emphasis on meeting industry compliance requirements, ensuring we uphold all relevant standards. This approach not only supports New Zealand's transition to new energy solutions but also enables our communities to access cleaner, smarter, and more flexible energy options, now and for generations to come.

Introduction

We support Option 2, rebuilding at the existing site is the right solution to meet the investment need. This support is based on the below key factors:

- **Highest Net Market Benefit:** Option 2 delivers the highest expected net electricity market benefit, significantly outperforming the alternative of shifting the site (Option 3), which presents a substantial negative benefit.
- **Resilience Standards:** Upgrading the design standard to withstand a 1-in-450-year flood event is a necessary enhancement for critical infrastructure in the Hawke's Bay region.
- **Cost and Time Efficiency:** Rebuilding at the existing site is far more cost-effective than relocation, with a two-year commissioning time limit compared to the ten years estimated for relocation.

Major Capex Allowance and Project Outputs

The proposed major capex allowance of \$47.0 million (nominal). The project's components including raising critical high-voltage equipment and constructing a digital substation control building are technically workable and consistent with Good Electricity Industry Practice (GEIP). The 50th percentile (P50) cost estimate is reasonable.

Incentive Rate and Deadband Mechanism

We support the application of the default 15% major capex incentive rate and the implementation of the deadband mechanism:

- *Deadband Range:* Setting the deadband between the P30 (\$51.4 million) and P70 estimates is a reasonable approach to managing early-stage project uncertainty.
- *Incentive Neutrality:* Ensuring Transpower is neither rewarded nor penalised within this range will help accelerate project development while protecting consumers from minor cost fluctuations.

Capex IM Amendment Process

We note the Commission's identification of a flaw in the current Capex IM, where the incentive formula stays linear and may over-reward or over-penalise Transpower if costs fall outside the deadband. We support the Commission's intention to amend the Capex IM so that rewards are applied only when costs fall below the P30 estimate and penalties only above the P70 estimate.

Commissioning and Expiry Dates

The proposed commissioning date of 31 December 2027, alongside the approval expiry date of 31 December 2032, is reasonable. Rebuilding at the existing site avoids the uncertainty associated with new property acquisition or consenting, making the proposed time limit realistic and achievable.

Despite the time limits appearing reasonable, prompt commencement and disciplined delivery are essential to reducing the region's ongoing vulnerability. Redclyffe is still a point of frailty for Hawke's Bay, and until the resilience works are finalised, communities stay exposed to risks like those experienced during Cyclone Gabrielle.

While, the project is projected to finish in 2027, the approval's expiry in 2032 provides a five-year buffer. However, because ongoing vulnerability at Redclyffe poses serious regional challenges, there's concern that this lengthy expiry period could result in unintended project delays. It is imperative for the Commission to make clear its expectation that the project will be finalised by 2027 as planned. Any postponement would unnecessarily extend the time consumers face increased reliability and resilience risks.

Regional Context and Need for Resilience Investment

Cyclone Gabrielle had a devastating impact on Hawke's Bay, triggering a National State of Emergency and exposing critical vulnerabilities across the region's infrastructure. Napier

and surrounding communities experienced widespread flooding that isolated towns and cut off key transport routes. A major point of failure occurred at the Redclyffe Grid Exit Point, where floodwaters damaged the 220 kV switchyard and control systems. This resulted in the loss of supply to the Redclyffe, Whakatu, and Whirinaki GXPs and caused prolonged outages for approximately 40,000 customers leaving households and businesses without electricity for days, and rural communities for weeks.

The consequences extended far beyond inconvenience. Essential services were impacted, communication networks failed, and communities faced significant welfare challenges, including food spoilage, reduced heating, and broader economic hardship. The isolation of parts of Napier underscored the fragility of regional lifelines and illustrated how quickly social and economic conditions can deteriorate when critical infrastructure is rendered inoperable.

These events make clear the urgent need for targeted resilience investment. Enhancing flood protection at Redclyffe such as elevating critical equipment and constructing a new control building designed to withstand a 1-in-450-year flood event provides the most cost-effective and practical means of mitigating future risk. Strengthening the site will significantly reduce the likelihood of major, long-duration outages and safeguard the wellbeing of households, businesses, and the wider Hawke's Bay economy.

Investment in resilience is not optional; it is essential to protect communities from future extreme weather events and preserve confidence in the long-term security of electricity supply.

Conclusion

Unison and Centralines support Transpower's proposal to rebuild the Redclyffe substation at the existing site. Option two provides the greatest net market benefit, delivers essential flood resilience improvements, and is the most cost-effective and prompt solution to address the clear investment need. The devastation caused by Cyclone Gabrielle showed the critical importance of strengthening key electricity infrastructure to withstand increasingly frequent and severe weather events. Ensuring the Redclyffe site can continue working during extreme flooding is fundamental to protecting the safety, wellbeing, and economic stability of communities across Hawke's Bay.

We consider the proposed major capex allowance, incentive rate, deadband mechanism, and commissioning time limits to be reasonable and sound. We also support the Commission's intention to amend the Capex IM to ensure the incentive framework more accurately reflects project uncertainties and provides balanced, fair outcomes for both consumers and Transpower.

Investing in resilient, future-proofed infrastructure is essential to keeping public confidence in the electricity system and safeguarding regional lifelines. The proposed Redclyffe rebuild strikes the right balance between prudent cost, expedient delivery, and long-term reliability, and we encourage the Commission to confirm its draft decision.

No part of this submission is confidential, and we acknowledge it will be published.
Please contact us for further information, including on operational requirements.

Nā māua noa, nā

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