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26th July 2016

Electricity Authority
PO Box 10041
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By email: submissions@ea.govt.nz

RE: Transmission Pricing and Distributed Generation Policy Submissions

Pioneer Energy's submissions are included together with this cover letter to the Electricity Authority's Board. The Authority's stated objectives of these proposals is made clear, to achieve more efficient transmission pricing and remove any barriers to pricing efficiencies, however the analysis supporting these objectives is far less clear. The table below summarises our resulting views in respect of the proposals submitted:

	Transmission Pricing Methodology (Monopoly services)	Distributed Generation Pricing Principles (Competitive services)
Statutory objectives	Our understanding is that we are aligned with the majority of industry stakeholders in concluding that the Authority's CBA delivers a substantially negative NPV once updated for more realistic inputs. As such, the TPM proposal does not satisfy the Authority's statutory objective (section 15). Separating TPM from DGPP has the effect of double accounting for transmission capacity payments. Introducing common costs to DG providers then has the effect of creating a direct market subsidy to grid supplied generation for the "last mile" of delivered energy costs . The current TPM and ACOT regime reconciled these competing services.	These DGPPs proposals came up in the TPM first issues paper, and now appear rushed and the statutory obligations set out in section 32(1) have not been satisfied. The TPM and DGPP regulations need to be aligned to ensure a level playing field is maintained. More particularly, the purpose of the pricing principles have not been adequately addressed nor has the Code change obligations set out in section 21 been followed. A full market review would have shown that ACOT payments, especially to the extent of avoided transmission charges, reflect market-forces and locational benefits to consumers of distributed generation.
Economic rational	TPM pricing is a function of normal economic sizing of infrastructure development, so must be approached from a long term perspective. The TPM is not about optimising investment. There will be a number of factors driving generation investment and location decisions a small component of which will be transmission. For durability and long term benefit TPM should where possible avoid regulatory wealth transfers post investment decisions.	The presumption that DG is inefficient and requires a subsidy is not supported by your TPM CBA - which finds the opposite. The DGPPs do not set the price, which is an outcome of the TPM and is thus cyclical due to economic sizing issues. The only way to avoid that issue is encourage more DG investment i.e. as Government envisaged when it regulated DGPPs in 2007.
Cost benefit	The static nature of the CBA and use of arbitrary input assumptions is not supported by readily available market evidence. Updating with more realistic inputs brings out a negative $1b error in the maths The case for this is not helped by the disconnect between AOB, TPM and the future uncertainty of prudent discounting	The DGPP CBA is inconsistent with the TPM CBA resulting in a pre-conceived outcome and both suffer from incorrect input assumptions. Distributed generation, as a portfolio, currently delivers $500m consumer benefit for $52m ACOT, i.e. an estimated consumer return of 10:1 on its investment.
Possible Solutions	The CBA found existing DG was efficient and of benefit to consumers, therefor its position should be grandfathered. International better practice strongly supports measures to enable and facilitate flexibility in grid access. Flexibility provides for choice and choice exerts long term downward pressure on prices for consumer benefit Guidance to Transpower should make recommendations whilst allowing it to strengthen the existing TPM regime if this will avoid financial disruption and better enable workable competition. There may be future merit in an alternative LRMC type central contracting mechanism, removing any competitive inefficiency with the current Network pass-through arrangements and resolving the double accounting problems introduced by TPM.	DGPP cannot be resolved without first resolving the TPM and needs to consistent with Part 4 treatment of transmission alternatives in Transpower's revenue price path. The Authority's pursuit of its statutory objective should be encouraging Transpower through these guidelines to: • Further enhancing the market-like nature of generation competition; • Further eliminating both explicit and implicit subsidies to grid generation; and • Further securing and maintaining a level playing field. DG will be built efficiently by willing investors provided that the regulations, pricing and contracting regime is fair and equitable.

These matters arising and the overall intent of these proposals is very complex, has many policy inter-dependencies and the analysis includes a number of qualitative assumptions open to considerable industry debate. We have therefore spent a lot of time and effort on comprehending the cost-benefit quantitative analyses given the substantive changes to current regulations. We consulted widely with many others in the industry and found most parties are asking the same questions and highlighting the same issues with this analysis.

Both the TPM and DGPP proposals can only be justified to the extent that they result in significant savings for consumers. The cost benefit analysis (CBA) purports to demonstrate this, but once it is corrected for basic errors and omissions, the CBA's actually show that the combination of these proposals is likely to result in a large net loss for consumers. It would also be reckless to embark on such a major upheaval to the pricing structure that would result, according to the EA's own analysis, in most distributed generators being put out of business, when the economic benefits can only be demonstrated by utilising a flawed CBA.

Overall, there are unacceptable regulatory change risks to investors, particularly given the material cost-benefit anomalies, analysis sensitivities and forecast uncertainties that are revealed. The forecast anomalies are compounded by the Authority introducing new “common costs” that will subsidise competing market generators over the “last mile” of networks, coupled with a very aggressive implementation programme that ignores your own Consultation Charter. This is all unwarranted and provides no time whatsoever for DG businesses to position and prepare themselves to mitigate such a large regulatory change directly impacting their financial viability.

Whilst we appreciate the opportunity to make these submissions, we are also bound to express the serious concerns Pioneers Board and Shareholders have with your explicit intention to commercially disadvantage and financially disrupt an important segment of distributed generation investors, by unilaterally removing regulations and rules relied upon to protect DG investors in their unique location and market functions in the electricity supply chain. PWC has undertaken an independent financial review of future DG sector value impacts for the Independent Generators Association (IEGA). This report shows this proposal will reduce existing DG market values by at least 30% due to the TPM and by as much as 100% of shareholders equity if the DGPP rulebook is also removed. By way of comparison, your TPM proposal has provision for the mitigation of wealth transfers and financial relief through discounting provisions showing a regulatory preference for larger businesses.

I trust Pioneer's submissions will assist you fill in some of these obvious knowledge gaps and will encourage the Authority Board to urgently reflect on the broader implications of implementing Code changes that are likely to cause more than $1bn of additional costs to consumers and $1bn+ of DG sector wealth destruction.

Yours sincerely

Stuart Heal
Chair
Pioneer Energy Limited

Enclosed:

1. DGPP Submission
2. TPM 2nd Issues Submission
3. TPM Cost-Benefit Analysis Submission