Vestas New Zealand Wind Technology Ltd

31 January 2014

Submissions
Electricity Authority
PO Box 10041
Wellington 6143

By email: submissions@ea.govt.nz

Dear Sir/Madam

Working Paper – Transmission pricing methodology: Avoided cost of transmission payments for distributed generation

Vestas – New Zealand Wind Technology Ltd (**Vestas**) is pleased to provide the Electricity Authority (**EA**) with our response to the Avoided Cost of Transmission (**ACOT**) working paper dated 19 November 2013.

Our parent company, Vestas Wind Systems A/S, is the world's largest manufacturer of wind turbines. Vestas has supplied almost half of all the wind turbines installed in New Zealand and employs more than 16,000 people worldwide. We operate in more than 73 countries and we have significant experience in dealing with some of the world's best and worst policies and regulations for the wind energy sector.

In preparing this response we have consulted with our customers and many other companies in New Zealand who have invested significant amounts of capital in distributed generation over a long period and have significant concerns over the approach being proposed by the EA. We share those concerns and aim to bring the perspective of an experienced multinational company to this debate.

Vestas understand the key principle by which all EA decisions are made: whether such a decision is in the long term interests of electricity consumers in New Zealand. We take the view that the changes proposed to ACOT payments by the EA in the working paper will not be in the long term interests of electricity consumers and will explain why below.

Sovereign risk

First and foremost, our concern relates to sovereign risk. Vestas is a supplier to the NZ electricity sector rather than being a market participant. But we have significant concerns about a change to the rules relating to ACOT payments because of the impact such a change would have on the viability of distributed generation projects in NZ that were planned and financed on the basis of a particular set of rules that the EA is now looking to change in a manner that is adverse to those investors.

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Company reg. name: Vestas New Zealand Wind Technology Ltd. **Communication name:** Vestas New Zealand.

At a minimum, any changes to the way in which ACOT payments are made or calculated should only apply to future investments. Any arrangements that are currently in place for existing distributed generation projects should be preserved so as to minimise sovereign risk and not harm New Zealand's reputation as a place to invest.

Small potential gains but larger potential risks

Further, we note the potential gains for New Zealand electricity consumers as a result of the changes proposed in the Working Paper are minimal at best – around $10 a year for the average household.

Those potential gains might be wiped away instantly if the changes proposed are implemented in full and without regard for existing distributed generation investments.

Risk premiums applied by capital markets to new investments and refinancing of existing assets may rise by such a quantum that a ~$10 per year potential saving for the average household may well be swept away and outweighed by the increased cost of capital imposed on energy investments in New Zealand.

That risk alone should prompt the EA to consider what is really at stake with a proposal such as this. New Zealand has a good reputation among energy investors but this should not be taken for granted.

Out of step with policy

As the Working Paper makes clear on pages 13 and 14, the New Zealand government has a policy to facilitate investment in distributed generation and in 2003 confirmed this.

Any changes to the rules relating to ACOT payments should bear government policy in mind, but in this case it seems the proposal in the Working Paper is out of step with many of the policy principles expressed by the government and set out on page 14 of the Working Paper.

Making rules changes that are out of step with government policy should not be done lightly unless it is absolutely clear that the long term benefits for electricity consumers are absolutely clear and substantial.

Out of step with decades of convention on ACOT payments

The concept of ACOT payments didn't just begin last decade. ACOT payments have been part of the New Zealand electricity sector for more than half a century, and many investments made (in part) upon reliance from the revenue from ACOT payments. Many of these have been configured and sized according to this.

Departure from this framework should be a path that is not taken lightly, and with consideration of the wider messages this sends to investors in the New Zealand energy market.

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The Trustpower submission in particular provides more detail on the history of ACOT payments and illustrates the significance of a departure from the current rules.

Vestas strongly supports the Trustpower submission and we think it also clearly sets out the likely impact of what might otherwise have seemed like a minor change when the EA first proposed it.

Vestas also strongly supports the submission lodged by the Independent Electricity Generators Association.

Please contact me on +61 3 8698 7300 if you have any questions.

Yours sincerely

[signed]

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