

14 July 2015

Submissions
Electricity Authority
P O Box 10041
Wellington 6143

By email: submissions@ea.govt.nz

Dear Sir / Madam

RE: Consultation Paper – HVDC component of Transpower’s proposed variation to the TPM

Pioneer appreciates the opportunity to make submissions on the Electricity Authority’s (Authority) consideration of the HVDC component of Transpower’s proposed variations to the transmission pricing methodology (TPM). We have provided submissions to Transpower during its consultation on proposed variations to the TPM and this submission is consistent with our earlier submissions.

We note that all Pioneer’s generation is embedded within local networks or on customer sites but we can and do face HVDC charges of a quantum that reflects our miniscule contribution to grid flows in the South Island.

To be clear, Pioneer does not believe it is fair or economically efficient for the HVDC charge to be levied only on South Island generators. That the current HVDC charge is faced by South Island generators alone is an impediment to maximum utilisation of the South Island’s renewable electricity generation and effects wealth transfer: intuitively the effect of the charge is to displace South Island renewable (and generally cheaper) electricity generation volume with marginal (and generally more expensive) North Island and likely carbon-emitting generation.

Assuming South Island generators continue to be charged for the HVDC, Pioneer supports the proposal to allocate HVDC costs on the basis of MWh based on the quantity of electricity injected into the transmission grid.

The current HAMI methodology creates significant disincentives for South Island generators. In plain terms, under the HAMI allocation methodology, the maximum injection at any point in time then becomes the basis for allocating HVDC costs to a South Island generator for the next five years.

While our generation is embedded there are occasions when we end up injecting electricity on to the transmission grid - and sometimes due to the actions or inaccurate information of others. We provide practical examples:

- We have had to pay additional HVDC charges under HAMI due to the construction of other embedded generation connecting to the same node we had been generating within for some time. Our exposure to HVDC charges reflects the actions of other generators in creating HAMI peaks and is outside our control.
- Pioneer is incurring HVDC charges due to an error from our data provider in one season, which has resulted in us paying for more (about 2.5MWh) than we had targeted as economically efficient net injection - for five years.

- The cost to Pioneer of injecting an extra MW into the transmission grid at the CYD node within the Aurora network is the full HAMI rate (currently \$44.6k/MW pa and increasing to \$46.49k/MW pa) for 5 years. This is a very material cost to our business and therefore we have determined an injection limit we believe is economic for Pioneer. We actively manage generation to this limit by withholding our renewable generation at CYD, which frequently results in spilling (both water and wind).

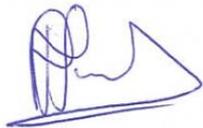
Pioneer supports the proposed MWh charge on net injection volumes. This is the simplest solution since:

- everyone knows the cost of injecting an extra MW into the transmission grid;
- the same marginal and actual charge applies to all South Island generators for injecting an additional MW into the transmission grid, enabling a more level playing field for small generators relative to large scale;
- everyone has the same information, that is, you don't have to apply any resources to working out if your actions will create or be part of a peak; and
- this method offers significant efficiency gains according to Transpower's analysis (note we have not reviewed the modelling).

Pioneer supports a transition approach to this MWh allocation methodology provided a transition is applied in principal to any other changes to the current transmission pricing regime. It is unclear at this stage what other costs and benefits (including any subsequent changes to ACOT) might arise from the package of transmission reforms being progressed by the Electricity Authority and Transpower.

Pioneer's answers to the Authority's questions are below. I would welcome the opportunity to discuss this submission with you.

Yours Faithfully,



Fraser Jonker

Chief Executive

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Pioneer's response to the Electricity Authority's questions

Question		Comment
1	Do you have any comments on the problem definition?	We agree with the problem definition.
2	Do you consider that the proposal is preferable to the status quo and other options? If not, please explain your preferred option in terms consistent with the Authority's statutory objective.	Pioneer considers the proposal is preferable to the status quo. As discussed in our letter (above) the HAMI methodology creates significant disincentives for South Island generators.
3	Do you consider that the proposal complies with section 32(1) of the Act, and with the Code amendment principles, and should therefore proceed?	Pioneer supports this proposal being implemented as a Code amendment.
4	Do you have any comments on the drafting of the proposal?	No comment.