

31 January 2017

Market Operations
Electricity Authority
P O Box 10041
Wellington 6143

By email: marketoperations@ea.govt.nz

Dear Sir / Madam

RE: Top Energy application for exemption pursuant to Section 90 of the Electricity Industry Act 2010

Pioneer Energy (Pioneer) appreciates the opportunity to make comment on this exemption application.

Top Energy:

- proposes to purchase and use diesel/bio diesel generators totalling 26MW nameplate capacity solely for the purpose of maintaining network supply when planned and unplanned outages on the network occur and for managing peak demand (in addition to its existing 3.65MW diesel generator at Taipa);
- proposes to increase the capacity of the Ngawha geothermal power station by 32MW from 32MW to 64MW
- currently holds an exemption granted by the Commerce Commission in relation to its current diesel generator and 100% ownership of its wholly owned subsidiary Ngawha Generation Limited (NGL) for capacity up to 45MW
- is requesting an exemption from the Arms' Length rules so that it can continue to have management from its electricity lines business involved in managing its generation subsidiary.

The Electricity Industry Act 2010 requires corporate separation and the application of Arms' Length rules, including separate management, if the generation assets connected to the distribution network exceed 50MW.

In total, Top Energy is going to own 93.65MW connected to its distribution network. This is almost twice the capacity of the threshold in the legislation.

Pioneer believes that distributed generation has many benefits for the consumer from supplying electricity close to load, and can provide network support and be an economic alternative to network infrastructure assets.

However, at a principled level, we are concerned about the degree to which Top Energy's generation investments will exceed the 50MW legislative threshold. This threshold is based on carefully considered public policy, was subject to consultation

and the scrutiny of Parliament. The costs avoided by Top Energy if an exemption is granted place Top Energy's generation business at a competitive advantage relative to a third party that might consider investing in that network area.

This issue of competitive neutrality is becoming more important with the increasing availability of new technologies or business models that can provide network support services. Network companies might invest in these technologies or business models and crowd out third party service providers. We understand the Commerce Commission Input Methodologies provide protections for third parties, as does the legislative threshold of 50MW.

I welcome the opportunity to discuss this submission with you.

Yours sincerely

Fraser Jonker
CEO