

30 January 2018

Submissions
Electricity Authority
P O Box 10041
Wellington 6145

By email: submissions@ea.govt.nz

Dear Brent,

Re: Consultation Paper – List of distributed generation eligible to receive ACOT, lower South Island

This submission from Pioneer Energy (Pioneer) to the Electricity Authority (Authority) has three parts:

1. comments on the test scope, outcome and implications of the Authority's approach to LSI DG which has determined the list of DG that is eligible to receive ACOT;
2. the CBA outcomes of the LSI review and reliability test; and.
3. our review of the proposed list of eligible DG to check the accuracy of the ICP used for our DG connected to the GXPs identified by Transpower.

1. Comments

Test Scope

Pioneer is frustrated by the narrow focus or scope of the test implemented by the Authority to identify eligible DG. We commend Mitton ElectroNet for identifying and detailing in their report¹ factors which have not been accounted for within their analysis, including, but not limited to (summarised in the following bullets):

- potential reduction in transmission system losses
- potential displacement of more expensive marginal generation
- operation flexibility for Transpower during times of grid maintenance
- considering only peak winter and peak summer demand – additional scenarios such as the shoulder period would improve the robustness of the analysis.

¹ Page 4 <https://www.ea.govt.nz/dmsdocument/22904>

Transpower also agreed that “DG provides benefits that are not assessed as part of this report and confirm that DG in the LSI region helps to mitigate the impact on consumers of grid outages (removing grid assets for maintenance or enhancement purposes).”²

We believe the results would have been material if these additional factors were taken into account in the analysis of the contribution of DG to system reliability. This limited scope at the implementation stage is analogous to the Authority’s approach to its cost benefit analysis for the decision. Pioneer submitted at that stage of consultation that the Authority had not taken into account the potential reduction in transmission system losses or potential displacement of more expensive marginal generation. We estimated the value of these two benefits from DG at ~\$500 million per annum. If taken into account the cost benefit result would have been negative and the decision to change ACOT payments could not have gone ahead.

CBA Outcome

We note the Authority’s December 2016 decision paper described the reason for targeting the Lower South Island transmission region first was because it expected the most savings for consumers from this region given it is a region that overall exports electricity to the rest of New Zealand³.

Further, the Authority claimed consumers would save \$25 – 35m per annum⁴ of total ACOT payments, or a saving of ~50 -70% of the Authority’s estimate of 2016 payments of around \$50m⁵.

This suggests that the Authority expected the contribution to the total savings to be higher than the average from eliminating ACOT payments to DG in the Lower South Island.

However, the results of Transpower’s detailed modelling reveal that **70%** of the distributed generation winter MWs⁶ are required to maintain grid reliability and so are on the draft list as eligible to receive ACOT payments.

Pioneer suggests a review of the cost benefit analysis should be undertaken now given the realities – in relation to savings and implementation costs (see below), transmission system losses and marginal energy costs – which are all different from the assertions made by the Authority in its decision paper.

Implications

Under the Commerce Commission regime for network companies the list of eligible DG confirms that the network company can pass through ACOT payments for these DG.

² See page 4, <https://www.ea.govt.nz/dmsdocument/22902>

³ For example, see the third paragraph of the Executive Summary of the Decision Paper (page 2) <https://www.ea.govt.nz/dmsdocument/21514>

⁴ See <https://www.ea.govt.nz/development/work-programme/pricing-cost-allocation/review-part-6-dg-pricing-principles/development/authority-decision-on-the-review-of-dgpps-and-acot/>

⁵ See page 2 <https://www.ea.govt.nz/dmsdocument/21514>

⁶ From the first column of Table 2 in the Mitton ElectraNet Ltd report, page 12 <https://www.ea.govt.nz/dmsdocument/22904>

However, as you know, there are numerous contractual agreements between DG owners and network companies relating to DG plant⁷.

These bilateral contracts are NOT on regulated terms but are significantly impacted by the Authority's December 2016 decision and approach to implementation. Pioneer and other DG owners and network companies are incurring substantial external and internal costs to determine the extent to which the change to the default terms in the Code affects contracts signed on the basis of the previous law. Contract mediation and legal disputes seem likely. It is inevitable that these costs will ultimately be met by consumers.

The decision paper speculated that the transaction costs would be less than the (minimal) amount assumed in the consultation paper CBA⁸. Pioneer continues to disagree with the Authority on the issue of transaction and implementation costs. We are happy to share with you the costs Pioneer has incurred thus far in relation to this Code amendment.

2. ICP identifiers for Pioneer's distributed generation

The ICP identifiers for Pioneer's generation plant are correct.

Overall, outcomes from the LSI reliability test serve to highlight the many flaws in the Authority's original assumptions relating to their ACOT review; the lack of adequate industry advisory inputs and the poor consultation process. All of these factors have resulted in the disparate and inequitable treatment of many DG investors, a loss of confidence in the Authority by smaller actors and a reduction in new DG investment at a time when emerging distributed technologies are transforming the market for the consumer's benefit. The fundamental arguments supporting DG related efficiencies and benefits have been totally ignored by this Authority.

We would welcome the opportunity to discuss this submission with you.

Yours truly



Fraser Jonker
Chief Executive

⁷ This is referred to in the Authority's paper in paragraph 3.13, page 7
<https://www.ea.govt.nz/dmsdocument/21514>

⁸ Paragraph 3.86 page 42 <https://www.ea.govt.nz/dmsdocument/21514>