

8 February 2024

Electricity Authority
Level 7, AON Centre
1 Willis Street
Wellington 6011

Sarah Gillies, Chief Executive
Andrew Millar, Market Policy

Re: Hedge Disclosure Obligations

Please accept this letter as Lodestone Energy's submission to the EA Consultation on Hedge Disclosure Obligations.

Lodestone's current market position:

Lodestone's Phase 1 programme includes an operating 23MW solar farm in Kaitaia, a second 23MW solar farm in Edgcombe coming on-line in March, and a third grid-scale 32MW solar farm in the Waiotaha valley due for completion in November 2024. We also have two more sites which will see the start of construction at Whitianga and Dargaville in 2024 for operations in 2025. We are developing a second phase in the same way which could have equal or greater scale than Phase 1.

Background

The New Zealand electricity sector has not seen a large-scale independent power company emerge since the late 1990's, when deregulation first began. The presence of a few vertically-integrated players (Gentailers), controlling 90%+ of the market, has been a deterrent to those trying to stand up a new generator of scale.

Lodestone Energy was established in late 2019 to roll out grid-scale solar energy and to make a material contribution to the NZ government's carbon reduction targets. This roll out is fundamentally based upon Lodestone's ability to shift customers from traditional contract structures; that are typically short-term in nature.

Lodestone has secured project-finance by signing up a few large-scale customers on long-term contracts in direct competition with the Gentailers. The Warehouse Group, as an example, has signed a long-term arrangement that has been important to securing project financing for several solar farms.

The ability to build more generation and increase the competitive pressure on Gentailers is intrinsically linked to the bilateral negotiations with this market segment and confidentiality in these dealings is a critical success factor.

Overview of Lodestone's position on the Disclosure Regime

Transparency: Lodestone agrees that current hedge market disclosure obligations force transparency on standardised hedge products which provide helpful, short-term information to independent retailers and direct supply customers. We agree that forced transparency partly addresses liquidity issues resulting from the dominance of a few vertically-integrated players and we agree it is an effective way to reduce the consequences of their market power. To that end, we support the disclosure of short-term, standardised hedge products that are tradeable.

Gentailers exemption: We observe that internal transfer prices that are used to support Gentailers new renewable builds are exempt from this regime. We accept that this is how they might develop a competitive advantage against the many forms of competition. We believe that management of their internal transfer price is the main way Gentailers remain competitive with new generation and the cost of new generation is a primary input into setting their transfer pricing.

Enabling generation-level competition: We are also aware that Lodestone is a rare example of how a new form of generation can put competitive pressure on Gentailers. This means the existence of Lodestone will have a positive long-term impact on pricing to customers. The ability Lodestone has to freely obtain customers is inherently linked to its ability to propose a direct alternative to prices and products Gentailers sell to their retail divisions, and large C&I customers.

Contracting approach can be innovative and commercially sensitive: Lodestone's contracting approach is a form of intellectual property. Keeping Lodestone's propositions confidential from other generators is fundamental to creating meaningful, long-term competition with normal commercial protections.

Large customer price discovery: Large customers are able to create and manage their own transparency on long-term prices from independent generators to allow comparisons to offers from Gentailers. With the protection of Non-Disclosure Agreements, these customers can easily obtain proposals from multiple new generation sources and many do so with the assistance of expert advice. There is no added benefit to large customers of a forced disclosure regime for independent generators.

How Gentailers obtain an advantage with forced disclosures

Gentailers are legitimate buyers of independent generation output and a natural competitor. They routinely hold out their ability to purchase power from independent generators and, at the same time, carefully assess competitive 'intel' from their customers. Through this dual-positioning, they have a competitive advantage in the new generation market. In short, they work both sides of the street.

This advantage should be enough to give them ample opportunity in the new generation market and should not be added by a forced disclosure regime. Forced disclosure of a competitors confidential contracts will transfer a significant amount of leverage to a Gentailer that already has the power of the dual-positioning in the first place.

For Lodestone to be successful, we have gone to great lengths to keep Gentailers from knowing details of what we are representing to our lenders in project finance and to the customers we wish to contract with. In short, confidentiality is critical when competing for long term generation assets and the EA needs to preserve the ability for independents to compete with the dominant players.

Lodestone's Recommendation

The Electricity Authority should apply a full exemption from the disclosure obligations of contracts in all cases where a long-term contract underpins securing long-term debt for generation facilities.

This should include all contracts with Gentailers, retailers or customers.

Summary of the Rationale

We make this recommendation for the following summary reasons:

- 1) Independent generator's primary advantage is the ability to confidentially construct an attractive long-term proposition with a customer. Taking away that advantage could eliminate their ability to be an effective competitor;
- 2) Such disclosures will add to the Gentailer's dominant position and enhance their dual positioning advantage that already exists;
- 3) Forced disclosures will not contribute to a large customer's ability to understand their options as they can run confidential processes and seek expert advice; and
- 4) Independent generators are competing against other independents where innovation and contracting approach is a form of intellectual property. Forcing disclosure of IP cuts across normal commercial principles.

Meeting with the Electricity Authority

We would like the opportunity to further outline to the Electricity Authority the risks the existing and proposed enhanced hedge disclosure regime presents to long-term competition in the New Zealand retail electricity market.

Warm regards,



Gary Holden
Managing Director