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Electricity Authority  
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Via email:

**Re: Level Playing Field work programme**

As the electrification of New Zealand's economy begins to accelerate, ensuring a competitive, level playing field is critical to the development of the country's renewable energy.

Given the size of the challenge, we believe a mix of domestic and international capital is needed and investors considering a 20 – 30-year investment horizon require a high level of confidence in the stability of the market and regulatory settings.

Lodestone appreciates the opportunity to make some high-level observations on this subject to help inform the EA's Level Playing Field work programme. As a team we are an experienced group that has worked in several international markets and can bring insights from all those experiences. However, rather than using international comparisons, we see great value in using our direct experience as a new generator and independent retailer in the New Zealand market to contribute to your final recommendations. Our unique experience of building a large player in a short period of time is both evidence that the market is working and a tangible case study to highlight where it could work better.

Thank you for the opportunity to contribute our experience. We have three objectives we would hope to achieve by making this submission:

- 1) To provide insights on how to ensure a level playing field,
- 2) To suggest regulatory changes to accelerate the development of renewable generation, and
- 3) To demonstrate what might be needed to enhance the competitive landscape and ensure lower cost electricity will immediately reach the hands of electricity consumers.

**Lodestone overview**

By most measures, Lodestone is the country's most advanced independent solar developer. Our vision when we established in late 2019, was to use the market rules to build a large volume of grid-scale solar energy, make a material contribution to the country's carbon reduction targets and play a meaningful role in lowering electricity costs for all consumers. We would say today that we are right on track in delivering this vision.

To illustrate, Lodestone has raised \$365 million of capital from domestic sources and has three solar farms operating or in commissioning: 23MW solar farm in Kaitaia, 23MW in Edgecumbe and 32MW in the Waioatahe Valley. An additional site is under construction in Whitianga scheduled for commissioning in late 2025 and planning for a further 18 utility-scale sites in the company's second and third development phases are advanced.

Lodestone is a customer-led organisation and has signed electricity supply arrangements with an independent mass market retailer, a commercial market retailer and several large commercial customers. These contracts have opened up new possibilities, as they are for 10 to 20 year terms and are providing those customers tangible reductions in their electricity costs. These contracts also enable Lodestone to obtain project finance and establish a business model for further solar development.

From a system perspective, these commercial transactions are arguably more valuable than new generation in that they provide flexibility and reduce system load. They provide a direct source of disruptive competition with established generator-retailers and choice for large-scale consumers – innovation the market needs to foster and encourage.

New Zealand has not seen a new large-scale independent electricity company since deregulation in the 1990s. There are now – in response to clear market price signals – a plethora of independent renewable electricity

developers entering the market. This is why settings to ensure and then protect a level playing field are now so critically important.

Lodestone seeks policy and market settings that support and enable true competition between all electricity market participants on an equal basis.

### **A level playing field and the importance of communicating the quality of the market**

Investor confidence is a very important part of building new generation. Lodestone is both encouraged and concerned about the policy and regulatory environment from a market stability perspective.

There are a number of moving parts following a tight 2024 winter, with the creation of the Competition Taskforce, the pending review of the electricity market, moves to facilitate the potential import of LNG, and this consultation.

As a rapidly-growing solar developer with a strong multi-year development pipeline, swift resolution of the workstreams flowing from winter 2024 are needed to provide investors with the long-term confidence they need to commit to the New Zealand market. In particular, the EA market review which is expected to run over much of 2025 cannot afford to be a source of investor uncertainty.

Overall, we think the market is well designed and can deliver the right outcomes. While a level playing field is important, we would suggest that communicating the strengths of the market is nearly of equal importance going forward.

### **Government policy statement**

Lodestone welcomed the October Government Policy Statement (GPS) on Electricity as an important and timely commitment to the principles of a level playing field. Lodestone welcomed the acknowledgement in the GPS of very strong forecast demand growth as the economy electrifies, and the scale of investment required to deliver against this.

Lodestone welcomed the commitment from the government that its role in the market is to “ensure clear and consistent regulatory settings... that enable an efficient market anchored by accurate price signals. The Government’s role is to avoid policy decisions that would have the effect of chilling or crowding out private investment”. This commitment must be consistently applied across all of the generation market without subsidies or interference if the market is to deliver the solutions and investors are to have confidence to commit capital.

The GPS’s reinforcement that wholesale market participants are responsible for managing their own risk, without the possibility of a government agency stepping in to protect them, is critical to market stability and appropriate wholesale risk management. This is a point worthy of repetition.

### **National Policy Statement on Highly Productive Land**

Solar Farms are critical to achieving a lower cost environment and replacing fossil fuel generation. We are very confident that 6,000 to 10,000 GWh of solar can be built with the right regulatory framework.

The recent amendment of the National Policy Statement on Highly Productive Land (NPSHPL) was another important clarification. The NPSHPL was creating an uneven playing field through its inconsistent interpretation and application by regional consenting authorities.

In clarifying the rules by making solar farms a permitted activity will ensure solar farms will be consented through a more consistent process and at a quicker pace.

As an organisation, we are building our processes and capital sourcing to be able to build ‘a MW per day’. While still aspirational, intervention in these areas can bring that kind of build to fruition.

### **A more empowered Transpower**

Transpower is a critical component of building renewable energy at pace and a few changes to their mandate can make a tremendous contribution.

Lodestone welcomed the acknowledgment in the GPS of the importance of efficient investment in electricity transmission and distribution to facilitate the rapid development of renewables at scale. Equitable, competitive access to transmission and distribution networks for developers is essential to a stable, fair market.

Enhancements to Transpower should include:

- 1) **Current constraints:** There are multiple opportunities for grid upgrades that can facilitate renewable developments – currently constraints are hampering a range of renewable projects. In this respect, access to the grid in different parts of the country may be the biggest current factor tilting the competitive playing field in favour of one developer over another.
- 2) **Anticipate, Forecast and Build Ahead:** Lodestone believes Transpower must be able to anticipate grid demand and the regions of good renewable development potential and invest in the grid accordingly – as they have done previously with pre-emptively investing in grid upgrades near Taupo to facilitate geothermal expansion. The same approach should occur in strong solar regions – e.g. Northland. Backbone grid expansion should be added to Transpower's rate base where it deems upgrades necessary to future-proof new generation.
- 3) **Speed development by separating interconnection from common system costs:** Lodestone believes certain protection costs, such as frequency keeping, voltage support and grid studies, should be common system costs. These costs would be repaid many times over through lower wholesale electricity prices. The EA is ideally positioned to declare this balance of benefits so that Transpower and the electricity networks can become enablers of new generation.
- 4) **Independent construction of interconnection assets:** Lodestone believes generation developers should be enabled to build and own interconnection assets, independent of Transpower. Clearly such assets would need to meet technical specifications, but this would streamline the Transpower connection process that is currently limiting the construction and connection of new generation. If Transpower must eventually own these connection assets, then a commercial arrangement to that end could be a post-construction process. Enabling developers to fund and commission grid connections would speed up the process and make it fairer.

### **Let the capital markets work out the best solutions**

Based on direct experience in raising capital, Government agencies must be careful with providing 'funding solutions' and picking 'winners and losers'.

Recent funding agreements through which grid connection assets have been facilitated by the government's New Zealand Green Investment Finance is an example of government being seen to 'pick winners' and raises the attention and concern of potential international capital providers.

This kind of well-intentioned intervention in the market runs contrary to the principles in the GPS on Electricity of personal responsibility on all market participants and encouraging investment through the integrity of the market and the merit of renewable developments.

### **Networks investing in generation**

Competition is a good thing but in order for the playing field to be level, care must be taken in enabling different parts of the sector to participate in others – for example, network companies entering generation.

Lodestone's view is that network companies can become generators but strict controls are required to prevent the playing field being skewed. The primary role of network companies must be to ensure secure delivery of energy to consumers – many network companies are facing significant investment programmes to ensure assets are able to cope with increasing load and demand.

The sector has not invested consistently in future-proofing assets in the past and it cannot afford to be distracted with entering sectors with which it has no experience. Regardless, Lodestone's view is that networks could be allowed to generate at unlimited volume but only outside of their own regulated network area.

The broader energy market cannot afford more vertical integration to occur through networks being able to invest in generation within their own network. This would become very complex – arguably impossible – to regulate

effectively. It would lead to significant natural advantage for networks and could easily chill investment from other generators.

Lodestone would also like to see separate governance structures in place for networks entering generation – i.e. separate Boards for the network company and the generation division.

### **Networks and open access to interconnection**

Lodestone acknowledges that the EA is currently consulting on network connection costs and processes and will submit on these consultations, but getting the settings right here are very important. Networks should not, either explicitly or through contracts or the connection queue management system, give generators property rights to the network through ‘transmission banking’.

We are aware of instances where a network has granted a generation developer what amounts to a long-term ‘property right’ to connect to a network, which has the effect of subordinating all other possible connectors in the queue for five years or longer. Intervention is likely needed in more situations where access to networks is not transparent, fair and open.

Networks entering generation must have to openly declare their intentions (by become classified as ‘generator participant’ and be ready to explain how they can manage conflicts) and ring-fence their interconnection operations to the EA’s satisfaction.

Care will be required here to ensure network operators are not advantaged within their own network footprint. There must be a robust mechanism by which any generator can connect to a network and through which any dispute – for example, around network capacity and constraints – can be quickly and independently resolved.

### **Fixing the peak period**

To enable electrification, the market needs a concentrated focus on the peak period.

To that end, Lodestone supports a mandatory market-making hedge mechanism (through the ASX), through which large generators must purchase a majority of their peak retail volumes (and sell an equal or greater percentage of their generated volume) for the 6-10pm peak period, for the forward three-year period.

This would derisk the most volatile time band for electricity supply, demand, and price. It would put a transparent value on peak capacity and enhance demand-side participation in the market. It would stimulate greater commercial and industrial involvement in ‘virtual rooftop solar contracts’, enable virtual solar to reach the residential market at scale, and set a transparent price for battery storage – all within clear, equitable market rules.

We also support a comprehensive time-of-use pricing regime where all networks and Transpower convert fixed charges into 6-10 pm variable charges. This would then enable proper economic responses to the remedies available to minimise the high cost of peak period capacity.

### **Confidentiality of customer contracting key to ensuring competitive tension**

Lodestone is constructively disruptive, dedicated to creating meaningful competitive discipline on the generator-retailers and competitive pricing for consumers. Ensured confidentiality of the intellectual property that sits behind innovative customer contracting arrangements that Lodestone is pioneering in this market is vital to continuing to generate this competitive pressure and to maintaining a level competitive playing field between independent generators and established generator-retailers.

A full exemption from the disclosure obligations of contracts needs to be applied in all cases where a long-term supply contract is used as the security for long-term debt for new generation facilities. This should include all contracts with generator-retailers, retailers and, or customers.

### **Harnessing overseas investment is essential**

There is a clear consensus that global capital will be required for the electrification of New Zealand’s economy. Potentially hundreds of billions of dollars will be required for investment in the New Zealand electricity system – beyond the capacity of the domestic market – and New Zealand must compete with the rest of the world for global capital.

This is why transparent, stable market settings are so important to attracting the investment required.

Lodestone has welcomed the government's acknowledgement of the importance of global capital to investment in the electricity system, and it is particularly important that the competitive playing field is level between domestic and international investors. The recently announced review of the Overseas Investment Act to better facilitate the flow of global capital is timely.

Lodestone owns the majority of the properties on which it has built solar farms, but it will need to buy or lease long term more properties to build out its subsequent development phases. Currently Lodestone's capital has been almost all raised domestically, but this will need to change over time. A significant offshore investor would trigger land purchase provisions under the Overseas Investment Act and make investment in New Zealand solar potentially less attractive and more uncertain.

This would be an unintended consequence that runs counter to the commitment to renewable expansion, Net Zero 2050, and attracting overseas capital for infrastructure. We believe it could seriously derail the realisation of New Zealand's solar potential.

Given the relative scale of land that is required for solar in New Zealand is very low and the impact of solar on that land is also very low, it is vital that the review of the Overseas Investment Act explicitly recognises the need for offshore capital investment in utility-scale solar and removes any barriers to offshore investment.

Lodestone suggests a carve-out for medium-sized solar farms in the review of the Overseas Investment Act. We propose, as an example, that OIO approval is not required for land purchases for dedicated solar farms up to 100 hectares in size. This would ensure a level playing field between all solar investors in small to medium-sized solar farms, encourage offshore capital investment in renewables and incentivise the type of solar farms New Zealand most needs: medium-sized, local farms that provide system resilience, local price benefits, and local energy security.

This provision could also include the requirement that at the end of a 30 – 35-year consent period, the land must be reinstated to its original condition. This would deliver the best of both worlds: encourage offshore capital and investment in renewables while protecting small parcels of mostly productive land for the future.

## **Conclusion**

Lodestone appreciates the EA's Level Playing Field work programme is just beginning. It is important as it is confidence in a stable, competitive market that will attract investor capital to the New Zealand electricity market.

Lodestone has been successful in raising capital and in building the first tranche of utility-scale solar projects in New Zealand and is actively developing a pipeline of further developments. We strongly support the recent GPS on Electricity which confirms the role of government as ensuring clarity and consistency of regulatory settings, ensuring accurate price signals through the electricity market and avoiding decisions which discourage capital investment.

Designing and Enforcing the rules in order to ensure a fair, equitable and level playing field across all market participants is the best way to deliver these outcomes.

Warm regards.



Gary Holden  
Managing Director