Pioneer energy

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20 August 2020

Dane Gunnell
Manager, Price-Quality Regulation
Regulation Branch
Commerce Commission
P O Box 2351
Wellington 6140

By email: feedbackauroraplan@comcom.govt.nz

Dear Dane,

Re: Key Issues Paper on Aurora Energy's Customised Price-Quality Path Application

Pioneer Energy (Pioneer) welcomes the opportunity to provide feedback on the key issues the Commerce Commission (Commission) has identified and is seeking feedback on with respect to Aurora Energy's (Aurora's) Customised Price-Quality Path (CPP) application. We note the current CPP application is effectively 'stage 1' and that Aurora propose to seek approval for further significant expenditure for the five year period from 1 April 2024.

Pioneer owns and operates 29MW of distributed generation connected to Aurora's Central Otago/Wanaka and Queenstown networks. As such Aurora charges Pioneer for the specific connection assets which enable injection of electricity into the Aurora networks. Pioneer has no concerns about the reliability of these assets, has not requested any change / investment in these assets nor does Pioneer expect any of the CPP expenditure to be applied to our connection assets.

We understand that the Commission does not have a role in setting charges for specific customers as part of approving the CPP application. However, the Commission, and Aurora, have publicised an indicative increase in residential charges in the event the significant proposed opex and capex is approved. We submit the Commission should be considering the impact of the consequent increase in charges for all customers that will flow from approval of this significant CPP application.

Proposed charges for Pioneer's distributed generation connection assets

The CPP application does not include any information about future charges for connection assets. However, Aurora indicated to Pioneer management at a meeting on 29 November 2019 that the connection charges for our distributed generation will increase by 100% under this proposal (compared with the estimated ~10-17% increase for the average residential customer[1]).

[1] Source: Page 3 https://comcom.govt.nz/__data/assets/pdf_file/0014/222242/Auroras-CPP-Consumer-Summary-Key-Issues-Paper-30-July-2020.pdf

Pioneer does not support the proposal to increase connection charges for our distributed generation by 100%.

Pioneer submits that any increase in our connection charges is inconsistent with Part 6.4 of the Electricity Industry Participation Code which states that "*connection charges in respect of distributed generation must not exceed the incremental costs of providing connection services to the distributed generation*".

The connection assets for our distributed generation are to a large extent specific to our generation plant with no or few other customers connected to these lines. It is our view that there has been / will be no change to the **incremental** costs of these connection assets.

Further, an increase in connection costs is inconsistent with:

- Distribution Pricing Principles finalised by the Electricity Authority in August 2019 that require distribution charges to:
  - signal the economic costs of service provision, including encouraging efficient network alternatives (a(iv)); and
  - be responsive to the requirements and circumstances of end users by allowing negotiation to enable price/quality trade-offs (c(ii)).
- Cost-reflective and service-based pricing given the Central Otago and Wanaka network has not been disaggregated at all to allocate costs. For example, Pioneer's distributed generation does not benefit from an upgrade of the Lindis Crossing zone substation.

Aurora has not made us aware of any safety, reliability or resilience issues that require additional investment on these connection assets; and there is no growth investment associated with these lines.

Feedback on key issues identified by the Commission

Options for minimising consumer price shocks

We support the Commission's consideration of whether expenditure might be deferred, reduced or recovered over a longer period to minimise price increases for consumers.

Pioneer suggests Aurora's investment programme be planned over a longer period, say 10 years, with safety investments prioritised ahead of the other drivers of spend. A more measured investment programme over a longer time would significantly change the future profile of charges for existing and new customers.

Length of investment period

We note the Commission's concerns about Aurora's two-stage CPP applications. From Pioneer's perspective, we support a process that ensures efficient and timely investment that takes into account quality information about assets and the dynamic of changes in consumer demand and technology over time. This could mean that expenditure that has been approved is no longer required and consumers face lower charges / are compensated for the difference between forecasts and reality.

Unplanned power cuts

We are surprised that forecast SAIDI and SAIFI measures are no better than the performance of the network since FY18 (inclusive)[2]. That is, the reliability of the network

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[2] See Figures 114 and 115 (pg 229 and 230) of Aurora's Application document

after spending \$383.3 million (capex+opex) will be no better than during the period that is now described as a period of under-investment in the network.

We query whether Aurora's approach to forecasting quality standards is influenced by its experience of being fined for historic breaches.

Effectiveness of consumer consultation

Pioneer was a member of Aurora's Customer Advisory Panel. A lengthy and detailed process was undertaken. This submission is consistent with the feedback we provided Aurora during their consultation processes.

In relation to specific engagement with Pioneer, when our distributed generation of 29MW is 13% of Aurora's maximum demand, there was very limited engagement. As discussed above, we were informed of a proposed 100% increase in our connection charges in a single meeting. Aurora did not provide an opportunity for Pioneer to discuss alternatives to the proposed increase in connection charges. For example, our views on a price – quality trade-off or, more importantly, the potential for economic by-pass of Aurora's network.

Aurora's ability to deliver on its plan

We are not convinced that Aurora, or any firm, would have the capacity and capability to complete this \$383.3m programme of work within 3 years (for example, availability of specialist staff as well as the timely supply of local or imported equipment).

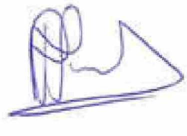
We note that Transpower is expecting to engage an additional 200 people to bring forward completion of the Clutha Upper Waitaki Lines Project by a year to May 2022 – a period that overlaps with the first year of Aurora's investment programme in a similar location to Aurora's network. If Aurora and Transpower are competing for human capital (which we consider likely) our view is that there is higher national benefit in completing Transpower's project no later than May 2022, especially if the Tiwai aluminium smelter closes on 31 August 2021.

Pioneer understands the Commission's CPP approval process will ensure any approved increase in spend:

- is benchmarked against best practice in New Zealand
- achieves the required quality standards at an efficient cost to all consumers
- is consistent with other regulatory requirements, in particular relating to charges to distributed generation; and
- is achievable within the timeframe and there is a mechanism to compensate customers if Aurora's spend is lower than that approved.

Pioneer would welcome the opportunity to discuss any of our feedback with the Commission.

Yours truly



Fraser Jonker

Chief Executive