

Friday, 29 August 2014

John McLaren  
Chief Advisor, Regulation Branch  
Commerce Commission  
P O Box 2351  
Wellington 6140

By email: regulation.branch@comcom.govt.nz

Dear John

**Re: Cross submission – Proposed default price-quality paths for electricity distributors from 1 April 2015**

Pioneer Generation (Pioneer) welcomes the opportunity to make a cross submission on the consultation paper by the Commerce Commission (Commission) on the 'Proposed default price-quality paths for electricity distributors from 1 April 2015' published on 4 July 2014.

Pioneer owns distributed generating plant with a total capacity of approximately 30MWe and generates around 300GWh per annum. Pioneer's generating assets are all embedded within local distribution networks and are predominately hydro with storage.

This submission details Pioneer's views on the Commission's proposed:

1. new recoverable item 'a distributed generation allowance';
2. approach to incentivising energy efficiency and demand side management (clause 54Q); and
3. given the above changes, recommends the Commission take over responsibility for Part 6 of the Electricity Industry Participation Code

We would welcome the opportunity to discuss any of our submission with you or your team.

**1. New recoverable item 'a distributed generation allowance'**

The Commission is proposing a new recoverable item at clause 3.1.1(1)(f) defined as

*"a distributed generation allowance,*

*..." where distributed generation allowance means any positive allowance for costs incurred and amounts payable or negative allowance for amounts receivable in relation to the regulation of avoided transmission charges arising from distributed generation, including embedded or notionally embedded generation, made under:*

*"(a) Schedule 6.4 of Part 6 of the Electricity Industry Participation Code, or*

*"(b) the Electricity Industry Act 2010."*

Pioneer is very concerned to ensure that the creation of this new recoverable item for payments from EDBs to distributed generation does not make distributed generation any worse off compared with current practice.

We support the following comments from Aurora Energy's submission<sup>1</sup> on the Commission's paper 'Proposed default price-quality paths for electricity distributors from 1 April 2015':

- any changes to ACOT payment arrangements need to recognise/grandfather existing ACOT contractual arrangements between distributors and distributed generators to ensure the distributed generation owner and EDB are no worse off under this proposal;
- the correct interpretation of the current Schedule 6.4 of the Code is to base the ACOT payments on the transmission charges distributors actually avoid due to distributed generation. "In Aurora's view it would be entirely impractical to base ACOT payments on Transpower's actual avoided costs. We do not know what Transpower's actual avoided costs are, and could not reasonably be expected to know. All we can do is respond to Transpower's transmission charges. Market participants should be able to assume that responding to pricing signals will lead to more efficient outcomes."
- both regulators must be satisfied any prospective changes to Schedule 6.4 of the Code would satisfy the purposes in section 52(A)(1) of the Commerce Act and section 15 of the Electricity Industry Act;
- it is the Commission's responsibility to approve the payment to distributed generation for treatment as a recoverable cost amount and not the Electricity Authority.

We agree it will be useful to separate payments to distributed generation from other items that EDBs categorise as avoiding transmission costs. However, Pioneer has three concerns about the proposed definition of the distributed generation allowance:

- i) aspects of the Commission's proposed definition are significantly narrower than the pricing principles in Schedule 6.4. The Commission's definition states

*"... in relation to the regulation of avoided transmission charges arising from distributed generation ..."*

We note that the convention<sup>2</sup> has become for some EDBs to pay distributed generation the amount they avoid paying in transmission charges due to generation volumes from distributed generation during peak periods – which has been identified in EDBs information disclosure documents as "avoided transmission charges".

However, the pricing principles in Schedule 6.4 of the Code require consideration of a much wider range of benefits and costs, including

*"... and must include any identifiable avoided or avoidable costs"*

- ii) we query why 'notional embedded generation' is included in this definition. Notional embedded generation might arise from a prudent discount arrangement with Transpower and is a fictional way to avoid transmission charges compared with the real benefits physical embedded generation provides.

---

<sup>1</sup> Aurora Energy submission 'Proposed default price-quality paths for electricity distributors from 1 April 2015, 15 August at <http://www.comcom.govt.nz/dmsdocument/12277> Page 41-43

<sup>2</sup> We note that this practise varies across the EDBs

- iii) we suggest there is no difference between 'distributed' and 'embedded' generation and it would be clearer if only one term was used.

Taking into account the above three points, Pioneer suggests the definition be amended as follows:

*"a distributed generation allowance,*

*... " where distributed generation allowance means any positive allowance for costs incurred and amounts payable or negative allowance for amounts receivable ~~in relation to the regulation of avoided transmission charges~~ arising from distributed generation, including embedded or notionally embedded generation, made under:*

*"(a) Schedule 6.4 of Part 6 of the Electricity Industry Participation Code, or*

*"(b) the Electricity Industry Act 2010."*

We are also concerned to ensure the payments from EDBs to distributed generation:

- recognise the benefits that distributed generation provide to network companies in avoiding or deferring investment in distribution and transmission assets, reducing the transmission charges paid by EDBs, improving the security of supply within networks and other benefits;
- ring fence all the above network and transmission related benefits and costs into a standardised and regulated process that applies to investment in distributed generation by both the EDB and independent investors. Pioneer submits it is important that EDB's investment in distributed generation is not cross subsidised by monopoly lines service activities;
- the regulated mechanism for these payments is practical from both the distributed generation owners' and EDBs' perspectives; and
- are for the long term benefit of consumers.

Pioneer notes the Commission's proposal to approve the recoverable payment<sup>3</sup> as a result of distributed generation. It is important that this approval process:

- provides year on year certainty for distributed generation owners who are investing in long-life assets; and
- does not override existing contractual arrangements between the EDB and distributed generation owner.

## **2. Approach to incentivising energy efficiency and demand side management (clause 54Q)**

Pioneer made a cross submission on the Commission's issues and process paper for DPP from 2015<sup>4</sup>. We reiterate some of our points from our previous submission:

- Pioneer supports the ENA Working Group's conclusions<sup>5</sup> that supply and demand efficiency initiatives may defer the need to expand network capacity for a period of

---

<sup>3</sup> Commerce Commission paper 'Proposed compliance requirements for the 2015 - 2020 default price-quality path' paragraph 3.76

<sup>4</sup> Dated 15 May 2015 and available at <http://www.comcom.govt.nz/dmsdocument/11901>

<sup>5</sup> Source: ENA EEI Working Group Report "Options and Incentives for Electricity Distribution Businesses to Improve Supply and Demand-Side Efficiency"

time, in some cases these initiatives can eliminate the need for traditional investment altogether or remove the need to renew existing assets.

- It seems clear the Commission has an interest in the impact of any supply and demand-side initiatives on EDBs – this clearly includes distributed generation. It would be logical for the Commission to therefore be responsible for the regulatory mechanism that compensates providers of any/all supply and demand-side initiatives for the benefits realised by EDBs.
- The regulatory regime must include a mechanism that recognises and compensates the provider of these supply and demand-side initiatives, including distributed generation, for the benefits they create. To be effective this mechanism must be a longer term contractual arrangement to avoid the duality impacts on shorter term dynamic pricing mechanisms.
- EDBs, as natural monopolies, are also able to invest in distributed generation and have access to more information than other potential investors on their network. Pioneer is concerned to ensure there is a level playing field for all investors in distributed generation and submits that the regulatory regime should be indifferent to the person that makes the investment in supply and demand efficiency initiatives.

Our following comments assume that the Commission's proposed approach to energy efficiency initiatives will apply to new investment in distributed generation.

Pioneer's comments about the proposed approach are:

- the approach could make distributed generation attached to / behind load much more attractive and crowd out distributed generation that is connected to a network supplying electricity for all users on the network – because it is clear that distributed generation behind load has reduced the volumes of electricity delivered by the EDB;
- distributed generation, energy efficiency or demand side management all clearly reduce EDBs costs – deferring or avoiding investment in distribution assets, avoiding transmission costs etc – we suggest the Commission should take these benefits into account;
- initiatives that an EDB can bring to the Commission for approval must include activities by third parties on a network;
- there must be a level playing field for independent investors in energy efficiency and distributed generation initiatives compared with investment in the same by an EDB. Reasons for requiring a level playing field include:
  - these activities operate in the competitive part of the electricity market; and
  - EDBs have more information about their network that is useful in developing a distributed generation or energy efficiency proposal than an independent developer;
- there has to be a reasonable process for the EDB and owner of distributed generation to work through to get approval from the Commission (as this process could delay discussions / negotiations for new distributed generation investment); and
- the effective "compensation" or adjustment that the Commission approves for the EDB has to be converted into a payment to the owner of distributed generation (or energy efficiency or demand side management initiative) when these investments are made by a third party (as under this proposal the EDB has probably 'contracted' for these initiatives).

### 3. Responsibility for Part 6 of the Code

The Commission's proposal effectively:

- involves the Commission in the process of an EDB and distributed generation investor developing / signing a connection contract as we assume it requires Commission 'approval' before connection; and
- creates a compensation mechanism for the impact of distributed generation on the EDB.

These are two key components of Part 6 of the Electricity Industry Participation Code. We reiterate our suggestion that the Commission take over responsibility for the whole of Part 6 of the Code.

In conclusion, Pioneer Generation is concerned to ensure market arrangements promote competition, reduce barriers to entry and achieve the efficient end to end delivery of electricity for the long term benefit of consumers.

Yours Faithfully,



Fraser Jonker

**Chief Executive**

Email: [jfj@pionergen.co.nz](mailto:jfj@pionergen.co.nz)