

Thursday, 15 May 2014

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

By email: [regulation.branch@comcom.govt.nz](mailto:regulation.branch@comcom.govt.nz)

Dear John

**Re: Cross submissions on issues and process paper for DPP from 2015**

Pioneer Generation (Pioneer) welcomes the opportunity to make submissions to the Commerce Commission (Commission) as it investigates issues relating to the regulatory regime to apply for electricity distribution businesses (EDBs) from 1 April 2015. Pioneer has not previously engaged in commenting on the Commerce Commission's role in regulating EDBs. However, at this time there is a great deal of uncertainty about the future of current regulatory mechanisms that directly impact the strategic and financial future of owners of distributed generation. In Pioneer's view it is timely to consider the scope of the Commission's regulatory role with respect to EDBs.

Pioneer owns distributed generating plant with a total capacity of approximately 30MW<sub>e</sub> and generates around 300GWh per annum. Pioneer's generating assets are all embedded within local distribution networks and are predominately hydro with storage. Pioneer is also an emergent retailer selling locally generated electricity to local customers. The initial response from the local community is positive about our retail offering which gives electricity consumers innovation and increased choice in our area.

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 key assumptions - Scope of Commission's regulation of EDBs**

- The Commission determines the weighted average price increase that EDBs can implement based on a view of forecast volumes on the network, operating and capital expenditure and an appropriate return on investment.

- The Electricity Authority has an interest in the structure of tariffs charged to different consumer groups as well as the connection of distributed generation in Part 6 of the Electricity Industry Participation Code (the Code).
- Distributed generation is clearly a supply efficiency initiative and we support the recent Electricity Networks Association (ENA) Energy Efficiency Incentives Working Group's conclusion that EDBs have a role to facilitate uptake of DG and encourage use of storage to help manage peak demands<sup>1</sup>.
- The regulatory regime for EDBs must therefore ensure that the benefit for the EDB (in deferred / lower investment) created by distributed generation is passed on to the owner of DG.
- Part 6 of the Code requires EDBs to compensate distributed generation for the benefits of having distributed generation within their network. The Commission's information disclosure regime categorises this payment as 'avoided transmission charges'. The Electricity Authority is undecided about whether it should review Part 6 of the Code.

### **Pioneers Key Submission Points**

- Pioneer supports the ENA Working Group's conclusions that supply and demand efficiency initiatives may defer the need to expand network capacity for a period of 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 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.
- In addition to recognising and paying DG owners for the benefits from distributed generation, EDBs can facilitate DG by offering a straightforward, timely and low cost process for connection of DG, as well as fair pricing of the connection assets and application of appropriate operational standards. These connection issues are also of interest to the Commission as the EDBs manage their operating and capital expenditure.
- The current EA 'model agreement' mechanisms designed to achieve connection, and administered by the Electricity Authority, are not being widely adopted as standard, and in many instances require extensive negotiations which incur unnecessary technical and legal

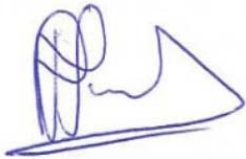
---

<sup>1</sup> Source: Table 3.2 page 23 ENA EEI Working Group Report "Options and Incentives for Electricity Distribution Businesses to Improve Supply and Demand-Side Efficiency"

costs. Pioneer's view is that these agreements would be more effective if included under the Commission's jurisdiction as opposed to being included in 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. We would welcome the opportunity to discuss this submission with you in more detail as we have considerable understanding of the benefits of distributed generation for EDBs and end consumers and the complexities of the current regulatory arrangements.

Yours Faithfully,



Fraser Jonker

**Chief Executive**

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