

6 December 2016

Submissions
Electricity Authority
P O Box 10041
Wellington 6143

By email: submissions@ea.govt.nz

Dear Sir / Madam,

RE: Consultation Paper – 2017-18 Appropriations

Pioneer Energy (Pioneer) appreciates the opportunity to make submissions on the appropriations proposed by the Electricity Authority (Authority) for the year starting 1 July 2017.

We have provided our feedback in the enclosed template format.

I would welcome the opportunity to discuss this submission with you.

Yours sincerely



Fraser Jonker
Chief Executive

Submission information

1. Please enter the name of the organisation or group that you represent. NB If you are making a submission as a private individual, please enter "individual".

Pioneer Energy Ltd

2. Authority to act: I confirm that I am properly authorized to provide this submission on behalf of my organisation. Please indicate below the type of organisation you represent.

A levy-paying entity	Pioneer Energy
A representative group	
I am responding as a private individual	
Other (please specify):	

3. Please enter your name.

Fraser Jonker

4. Please enter your position title if you are answering for a levy-paying entity or representative group. You do not have to complete this question if you are responding as a private individual.

Chief Executive

5. I am/we are also making a submission via the survey (the Authority will bring the responses together for publication).

Yes	
No	√

6. Please provide your email address.

Fraser.jonker@pioneerenergy.co.nz

Your overall level of support

7. Please indicate your overall level of support for the following:

	Support	Partially support	Neutral	Oppose	N/A – do not have a view
Our strategic priorities (part 2 of the consultation paper)				Too Broad	
Our programmes (part 2 of the consultation paper)		Too Costly - Simplify			
Our proposed appropriations (part 3 of the consultation paper)		Focus on Rules Management			
The system operator proposed service enhancement projects (part 4 and appendix C of the consultation paper)					

You can provide comments below

Pioneer has consistently submitted that the Code and industry is complex. New entrants will never face a level playing field when the complexity of the rules and operating environment imposes significant costs on new entrants who do not have the scale to absorb these costs in the way that the larger incumbent operators can.

We are concerned that the complexity of the Code will stifle innovation and the move away from the bulk supply model. Part of this programme of work must include consideration of whether some rules remain relevant, or even if “the market” is relevant when ‘participants’ are end consumers.

As we said in our submission on the 2016/17 appropriation paper, Pioneer is concerned to ensure that the Authority:

- avoids initiating rules that are unnecessarily complex and so stifle innovation
- ensures a level playing field for existing and new technologies, and innovations that achieve the same outcome (eg reduce peak demand).

The impact of the Authority's work

8. What is your view of the impact of the Authority's work on the following groups over the last six years:

	Strongly positive	Positive	Neither positive or negative	Negative	Strongly negative	N/A – do not have a view
Electricity consumers			Costs & Benefits are neutral			
Generators		Stabilised earnings			EA has reinforced the Gentaileer VI model	
Retailers		Introduction of Tier 2 retailers		EA's focus on price counters retail value		
Transmission and distribution companies			Managed by ComCom under Part 4	EA & ComCom working independently on same issues – prefer Cross Agency approach		
Other (please specify below)	Market maker provisions positive Reduced transaction size			TPM Proposal	DGPP Proposal	
Your company / the group you represent					Pioneer Energy	

You can provide comments below

The Authority's work over the last 6 years appears to be following a "diminishing returns" industry effectiveness profile. Early gains in supply stability, focus on competitive outcomes and reduction in new entrant barriers were positive, but latterly the Authority has become bogged down chasing more academically driven 'economic' efficiency programmes.

Pioneer urges the Authority to consider a different approach to creating liquidity in the hedge market. The hedge market improved but more recently has stagnated and in the last few months gone into decline. In our view, there is room for further improvements to achieve a liquid market that offers fair pricing of risk.

Pioneer has consistently asked the Authority to consider the benefits of requiring Gentailers to sell a certain portion of their generation volumes through the ASX market. Activity by speculators and financial institutions is not going to achieve the step change required to achieve efficiently priced risk products.

Authority appropriations (part 3 of the consultation paper)

9. Please indicate your level of support for our proposals for the following appropriations:

	Strongly positive	Positive	Neither positive or negative	Negative	Strongly negative	N/A – do not have a view
Electricity governance and market operations		Physical Market		Financial Market		
Security management				Disconnection with TX Peak Pricing	Customer Compensation Scheme	
Electricity litigation fund						No Views

Please explain why

Pioneer believes the current nodal pricing system is more complex and disaggregated than is warranted. It would be much more preferable for smaller and new entrant participants to use less priced nodes, at reference nodes that are aligned for physical and financial market prices.

Pioneer in its TPM and DGPP submissions has expressed real concerns that the Authority proposes to remove transmission system peak price signals in the belief that nodal spot pricing will provide more efficient investment signals. There is no empirical or anecdotal evidence supporting this belief. We note that another government agency, EECA, values the contribution of its levy funded programmes by valuing the benefits of reducing peak demand.

Security management would improve if the larger Participants that have concentrated market power in both storage and in thermal capacity were required to sell and buy through the wholesale market, rather than continue their reliance on internal portfolio risk management.

Strategic priorities and programmes (part 2 of the consultation paper)

10. Please indicate your level of support and provide comments on our proposed programmes.

Programme	Strongly positive	Positive	Neither positive or negative	Negative	Strongly negative	N/A – do not have a view
A: Evolving technologies and business models			Needs Cross Agency participation			
B: Consumer choice and competition				Churn = Cost		
C: Pricing and cost allocation					Lost the Way	
D: Risk and risk management				No Liquidity		
E: Operational efficiencies						Marginal Impacts
F: Compliance				Too Complex		
BAU: Monitor, inform and educate			Academic Approach			
Other						

Comments

Pioneer has submitted on the proposed Advisory Group changes and has expressed the view that the Innovation Group, together with the Emerging technologies and business models programme, should be developed under a cross-agency governance model which includes the Commerce Commission and MBIE remits. The Authority's narrow statutory objective will limit its analysis and views on emerging technologies.

The Authority is far too intrusive in the retail market. Consumer choice is an outcome of competition and the Authority is not doing enough at the wholesale market liquidity level to ensure fair retail competition. Programmes to entice consumers to regularly change suppliers on price serve only to increase retail overhead and hygiene services costs, to the long term detriment of all consumers.

Pricing and cost allocation is again a competitive market outcome. The Authority should only monitor and manage wholesale market outcomes to ensure access to supply. The Commerce Commission manages regulated businesses, so the only pricing issues the Authority should be concerned with are the strength of the wholesale market price signals. Currently spot energy price signals are weak and are uncorrelated with demand. In addition the new TPM proposes to remove peak capacity price signals from the system. The Authority's programme focus is in wrong areas.

Hedge risk management for participants requires market liquidity, which is not up to scratch. Pioneer describes the Customer Compensation Scheme as the "ambulance at the bottom of a cliff". The cliff is a lack of adequate financial market liquidity and market supply risks are only being managed as Gentsailer natural hedge limits. The Authority should undertake an investigation of the Risk Parameters and Policies of the Gentsailers to confirm their commitment to ensuring all of market supply risks.

The Operational Efficiencies programme should also focus on reducing complexity across the breadth of the Code as a way of achieving an increase in efficiency.

Pioneer queries how the Authority prioritises projects for post implementation reviews (PIR). These reviews appear to be a major piece of work, for example the 175 page PIR report on the demand side bidding and forecasting project. It could be useful to ask for industry input on prioritising projects for future PIRs.

System operator proposed service enhancement project

Questions 11 to 16 relate to the System operator proposed service enhancement project for EDF Phase III (part 4 and appendix C of the consultation paper).

11. Do you agree that a transition away from GENCO to a new dispatch facility is merited?

No comment

12. Is a transition away from GENCO by December 2020 feasible? If you do not agree, what would be a feasible timeframe to transition away from GENCO?

No comment

13. If you operate a GENCO, would you commit to transition away from GENCO if that were a requirement for this investment to proceed?

No comment

14. Provided a new dispatch facility is being implemented, do you agree that the 'Redundancy Option' is an appropriate approach? If not, which alternate approach do you consider is appropriate, and why?

No comment

15. Do you agree that the long term end benefits outweigh the investment cost and merit the proposed investment?

No comment

16. Are there any other quantifiable or qualitative benefits that we have not discussed?

No comment

One final question

17. Please provide any other comments you wish to make about this consultation.

Pioneer notes that the consultation paper does not include the work programme in the same level of detail as has been disclosed in previous consultations on the funding of the Authority. It is unclear if the Authority will be consulting on its detailed work programme due for publication in June 2017 (para 2.25). This consultation paper is specific about the Authority not being required to consult on its strategy and priorities but input is valued (para 1.1). In our view it is difficult to comment on the level and value of funding without understanding the Authority's strategy, priorities and proposed detailed work programme.

Pioneer acknowledges the Authority plans to keep its operating expenses at the same level as forecast for 2016/17 but this is an increase of \$354,000 on actual costs in 2015/16. This funding is for the Authority's seventh year of operation. We suggest the work required to refine regulation of the industry should decline over time, particularly if the Authority was focused on simplifying the market requirements.