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24th March 2017

Submissions
Electricity Authority
PO Box 10 041
Wellington

By email; submissions@ea.govt.nz

Dear Carl,

Re: TPM: Second Issues paper – Supplementary Cross-Submission

The Electricity Authority is seeking TPM cross-submissions on their proposal to apply an Indexed Historic Cost (IHC) or other service based and cost reflective valuation methodology for new transmission assets and proposed Area of Benefit allocations. This proposal is a variation to the current practice of using Depreciated Historic Costs (DHC). Concerns raised in TPM submissions to the proposed changes in valuation approach for the Area of Benefit (AoB) assets highlight the distortive wealth transfer impacts of TPM on different stakeholders. Pioneer's view is the TPM Guidelines consultation should only address those issues that the Authority has a statutory obligation to address i.e. operational efficiencies and their related market price signals.

We are therefore not entirely clear why this matter requires cross-submissions, given the Authority has not responded to all other wealth transfer issues arising in submissions. We have been advised on prior occasions that wealth transfers are …*not a consideration of decisions under the Authority's statutory objectives.*

Wealth Transfer Concerns

Pioneer recommends these transmission asset valuation issues and any consequential wealth transfers be reviewed by the Commerce Commission. The Commerce Commission would then be able to consider these together with the other material wealth transfers highlighted in submissions, but in the context of ensuring workably competitive markets, including for example:

- Transpower has itself acknowledged the future financial value of all its grid assets are uncertain, given the potential impacts of emerging technologies[1],
- The programme of work already underway on emerging technology Input Methodologies[2] including the flow down effect to Network businesses; and
- For each new grid investment, the Commerce Commission will also consider transmission alternatives, so will be in a much stronger position than the Authority might be today to review and make any changes to transmission asset valuations over time.[3]

[1] Transpower Publication - *Transmission Tomorrow* – 2016.
[2] Commerce Commission – Part 4 Input Methodology reviews to 2020
[3] Commerce Commission – Part 4 Grid Investment test

Area of Benefit Charges

The Area of Benefit charge will ultimately apply to all transmission assets, not just the arbitrary selection being made in the proposed Guidelines. Pioneer therefore believes there is no merit in the Guidelines being prescriptive on valuation methodologies as this will fundamentally conflict with how transmission assets are currently valued. The Guidelines and Area of Benefit charge should be more focused on new investment price signals, than on asset valuations. In this respect Pioneer, and many other submitters, have raised concerns that the ex-poste AoB charges at GXP's are a much weaker price signal than the current regional peak demand signals provided by RCPD.

We are surprised that the Authority has prioritised and sought cross-submissions on areas outside of its jurisdiction, whilst seemingly ignoring the considerable weight of expert evidence presented in submissions on more important issues and future cost risks to consumers.

Cross Submission Priorities

In terms of the need for cross-submissions, we believe many other issues raised are far more material to consumer long term benefits, than the accounting treatment of Transpower's assets. For example:

- the "economic sizing" (or long term cyclical demands on new transmission infrastructures) are being ignored by the Authority in its economic cost-benefit analysis. Principles allowing "natural competition" between future grid alternatives and transmission assets are also being ignored in the economic analysis.
- the proposed AoB charges significantly weaken the existing RCPD long run price signals. The impacts of higher peak demand, coupled with fixed AoB costs applied to Generators, have been dismissed without full consideration of the long run market energy cost impacts on consumers.
- shifting transmission pricing response signals to nodal locational prices, which are short not long run investment pricing signals, will not deliver the dynamic investment efficiencies as supposedly modelled in the TPM CBA analysis. The TPM analysis lacks any empirical evidence supporting either the problem definition, or the proposed solution. Pioneer believes this analysis therefore does not meet the government's own policy standards for material regulatory changes.
- the fundamental input assumptions and modelling issues submitters have identified in the Oakley Greenwood (OGW) CBA analysis raise serious questions as to the integrity and robustness of the claimed TPM long term consumer benefits. These inputs and CBA sensitivity issues need to be addressed in much more detail before the Code Amendment "tie breaker" Principles are ignored.
- the proposed 3.5% price cap, by also including retail market and network prices, interferes with workable competition. This will potentially create enduring wealth transfers to selected consumers due to influences and market factors well outside of Transpower and/or the Authority's control.

We submit that each of these key stakeholder issues have far greater relevance to the derivation of TPM Guidelines, than this cross-submission request on a point-in-time valuation methodology decision that falls outside of the Authority's jurisdiction.

Pioneer's Recommendations

1. In our Supplementary Submission (February 2017) we fully supported Transpower's 2nd Issues proposal for a Simplified and Staged TPM and also supported their recommendation for an LRMC based peak demand long run price signal. We are surprised and disappointed that this alternative has not been given more due consideration by the Authority.

   We recommend the Authority review its Code Amendment tie-breaker provisions to consider both Transpower's Alternative Solution and a more robust Status Quo Option using more robust empirical evidence supporting the original problem definition.

2. Our reading of the Covec report covering 60 expert submissions reinforces the views we have consistently held in all our TPM submissions i.e. that the combinations of material wealth transfers; the uncertainty of future generation investments; the weakening of transmission price signals; and the inherent sensitivities of the CBA analysis all add up to this proposal not meeting the Code Amendment tie-breaker tests.

   We recommend the TPM Guidelines to Transpower specify only <u>incremental and reversible changes</u>, as required under the current Code.

3. The Commerce Commission should review the significant wealth transfers, asset valuation, and any competition issues arising from the prior DGPP[4] and current TPM proposals. Pioneer and the Independent Electricity Generators Association (IEGA) have recommended to MBIE and Government that a cross-agency review of DGPP and TPM is undertaken, due to these and other competition overlaps within the Commerce Commission's jurisdiction.

   We recommend the Authority takes this final opportunity to initiate a cross-agency review of its TPM proposal with the Commerce Commission and MBIE, before completing its final TPM Guidelines.

We appreciate the opportunity to submit our views on the valuation methodology and submit recommendations on how the key issues raised by most submitters can be resolved in an incremental and reversible manner, consistent with the Code and Statutory requirements of all parties.

Yours truly

Fraser Jonker
CEO
Pioneer Energy Ltd

[4] Electricity Authority's DGPP Decision Report – 6 December 2016