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Submissions
Electricity Authority

Nova Energy Limited
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By email: info@ea.govt.nz

Re: Improving visibility of generation investment: clause 2.16 information notices

Nova Energy (Nova) is cautiously supportive of improving the availability of planned generation developments, but has concerns with:

- the proposal to estimate the LCOE for new generation projects, and
- the potential for developers to use the publication of projects to lock-in opportunities at the cost of other parties.

Furthermore, Nova suggests the Authority highlight the importance of prospective projects that will help meet the security of supply requirements ahead of other projects.

These ideas, and answers to the consultation questions are developed in the appendix to this letter.

Yours sincerely



Paul Baker
Commercial & Regulatory Manager

Nova submission: Improving visibility of generation investment: clause 2.16 information notices

Chapter No.	Question	Response
Q1.	Do you agree with the Authority's proposal to require monthly provision of information to the Authority, to enable a 'rolling' set of information?	<p>Yes.</p> <p>Bi-monthly or quarterly could be adequate. While monthly provides a timely update to interested parties, it is an onerous burden on the industry, unless updates are strictly 'by exception only' in accordance with defined metrics.</p>
Q2.	Do you agree with the Authority's initial assessment that developers will be required to regularly update Transpower when significant information changes for their projects, or should Transpower be required to regularly ask for information from developers?	<p>It is reasonable to expect developers to keep Transpower apprised of their progress. In cases where project may have a more immediate impact, such as projects connected to local lines companies, it will be important to provide information in a timely manner. However, in some cases there will be no meaningful progress for long periods of time and there is little point in Transpower being beholden to continually seeking updates on those.</p>
Q3.	Do you have any comments on the proposal to require developers (via Transpower) to provide increased information on their generation and load projects?	<p>There are benefits in Transpower receiving quite comprehensive data on projects, as this has the additional benefit of ensuring the status of the project is being accurately portrayed.</p> <p>Submitting (and granting) of resource consent applications, for instance, should be key information provision criteria, as once an application is made then generally key project information is publicly available. Otherwise, a developer may wish to convey that a project is well underway in a region in order to forestall a competing project in the same region from advancing at the same time. Clearly, for instance, lack of a finalised land agreement may reveal the claim as overstated.</p> <p>An issue then arises as to what action should be taken if Transpower becomes aware that a project will not be completed for a year or more after the developer's declared completion date.</p>

Chapter No.	Question	Response
		<p>Is there an expectation that Transpower will report a breach of the Code? (Presuming the party is a market participant subject to the Code.) Is there a requirement that Transpower does so, even if the information it has is confidential?</p> <p>Should the developer be required to register as a market participant before the project can apply for a grid or network connection? Otherwise the Authority cannot hold the party to comply with the Code.</p> <p>Is the information opinion or fact? What happens when a participant does not provide or update the information provided?</p>
Q4.	<p>Do you have any comments on the proposal to require generators to provide cost information through a clause 2.16 notice? Do you have any comments on the specific information proposed to be collected in the clause 2.16 notices?</p>	<p>The presumption here is that the Authority has the ability to accurately determine the appropriate weighted average cost of capital (WACC) to renewable projects where the major driver is the capital cost. If companies are to grow their businesses and expand shareholder wealth they need to be able to develop projects at a cost lower than the WACC on a risk adjusted basis. Those judgements are complex and can come down to subjective assessments of expected risks and returns.</p> <p>If the Authority materially overstates or understates the LCOE of a project then that creates a number of potential unintended consequences for the project developer and the market:</p> <ul style="list-style-type: none"> • If the LCOE of a project is overstated, then this may create expectations of higher spot prices and consumers paying more for PPAs than can be justified, • If the LCOE is understated, then that may result in a project not being able to attract sufficient capital for the project to be built. <p>Even if publication of information is anonymised, similar unintended consequences can occur.</p>

Chapter No.	Question	Response
		<p>An additional issue is that LCOE calculated values do not take into account the variety of roles that generation technologies fulfil. While it is a useful measure, it has limits in how useful it can be. For example, comparing the LCOE of a dispatchable versus intermittent generation can be misleading, or renewable generation versus those that consume a fuel that must be paid for.</p> <p>For example in the case of a dispatchable peaking plant where the proportion of time the plant is operating may be low, the expected percentage of time the plant is expected to be running has a marked impact on the standard calculation of LCOE that is not particularly comparable to a baseload or intermittent form of generation.</p>
Q5.	Do you agree that the appropriate time to collect cost information is when new generation is commissioned, or whether it should be earlier in the development process?	<p>Ultimately it is the final cost that counts, but how is the Authority going to account for costs and delays due to storms and road subsidence for wind farms, or failed geothermal wells that require costly rehabilitation and redrilling? Sometimes these costs may be at the risk of the project manager and other times to the generator. Even time delays, e.g. the steam hammer at Tauhara delaying commissioning full capacity on project completion, has a significant cost impact.</p> <p>Completed generation projects need to cover for considerable pre-development exploratory work and projects that fail to advance due to technical, social, environmental or other reasons. Should those costs plus accumulated interest on invested capital be included in the final project costs?</p>
Q6.	Do you agree with the Authority's proposal to aggregate some information provided by Transpower to assess the status or stage of projects, and do you have any comments on the breakdown of the proposed stages?	<p>It is difficult to determine if the generalised nature of the information, when it is consolidated, will provide interested parties with anything that is particularly useful in a practical sense.</p> <p>That said, the breakdown of the stages of development seems reasonable. Particularly the 'actively pursued' status, since a project is largely under construction once it meets all the 'committed' criteria.</p>

Chapter No.	Question	Response
Q7.	Do you agree the benefits of the proposed clause 2.16 notices outweigh their costs? If not, what area(s) of the Authority's preliminary assessment of benefits and costs do you disagree with?	The benefits may outweigh the costs, but only so long as the Authority's published data does not result in unrealistic expectations from buyers as to price, and the presentation of FID ready projects does not cause other generators, and in particular independent generators, to withdraw from project development because they foresee excessive competition arising in the spot market. The later situation can arise because generation developers are incentivised by the market to promote their projects ahead of other projects.
Q8.	Do you agree the proposed clause 2.16 notices are preferable to the other options? If you disagree, please explain your preferred option in terms consistent with the Authority's statutory objective in section 15 of Act.	The proposed clause 2.16 notices seem like a reasonable and pragmatic way of obtaining the information being sought.
Q9.	Should the Authority consider further work to monitor and assess the pipeline of new generation and demand?	The list of new generation projects in development and planning looks impressive, but to what extent are these projects going to provide cover for low wind and hydro inflows in the middle of winter, i.e. the mix of generation is as important as the gross capacity expected to be added over time. This of course, is reflected in the work done by the System Operator each year when projecting the security of supply. It would be useful perhaps if the Authority could identify those projects most critical for development, like the United Kingdom is doing ¹ , e.g. these may include base-load geothermal schemes or smaller peaking thermal plant in regions with limited transmission capacity.

¹UK electricity networks accelerate grid connections of more than 200 energy projects - https://knowledge.energyinst.org/new-energy-world/article?id=138743&utm_source=Energy+Network+Non-Members+Only&utm_campaign=8aaaab0e1f-EMAIL_CAMPAIGN_2024_05_07_07_53&utm_medium=email&utm_term=0_1e8dc4852d-8aaaab0e1f-%5BLIST_EMAIL_ID%5D