Pioneer energy

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Submissions
Electricity Authority
P O Box 10041
Wellington 6143

By email: submissions@ea.govt.nz

Dear Tim,

Re: Consultation Paper-Review of regulatory settings for OCCs

Pioneer Energy (Pioneer) welcomes the opportunity to make submissions to the Electricity Authority (Authority) on proposed changes to the regulatory settings for Official Conservation Campaigns (OCCs).

The Authority's consultation paper:

- supports Transpower System Operator proposals to amend the hydro risk curves to be inclusive of contingent storage;
- proposes to amend the trigger for the:
    1. start an OCC to when storage is equal to or less than the greater of
        a. the 10% HRC (the current trigger)
        b. the combination of
            i. any contingent storage available in the event of an OCC, plus
            ii. any gigawatt hour buffer of controlled storage determined in accordance with Transpower's Security of Supply Forecasting and Information Policy (SOSFIP)
    2. end an OCC when controlled storage goes back above the 8% hydro risk curve to
- seeks feedback on whether the South Island-only OCC and New Zealand-wide OCCs remain the appropriate form of OCCs

The first two changes reduce the risk of an OCC but if hydro storage breaches the triggers it makes any OCC more acute / less easy to manage (as the 'contingent storage' has already been used up). This change in risk profile should be priced in to futures / hedge prices.

Managing risk

While the Authority considers these changes are for the long-term benefit of consumers, Pioneer has two concerns about the risks associated with the proposed change:

a) effective date of change to the calculation of HRC and Code changes
b) impact on the length of time of a conservation campaign and therefore on the level of compensation payable by retailer

a) Effective date of change to the calculation of HRC and Code changes

Pioneer is very concerned about the unnecessary uncertainty created from not knowing if or when the proposed changes are to be implemented.

Participants attempt to manage the risks associated with uncertainty about the weather, management of hydro storage and levels of electricity demand on a daily basis using, what we consider to be, an illiquid hedge market. Imposing additional uncertainty in the form of 'betting' when the revised HRCs and rule changes will come into effect is a further unnecessary complication.

Pioneer strongly submits that any change to the regulatory settings for OCCs be effective a minimum of two years after the decision about the change has been published. This means that every participant will have full factual information (as opposed to speculation) about the regulatory regime that applies for the period of any futures contract. Independent retailers, that is those without their own generation, will then not be materially impacted by this regulatory change.

b) impact on the length of time of a conservation campaign and therefore on the level of compensation payable by retailer

The Authority and Transpower claim the proposed change to the HRCs is expected to make any official conservation campaign more severe. This change clearly has consequences for the length of time and therefore customer compensation cost for all retailers.

Pioneer takes this opportunity to reiterate our significant concerns about the mandatory requirement for retailers to compensate customers with $10.50 per week during an OCC.

Pioneer made a submission on the 2016/17 review[1] of the customer compensation scheme. Pioneer is also part of The Alliance of Independent Retailers (TAIR)[2] which made a comprehensive submission on the April 2018 consultation on two aspects of the scheme.

We continue to believe that the overall customer compensation scheme (CCS) is inconsistent with the Authority's statutory objective to promote competition and ensure the efficient operation of the electricity market.

TAIR described in detail how the risk of having to pay customer compensation cannot be mitigated. The scheme provides for payments to customers – not compensation – as no demand response is required and it is designed to penalise retailers irrespective of their contribution to the cause.

Pioneer believes that the risk for retailers without their own generation associated with the CCS in the OCC regulatory regime is significant and justifies a comprehensive review (costs associated with the CCS in our view would substantially exceed any benefit from making the changes currently being proposed).

We urge the Authority reread the TAIR's April 2018 submission and urgently place a review of the CCS on its work programme.

1 https://www.ea.govt.nz/dmsdocument/21552-pioneer-energy 6 December 2016

2 https://www.ea.govt.nz/dmsdocument/23479-the-alliance-of-independent-retailers-tair-joint-submission 10 April 2018

New Zealand-only OCC

Pioneer supports amending the Code to have a New Zealand-only OCC. All the contingent storage is in the South Island. If New Zealand and South Island storage is tracking the same and the HRC are amended then all the contingent storage that is physically available will have been 'used' by the time a New Zealand-wide official conservation campaign is called. Therefore it seems like there is no difference between a New Zealand-wide and a South Island-only OCC.

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

Yours truly

Fraser Jonker

Chief Executive

cc. Bennett Tucker, Market Security Services Manager, Operations Division, Transpower New Zealand Ltd

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