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22 July 2016

Electrical Authority Board Members
c/- Submissions
Electrical Authority
P O Box 10041
Wellington 6143

Re: Consultation Paper- Review of distributed generation pricing principles.

Dear Board Members,

Kawatiri Energy Limited began its investigation into the Lake Rochfort Power Scheme in 2002, obtained resource consent in 2006 and land use concessions from the Department of Conservation in 2008. Construction of the first stage commenced in 2009. The first stage was commissioned in June 2013 providing power directly into the Buller Electricity network. The second stage is still under construction and due for completion in 2017. The scheme is being constructed in very challenging geological and climatic conditions. We are a private company with investment in excess of \$20 million into a project that will be seriously financially affected with the removal of the ACOT payments.

The decision to proceed with this project, and the evaluation of investment risks, were absolutely dependent on the Electricity Governance Regulations 2007, which include the Distributed Generation Pricing Principles (DGPP) to ensure locational benefits are recognised through avoided transmission costs payments (ACOT). When the government consulted and then implemented DGPP regulations it clearly encouraged DG investment in remote regions and close to supply networks.

We are members of The Independent Electricity Generators Association (IEGA) and support and cross-reference their submission. We are also so aggrieved that we feel that it is important that we put forward our own submission to stress the effects of the removal of the DGPP regulations ACOT and the introduction of network common costs.

Kawatiri Energy is totally opposed to the Electrical Authorities proposals and we fully support the Independent Electricity Generators Association's submission for retention of the existing DGPP regulations. We can confirm the financial information included in the market impact report prepared for IEGA by PricewaterhouseCoopers is reflective of Kawatiri Energy's financial impacts should this proposal proceed.

As previously stated the market locational benefits recognised in the ACOT payment was basically the deal breaker for this project to proceed. Without this payment the scheme becomes marginal and increasing network costs from incremental to common costs makes the project unviable. Note that we are still in construction mode and this proposed shifting of the goal posts is economically unfair to Kawatiri Energy and places us in a precarious position.

We reiterate that we were encouraged by the Government and Buller Electricity to make this investment to provide security of supply to this region. Kawatiri Energy is the only generator directly connected on the Buller Electricity network and we provide a number of direct services including reduction in line losses, power factor correction and security of supply.

Buller Electricity and Transpower are also in a monopoly position making any genuine negotiation farcical. It is impossible to calculate the degree of detrimental impact of common costs, due to the lack of detail in the Electricity Authority's proposals. We cannot even estimate the degree of payments to be made or the payments we would have to make to local networks and Transpower.

The Electrical Authority proposals mean that Kawatiri Energy will have to re-negotiate a connection agreement with Buller Electricity in respect of connection costs and with Transpower in respect of Avoided Cost of Transmission benefit payments. Neither of these parties is in a position to enter negotiations as there is uncertainty in the regulatory change, there is no Commerce Commission approved revenues and little time to consider the change's impacts.

The fact is that Distributed Generators are unfairly penalised by this proposal. The IEGA's submission shows that the process being run does not meet code change requirements and there has been insufficient work done to properly investigate how DG, across markets worldwide, is growing in importance to realising long term consumer benefits. We do not believe the Authority has met its statutory objectives with this consultation process.

We also believe that prudent discounts being offered to larger businesses and to Networks in the proposed Transmission Pricing changes are not compatible with open market objectives and are inconsistent with the DGPP proposal which completely ignores the value of existing generating assets. We expect to be treated equally and fairly by the market regulators, which is not how this process is currently being run.

Kawatiri Energy therefore strongly opposes the removal of the Distributed Generation Pricing Principles from the Code. The reality is that the current Direct Generation system is efficient and fair to Generators, Networks and Customers and should be retained. This is in line with the Electrical Authorities objective to promote reliability of supply and efficient operation for the benefit of the consumer.

We request that this proposal not proceed.

Stuart McKinlay
Alan Absalom
John Finigan

Directors
Kawatiri Energy Limited