

26 July 2016

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

By email: [submissions@ea.govt.nz](mailto:submissions@ea.govt.nz)

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

Dear Board Members,

Omanawa Falls Hydro Limited (OFHL) began its investigation into the Omanawa Falls Power Scheme in 2007. The Reconstruction commenced in 2007. The first stage was commissioned in October 2008 providing power directly into the Powerco Electricity network. The second stage is still in the design phase and due for completion in October 2018. The scheme is constructed in challenging geological conditions. OFHL is a private company with investment in excess of \$1.5 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.

The NPS for Renewable Electricity Generation also supported for this investment where there is specific policy (see below) which direct decision maker to recognize and provide for the national significance of renewable electricity generation activities,

Policy A

Decision-makers shall recognise and provide for the national significance of renewable electricity generation activities, including the national, regional and local benefits relevant to renewable electricity generation activities. These benefits include, but are not limited to:

b) maintaining or increasing security of electricity supply at local, regional and national levels by diversifying the type and/or location of electricity generation;

Policy B

Decision-makers shall have particular regard to the following matters:

a) maintenance of the generation output of existing renewable electricity generation activities can require protection of the assets, operational capacity and continued availability of the renewable energy resource;

OFHL believe that the Electricity Authority has not considered the wider effects of removing the DGPP regulations which do not meet the directive of the NPS for Renewable Electricity Generation.

OFHL a members of The Independent Electricity Generators Association (IEGA) and support and cross reference their submission. OFHL 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.

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

The market locational benefits recognised in the ACOT payment gave confidence 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 OFHL is still in the design phase of stage two and this proposed shifting of the goal posts is economically unfair to OFHL and places us in a precarious position.

OFHL reiterate that being directly connected to the Powerco network we provide a number of direct services including reduction in line losses, power factor correction and security of supply.

Powerco 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. OFHL 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 OFHL will have to re-negotiate a connection agreement with Powerco 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. OFHL does not believe the Authority has met its statutory objectives with this consultation process.

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

Omanawa Falls Hydro Limited therefore strongly opposes the removal of the Distributed Generation Pricing Principals from the Code. The reality is that the current DG system is efficient and fair to Generators, Networks and customers and should be retained. This aligns 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.

Mike Davis  
James Berryman

Omanawa Falls Hydro Limited