

Tuesday, 1 April 2014

Clearing Manager  
c/- NZX Limited  
P O Box 2959  
Wellington 6140

By email: [cmanager@nzx.com](mailto:cmanager@nzx.com)  
Attention: Submissions

Dear Sir / Madam

**Re: Consultation on Methodologies under Schedule 14.2**

Pioneer Generation (Pioneer) welcomes the opportunity to make submissions on the Clearing Manager's proposals regarding prudential security methodologies.

Pioneer owns generating plant with a total capacity of approximately 30MW<sub>e</sub> and generates around 300GWh per annum. Pioneer's generating assets are all embedded within local distribution networks. Pioneer is also undertaking a retail pilot selling locally generated electricity to local customers. The initial response from the local community is positive about our offering which gives electricity consumers innovation and increased choice in our area.

**Guiding Principles**

Pioneer supports the guiding principles outlined in the submission by Simply Energy and strongly recommend that when making decisions on the methodologies to use the Clearing Manager and NZX focus on:

- **Simplicity:** use simple calculations in the methodologies unless there is a material benefit in making a calculation more 'sophisticated'. This will cost less to implement for both the NZX systems and for traders that are trying to understand and forecast their prudential requirements. Simplicity is also essential to support entry of third party financial institutions that might be able to provide credit intermediation services to traders;
- **Predictability:** The more unpredictable prudential calls are the greater the risk premium traders have to build into their banking facilities to meet prudential calls, thus increasing the cost-to-serve and ultimately the cost to consumers. Pioneer submits the methodologies should minimise the use of input variables that are not available to traders e.g. market share volume adjustments, or that are volatile; and
- **Outcomes that reduce volatility in prudential calls:** Volatility increases the amount of banking facilities required by traders in the same way as unpredictability. On balance we

would prefer methodologies that creat higher 'adders' with less volatility to achieve a target level of probability-of-loss-given-default.

## Design Features

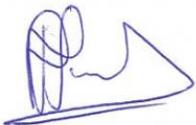
Pioneer concurs with the submissions made by Simply Energy relating to specific design features.

In particular, we are concerned about unoffered generation being estimated on the basis of last month's generation volumes and support Simply Energy's suggestion to use historic generation in the same month of the prior years as a predictor. Almost all of Pioneer's generation is from renewable sources and inflows and wind can be subject to large seasonal fluctuations. However, with a good volume of water storage our generation is relatively responsive to market conditions at a portfolio level and this is better reflected in our historic monthly generation into higher priced months than comparing to what happened last month.

We submit that a better predictor of overall generation volumes in a month can be derived from historic generation volumes in the same month of prior years. Therefore, we would like to see an alternative methodology that allowed traders to submit a monthly generation volume for their entire portfolio of unoffered generation based on historic volumes over (say) a three year period. The ability to average volumes over a period of say three years is also important given the well-recognised variation year-on-year in NZ's hydro inflows. This methodology would improve both the calculation of exposure and increase the predictability of prudential calls.

In conclusion, Pioneer Generation is concerned to ensure market arrangements promote competition, reduce barriers to entry and achieve the efficient end to end delivery of electricity for the long term benefit of consumers.

Yours Faithfully,



Fraser Jonker

**Chief Executive**

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