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Electricity Authority
Wellington
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Submission: Distributed Generation Pricing Principles

As the organisation representing consumer and community owners of EDBs, the Energy Trusts Association (ETNZ) has both an asset owner and a consumer perspective in addressing the Authority's consultation paper. We wish to make the following responses and suggestions:

First, we strongly believe that informed consultation on the DG Pricing Principles can only occur after the outcome of the TPM review is known. As the DG consultation paper notes, the outcome of the TPM review could have a material impact on the significance of the current ACoT arrangements. Understandably, most consumers are not well informed on the issues involved around ACoT, and will not be in a position to form assessments on the DG pricing Principles in tandem with the complex TPM debate. It does not seem reasonable to push these two consultations through in tandem, when there is no particular urgency involved. We acknowledge that some time could elapse before TPM changes take effect. However, the outcome of the review should be known this year, and that would be the appropriate time to consult on this topic.

With regard to the consultation paper, we disagree with the Authority’s conclusion that its proposal to remove the DGPP would “support the efficiency limb by better allowing distributors to adopt service-based pricing structures across all users of distribution networks.” We accept that the proposal would help by partially correcting the distortions caused by the legislated requirement for Transpower to be able to recover the full costs of its regulated investments, regardless of their value to the wider industry including consumers. (That is, if the DGPPs continued to apply, rather than avoided costs simply resulting in lost revenue to Transpower they would simply be reallocated to other consumers.) However,
correcting this by removing the DGPPs would amount to creating a new distortion to correct an existing one.

In our view the correct approach would be for transmission-reliant generators to be directly exposed to the competitive pressures created by distributed generation. This could be achieved by re-allocating any transmission revenue that has been foregone due to the impact of DG to the affected transmission-reliant generators, rather than by reallocating it to consumers via EDBs, as is currently proposed. Established wholesale market nodal pricing signals would provide the data necessary for a fair cost reallocation of this type.

We are surprised that the Authority has not included the option of transferring avoided costs to transmission-reliant generators among the alternatives that it lists as having been considered.

Having generators that require Transpower’s services to move their product to markets pay for any costs avoided by distributed generators that do not require full-time grid services would be consistent with normal commercial outcomes. As an analogy, a potato grower in Pukekohe facing competition from local growers in Auckland that reduced the volume of produce loaded onto its trucks would still have to pay the full transport costs of those trucks, and build this into its delivered prices. It would be absurd to expect Auckland consumers to pay the additional trucking expense and to allow the Pukekohe grower to maintain its original returns rather than price down to meet the competition.

For distributors, a primary service-based pricing objective is to move away from the historical ‘top-down’ pricing pressures that cause network assets worth around $10 billion to be configured and utilised in a manner that maintains the returns to Transpower’s $3 billion asset base. Instead distributors recognise the need to evolve pricing arrangements that optimise overall benefits to all participants and particularly to consumers.

The Authority’s proposal to give Transpower the responsibility for obtaining/paying for transmission-substitution services that it deems necessary reflects the top-down approach that evolved for the benefit of established transmission and generation providers, and is out of step with the trend towards demand-side options that we are beginning to see. Emerging technologies such as solar power and battery storage are giving consumers and EDBs increasing scope to compete with those established providers, and any proposal that has the effect of weakening that competition should only be considered if there is a very strong case for change, and – in particular – if an alternative that either has no impact on
upstream/downstream competition or else strengthens that competition cannot be found.

Our proposal that ‘avoided costs’ be transferred to transmission-reliant generators rather than to downstream parties would be a satisfactory alternative.

Ultimately, established transmission-reliant generators as a whole have the capacity to lower their prices to match most challenges likely to emerge from current DG technologies, and from some associated demand-side options, at least for the time being. In a rational market situation emerging technologies would be adopted on a small scale by enthusiasts and by parties seeking non-commercial benefits but would gradually increase their penetration as demand outstrips conventional electricity supply, and as those technologies become more cost-effective.

The proposals outlined in the DG consultation paper attempt to hold back the tide by locking out DG before it can gain a foothold, and should be reviewed accordingly.

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