



meridian

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Submissions  
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### **Consultation Paper – List of distributed generation eligible to receive ACOT, lower South Island**

The Authority's proposed list of distributed generation that will remain eligible for ACOT subsidies is produced pursuant to Code amendments made by the Authority in early 2017 further to decisions made by the Authority in December 2016. At that time the Authority said:<sup>1</sup>

*...distributors typically pay ACOT to the owners of large distributed generators (over around 100kW), even the ones that don't help to defer or reduce grid costs. This overpayment causes inefficiency. We call this the 'ACOT issue'. Owners of distributed generators that do not defer or reduce grid costs are benefiting from a subsidy. Consumers fund the subsidy by paying higher electricity prices – about \$50 to \$60million a year more. In many cases they get nothing in return. We estimate that consumers are paying around \$25 million – \$35 million per annum without receiving an associated benefit. ...*

*Subsidies cause inefficiency and waste. ACOT is no different. We have calculated the net value lost to society from inefficiencies caused by ACOT at around \$33m in present value terms. This includes inefficient investment (\$23m), inefficient reinvestment in existing generation (\$5.5m) and inefficient operation (\$4.4m).*

Meridian supported and continues to support the removal of ACOT subsidies. As well as being wastefully inefficient and driving additional cost to consumers, they set up an uneven playing field between distributed generation and grid-connected generation. The latter has the potential to defer far more in grid costs than the former. There is no reason, if New Zealand is to operate an electricity system that subsidises the construction and operation of certain types of generation, why only distributed generation should receive a subsidy. Of course the much better result, from a consumer and overall societal perspective, would be for these subsidies to be removed entirely.

The Authority's December 2016 decision paper makes it clear that the current Code provisions, including the proposed list the subject of this consultation, are transitional only. In particular:

- Amendments to the Transmission Pricing Methodology (TPM) are necessary to reduce the scale of inefficiencies driven by the current Code provisions<sup>2</sup> and therefore amendments to the TPM (which were contemplated to take effect by 2020) are still necessary;
- The rate of ACOT payments still needs to be reduced – the Authority decided against doing this in December 2016 because it wanted to reduce transactions costs and transition risk in an environment where complementary amendments to the TPM were anticipated to happen relatively soon;<sup>3</sup>

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<sup>1</sup> Electricity Authority, *Review of distributed generation pricing principles - Decisions and reasons, 6 December 2016* (ACOT Decision Paper), at pp 2 – 3.

<sup>2</sup> ACOT Decision Paper, p 5.

<sup>3</sup> ACOT Decision Paper, p 6.

- The Authority expressly described the current arrangements as transitional and said that it expected the arrangements to be refined at a future point so that ACOT payments do not exceed the transmission benefits being provided by distributed generation (acknowledged by the Authority to be a flaw in the current transitional arrangements); and<sup>4</sup>
- When and if the TPM guidelines are ultimately changed then in parallel with submitting a new TPM to the Authority for approval, Transpower was expected to recommend to the Authority further adjustments to promote efficiency and competitive neutrality between demand response, distributed generation and grid-connected generation.<sup>5</sup>

Meridian submits that given the delay in amending the TPM the Authority should revisit the transitional arrangements it has put in place relating to ACOT. Allowing the rate of ACOT to continue to be based on charges avoided, and thus to exceed by a considerable degree the actual transmission benefits provided, no longer seems appropriate, even as a transitional arrangement.

In late 2016 the Authority was contemplating a situation where this transitional arrangement would be in place for a maximum of 3 years from the date of its amendments i.e. 2017 to 2020. It now seems changes to the TPM will take longer. Even 3 years was a relatively long time for the Authority to continue to leave obvious market inefficiencies, with real costs to consumers, in place. This is particularly so given the Authority's adverse findings relating to those inefficiencies which had followed an exhaustive consultative process and comprehensive cost benefit analysis. It is not, in Meridian's submission, consistent with the Authority's statutory objective for it to allow these inefficiencies to continue now that the supposed 'transitional' period will be longer, and perhaps significantly longer, than 3 years.

In this context Meridian has reviewed the current Consultation Paper and considered the sole consultation question:

**Q1 What, if any, changes should be made to the list of distributed generation in the lower South Island that is eligible to qualify to receive ACOT payments under the regulated terms? What are your reasons?**

Meridian submits:

1. All distributed generation with a generation capacity less than or equal to 10kW should be removed from the list.
2. The Authority should consider whether a significantly higher cut off than 10kW should be applied. The Authority mentions 100kW in the quote on page 1 of this letter.

**Reasons:** Individual generators of low capacity do not realistically enter into Transpower decisions to defer or reduce investment in transmission and providing a subsidy to such generation does not provide any benefit to the system or to consumers. It is not consistent with the Authority's statutory objective that such generation is eligible to receive ACOT particularly when the rate of ACOT is currently set to exceed the level of transmission benefits provided. There is no analysis that we have seen indicating whether such generation is currently in receipt of ACOT (we anticipate that it isn't) therefore specifically providing for it to receive ACOT going forward is likely to be unnecessary.

3. The list should be redrafted to include provisions setting out the time period for which or over which each distributed generator is required to meet the grid reliability standards. A DG installation owner should only be eligible to receive ACOT for the period that his or her DG is necessary to meet those standards.

**Reasons:** It is clear from Transpower's report that, for example DG at the Balclutha, Berwick and Gore GXP's was only necessary to meet the Grid Reliability Standards over summer 2017. It therefore seems that by the time this list is published the time when the relevant DG was needed will have already passed. Yet the relevant DG will remain eligible for ACOT indefinitely. This is a perverse outcome. It can be avoided if the ultimate list published by the Authority specifically restricts the eligibility of certain DG so that it matches up with the report provided by Transpower.

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<sup>4</sup> ACOT Decision Paper, p 6 and 9.

<sup>5</sup> ACOT Decision Paper, p 9.

4. Transpower should be encouraged to identify specific DG that is necessary to meet grid reliability standards and only that DG should remain eligible to receive ACOT. Transpower's current GXP by GXP approach, while pragmatic, is likely to result in consumers continuing to underwrite ACOT payments which do nothing to defer transmission investment.

**Reasons:** The Code requires Transpower to prepare reports "...that identify which (if any) distributed generation located in the Lower South Island is required for Transpower to meet grid reliability standards in the period from 1 April 2017 to 31 March 2020." The words "distributed generation" are defined in the Code as "...generating plant that is connected, or that a distributed generator proposes to connect, to a distribution network or to a consumer installation that is connected to a distribution network, but does not include..." [the exclusions aren't relevant for present purposes].

Read together, the direction to Transpower and the definition of "distributed generation" in the Code suggest that the Authority's intention was that Transpower would if possible identify the precise plant that was necessary for Transpower to meet grid reliability standards. Certainly this would be in keeping with ensuring that the ACOT subsidy was as targeted as possible and the additional costs to consumers from ACOT, were minimised.

However, Transpower has not actually identified DG necessary to meet grid reliability standards. For the reasons they give in their report they instead proceed on a GXP by GXP basis with the result that either all the DG at a GXP is treated as required to meet the grid reliability standards, or none of it. This inevitably means that more DG ends up being treated as 'required' than if a plant by plant approach was taken i.e. it is overly inclusive. The costs of this Transpower pragmatism are therefore worn by consumers.

Please contact me if you have any questions.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'J. Woolley', with a long horizontal flourish extending to the right.

**Jason Woolley**  
**Regulatory Affairs Manager**