

25 November 2022

Electricity Authority  
Level 7 AON Centre  
1 Willis Street  
Wellington, 6011

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

## **Horizon Energy Distribution Limited (Horizon Networks) cross-submission on Consultation on ACOT payments to distributed generation Transpower grid reliability letter**

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1. Thank you for providing us the opportunity to make a cross-submission on [Transpower's response to the Electricity Authority's questions dated 4 November 2022](#) (Transpower grid reliability letter)
2. We understand the cross-submission should only address points made in the Transpower grid reliability letter.
3. Horizon Networks wishes to emphasise the points made in the Transpower grid reliability letter. As noted in our submission we believe Transpower will be aware of any grid reliability risks associated with an outage or exit of generation in certain areas and have forward-looking plans in place to address any grid reliability issues associated with market behaviour.

### **Transpower considers that while it is required to achieve N-1 reliability for the core grid, N-1 reliability at a GXP level is not required by the Code**

4. In the Transpower grid reliability letter, in response to the Electricity Authority's questions, Transpower stated:  
*"Where n-1 (or even greater) reliability exists in respect of connection assets, it exists for historical reasons or because Transpower has agreed with the relevant customer(s) to provide that level of reliability under an investment contract."*
5. Horizon Networks interprets this to mean that there is a clear distinction between providing core grid services, where Transpower has obligations to provide a reliable supply of electricity, and providing connection services where Transpower's obligations are governed by the service levels in its connection contracts.
6. This is consistent with the Commerce Commission's approach to price quality regulation for EDBs, where the Commerce Commission sets overall quality standards and it is up to each EDB as to how it meets those standards.

### **The parties that face the reliability risk have the tools to manage that risk without the need for regulatory intervention**

7. Transpower and EDBs face strong incentives from the Commerce Commission to ensure a reliable supply of electricity to consumers. Failure to meet the quality thresholds for any reason can result in material financial penalties.
8. As a result, outage management is a key EDB focus. EDBs have the tools to understand their network and manage outage risks to consumers. Outage risk management that is related to a grid connection (GXP) can include contracting for improved transmission services and transmission alternatives such as contracting with a distributed generation to provide supply in the event of a grid outage.
9. Because EDBs already manage the outage risks to consumers and there are clear regulatory incentives for EDBs to ensure a reliable supply to consumers, specific regulatory intervention such as requiring EDBs to make payments to generators previously receiving ACOT under the regulated terms in Part 6 of the Code is unnecessary, particularly given changes to the Transmission Pricing Methodology coming into force from 1 April 2023.

### **Avoided cost of transmission (ACOT) payments will not improve reliability for consumers**

10. All EDB decisions on how to manage reliability are made independent of ACOT payments. This is because ACOT payments do not improve reliability or provide a contracted guaranteed supply alternative in the event that the grid cannot supply the full load at a GXP.
11. If the grid owner or an EDB needs a generator to be available to meet reliability standards then it will contract for that service, outside of ACOT payments.

12. As a result, any requirement to continue to pay ACOT will not alter the risk of an outage to consumers, or how EDBs and Transpower manage the risk of an outage to consumers.

*Horizon Networks concludes that the proposed phase out of ACOT payments will have no grid reliability benefit*

13. Based on the Transpower grid reliability letter, Horizon Networks conclude it is unnecessary to phase out ACOT payments because:

- The parties that face this risk of increased outages due to not having N-1 reliability at a GXP are already incentivised to manage the risk because they face serious penalties if the risk eventuates.
- The risk of failing to meet reliability standards are not new and mechanisms to manage these risks are implemented independently from ACOT payments.
- ACOT payments do not alter the probability or impact of a grid outage or situation that prevents the grid from supplying the full load at a GXP from affecting consumers.

Yours Sincerely



Jonathon Staite  
Regulatory Manager

[Jonathon.Staite@hegroup.nz](mailto:Jonathon.Staite@hegroup.nz)

**HORIZON ENERGY DISTRIBUTION LIMITED**