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CROSS SUBMISSION ON ACOT – PROPOSED TPM-RELATED AMENDMENTS

Introduction

This cross submission has been prepared by Top Energy Limited (Top Energy) in response to the Electricity Authority's (the Authority) Consultation Paper: 'Avoided Cost of Transmission (ACOT) – proposed TPM-related amendments' – September 2022 (the Consultation Paper). Specifically, we respond to the additional information provided by Transpower on 10 November 2022.

This cross submission should be read alongside our full submission on the Consultation Paper, dated 20 October 2022, which provides background information and our key feedback on the Authority's ACOT proposal.

Transpower's response

Key aspects of Transpower's response to the Authority that are relevant to our cross submission are summarised as follows for context:

- Transpower has a responsibility to maintain N-1 grid security under the Grid Reliability Standard (GRS). Transpower highlights there is a need to clarify its grid reliability responsibilities for connection assets due to ambiguity in the Code and GRS.
- Transpower confirms that the Ngāwhā generation stations (Ngāwhā) help provide N-1 security at the Kaikohe GXP¹.
- Transpower confirms that it may enter into Grid Support Contracts (GSCs) with distributed generators to manage grid reliability, and that the necessary regulatory framework is in place to facilitate this. Specifically, it notes that the cost of any GSC "...would be covered by [its] incentivised expenditure allowances set by the Commerce Commission (baseline or for major projects)" under Part 4 regulations².
- Transpower confirms it is not currently intending to enter into a GSC with Ngāwhā despite the acknowledgement that it provides N-1 grid support³.
- Transpower notes that in some cases it may be more appropriate for its customers (i.e. Electricity Distribution Businesses (EDBs)) to enter into their own support contracts with distributed generators (eg for connection assets) where it is the customers responsibility to make price-quality decisions over grid reliability⁴.

¹ Transpower response to question 9(a)

² Transpower response to question 8 and 9(c)

³ Transpower response to question 9(d)

⁴ Transpower response to question 8

Ngāwhā is critical to providing N-1 reliability at Kaikohe and should continue to be incentivised to provide grid support

Maintaining an N-1 grid reliability standard is critical to Top Energy and the 33,300 consumers we serve as losing our grid connection means the entire Far North is without power. This is because we are solely reliant on a single transmission circuit from Maungatapere to Kaikohe. In our view, Transpower has a responsibility to maintain N-1 reliability at Kaikohe under the GRS either through grid investments or alternative transmission arrangements.

The options to achieve N-1 include an upgrade to the Maungatapere to Kaikohe transmission line (eg double circuiting) or the development of local firm baseload generation, such as Ngāwhā. The most cost effective option to date has been to pursue the development of Ngāwhā, which has been supported through arm's length ACOT payments made to OEC 1-3.

As noted in Transpower's response, there are only two options to recognise the role of distributed generation in achieving N-1 security in the absence of ACOT:

- Transpower enters into a GSC with Ngāwhā
- Top Energy enters into an equivalent grid support contract with Ngāwhā.

Accordingly, the regulatory frameworks should recognise the role of Ngāwhā in providing grid support where Transpower is unable to meet the GRS using grid assets.

It is not clear whether the Part 4 regulatory frameworks will allow EDBs to recover grid support costs in the absence of ACOT

Transpower has noted that the Part 4 regulatory framework allows it to recover GSC costs paid to distributed generation.

However, it is not clear whether Part 4 allows EDBs to recover the cost of grid support if ACOT were removed from the Code. The electricity input methodologies and disclosure requirements were not drafted with EDB grid support costs in mind, as this was dealt with via the Part 6 ACOT allowances. If Top Energy must incur grid support costs to maintain N-1 grid reliability it may not be able to recover these costs under Part 4 and will be unable to earn a normal return consistent with the purpose of Part 4.

Under Part 4, EDBs may recover transmission related costs only via the 'Recoverable Cost' allowance. Under 3.1.3 of the Input Methodologies, relevant transmission costs that an EDB may recover include:

- Charges payable to Transpower or the System Operator
- Distributed Generation Allowances, which include ACOT and avoided costs of distribution (ACOD) payments under Schedule 6.4, Part 6 of the Code.

Grid support costs are therefore only recoverable by and EDB under ACOT.

It is not clear whether there are other mechanisms for compensating DG for network reliability under Part 4. Another potential means for an EDB to recover grid support costs could be through its 'Operating Cost' allowance. However, the Information Disclosure requirements only allow operating costs relating to 'Electricity Distribution Services' to be recovered. Services 'supplied by Transpower' are specifically

excluded⁵. It is therefore unclear whether operating costs could be used to recover grid related expenditure.

Consistent with our previous submission, we submit that Part 6 should allow EDBs to recover grid support costs paid to distributed generation through a reformed ACOT definition. This will allow these costs to be captured under the existing Part 4 'Distributed Generation Allowance' definition.

Without prejudice to this, if ACOT were removed, we submit that the Authority should first clarify with the Commerce Commission whether grid support costs paid to distributed generators to maintain N-1 grid reliability can be recovered as operating costs under the Part 4 regulatory regime.

If EDBs are not permitted to recover their own grid support costs, Transpower should face stronger incentives to enter into GSCs.

We agree with Transpower's view that it should "invest in the grid and transmission alternatives to manage grid reliability issues as and when required, regardless of the ACOT outcome". This should be consistent with the requirement to maintain N-1 security under the GRS.

However, Transpower acknowledges it has no intention to enter into a GSC with Ngāwhā if ACOT is removed.

The issue we see with this position, is that if the EDB is unable to recover grid support costs and if Transpower has little incentive to pursue GSCs as a solution, the only option to achieve N-1 security is to build more transmission lines. In the case of Kaikohe, this is a higher cost solution for consumers than providing grid support to Ngāwhā. We submit that Transpower should be more strongly incentivised to consider and pursue transmission alternatives, including GSCs, in order to meet the GRS.

Ngāwhā is an arm's length business to Top Energy and should be treated as such in the regulatory frameworks.

We fear that the Authority and Transpower are conflating Top Energy and Ngāwhā Generation Limited (NGL) when assessing the grid reliability risks of ACOT reform. As noted in NGL's previous submission, this is contrary to the arms-length mandate under Section 76 of the Electricity Industry Act and is not a relevant consideration in the development of ACOT regulations⁶. If NGL were a separately owned business, there would be no question that some form of grid support incentive would be necessary (either from Top Energy or Transpower) to maintain reliability at Kaikohe in the absence of ACOT.

We are concerned that the Authority assumes generators will run when nodal pricing is higher

The general assumption is that generators will operate during periods of higher prices. Our concern is that this is not necessarily true as many generators have hedges in place that set the price they will receive rather than the spot market.

Regardless of this, Ngāwhā could decide not to run for one-half hour, and this could result in electricity delivered over the transmission lines not meeting demand. This is the same situation as the recent grid emergencies and Top Energy would be required to have rolling outages (blackouts). The cost to Ngāwhā for this would be minimal compared to the value of the service they are providing, but the impact to consumers would be unacceptable.

⁵ IM, clause 1.1 definition of electricity distribution services

⁶ NGL submission to Authority, page 4, 20 October

We believe there is considerable risk in removing ACOT in 2023 and we suggest the Authority pause to consider alternative arrangements in more detail.

Top Energy is in the process of finalising its pricing in the next few weeks. Consistent with our compliance obligations under Part 4, we are required to publish prices and a price setting compliance statement under the EDB Default Price-Quality Path (DPP) determination before April 2023. In addition, we must notify retailers of price changes consistent with the default use of system agreement at the end of January 2023. It is too late in our view to be making decisions on the removal of ACOT for the pricing year starting April 2023. EDBs need to know their compliance positions shortly otherwise they risk being non-compliant with Part 4.

The recent security of supply assessment undertaken by the system operator for Winter 2023⁷ also highlights a heightened risk of insufficient supply during the next winter peak. This has been further emphasised by the release on 25 November 2022 by the Authority of “Driving efficient solutions to promote consumer interest through 2023” for consultation. The system operator noted that the removal of RCPD charges has contributed to growth in peak demand as EDBs are no longer incentivised to reduce peak demand. In our opinion, it is not prudent to remove ACOT incentives on generators, particularly those that contribute to grid reliability, at a time where we face significant security of supply challenges.

The Authority needs more time to assess the merits of removing ACOT on distributed generators that provide grid support. This should start with consideration of the economic benefit to consumers and of the long-term enduring regulatory options.

Closing comments

We trust this cross submission and our earlier submission assist the Authority to consider its options for ACOT reform. In summary, we believe there needs to be some mechanism put in place to incentivise and economically compensate distributed generation which provides grid support in the absence of Transpower meeting these obligations. Our preference is to reform the current ACOT arrangements to focus on tangible grid reliability support benefits. In the absence of this, Transpower should be more strongly incentivised to enter into GSCs with distribution generation to meet the GRS.

We welcome further discussions on this matter and would be open to meeting to discuss our submission in further detail if that would be helpful.

Yours sincerely



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⁷ Transpower, System operator winter review paper, November 2022.