

31 October 2022

Electricity Authority
Level 7 AON Centre
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Wellington, 6011

By email: network.pricing@ea.govt.nz

Horizon Energy Distribution Limited (Horizon Networks) cross-submission on Consultation on ACOT payments to distributed generation

1. Thank you for providing us the opportunity to make a cross-submission on Consultation on ACOT payments to distributed generation.
2. We understand the cross-submission should only address points made in the initial submissions.
3. Horizon Networks wishes to emphasise the points made in the Transpower New Zealand Limited submission. As noted in our submission we expect 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 there is an unquantified system security benefit from the phase-out option, but no grid congestion benefit

4. In its submission Transpower has stated:
 - "While ACOT payments were not intended to assist with system security, nevertheless as they provide a financial incentive for distributed generation to operate at peak times there is a risk that their removal could impact system security.¹"; and
 - "...we consider the problem an ACOT phase-out could address is not about grid congestion, it is about embedded generator participants responding at peak demand. The TCC option is not a relevant consideration.²"
5. Horizon Networks interprets this to mean that the phase-out of ACOT payments option will not address grid congestion but will provide a payment that incentivises embedded generators to respond to peak demand, in addition to the wholesale spot price.

The potential system security benefit comes at a cost to the integrity of spot price signals in the wholesale market

6. The impact of providing embedded generators and additional payment, beyond the wholesale market spot price was considered by the Authority in as part of its decision to end ACOT payments.
7. In its 2016 consultation paper Review of distributed generation pricing principles, the Electricity Authority claimed the DGPPs in Schedule 6.4:
 - "...also encourages inefficient operation of distributed generation, and distorts competition in favour of distributed generation compared to alternatives.³"
8. Horizon Networks interprets this to mean ACOT gives an unfair advantage to distributed generation by effectively providing a regulated subsidy to the DGs during peak periods. This peak price signal is in addition to the signal provided by spot prices to incentivise generation to offer into the market during periods of high demand.
9. ACOT is not provided to other generators and is not signalled to consumers via the spot price, creating an imbalance the drives inefficient decisions.

¹ Paragraph 3 of [TP Sub ACOT TPM code amendments 20Oct2022](#)

² Paragraph 7 of [TP Sub ACOT TPM code amendments 20Oct2022](#)

³ Paragraph 3.1.1 (b) of [Review of distributed generation pricing principles](#).

10. Creating an uneven playing field between different participants in the wholesale market does not support a competitive wholesale market and would not deliver long term consumer benefits.

Horizon Networks conclude it is unnecessary to phase out ACOT and Transpower's system security concerns are already being addressed through less distortionary interventions

11. Horizon Networks believe any actions to address Transpower's concerns regarding the effectiveness of the wholesale market to incentivise generation to be available is already being handled through existing wholesale market focussed initiatives, including the ongoing work the Electricity Authority and the System Operator have been undertaking since the 9 August event.

12. Horizon Networks conclude:

- It is unnecessary to phase out ACOT.
- Phasing out ACOT would perpetuate the inefficiencies that the decision to remove ACOT is intended to address.
- The concerns raised by Transpower are not related to distribution or transmission as identified in the consultation paper. The concerns relate to how effective existing market signals are in ensuring generation is available during peak periods.

Yours Sincerely



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HORIZON ENERGY DISTRIBUTION LIMITED