Electricity Authority
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New Zealand

Manawa Energy Cross -Submission: Proposed ACOT Code change

Introduction and overview

Manawa Energy (**Manawa**) thanks the Electricity Authority (**Authority)** for the opportunity to make a cross- submission on its September 2022 "Avoided Cost of Transmission (**ACOT**) – proposed TPM related amendments" consultation paper (**Consultation Paper**).

After considering submissions on the Consultation Paper, Manawa continues to support a transition arrangement for the removal of the obligation to make ACOT payments in the Code. The evidence presented in submissions weighs against the Authority's assumption that nodal prices will provide sufficient payments to maintain grid reliability at every GXP, and confirms that no network support contracts are currently in place.

We also maintain our view that the role distributed generation (**DG**) plays in deferring grid upgrades and lowering a distributors' benefit-based charges for particular assets needs to continue to be recognised. The Authority's TPM has assumed distributor responsiveness to these new arrangements, and we do not consider there should be prescription around how that responsiveness occurs.

Our cross submission addresses the following themes from submissions:

- The contribution of existing DG to current grid reliability;
- The sufficiency of nodal prices;
- The relationship between DG and benefit-based charge allocations;
- The role of distribution companies; and
- The need for a transition.

We also make brief comments on two drafting matters raised in submissions.

Recognition of contribution of DG to current grid reliability

We were disappointed to see the lack of recognition from some submitters of the contribution that existing DG has made, and will continue to make, to grid reliability. For example, Unison and Aurora described ACOT as a "windfall payment" without considering the evidence to the contrary. This evidence includes the 627.6MW of distributed generation identified in the various Mitton ElectroNet reports as being required to help Transpower meet its n-1 grid reliability standards[1].

Further evidence of DG contribution to grid security has been provided in:

- Our own case study about Kaimai power scheme contribution to n-1 reliability;

[1] Discussed in IEGA submission, page 2

- KCE's advice that its Mangahao generation has been necessary to ensure n-1 reliability at the Mangahao GXP; and
- Ngawha Generation's explanation of the alternative transmission service it provides for the transmission network north of Maungatapere GXP.

As Powerco note "although the TPM will change, the need/value for distributed generators to provide n-1 security may not have.[2]

It is possible that this lack of recognition of the contribution DB makes to our energy system was due to the Authority's comments on the Mitton ElectroNet reports. These reports, commissioned by Transpower to assist the Authority to derive a list of generators eligible to receive ACOT, are the sole industry wide assessment of the contribution of DG towards meeting reliability standards that has been undertaken more recently.

The Authority describes the analysis in these reports as "… *effectively a high-level assessment of locations in the grid where DG* <u>*potentially*</u> *contributes to grid reliability*".

This description may have misled submitters. As the IEGA and Powerco submit, the Mitton ElectroNet analysis was designed to assess DG that was "required" to help Transpower meet its grid reliability standards not "potentially" required.

Our view is that the semantics matter, as the language chosen by the Authority could have the effect of undermining the views stakeholders have of the service that DG is providing to our energy system.

Sufficiency of Nodal prices

The Consultation Paper sets out the Authority's view that DG will be sufficiently compensated by nodal prices to ensure DG's operation at times of peak demand. Our submission presented a contrary view supported by a case study of our Kaimai Power scheme.

Similarly, KCE's submission advised:

> *"The current RCPD price signal has been necessary to ensure that we operate our plant during peak periods and has influenced decisions beyond what nodal pricing incentivises. We have cancelled planned outages as a consequence of revised projections which suggested that an RCPD period was expected to occur within the timeframe of the outage."*

However, under the new TPM it expects:

> *"The potential difference in nodal prices created will be too small to justify cancelling our arrangements for planned outages with contractors. Furthermore, the time periods in which the nodal price signal might impact our behaviour such as scarcity events are unknowable far enough in advance for us to adjust our behaviour."*

Ngawha Generation's submission also advises that its plant will not be compensated for the relief it provides in the Northland regions under nodal prices.

No contrary evidence was provided.

It follows that we disagree with WEL Networks contention that any DG which changes its operation to reflect the removal of ACOT payments is acting in bad faith. As Top Energy notes it is not reasonable to assume that participants will provide a service for which they are not compensated.

[2] Powerco submission, page 1

Need to reduce peak demand

Transpower's submission outlines the increases in peak loads it has observed in the last two years and further advises "…*tight capacity margins are expected to persist for the next few years until sufficient investment in peaking capacity is made*"[3]

Transpower does not support the immediate removal of provisions for ACOT payment from the DG pricing principles as these payments "*provide a financial incentive for distributed generation to operate at peak times and there is a risk that their removal could impact system security.*"[4]

We agree. This is not a time to take a gamble on the sufficiency of nodal prices.

Benefit -based charges

Ngawha Generation shares our view that there is a place for payments to DG, where DG provides grid support that avoids future transmission investment.

We disagree with Northpower and Aurora's views that DG should not receive payments for the contribution they make from lowering benefit-based charges.

The whole rationale of BB charging relies on distributors responding to the costs of grid upgrades by seeking alternative arrangements for the benefit of their customers.

IEGA comment:[5]

> ***"****The amount distributors pay in benefit-based charges for transmission services is the value of Transpower's investment. The benefit-based charges modelling identifies the amount distributors have not had to pay because distributed generation supplies some of their total load….This is a payment for services provided (and not for an avoided charge)."*

[It is also disappointing that certain distributors appear to be attempting to seek relief from their existing contractual obligations to share the benefits provided to them from contracted DG services].

Role of distribution companies

A number of submitters believe that Transpower is the party best placed to contract for grid support and make payments for alternative transmission services. Aurora sought the removal of distribution companies as "intermediaries". Network Tasman has a similar view "*if there are benefits to, or from Cobb, this is something the grid owner should be responsible for negotiating*."[6]

We agree that Transpower has the primary responsibility for delivering the grid reliability standards. However, distributors are also tasked, as counterparties to benefit based charging, with minimising the costs of grid upgrades for the long-term benefit of consumers.

Under the new TPM they are expected to understand the modelling that sits behind the allocation of benefits and enter arrangements to lower their allocation of charges where it is efficient to do so.

[3] Transpower submission, page 2
[4] Transpower submission, page 1
[5] IEGA submission, page 8
[6] Network Tasman submission, page 2

Need for a transition

Top Energy advise that Ngawha Generation has not been approached by Transpower to provide n-1 grid security at Kaikohe from 1 April 2023. This leaves their network "*in a potentially precarious position for the reliability of supply*". Accordingly, they submit that current ACOT payments should not be removed until there is an alternative mechanism identified for DG operation requited for continued security and reliability of supply.

We confirm that we also have not been approached by Transpower to provide n-1 grid security at Kaimai from 1 April 2023 or any of our other stations. This could also impact on the reliability of supply.

Electra submitted that "*there must be a viable alternative to compensation and enabling DG investment before the Authority ends ACOT payments*." We agree.

Drafting matters

Removal of the term "with connection services" in clause 1.1 (1) (a)

We agree with the Authority that these words are redundant as the intent is that Part 6 applies to all of the services provided by the distributor to the distributed generator (and vice versa).

Removal of the references to transmission costs in the DG pricing principles

We note some distributors are seeking changes to the definition of incremental costs to ensure that they can pass on any transmission costs DG impose on their networks e.g. increased connection costs or increased costs associated with reallocations of benefit-based charges[7].

We note if this change is made then it must be reciprocal: DG should have a statutory entitlement to the reduction in costs which occurs as a result of its presence on a network. Electra made a similar point[8].

If you have any queries regarding this submission please contact Fiona Wiseman, Regulatory Manager.

[7] See for example Northpower submission, page 5 and EA Networks submission, page 1
[8] Electra submission, page 3