

3 November 2022

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Cross submission on Avoided Cost of Transmission (ACOT) – proposed TPM related amendments

1. This is Vector's cross-submission on the Electricity Authority's (EA) consultation paper on ACOT – proposed TPM related amendments.
2. We submitted on the need for the Authority to consider incentives on Transpower to support the uptake and use of technologies that reduce the need for transmission upgrades. As raised in our submission, recent experience from the removal of the RCPD charge suggests there are limitations to relying solely on the nodal price to manage peak demand in the transmission grid.
3. This theme was reflected by a number of submitters to the consultation. For example, King Country Energy and Manawa Energy both described how the RCPD charge impacted their behaviour.
4. It is notable that Transpower submitted against the immediate removal of ACOT payments in favour of a phase out on the basis the removal of ACOT could pose a risk to system security.
5. Transpower submitted that:

“in the last two years the system operator has:

- *Observed increases in peak loads; and*
- *Issued a number of grid emergency notices (GENs) in 2021 and 2022 (three GENs relating to insufficient generation offers in 2021 and two in 2022).*

*Tight capacity margins are expected to persist for the next few years until sufficient investment in peaking capacity is made. Specifically, our recent (June 2022) annual security of supply assessment identified that the market would need to develop all the known consents to maintain the North Island winter capacity margin (NI-WCM) above the upper security standards between now and 2028 and begin commissioning projects currently unconsented from 2028. **Even with developing all the known consents, some sensitivities or combination of sensitivities may still result in the NI-WCM falling below the security standards prior to 2028 which would require even more development of currently unconsented projects.*** [emphasis added]

6. Manawa Energy and Top Energy also submitted the proposals could result in material reliability risk.
7. The risks to system security raised by submitters further emphasises the need to consider incentives on Transpower to contract for grid support.
8. We note Transpower submitted it did *“not support the Authority's proposals for a longer term work programme that includes consideration of whether there is a future role for*

additional price signals for grid support technologies” and that, “we agree with the Authority that payments for transmission alternatives can lead to more efficient consumer outcomes. However, we caution that further regulatory intervention could create, rather than reduce, barriers to efficient procurement of services.”

9. In contrast, Manawa Energy submitted: *“We agree that network support contracts and demand response can be helpful in providing network alternatives where congestion is known in advance. The importance of having these contracts in the reliability eco-system is likely to grow over time. However, the track record for these contracts suggests that there may be barriers for their deployment which the Authority should examine.”*
10. We agree with Manawa that the role of network support contracts in supporting reliability will likely grow in importance over time and that it is worth the Authority examining barriers to Transpower entering these contracts.

Yours sincerely



Richard Sharp
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