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Network Pricing
Electricity Authority

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UNISON AND CENTRALINES SUBMISSION AVOIDED COST OF TRANSMISSION – PROPOSED TPM-RELATED AMENDMENTS

Unison and Centralines welcome the opportunity to provide this submission on the Electricity Authority's consultation to TPM-related Code amendments relating to the Avoided Cost of Transmission (ACOT).

Immediate removal of ACOT is supported

Unison and Centralines support the removal of ACOT as an incremental (avoided) cost within Schedule 6.4 of the Code (distributed generation pricing principles). In our view, the timing of removal should align with the commencement of the new transmission pricing methodology (TPM), meaning that ACOT would not be paid to distributed generators in the 2024 regulatory year.

Unison and Centralines agree with the Authority that implementation of the new TPM, with the removal of interconnection charges and measurement of regional coincident peak demand (RCPD), creates a situation where there is no credible basis for calculating and continuing ACOT payments. We further agree with the Authority that the risks of grid reliability impacts are low. Should genuine grid reliability issues emerge, we consider that Transpower is best placed to determine remedial measures, including directly contracting distributed generation (DG) support if feasible and appropriate.

Phased removal is unfounded

We do not support any form of transition. ACOT payments can be considered a windfall payment to DG owners since there is little evidence that DG operation results in a veridical reduction in the underlying costs of providing transmission services, and since Transpower's operating costs are fully covered, irrespective of the impact that DG operation has on the (old) TPM. For several electricity distribution businesses (EDBs), implementation of the new TPM will result in a material increase in the transmissions charges that will ultimately be paid by their consumers. Immediate removal of the requirement to make ACOT payments is an important factor in 'balancing the ledger' for those consumers.

In our view, the proposed transition framework makes little sense, given the strong rationale for removing ACOT altogether. The framework proposes to:

- use Transpower's 2023 interconnection rate, which ceases to have any relevance after 31 March 2023; and
- inefficiently continue to calculate RCPD itself, despite that the term only had relevance under the old TPM.

Timing is everything ...

Unison and Centralines is disappointed at the timing of consultation, given that ACOT consultation has been planned for since the TPM decision was made in April.¹ The due dates for submissions and cross-submissions suggests that the Authority's final decision on ACOT removal is likely to be made in late November / early December 2022. This is unlikely to be useful for EDBs, who will be well advanced in their annual price change processes (especially given that a number of EDBs are expected to be required to publish their 2024 pricing methodologies earlier than normal², as they start to implement more cost-reflective pricing structures).

We have little doubt that most EDBs, absent the Authority's final decision, will be planning pricing that does not include ACOT recovery. This gives rise to significant concerns for the consequences, especially to price-quality regulated EDBs, if the Authority's phased removal option was decided on, and EDBs' price-setting compliance statements did not include any amount for the distributed generation allowance.

Yours sincerely,



Jason Larkin
GENERAL MANAGER COMMERCIAL

¹ Electricity Authority. (2022). Transmission pricing methodology 2022: Decision paper. Paragraph 15.3(b), p105.

² Commerce Commission. (2012). Electricity Distribution Information Disclosure Determination 2012 (consolidated December 2021). Clause 2.4.2, p56.

Chapter 2 – Background and context

<p>Do you have any comments on the background and context material in this chapter or Appendix A?</p>	<p>Unison and Centralines agree that:</p> <ul style="list-style-type: none"> • ACOT payments do not reflect a genuine reduction in the transmission provider’s underlying costs; • because Transpower did not include usage-based charges in the new TPM to influence demand reductions, it is difficult to conceive ACOT providing any genuine benefit to the grid owner; and • consumers are paying more for notionally avoided charges, when Transpower already covers it full costs in its charges to EDBs. This is inefficient, and should cease.
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Chapter 3 - We propose to remove provisions for ACOT payments from DG pricing principles

<p>Do you agree with the Authority’s preferred approach of clarifying that ACOT payments are no longer required?</p>	<p>Yes. While we consider that the TPM provides no basis for calculating ACOT payments, clarification that ACOT payments do not need to be made provides certainty to EDBs and DG owners.</p>
<p>Do you have any comments on the alternative approaches that could be used to justify ACOT payments?</p>	<p>We consider that allocator updates and deferred investment would be a difficult basis on which to calculate continuing ACOT payments and would require information that EDBs would not have access to. If these reflected genuine savings to the cost of transmission services, then Transpower should make such payments directly.</p>
<p>Do you have any comments on the Authority’s proposed amendments to the Code?</p>	<p>The proposed Code amendment is clear.</p>

Chapter 4 - Alternative option – phase out could mitigate transition risk

<p>Do you agree with the transition risks we have identified, and our assessment of them?</p>	<p>Unison and Centralines consider that the risks are most likely over-stated. If these risks emerge, Transpower is best placed to deal with them, including by contracting with DG owners for support, if required.</p>
<p>Do you think there are any other transition risks we should consider?</p>	<p>No.</p>
<p>Do you have any information that would allow the Authority and Transpower to better assess the risk that removing the requirement to make ACOT payments could lead to changes in distributed generation behaviour that could impact reliability?</p>	<p>No.</p>

Do you have any comments on the design of the phase-out option?	As stated above, the proposed phase-out is illogical, as it requires contriving an ACOT framework that relies on abandoned concepts and irrelevant historic costs.
Do you agree with our preference that ACOT payment obligations cease from April 2023 with no phase out?	Yes.

Chapter 5 - Further work on network pricing for distributed generation

Do you have any comments on the distributed generation pricing context material provided in Appendix C?	No.
Do you have any comments on the Authority's plans for further work on whether there is a future role for additional price signals for grid support technologies?	Unison and Centralines prefer, in situations where grid support is required, that Transpower is responsible for formulating solutions, including directly contracting grid support from third parties, including DG owners, where appropriate.

Chapter 7 - Regulatory statement for the proposed amendments

Do you agree with the objectives of the proposed amendments? If not, why not?	Unison and Centralines agree with the objectives of the Authority's preferred proposal – immediate removal of ACOT. We do not agree with the objectives of the phased removal of ACOT, for reasons already stated.
Do you agree the benefits of the proposed amendments outweigh their costs?	Yes – for immediate removal of ACOT. No – for phased removal of ACOT.
Do you agree that alternative means of meeting the objective are not as effective in meeting the Authority's statutory objective? If you disagree, please explain your preferred alternative option in terms consistent with the Authority's statutory objective.	Unison and Centralines agrees that phased removal of ACOT is not likely to be consistent with the Authority's statutory purpose.
Do you agree the Authority's proposed amendment complies with section 32(1) of the Act?	Unison and Centralines has not sought legal advice regarding this point, but our observation is that the Authority's proposed Code amendment is likely to comply with section 32(1) of the Act.
Do you have any other comments on this chapter?	No
Do you have any other feedback on any other aspect of this consultation paper?	Please refer to our opening comments.