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Electricity Authority  
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**Submission to the Electricity Authority on Avoided Cost of Transmission (ACOT)  
- proposed TPM-related amendments**

Top Energy appreciates the opportunity to submit to the Authority on its consultation on ACOT amendments. Being 100% owned by a local Consumer Trust, Top Energy's is focused on the best long-term interests of its consumers. This includes specific objectives within our Statement of Corporate Intent on lowering the overall cost of delivered electricity and achieving acceptable security and reliability of supply. This submission is not confidential.

*Consultation Question: Do you agree with our preference that ACOT payment obligations cease from 1 April 2023 with no phase out?*

**Top Energy supports the removal of ACOT payments from 1 April 2023 where there is no identified avoided cost of transmission by Transpower in their Transmission Planning Report. However, where an avoided transmission cost has been identified, an alternative mechanism for compensation should be implemented before the removal of the current ACOT payment for those identified to ensure continued reliability and security of supply.**

- Top Energy agree that the current ACOT has led, in most cases, to inefficient payments because of avoidance of transmission charges that reflect reallocations of existing transmission costs under the Regionally Coincident Peak Demand charge. This has resulted nationally in consumers carrying additional costs and is not in the best interest of consumers.
- However, Top Energy acknowledge that there are a limited number of examples where distributed generation (DG) is providing a service resulting in a delay and / or avoidance of future transmission investment costs and therefore providing a real benefit to consumers (e.g security of supply, deferral of capacity upgrades). Under these circumstances the providers of these services should be compensated to ensure the service continues to be supplied at the lowest cost to consumers, and the cost should reflect the actual benefit provided. Transpower helpfully identify participants providing such services in their Transmission Planning Report.
- From an EDB perspective this is an important consideration where the cost of future transmission investment, in the absence of the Distributed Generators (DG) providing these grid services, would fall to the EDB and consumers. The complete removal of

ACOT removes our options to act in the long term best interests of consumers by incentivising DG to continue to operate to avoid these costs.

- Top Energy's main concern is that the Authority has underestimated the immediate potential impact on reliability and security of supply with the removal of ACOT payments. This could immediately impact our consumers as outlined below.
- Transpower's 2022 Transmission Planning Report states that from 2022, Kaikohe will have a supply capacity constraint as peak load is forecast to exceed n-1 capacity on the Kaikohe-Maungatapere circuit without the embedded generation from Ngawha Generation Limited (NGL).
- Transpower's plan to provide n-1 security for the load is outlined in section 7.5.2 on page 101 of their 2022 transmission planning report. It states ACOT incentivises NGL to provide n-1 security for load. The removal of ACOT payments will mean that Transpower will need to procure those services from NGL or another party by 31 March 2023 to secure this service. Top Energy has approached NGL and been advised that they have not been approached by Transpower to provide support for n-1 security. This leaves us in a potentially precarious position for the reliability of supply to Top Energy's network.
- Based on this, it is our opinion that the removal of ACOT by 1 April 2023 will result in a material reliability issue, in opposition to section 4.4, as Transpower will not have put in place grid support arrangements to provide n-1 security at Kaikohe from that date. This is due to the following:
  - NGL operates at arm's length from Top Energy and on a commercial basis, consistent with the Authority's exemptions for its ownership. Top Energy does not influence NGL's decisions to meet our own purposes apart from through arm's length arrangements.
  - Without an incentive in place for NGL (e.g. ACOT), there is no obligation or driver for NGL to operate their plant meaning that n-1 security is not able to be maintained. This is not a viable situation for Far North consumers as at any time when supply is N, NGL could cease generation resulting in a shortfall of supply to meet demand. Given the value of loss load is \$20,000 / MWh, the potential cost of this is significant for the Far North.
  - It is very unlikely Transpower will be able to enter contracts with DG or other providers of the service before 1 April 2023 as highlighted in 4.5 by the Authority. A key reason for this is that a contestable process is required to ensure that the payments are not higher than required and efficient.
- Top Energy disagree with the Authority's conclusion that there should be no phase out for all recipients and that the arguments against a phase out are compelling. A key

objective of the Authority is that reliable supply of electricity is promoted for the long-term benefit of consumers. The proposed arbitrary phase out period, without a work plan to achieve the objectives, is not good regulatory practice and does not provide any guarantee that the Authority's reliability objectives will be achieved.

- With the requirement for significant DG and distributed energy resources (DER) in the future to support the Governments electrification goals, the full removal of ACOT does not encourage the investment in transmission alternatives which implies only national grid investments are seen to provide a valuable service to consumers. Even if there is a process developed later to compensate these participants for the benefits they provide, this proposed amendment sends a signal which adds to uncertainty in the sector rather than removing it. We are a potential participant in the proposed REZ and instead of this amendment to Part 6 clearing up some of the issues needing to be resolved, it adds to them.
- Therefore, for eligible DG that have been identified by Transpower as providing grid support (ie in the Transmission Planning Report 2022), the current ACOT payment arrangements should remain until further work on alternative support arrangements for DG is completed as outlined in section 5. This should be limited to ACOT payments that are based on the avoidance of future transmission investments related to security of supply.
- This would ensure that the appropriate alternative mechanisms and / or market can be developed to ensure that best long run outcome for consumers. Once this new mechanism is in place, the current ACOT payments for eligible participants should be phased out or ceased. We believe this approach aligns with the intent of the TPM that the costs of grid services (in this case, grid support services provided by NGL) should be recovered from participants that benefit from those services (eg Transpower and Northland EDBs).
- Lastly, the cost benefit analysis in section 4.14 indicates that the cost of transition is greater than the cost of loss supply. However, it appears the analysis has not considered any change in behaviour from participants and assumes that participants will provide a service for free. This is inconsistent with economic efficiency principles and should be carefully evaluated before any decision is made.



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