



20 October 2022

Electricity Authority  
Level 7, AON Centre  
1 Willis Street  
Wellington 6011

By email: [network.pricing@ea.govt.nz](mailto:network.pricing@ea.govt.nz)

### **Submission on Consultation Paper - Avoided Cost of Transmission (ACOT) – proposed TPM-related amendments**

WEL Networks (WEL) appreciates the opportunity to make a submission to the Electricity Authority (the Authority) regarding the consultation paper - **consultation on ACOT payments to distributed generation**.

WEL is a consumer-owned electricity distribution business (EDB) serving over 95,000 homes and businesses throughout Waikato and is playing an essential role in the economic and social development of our communities. Key to this growth are strong partnerships and innovation which see us explore new ways of providing critical infrastructure and services to ensure our customers receive affordable, reliable, fairly priced, and sustainable energy.

WEL strongly supports the Authority's preferred approach of removing provisions for ACOT payments from distributed generation (DG) pricing principles, effective 1 April 2023. We concur with the Authority that providing an ACOT payment phase out would be detrimental to end-consumers for no appreciable benefit.

The Authority has correctly identified that ACOT payments to DG operators are inherently inefficient. Under the current regime, end-consumers are subsidising DG operators through ACOT payments which are based on avoided transmission charges rather than underlying costs.

The inefficiency of ACOT payments has long been a contentious issue within the electricity industry. In 2016, the Authority was so concerned at the scale of inefficient ACOT payments that Part 6 of the Code was amended to restrict the eligibility of DG operators to receive ACOT payments. Nevertheless, in the year ending 31 March 2021, end-consumers were still paying \$35 million per year more than was necessary due to the inefficient ACOT regime.

Fortunately, both the concept and application of ACOT payments, are inconsistent with the new Transmission Pricing Methodology (TPM). All charge types included in the new TPM are designed to avoid influencing usage. The Authority has correctly concluded that DG operators should not be influenced by the new charge types either (through linkage to ACOT payments) but should instead respond to nodal pricing signals.

While WEL agrees it was prudent of the Authority to consider the possible risks of removing the provisions for ACOT payments, the analysis provided in the consultation paper demonstrates that the possible risks do not justify a phase out arrangement. Grid reliability is the greater short-term risk identified. However, as the Authority has highlighted,





there are a number of mechanisms currently in place which allow this to be fully mitigated without the need for an inefficient phase out arrangement.

In addition to the above submission, we have also appended responses to the questions the Authority posed throughout the consultation paper.

Yours sincerely

David Wiles  
**Revenue and Regulatory Manager**





## WEL Networks Responses to Consultation Paper Questions

- Chapter 2** Q1. Do you have any comments on the background and context material in this chapter or Appendix A?
- No.**
- Chapter 3** Q2. Do you agree with the Authority's preferred approach of clarifying that ACOT payments are no longer required?
- WEL strongly supports the Authority's preferred approach of clarifying that ACOT payments are no longer required.**
- Q3. Do you have any comments on the alternative approaches that could be used to justify ACOT payments?
- WEL does not believe that the alternative approaches are justifiable. Linking ACOT payments to allocator updates would result in inefficient payments, just as the current regime does. And linking ACOT payments to future grid investment requirements is needlessly complicated and will likely result in further inefficient payments.**
- Q4. Do you have any comments on the Authority's proposed amendments to the Code?
- Not at this time.**
- Chapter 4** Q5. Do you agree with the transition risks we have identified, and our assessment of them?
- WEL believes that there is no reason a distributed generator, acting in good faith, would alter their behaviour after the cessation of ACOT payments. Additionally, we agree with the Authority's assessment that risks arising from the cessation of ACOT payments, already have sufficient mitigations in place.**
- Q6. Do you think there are any other transition risks we should consider?
- No. The intention to discontinue ACOT payments has been well-signalled to distributed generators.**
- Q7. 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?
- No.**
- Q8. Do you have any comments on the design of the phase-out option?
- At approximately \$22.5 million over two years, the phase out option is unduly expensive considering there is no identified benefit.**
- Q9. Do you agree with our preference that ACOT payment obligations cease from April 2023 with no phase out?
- Yes.**
- Chapter 5** Q10. Do you have any comments on the distributed generation pricing context material provided in Appendix C?
- No.**
- Q11. 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?
- Not at this stage.**
- Chapter 7** Q12. Do you agree with the objectives of the proposed amendments? If not, why not?
- Yes.**





Q13. Do you agree the benefits of the proposed amendments outweigh their costs?

**Yes.**

Q14. 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.

**Yes.**

Q15. Do you agree the Authority's proposed amendment complies with section 32(1) of the Act?

**No comment.**

Q16. Do you have any other comments on this chapter?

**No.**

Q17. Do you have any other feedback on any other aspect of this consultation paper?

**No.**

