

23 September 2022

Submissions  
Electricity Authority  
PO Box 10041  
**Wellington 6143**

**0800 430 460**  
22 JB Cullen Drive  
Ashburton Business Estate  
Ashburton  
Private Bag 802  
Ashburton 7740  
New Zealand  
[eanetworks.co.nz](http://eanetworks.co.nz)

by email: [network.pricing@ea.govt.nz](mailto:network.pricing@ea.govt.nz)  
(subject line “Consultation Paper— consultation on ACOT payments to distributed generation”)

### **Incremental costs under ACOT**

Thank you for the opportunity to provide feedback on the Electricity Authority’s (Authority) proposed amendments to the Electricity Industry Participation Code 2010 (Code) that relate to the Authority’s intention to further limit the application of ACOT payments as a recoverable cost for Electricity Distribution Businesses (EDBs).

We do not wish to express any view on the merits or otherwise on the further restriction of ACOT payments, and we have not considered the full consultation package provided. However, we do wish to provide feedback on the proposed code changes and the impact this may have.

### **Defining incremental costs**

Part 6 provisions in the Code distinguish between distribution costs and transmission costs. The proposed definition of incremental costs includes “reasonable additional costs ... in providing distribution services ...”. Our concern is that this specifically relates to “distribution services” and, by omission, it could be argued that incremental costs do not include any additional transmission service costs that might arise through the connection of distributed generation which would be borne by the EDB.

Additional transmission service costs can occur in a number of ways:

- connection charges can increase where the proportion of shared assets changes,
- new investment charges can apply where modifications, upgrades or new GXPs are required, and
- benefit based charges can be reassessed where a significant change occurs (including where a load GXP might become an injecting GXP).

An extreme example would occur where a new GXP is required in order to connect a distributed generator. In the absence of an allowance to pass this cost through to the distributed generator, the EDB’s load customers would be left footing the bill entirely, despite the distributed generator driving the need for investment.



If you have any feedback or concerns, call us directly on 0800 430 460.  
For unresolved complaints, contact Utilities Disputes. It’s free and independent.  
0800 2233 40 [www.utilitiesdisputes.co.nz](http://www.utilitiesdisputes.co.nz)



To address this we request the following marked changes to provide clarification that additional transmission costs are included in incremental costs.

“**incremental costs**, for the purpose of Part 6, means:

- (a) the reasonable additional **distribution and transmission** costs that an efficient **distributor** would incur in providing ~~electricity distribution~~ services to **distributed generation**; minus
- (b) the **distribution** costs that an efficient **distributor** would be able to avoid as a result of the **electrical connection** of the **distributed generation ...**”

### **Treatment of offsetting transmission cost changes**

Thinking this through a bit further, it would also be useful to provide guidance where there might be offsetting changes in transmission costs. The fundamental question is, should the *net* additional transmission cost be taken as the incremental cost, or should the sum of all components that increase be taken as the incremental cost.

In relation to this, when distributed generation is connected, we note that:

- components of connection costs can increase and others decrease<sup>1</sup>, and
- reassessment of benefit based charges could lead to some generation weighted allocators increasing while other allocators are reduced.

Should connection charge reductions be allowed to offset connection charge increases or offset new investment charge increases? Should benefit based charge reductions be allowed to offset benefit based charge increases, or offset connection charge increases?

At the national level, the incremental change of reallocating existing benefit based charges is nil, so one might argue that this cannot contribute to incremental costs. However, this would leave our load customers footing the bill increase where our benefit based charge allocators increase as a result of the connection of distributed generation.

We are being asked to estimate costs for grid scale solar applicants now. The complexity of the Authority’s transmission pricing methodology makes this a challenging task. In the absence of clear direction on the incremental cost approach that should be taken we will be unable to provide definitive answers. We are concerned that this uncertainty might delay the renewable energy developments that we need for the decarbonisation of our community. We are also concerned that the uncertainty will lead to inconsistency in application as EDBs interpret the Code differently.

---

<sup>1</sup> An example of a connection charge that might reduce is where the costs of an asset are shared, and a distributor’s demand based share of that asset reduces as a result of the connection of distributed generation.

**Concluding remarks**

Thank you again for the opportunity to provide feedback. If you have any queries regarding these comments, please feel free to contact me on 027 248 8614 or at [anisbet@eanetworks.co.nz](mailto:anisbet@eanetworks.co.nz).

Alex Nisbet  
**Pricing Manager**