Electra

20 October 2022

Consultation Paper—consultation on ACOT proposed TPM-related amendments

Electra Limited (Electra) welcomes the opportunity to submit to the Electricity Authority's, Avoided Cost of Transmission (ACOT) – proposed TPM-related amendments, Consultation Paper, September 2022 (the Consultation Paper). Nothing in this submission is confidential.

We do not support the Authority's proposal to remove provisions for ACOT payments from distributed generation (DG) pricing principles from 1 April 2023. Nor do we support its alternative option; to phase out ACOT over three years (i.e., 50%,25%,0%). Alternatively, Electra recommends that the Authority permit ACOT payments to be made until it has considered in full an effective and appropriate alternative framework that recognises the benefits of DG to the energy sector.

We appreciate that from 1 April 2023, interconnection charges, the basis on which ACOT payments have historically been based, will no longer exist. This underlying issue makes it awkward and untidy for ACOT payments to stay in place after 1 April 2023. This appears to have been the driver of the Authority's proposal to amend the Code to provide explicitly that ACOT payments are no longer required, nor payments based on:

a. the limited charge avoidance opportunities that remain in the new TPM; and
b. forward-looking assessments of future transmission charges. [1]

While the Authority's proposal is a solution to the problem identified in its Consultation Paper, we believe that the Authority's proposal is premature. The Authority has not yet explored alternative approaches that would recognise the benefits arising from DG as well as effectively and appropriately compensating investment in DG.

Adopting the Authority's proposal now risks disincentivising much-needed investment in the New Zealand energy sector. Given New Zealand's Zero Carbon goals and ambitious decarbonisation journey, we consider that the Authority's proposal introduces uncertainty and risk. Therefore, it is not in the long-term best interests of consumers.

Implementing the new TPM is only one issue in a bigger picture

New Zealand has committed to reach net-zero by 2050. That commitment relies heavily on the electrification of the economy and, in particular, the transport and process of heat sectors.

[1] Pg i of Consultation document- Clarifying present and longer-term settings

DG plays a key role in New Zealand's decarbonised future by enabling the energy transition from fossil fuels to renewable energy. An ill-timed move now by the Authority to end ACOT payments before establishing a viable alternative that effectively and appropriately recognises DG's contribution to New Zealand's decarbonisation journey, risks disincentivising essential investment in the energy sector.

Our view is at odds with the Authority who are—

> "...satisfied that there is little risk of harm arising through damage to investor confidence because the transition has been well signalled and efficiency is enhanced if investors do not rely on the continuation of inefficient payment."[1]
>
> [And]
>
> "...reasonably confident that the transition should not present a reliability risk, because distributed generators are unlikely to cease operation due to the proposed Code amendment...." [2]

We further consider that the consultation on changes to ACOT has been piecemeal, lacked the Authority's appropriate focus and does not appear to be following due process.

In Appendix B of the Consultation Paper, the Authority provides a synopsis of ACOT consultation as part of TMP reform. In summary—

- issues relating to ACOT payments arose in 2016 in the context of the EA's TPM consultation process,
- in 2019, a proposal that Part 6 be amended to clarify the basis of ACOT charges was included in its transmission pricing review issues paper and consultation documents, and
- ACOT was out of scope for the 2021 proposed TPM consultation paper, resulting in limited discussion of the issues through indirect and occasional reference by a few submitters.

ACOT has tended to be tacked onto other consultations with discussion and proposed changes deferred to future consultations. It is only just now, some six months before the Code amendment will take effect, that a targeted consultation on the complex issue of ACOT is commencing. Further, the Consultation Paper is narrowly focused on solving a single issue, being the mismatch with the new TPM; with no discussion of which approaches might replace ACOT over the long term.

ACOT is a complex issue that deserves due focus

In its Consultation Paper, the Authority recognised the role that DG plays in New Zealand's energy future—

> "While the Authority's proposed Code amendment, if adopted, would mean that ACOT payments do not continue, there may still be a future role for regulated price signals for grid support technologies. Ensuring such price signals would be efficient and competitively natural is far from straightforward."[2]

On this, Electra agrees with the Authority. There is a role for regulated price signals for grid support technologies, including DG. We believe that New Zealand's energy future depends on

[2] Page ii of Consultation document- Considering transition risks

enabling such technologies. We also agree that establishing appropriate consideration for the provision of grid support technologies is difficult and requires full and rigorous consultation before reaching a decision.

Ending ACOT payments on 1 April 2023 does little to support DG's role in New Zealand's energy future. There must be a viable alternative to compensating and enabling DG investment before the Authority ends ACOT payments. Asking the sector to continue as they are trusting that the Authority will duly focus on the issue at some point in the future is unreasonable.

Missed opportunity to reform Part 6

The sector has consistently called upon the Authority to undertake a thorough review of Part 6. It is therefore disappointing that the Authority has not taken the opportunity to further reform Part 6 of the Code as part of this review. A further issue giving support to this call for an efficient and full exploration of appropriate alternatives

Proposed removal of clause wording results in unintended consequences

The Authority's proposed drafting of clause 1.1 (a) removes the words "with connection services." Electra considers there is an unintended consequence of removing this wording, as under the Code distributors provide a connection service at incremental cost, not a distribution service that guarantees conveyance from one location to another.

We therefore request the Authority to amend this clause to ensure it is very clear that incremental transmission costs (i.e., costs allocated because of the benefit that a generator receives from investments) can be passed through as incremental costs.

Closing comments

The proposed change to the Code feels rushed and narrowly focused on the impending implementation of the new TPM on 1 April 2023. We consider the reactive feel to this Code amendment will erode investor confidence and present a significant risk of DG exiting the market, changing injection behaviours, and deferring (or cancelling) intended future investments. Outcomes that Electra considers are not in the long-term best interests of consumers.

ACOT is a complex issue that deserves the Authority's focus to determine a holistic solution. The Authority's proposed solution fails to provide the New Zealand energy market with a solution that considers the bigger picture. Accordingly, we urge the Authority not to proceed with its proposed TPM-related amendments; instead, leave ACOT unchanged in the short term, and follow due process by consulting fully on an effective and appropriate alternative approach before amending the Code.

Yours sincerely

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