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Consultation Paper— consultation on ACOT payments to distributed generation

ETNZ - The Energy Trusts Association - represents the trust owners of electricity distribution businesses throughout New Zealand.

As the organisation representing consumer and community owners of EDBs, we are focused in particular on consumer impacts in making this submission.

Our position summarised

Removal of the existing ACOT arrangements means the end of the only substantive incentive arrangements for off-Grid generation. If ACOT is to be removed then work to find an effective replacement should be given immediate priority.

In evaluating potential replacements the consumer benefits of lower nodal prices due to resultant distributed generation investment should be included in the cost/benefit analysis.

We also disagree (in part) with the EA's view that "...investment is best coordinated through nodal prices and exposure to a (benefit-based) share of future upgrade costs."

Our reasoning

While the existing ACOT arrangements are flawed by, in particular, the TPM formula that forces distributors and their consumers to fund the cross-subsidies involved, we recognise that their removal contradicts a primary regulatory requirement under the Commerce Act. We believe that work should begin immediately to identify alternative and less distortionary measures to promote distributed generation and other

demand-side technologies. Ideally an effective replacement should be in place as soon as ACOT incentives are removed.

We also consider that the consumer benefits of DG (and measures such as load reduction and line loss reduction technologies) are understated in the EA's ACOT analysis and this should be remedied in evaluating replacement options.

1. Negative impact on primary parallel legislation

Whatever their faults, ACOT payments are the only substantive regulatory incentive provided to promote demand-side management by distributors. As such they are consistent with section 54Q of the Commerce Act, which states:

“The Commission must promote incentives, and must avoid imposing disincentives, for suppliers of electricity lines services to invest in energy efficiency and demand side management.”

To the extent that distributors either invest directly in distributed generation or contribute to other parties' DG investments, they are fulfilling the purpose of s54Q by promoting demand-side activities and by achieving reductions in energy losses on the Grid. ACOT provides an incentive to do this especially as it ensures that the incentive payments are passed through to the DG operations.

Removal of ACOT will, effectively, impose a disincentive on DG that currently fulfills the objectives of s54Q. We believe that the Authority should recognise the clear instructions provided in that section of the Commerce Act and move at once to put an effective alternative in place.

The focus on achieving greenhouse gas reductions has increased markedly since s54Q was inserted into the Act in 2008, meaning that it was a far-sighted clause that has become increasingly relevant.

2. Impact on household bills understated

The Authority's analysis of the impacts of ACOT on household bills seems to omit the very significant effect that DG has on nodal pricing. Because the energy losses on the transmission and distribution systems rise exponentially with load and distance, resulting in much higher nodal prices, investments in DG that reduce line load can provide a major cost benefit to consumers.

To the extent that ACOT has promoted DG, resultant line load reductions (particularly at peak times) will have contributed to very significant local

energy cost reductions. Future DG investments will have similar impacts. Calculation of the impact of these reduced costs to consumers should be central to any evaluation of ACOT alternatives.

3. Doubtful whether nodal pricing provides adequate investment signals

We dispute the Authority's views:

- (a) that “[ACOT] payments linked to future investments would have a high likelihood of being inefficient – either resulting in unnecessary payments (for actions that would have occurred anyway) or funding a less efficient outcome (than relying on nodal prices and Transpower’s incentives to find least-cost solutions).”¹ And
- (b) That “...investment is best coordinated through nodal prices and exposure to a (benefit-based) share of future upgrade costs.”²

While we note the various comments in the report about forthcoming incremental changes to nodal pricing, and longer term plans to further enhance it, we question nodal pricing’s effectiveness as an investment signal for DG.

Here the point made above about nodal prices rising exponentially with load on lines and distance travelled, further amplified by constraints, is central to the signals they provide. An independent investor in DG would know that high prices at the relevant nodes would collapse once a significant local generation option came on stream. This means that nodal prices are far from satisfactory as an investment signal.

Certainly community and consumer-owned operations (notably those owned by ETNZ’s members) have a drive to respond to high nodal prices because their beneficiaries – i.e. consumers – will gain from a resultant wider price collapse. However they would have to factor in whether such benefits outweigh the risks to the viability of their DG investment.

Similarly, some industrial or larger commercial operators might decide to generate their own power in order to avoid high nodal prices but they would be exposing themselves to resultant lower prices to their competitors as load on the Grid reduced, collapsing the nodal price.

We acknowledge that ACOT incentives have various flaws. The most serious of these is the TPM approach of loading transmission costs that are

¹ Page 9, para 3.3

² Executive summary, page 2.

avoided by distributors onto other distributors and their consumers. It would seem worthwhile to explore more equitable ways of reallocating those costs, especially as we face the need to rethink outdated arrangements that are not conducive to fulfilling climate change objectives.

Here one option would be to progressively shift responsibility for compensating Transpower for loss of load due to DG to Grid-dependant generators.

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