Horizon Networks

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Electricity Authority
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By email: **network.pricing@ea.govt.nz**

Horizon Energy Distribution Limited (Horizon Networks) submission on Avoided Cost of Transmission (ACOT) proposed TPM related amendments

1. Thank you for providing us the opportunity to submit on *Avoided Cost of Transmission (ACOT) – proposed TPM-related amendments.*
2. Horizon Networks is a small trust-owned Electricity Distribution Business (EDB) serving over 25,000 consumers in the Eastern Bay of Plenty region. As a trust-owned EDB, we have a strong consumer focus and seek to benefit both our Shareholder Trust Horizon and the communities we serve.

Horizon Networks supports clarification that ACOT is no longer part of the TPM

3. Horizon Networks supports the Electricity Authority's preferred option that clarifies that ACOT is no longer payable to distributed generations (DG), and as a result is no longer a recoverable pass-through cost.
4. Transition to a new TPM that will end ACOT payments has been clearly signalled since 2016. This industry has been preparing for this transmission pricing transition for the last six years and the proposed clarification reflects the TPM and industry expectation of ACOT payments.

Horizon Networks strongly opposes the proposed alternative option to 'phase out' ACOT payments over two years

5. While Horizon Networks considers it is unaffected by the Electricity Authority's alternative option to 'phase out' ACOT payments over two years, we strongly oppose this option and consider it a poorly targeted intervention that relies on speculative benefits while placing a material additional cost on consumers.
6. This proposal is not an alternative to the clarification that ACOT is no longer part of the TPM, but rather a new proposal to address a separate problem.

The 'phase out' option is addressing a different problem

7. The consultation paper describes how the 'phase out' option is mitigating transition risk related to:
    - reduced investor confidence due to the termination of cash-flows
    - reduced grid reliability due to altered availability of DG
8. Investor confidence and grid reliability are problems that are materially different from the problem that the Electricity Authority is intending to address by amending the Code to clarify that ACOT will not be payable to DGs under the new TPM.
9. To support evidence-based policy making, any proposal to address the transition risk problem should be made in a way that demonstrates there is a clear (not speculative) problem to address and is clearly distinct from the Code clarification problem the Authority is also seeking to address.
10. Given the high consumer impact of the transition risk proposal, in terms of impact (alleged reliability risk) and cost to remediate (millions of dollars of additional consumer payments), a fit-for-purpose policy decision should be evidence-based and seek to demonstrate the problem exists, and the proposed intervention will deliver the highest long-term consumer benefits, compared to viable alternatives.
11. Horizon Networks expects that Transpower in its role as both system operator and grid owner will be aware of any grid reliability risks associated with an outage or exit of generation in certain areas and have forward-looking plans in place to address any grid reliability issues associated with market behaviour.
12. Horizon Networks believes there are several viable alternatives to address the transition risk that have not been considered by the Electricity Authority, including:

- accepting that the cost to consumers of addressing the reliability risk is higher than the benefits; and
- Transpower acquiring any necessary grid reliability services via a contestable process (rather than through a price set by the regulator, with parties set by the regulator)

13. Horizon Networks Recommends: The Electricity Authority does not take any action to address the alleged ACOT transition risk. If the Electricity Authority intends to intervene to address the alleged transition risk, then before proposing a change to the Code the Electricity Authority should re-consult, clearly quantifying the transition risk posed by the removal of ACOT payments and outline the alternative options considered to address this risk, including the cost of taking no action and acquiring grid reliability services via a contestable process.

Unlike current ACOT, the 'phase out' option is not cost-neutral to consumers

14. Under the current ACOT arrangements distributors have with DGs, DGs are paid for a service they provide to distributors – the reduction of transmission charges.
15. The ACOT payments are clearly linked to transmission charges and ACOT payments are structured in a way that is cost neutral to consumers. Without the ACOT service provided by the DG, consumers would face a higher transmission charge.
16. However, under the proposed alternative option Code amendment, distributors will be required to pay DGs without receiving any service. The DG is not providing a reduced transmission charge service, but consumers are still paying for it, on terms set by the regulator.
17. Because consumers are no longer receiving the transmission charge reduction benefit (ACOT), this proposal is not cost-neutral and based on the Electricity Authority's household bill impact assessment consumers will be paying $20 million more than they would if the DG was not there.
18. As a result, consumers would pay $20 million more than if the Code amendment was not made, with no clear transmission charge reduction service (ACOT) being provided by the DGs.

Impact assessment is incorrect

19. The context under which the phase-out option would apply is poorly framed and if applied will likely lead to confusion amongst industry participants. This will increase the cost to implement and require the Electricity Authority to issue guidance and clarifications.
20. For example, in the 'Household bill impacts of proposed ACOT reform', the Electricity Authority claims Horizon Networks has made approximately $3 million in ACOT payments for 2021 and has assumed these would continue under the phase out proposal.
21. The EA's analysis for Horizon Networks is incorrect, and takes into account:
    - a prudent discount applied by Transpower for Matahina and Aniwhenua, which is not ACOT and is not related to distributed generation so is not covered by Part 6 of the Code
    - connection agreements that are not on regulated terms, so are not covered by Part 6 of the Code
22. Horizon Networks questions if any other ACOT the Electricity Authority has assumed will be payable under the phase out option will actually not be payable because it is on terms that are outside of Part 6 of the Code.
23. Because the Electricity Authority has included these out-of-scope payments in its impact analysis, it creates confusion for stakeholders by suggesting generators are entitled to future ACOT payments when they are not. The Electricity Authority will need to issue clarification guidance or arbitrate where generators allege a breach of the Code.

In conclusion Horizion Networks supports the proposal to clarify the Code

24. Horizon Networks supports the Authoritys preferred option to amend the Code to clarify that ACOT is no longer payable to distributed generations (DG).

25. However Horizon Networks questions the need to consult on a proposal to not introduce a "phase out" option for DGs. With the introduction of the new TPM, DGs will no longer be providing a clearly quantified service (reduction of transmission charges) to EDBs. Horizon Networks strongly opposes the introduction of changes that increase costs to consumers without any clear benefit.

Yours Sincerely

Jonathon Staite
Regulatory Manager

[redacted]

HORIZON ENERGY DISTRIBUTION LIMITED

Submission on Avoided Cost of Transmission (ACOT) – proposed TPM-related amendments	
Submitter:	HORIZON ENERGY DISTRIBUTION LIMITED 52 Commerce Street Whakatane
Prepared by	Jonathon Staite Regulatory Manager email [redacted] Mobile [redacted]
Date:	20 October 2022

Question	Comment
Background and context Q1. Do you have any comments on the background and context material in this chapter or Appendix A?	No
Proposal to remove provisions for ACOT payments Q2. Do you agree with the Authority's preferred approach of clarifying that ACOT payments are no longer required?	Yes. From 1 April 2023, the TPM will no longer include pricing signals that incentivise changes to behaviour at different times of the day. Because grid use is no longer penalised or rewarded based on behaviour, it is not appropriate to retain an expectation of ACOT payments to generators. This has been clearly signalled by the Electricity Authority since 2016, so is not unexpected. We agree that amending the Code to provide certainty and remove the risk of disputes is appropriate and supports the efficient operation of the market.

Proposal to remove provisions for ACOT payments Q3. Do you have any comments on the alternative approaches that could be used to justify ACOT payments?	The alternative approaches explored in section 4 of the consultation paper are framed in terms of addressing a different problem to the proposal to clarify that ACOT payments are no longer required. These alternatives do not justify an ACOT (avoided cost of transmission) payment, as they are not providing a transmission charge reduction to the distributor. Instead, the alternatives are seeking to address a different problem related to an unquantified risk that grid reliability *may* be reduced which could justify a 'grid reliability' payment, as a non-transmission solution to address grid reliability.
Proposal to remove provisions for ACOT payments Q4. Do you have any comments on the Authority's proposed amendments to the Code?	The preferred option only applies to DG, and only applies to DG operating under regulated terms in Schedule 6.2 of the Code. The preferred option does not apply to ACOT-like payments such as prudent discounts, which were consulted on by the Authority in July 2022.[1]
Alternative option – phase-out Q5. Do you agree with the transition risks we have identified, and our assessment of them?	No. The transition risk problem that is used to justify the alternative option is speculative. Horizon Networks considers that this risk is non-existent because any economically rational generator will continue to operate based on its wholesale market position regardless of the availability of ACOT payments. If there are grid reliability issues that require generators to be connected and available, then these should be addressed through existing market-based mechanisms such as the grid owner procuring reliability services directly.
Alternative option – phase-out Q6. Do you think there are any other transition risks we should consider?	Horizon Networks does not consider there are any material transition risks from the removal of ACOT payments. This transition has been signalled well in advance and has allowed informed decisions to be made regarding if generators want to continue to operate beyond 31 March 2023.
Alternative option – phase-out 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. We have no information or evidence that suggests that grid reliability will be affected by the removal of ACOT payments.
Alternative option – phase-out Q8. Do you have any comments on the design of the phase-out option?	Horizon Networks has serious concerns regarding the design of the phase-out option. Based on the wording of the Code distributors will be liable to pay generators a proportion of ACOT over the 2023/24 and 2024/25 pricing years. This payment is not backed by a reduction in transmission charges, so unlike current ACOT payments (which are cost-neutral to consumers), it will directly increase consumers' electricity bills.

1 https://www.ea.govt.nz/development/work-programme/pricing-cost-allocation/transmission-pricing-review/consultations/#c19183

	The phase-out option (option 2) is addressing a different problem to clarifying the status of ACOT payments (option 1). • Option 1 addresses the issues of confusion over if ACOT payments can continue under the new TPM. • Option 2 addresses concerns that grid reliability will decrease if ACOT payments cease. Both of these problems can be addressed without the need for the Electricity Authority to prescribe payments from consumers to generators, which is the effect of the phase-out option. Horizon Networks considers the phase-out option is a poorly designed and poorly targeted proposal to address the risk of reduced grid reliability under a TPM that does not allow for ACOT payments. As drafted this alternative proposal directly increases the cost to consumers without identifying if those consumers are truly at risk of reduced grid reliability. Horizon Networks concludes that the phase-out option will not benefit consumers and will only serve to exacerbate existing consumer hardship and energy poverty, affecting regions that can least afford continued increases in transmission charges through the new TPM and proposed additional payments to DGs.
Alternative option – phase-out Q9. Do you agree with our preference that ACOT payment obligations cease from April 2023 with no phase-out?	Yes. This is clarifying the Code to reflect a decision that had already been made under the TPM.
Further work on network pricing for distributed generation Q10. Do you have any comments on the distributed generation pricing context material provided in Appendix C?	No.
Further work on network pricing for distributed generation 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?	Horizon Networks supports the Authority providing guidance on the pass-through of transmission charges to distributed generation. The current approach to only allocating 'incremental cost' to DG is conservative and the industry would benefit from the Authority's guidance. Horizon Networks supports work into ensuring transmission price signals are effective and meaningful.
Regulatory statement Q12. Do you agree with the objectives of the proposed amendments? If not, why not?	Horizon Network interprets the objectives as: Option 1 (ACOT payment obligations cease): The objective is to provide clarity in Schedule 6.4 that ACOT will not be payable in respect to fixed charges. Option 2 (ACOT payment phase-out): The objective is to allow Transpower to manage the risk that grid reliability will decrease once ACOT payments cease by providing an ACOT payment transition phase.

	Option 1: We agree with the objective of this proposal. It will provide certainty and clarity to the industry regarding the treatment of ACOT from Transpower, through EDBs and to generators. **Option 2:** We strongly disagree with the objective of this proposed amendment. It is a poorly targeted approach that forces regulated payments from consumers to generators for a service that may not be required. Market-based alternatives such as Transpower procuring grid reliability services directly would address this problem in a more efficient and targeted manner.
Regulatory statement Q13. Do you agree the benefits of the proposed amendments outweigh their costs?	Option 1: Yes. Option 2: No. This proposal is coming at a direct cost to consumers in a way that does not reflect a saving to consumers through reduced transmission charges (compared to the counterfactual where the generator did not exist).
Regulatory statement 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.	No. We do not believe that alternative options have been explored[2]. The two options proposed in the paper do not offer the possibility of choice. Option 2 is Option 1 with additional Code drafting intended to address a clearly separate problem of grid reliability. As noted in Q12 the Authority is proposing two distinct interventions. Option 1 (ACOT payment obligations cease): The objective is to provide clarity (that ACOT ceases under the TPM) and efficient pricing. Option 2 (ACOT payment phase-out): The objective is to allow Transpower to manage the risk that grid reliability will decrease if ACOT payments cease Alternative means for achieving each objective have not been explored. Option 1: Horizon Networks would expect the Electricity Authority to have considered the effectiveness of other interventions that provide clarity that ACOT payments will cease, such as issuing guidance or industry engagement. Option 2: Horizon Networks would expect the Electricity Authority to have considered alternatives to address the alleged problem of reduced grid reliability. This would include considering the status quo under the new TPM (accepting that the cost of remediation exceeds the reliability benefits) and use of non-regulatory interventions available to Transpower, such as contracting directly for reliability services from generation, batteries or demand response or installation of equipment to address grid reliability issues.

[2] The Cambridge Dictionary defines alternative as "*something that is different from something else, especially from what is usual, and offering the possibility of choice*"

Regulatory statement Q15. Do you agree the Authority's proposed amendment complies with section 32(1) of the Act?	Yes.
Regulatory statement Q16. Do you have any other comments on this chapter?	As noted in Q12 the Authority is proposing two distinct interventions. While in paragraph 7.37 the Electricity Authority claims Option 2 is an alternative to Option 1 this is clearly not the case because the options are addressing different problems and are not mutually exclusive. Option 1 (ACOT payment obligations cease): The objective is to provide clarity in Schedule 6.4 that ACOT will not be payable in respect to fixed charges. Option 2 (ACOT payment phase-out): The objective is to allow Transpower to manage the risk that grid reliability will decrease once ACOT payments cease by providing an ACOT payment transition phase. From the information provided in the consultation paper, it is not clear to what extent the Electricity Authority has followed the DPMC 'the policy project' policy development guidance when considering Option 2. The industry expects the Electricity Authority to be making evidence-based policy decisions, particularly when considering potentially disruptive interventions that will set a regulated price EDBs will pay DGs for grid reliability services. For Option 2 the consultation paper does not: • provide evidence there will be a problem with grid reliability in the absence of ACOT payments • identify the objective of continuing ACOT payments • identify credible alternatives to address the problem • demonstrate a clear need for regulatory intervention (or why intervention is not necessary) • help the reader understand why the preferred option is likely to lead to the greatest long-term consumer benefit.
Regulatory statement Q17. Do you have any other feedback on any other aspect of this consultation paper?	Yes. Based on the information in the consultation paper, it is inaccurate to frame the payments in Option 2 as an ACOT payment as there are no quantified transmission costs that are being avoided. Horizon supports the proposal to clarify the Code (option 1), but questions why it was considered necessary to also consult on a proposal to not introduce a clearly separate, new regulated payment to DGs (option 2) when it is not clear if there is a reliability problem to address.