

20 October 2022

Dr Tim Sparks  
Director, Network Pricing Directorate  
Electricity Authority  
By email to [network.pricing@ea.govt.nz](mailto:network.pricing@ea.govt.nz)

Dear Tim

### **Consultation Paper – consultation on ACOT payments to distributed generation**

1. This is a submission from the Major Electricity Users' Group (MEUG) on the Electricity Authority consultation paper "Avoided Cost of Transmission (ACOT) – proposed TPM-related amendments" published 16 September 2022.<sup>1</sup>
2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Members may lodge separate submissions.
3. MEUG last submitted on ACOT in December 2021 when we indicated an interest in future decisions on ACOT, along with the allocation of residual charges behind the GXP.<sup>2</sup> The latter is part of the concurrent distributor Transmission-charge Pass Through (TPT) work by the Authority. For both topics we requested "reasonable notice and time for submissions and cross-submissions." MEUG appreciates the notices by the Authority in advance of this consultation on ACOT commencing and providing for cross-submissions.
4. Engagement in implementing the new TPM since 2021 has assisted understand the details and nuances of the new TPM and therefore the relevance (or not) of ACOT payments. We have also learned from the experience over winter of not having a Regional Coincident Peak Demand (RCPD) signal, and the consultation on and decision by Transpower not to have a transitional TPM variable charge based on RCPD from 1 April 2023.
5. MEUG supports the Authority's preferred option 1: clarify that ACOT payments are not required from April 2023, i.e., to codify mandatory termination of ACOT as a recoverable regulated payment from 1 April 2023. MEUG agrees with the Authority that making it clear in the Code that ceasing the payment of around \$35 million per year of ACOT payments is better than retaining the status quo or the alternative option 2 of a two-year transition ramp-down of ACOT payments.

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<sup>1</sup> Document URL <https://www.ea.govt.nz/assets/dms-assets/30/Consultation-paper-ACOT-review.pdf> at <https://www.ea.govt.nz/development/work-programme/pricing-cost-allocation/avoided-cost-of-transmission-payments/consultations/#c19238>

<sup>2</sup> MEUG submission to the EA on 2 December 2021, paragraph [19], <http://www.meug.co.nz/node/1166>. This was also referred to in footnote 71 of the ACOT paper.

6. The discussion in section 5 titled “Further work on network pricing for distributed generation” is a useful introduction to a critical subset of the complex topic of migrating distribution pricing to align with the new TPM guidelines and enabling a low-cost transition to net zero by 2050. We agree that work should have a high priority.
7. For example, in relation to the remaining and revised provisions in Part 6 of the Code once ACOT is eliminated from 1 April 2023, MEUG is concerned about opportunities and risks for widespread deployment of small-scale distributed generation (SSDG). Multiple and rapid advances in technology are creating new opportunities for SSDG. The risk is that households will make investment decisions in SSDG without adequate information of how distribution charges are likely to change, hence leading to a risk of poor or mis-timed investment decisions. MEUG agrees with the observation in the ACOT paper “over-variabilisation is prevalent, meaning the price signal for embedded generation is typically too strong.”<sup>3</sup> This is a critical issue for improving distribution pricing that needs more urgency to maximise the opportunity to bed in changes when the new TPM comes into effect on 1 April 2023.

Yours sincerely



Ralph Matthes  
Executive Director

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<sup>3</sup> ACOT paper, [C.18(c)].