



20 October 2022

Submissions
Electricity Authority
Level 7, Harbour Tower
2 Hunter Street
Wellington

Via email network.pricing@ea.govt.nz

Tēnā koutou,

A principled approach needed to manage the treatment of ACOT payments

Powerco is one of many electricity distributors who have essentially been a conduit for avoided cost of transmission (ACOT) payments between Transpower and distributed generators.

Customers deserve confidence from the industry that they are getting value from the ACOT they are paying These costs are treated as a pass-through cost to consumers and are significant: for the current pricing year they are around \$5m and compare to around \$1m in Electricity Authority levies and \$2m in council rates. Although ACOT is a pass-through cost and we have no direct incentive to minimise them, they *are* a significant cost component of our prices. Like any cost we incur, we want it to be justified and reasonable.

We support the Authority confirming that there is no forward-looking transmission cost benefit to distributors from distributed generation Sections 2 and 3 of the Authority's consultation paper¹ provide an excellent flow of logic as to why ACOT payments should not be recovered under the transmission pricing methodology that commences in April 2023. Making this rationale clear via a decision paper and the proposed Code change will be helpful for all parties and avoid inefficient payments. To address future grid (transmission) needs, Transpower can contract directly with generators, wherever they are connected.

The transition approach for eligible distributed generators may need refinement to reflect reliability value

If this consultation was only about forward-looking arrangements, we could stop now. It's not, and is a timely reminder that the rationale for exiting a situation is as important as that for initiating it. Although the TPM will change, the need/value for distributed generators to maintain N-1 grid security may not have. For DG on our network, the starting point is the 2018 Mitton report used to derive a list of generators eligible to receive ACOT. The Authority describes this analysis as "... *effectively a high-level assessment of locations in the grid where DG potentially contributes to grid reliability*" (2.6). The Mitton report which informed the status of generation on our

¹ <https://www.ea.govt.nz/development/work-programme/pricing-cost-allocation/avoided-cost-of-transmission-payments/consultations/>

network was agreed with Transpower and used previous analysis methodologies developed as part of Transpower's published 2017 Transmission Planning Report. It's possibly more than a high-level assessment. For example, the assessments of eligibility are framed as "*DG contribution required*" and appear separate to the method of pricing. We are interested in submitter views about this analysis including how it can inform the (ACOT) costs customers should pay (ideally directly from Transpower) for any grid services provided. Another useful reference point could be the impact on grid reliability standards from distributed generation that was assessed as ineligible.

In terms of transition options, the Authority has proposed two: straight to zero or a two-year phase-out (50%, 25% scaling of current costs). This form of solution doesn't directly address the issue of whether the distributed generators are providing a grid service. It would be helpful if it does, or at least dovetailed flexibly with a mechanism that can. For example, one solution could be to transfer the existing EDB-DG arrangements to Transpower for them to refine and renegotiate as value is assessed and in a timeframe that works for them and the generator. This could allow contracts to reflect value, and directly address the Authority's comment in the paper that any future ACOT payments "appear to be of questionable value". The attributes of any solution options may need to be refined to reflect assessments about potential reliability risks. We look forward to reviewing submissions, particularly from distributed generators, about the potential impacts of the proposed changes on grid reliability.

If you have any questions regarding this submission or would like to talk further on the points we have raised above, please contact me andrew.kerr@powerco.co.nz.

Nāku noa, nā,



Andrew Kerr

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POWERCO