

Electricity Authority

Sent via email: network.pricing@ea.govt.nz

20 October 2022

ACOT – proposed TPM-related amendments

We appreciate the opportunity to respond to the Electricity Authority's consultation on *Avoided cost of transmission ACOT – proposed TPM-related amendments*, published 16 September 2022. We agree with the objective of the consultation to clarify the role of payments for distributed generation, following extensive changes to the transmission pricing methodology (TPM).

Transpower, as the system operator, does not support the immediate removal of provisions for ACOT payments from the distributed generation pricing principles. We support a phase-out.

While ACOT payments were not intended to assist with system security, nevertheless as they provide a financial incentive for distributed generation to operate at peak times there is a risk that their removal could impact system security.

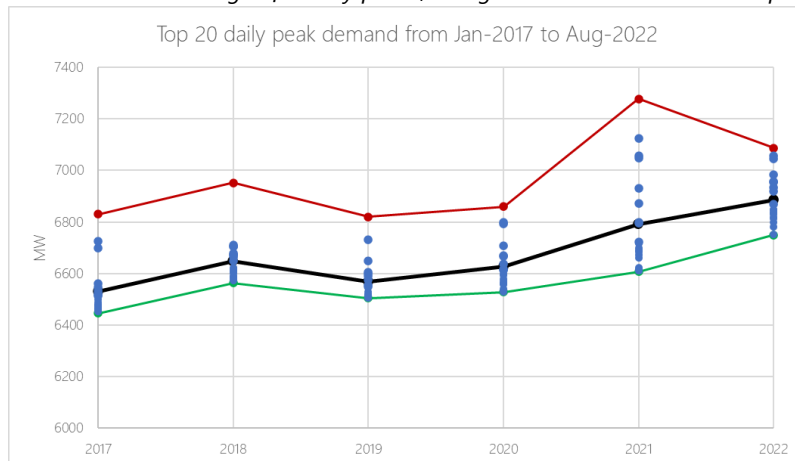
While we have not quantified this risk, we consider that the Authority's alternative option (option 2) to phase out ACOT would help mitigate the risk of an impact on peak demand from the immediate removal of ACOT.

We note that in the last two years the system operator has:

- observed increases in peak loads (see Figure 1) and
- issued a number of grid emergency notices (GENs) in 2021 and 2022 (three GENs relating to insufficient generation offers in 2021 and two in 2022).¹

¹ These are national and island-wide generation offers. No GENs were issued from 2017 – 2020.

Figure 1: Top 20 daily peak demand from January 2017 to August 2022 (red top line is the highest peak, black middle line is the average of twenty peaks, and green lowest line is the 20th peak)



Tight capacity margins are expected to persist for the next few years until sufficient investment in peaking capacity is made. Specifically, our recent (June 2022) annual security of supply assessment identified that the market would need to develop all the known consents to maintain the North Island winter capacity margin (NI-WCM) above the upper security standards between now and 2028 and begin commissioning projects currently unconsented from 2028. Even with developing all the known consents, some sensitivities or combination of sensitivities may still result in the NI-WCM falling below the security standards prior to 2028² which would require even more development of currently unconsented projects.³

Regarding the Authority's statement that "*Transpower also retains the option to revisit the need for a transitional congestion charge if needed*"⁴ we consider the problem an ACOT phase-out could address is not about grid congestion, it is about embedded generator participants responding at peak demand. The TCC option is not a relevant consideration.

Transpower, as the grid owner, can procure services as transmission alternatives if it is more efficient than grid investment.

We do not support the Authority's proposals for a longer term work programme that includes consideration of whether there is a future role for additional price signals for grid support technologies.

The Commerce Commission has designed our incentive regime "*to ensure that Transpower is generally indifferent to providing opex or capex solutions...and therefore that Transpower should be incentivised to deliver the least cost solution, whatever form it might take.*"⁵ This regulation, alongside the mandatory grid reliability standards (GRS) as an investment

² Such as lack of development of thermal consents and reduced investment in supporting fuel supply chains, thus reducing gas production for electricity generation; early retirement or reduced operation of existing generation assets; and peak demand growth exceeding our medium demand forecast.

³ The system operator's security of supply annual assessment (SOSA) is made with some distributed generation operation implicit in forecast demand. The SOSA for 2022 is [here](#).

⁴ Electricity Authority, [Avoided Cost of Transmission \(ACOT\) – proposed TPM-related amendments](#), page 16.

⁵ [Emerging-views-on-incentive-mechanisms-1-September-2017.PDF](#) paragraph 52.

objective, drives our expenditure decisions. As the Authority has noted "*Transpower can contract for grid support services*"⁶ and we agree with the Authority that payments for transmission alternatives can lead to more efficient consumer outcomes. However, we caution that further regulatory intervention could create, rather than reduce, barriers to efficient procurement of services.

As noted above, we are incentivised to make efficient expenditure decisions under our price-quality regulatory framework. We consider the principles set out by the Authority in 5.7(b) are already incorporated in the Part 4 regime.

We answer the Authority's questions in the Appendix. Please contact me if you have any further questions.

Yours faithfully,



Joel Cook

Head of Regulation

⁶ Electricity Authority, Avoided Cost of Transmission (ACOT) – proposed TPM-related amendments, September 2022, page 16.

Appendix – response to questions

Question	Transpower NZ Ltd response
1. Do you have any comments on the background and context material in this chapter or Appendix A?	No.
2. Do you agree with the Authority's preferred approach of clarifying that ACOT payments are no longer required?	Clarification is achieved via both options.
3. Do you have any comments on the alternative approaches that could be used to justify ACOT payments?	The system operator considers the alternative transition approach is a risk-mitigation strategy for winter supply risk from removal of peak pricing, increasing peak loads and tightening supply margins.
4. Do you have any comments on the Authority's proposed amendments to the Code?	The grid owner supports removal of legal text that applied to Transpower role to provide reports to the Authority in relation to distributed generation.
5. Do you agree with the transition risks we have identified, and our assessment of them?	No. While the ACOT is not intended to assist with security of supply, its removal may increase near-term winter supply-side risk.
6. Do you think there are any other transition risks we should consider?	Yes, winter supply risk from removal of peak pricing, increasing peak loads, and tightening supply margins.
7. 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.
8. Do you have any comments on the design of the phase-out option?	No.
9. Do you agree with our preference that ACOT payment obligations cease from April 2023 with no phase out?	No.
10. Do you have any comments on the distributed generation pricing context material provided in Appendix C?	No.
11. 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?	Transpower as the grid owner does not support the Authority's proposals for a longer term work programme that includes consideration of whether there is a future role for additional price signals for grid support technologies . The Commerce Commission has designed our incentive regime "to ensure that Transpower is generally indifferent to providing opex or capex solutions...and therefore that Transpower should be incentivised to deliver the least cost solution, whatever form it might take." ⁷ This regulation, alongside the mandatory grid reliability standards (GRS) as an investment objective, drives

⁷ [Emerging-views-on-incentive-mechanisms-1-September-2017.PDF](#) paragraph 52.

Question	Transpower NZ Ltd response
	our expenditure decisions. As the Authority has noted " <i>Transpower can contract for grid support services</i> " ⁸ and we agree with the Authority that payments for transmission alternatives can lead to more efficient consumer outcomes. However we caution that further regulatory intervention could create, rather than reduce, barriers to efficient procurement of services.
12. Do you agree with the objectives of the proposed amendments? If not, why not?	We agree with the objective for clarification.
13. Do you agree the benefits of the proposed amendments outweigh their costs?	In our view the risks we have raised could outweigh the financial benefits (immediate cessation of ACOT payments).
14. 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.	The alternative option would support reliable supply of electricity
15. Do you agree the Authority's proposed amendment complies with section 32(1) of the Act	No. We consider it is not certain that " <i>The proposed amendments are not expected to have a material impact on the reliable supply of electricity to consumers</i> " (paragraph 7.40).
16. Do you have any other comments on this chapter? (Chapter 7)	No.
17. Do you have any other feedback on any other aspect of this consultation paper?	No.

⁸ Electricity Authority, Avoided Cost of Transmission (ACOT) – proposed TPM-related amendments, page 16.