



# TRANSPOWER

Transpower House  
96 The Terrace  
PO Box 1021, Wellington  
New Zealand  
Telephone +64-4-590 7544  
Facsimile: +64-4-495 7100  
[www.transpower.co.nz](http://www.transpower.co.nz)  
[jeremy.cain@transpower.co.nz](mailto:jeremy.cain@transpower.co.nz)

26 July 2016

Submissions  
Electricity Authority  
PO Box 10041  
Wellington 6143

By email: [submissions@ea.govt.nz](mailto:submissions@ea.govt.nz)

## Removal of Distributed Generation Pricing Principles

We appreciate the opportunity to comment on the Electricity Authority's Distributed Generation Pricing Principles (DGPP) consultation paper, released 17 May 2016.

The Authority's review of the DGPPs is largely focused on the efficiency effects of payments to distributed generators being based on avoided transmission charges instead of the actual costs Transpower avoids. The implications of its proposals are, however, more far reaching.

The DGPP consultation was issued concurrently with the Authority's TPM: Issues and Proposals consultation. This submission should be read alongside our submission to that consultation.

In this submission we make the following points:

1. We agree with the Authority that, under the current TPM, avoided cost of transmission (ACOT) payments made by distribution businesses under the DGPPs do not accurately reflect ACOT. The current arrangements are likely to result in over-compensation of distributed generators for the benefits they provide to distribution and transmission networks.
2. We are not yet convinced that removing the DGPPs is the best remedy available. For example, the proposal appears to create new problems while our proposed changes to the TPM appear to obviate the need for major change to the DGPPs.
3. Proceeding with the proposal changes to the suggested timetable would be high risk and may prove counter-productive. For example, Transpower could not establish the planning, economic, commercial or legal frameworks to support the new regime before 1 April 2017.
4. The Authority's decision to publish this consultation alongside the TPM consultation and concurrently with the Commerce Commission's (Commission) draft decision on its 7 yearly review of the Input Methodologies (IMs) has limited our ability to focus on the matter. We have prioritised our consideration of the Authority's TPM proposals.
5. The Authority's proposal is for Transpower to create a new role and capability. Based on costs published by the Authority, this could entail tens of millions per annum in new costs. It will be important for the Authority to resolve with the Commission how Transpower will be compensated for the costs before reaching a decision.

We expand on these points below.

### Introduction

We understand why the Authority may have considered it helpful to publish the DGPP consultation alongside its TPM consultation. However, this has limited our ability to engage in both processes.

That issue has been exacerbated by the Authority's decision to publish these two significant regulatory change proposals at the same time as the Commission's draft decision on its IMs review.

In our view this is undesirable and unlikely to be to the benefit of consumers. We request that the Authority coordinate with the Commerce Commission to avoid this situation occurring again.

Appended to this report are two expert reports:

1. Appendix A: An economic review by Axiom Economics of the Authority's DGPP proposals.
2. Appendix B: An analysis by Scientia consulting of distributed generation using data provided by the Reconciliation Manager.<sup>1</sup>

### **We support the Authority's review of the DGPPs**

We agree with the Authority that, under the current TPM, avoided cost of transmission (ACOT) payments made by distribution businesses under the DGPPs do not accurately reflect the avoided cost of transmission. This is likely to have result in the over-compensation by distribution businesses (on behalf of consumers) of distributed generators for the benefits they provide to distribution and transmission networks.

We consider it appropriate for the Authority to seek to better align payments to distributed generators with the benefit that DG provides for transmission and distribution networks.

### **Not convinced removing DGPPs is the best option available**

Although we understand and support the Authority's consideration of this matter we were surprised by the proposal to remove the DGPPs from the Code.

Our understanding was that the Authority's primary concern lies with the price signal provided by the TPM (a separate piece of regulation, but one for which the Authority is also responsible). Our understanding is that this concern is being addressed directly through its review of the TPM.

Taking into account Axiom's report, which raises a number of concerns and identifies several potentially unintended consequences, we are not convinced that removing the DGPPs is an appropriate course of action.

We consider, for example, that providing more targeted price signals through the TPM could substantially address the Authority's primary concern. This would allow efficient signals for the operation of load control and distributed generation, and this may obviate the need for major change the DGPPs.<sup>2</sup>

More broadly, we consider it important that any changes to the regulation of network services are well justified and supported by quantified cost benefit analysis. We do not consider that the Authority's proposals have yet met this test.

### **Proposed timetable creates unnecessary risk**

If the Authority decided to proceed with its proposal to remove the DGPP, or make changes with similar effect, we strongly recommend that it does not adopt the timetable outlined in the consultation paper. We consider that proceeding with the proposed changes, to the suggested timetable would be high risk and could prove counter-productive.

For example, the proposal anticipates a new role and capability for Transpower. This is not a trivial change. Transpower would need to develop new, or substantially extend existing frameworks

---

<sup>1</sup> This analysis, which is included in our submission to the TPM consultation, also contains demand response analysis.

<sup>2</sup> Though we recognise change may be warranted, for example to make the DGPPs technology neutral.

before the proposals could take effect. These include but are not limited to establishing appropriate economic, commercial and contractual frameworks (and applying these as appropriate through negotiations with distributed generators and other parties).

Transpower has undertaken some preliminary analysis to understand where DG plant is located, its type, fuel, generating profiles (etc). This analysis highlights the significance of the role played by DG in meeting peak demand. For example, Scientia's analysis of data provided by the Reconciliation Manager (see Appendix B) shows that 9% of system peak demand is met by DG.

Table 1 Gross demand on the grid

Scenario	Gross demand (MW)	% above net load
Net GXP demand	6200	0%
DG only	6730	9%
DG + EDB	7545	22%

We have also undertaken some preliminary analysis of the implications of removing the RCPD signal on system security.<sup>3</sup>

However, this analysis represents only a small first step. We would also need to complete a system-wide planning assessment of the extent to which Transpower is reliant on the availability and operation of DG plant. This is an exercise potentially similar in scope and scale to Transpower's annual planning process.

### Clarity of funding required

The Authority estimates that in excess of \$60m is paid by distributors to distributed generators in ACOT payments per annum. It is unclear whether this is a reasonable proxy for payments that Transpower may need to make under the new regime but, regardless, it appears the sums involved are very material.

It is also likely that there will be non-trivial costs involved in implementing the new regime. Transpower is not currently funded for either the costs of implementing these changes or the ongoing ACOT payments.

We understand that the Authority is in discussions with the Commerce Commission about how section 54V of the Commerce Act could be utilised to ensure Transpower is compensated costs incurred implementing and operating this regime. It will be difficult for Transpower to commit any significant resource until we have clarity on funding.

Yours sincerely,



Jeremy Cain  
**Regulatory Affairs & Pricing Manager**

<sup>3</sup> Refer Appendix G, Transpower submission to TPM 2<sup>nd</sup> Issues and Proposals consultation.

Attachments:

[Appendix A DGPP Axiom Economics report](#)

[Appendix B DGPP Scientia Consulting report](#)