



# MAJOR ELECTRICITY USERS' GROUP

17 January 2014

Dr John Rampton  
General Manager Market Design  
Electricity Authority

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

Dear John

## **Working paper – Transmission pricing methodology: Avoided cost of transmission payments for distributed generation**

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Electricity Authority working paper<sup>1</sup> "Transmission pricing methodology: Avoided cost of transmission (ACOT) payments for distributed generation" dated 19<sup>th</sup> November 2013. Members of MEUG have been consulted in the preparation of this submission. This submission is not confidential.
2. On 10<sup>th</sup> January 2014 the Authority answered several questions from MEUG and acknowledged suggested changes to appendix C of the working paper<sup>2</sup>. Those responses were helpful.
3. Subject to any evidence provided by other submitters to the contrary, MEUG has no reason to question the preliminary conclusions in paragraph 12.4<sup>3</sup>.
4. The above support by MEUG would be reviewed if any submitter provides information that demonstrates<sup>4</sup>  

"... a strong link between ACOT payment and location of DG to relieve congestion and/or provide an alternative to transmission",

or any other demonstrable economic benefits attributable to ACOT payments that clearly flow through to end consumers to overcome a market failure. Paragraph 11.18 is relevant to this view:

---

<sup>1</sup> <https://www.ea.govt.nz/dmsdocument/16033> found at <https://www.ea.govt.nz/our-work/consultations/priority-projects/tpm-acot-working-paper/>

<sup>2</sup> <https://www.ea.govt.nz/dmsdocument/16286>

<sup>3</sup> As a matter of detail we prefer the statement of conclusions in paragraph 12.4 rather than those summarised in paragraph 1.15. For example sub-paragraph 1.15 (b) states "ACOT payments, and the existence of DG, appears to have no observed effect on transmission." This summary understates the complexity of the analysis. We suggest the preliminary conclusions in subparagraphs 12.4 more accurately reflect the analysis in sections 6 to 11 of the paper.

<sup>4</sup> Quoted from paragraph 1.15(a)

“In an open and competitive market economy, the prices paid in a market can be seen as good indicators of the costs of supply, and the value of consumption, or willingness to pay, of consumers. This means that prices received and paid within such a market are likely to provide reasonably good signals for efficient investment and production decisions. Beyond possible avoided transmission and distribution costs, the benefits of DG appear to be encapsulated in wholesale market prices or other mechanisms. There does not therefore appear to be a case for continued regulatory intervention to further compensate DG for other economic benefits in the absence of clear evidence of a market failure.”

5. MEUG also agrees with the Authority's preliminary view in paragraph 1.18:

“... that a review of the provisions of Schedule 6.4 is therefore warranted with a view to ensuring a stronger link between ACOT payments and efficiency benefits”

6. While this working paper has been undertaken as part of the Transmission Pricing Methodology (TPM) review process, the proposed action above relates to Part 6 of the Code, Connection of distributed generation. We believe that irrespective of the TPM review process a re-refresh of Part 6 and Schedule 6.4 Pricing Principles would have been needed in any case. It comes as no surprise that a mix of legacy practices and agreements have lead to the situation described in paragraph 1.2:

“A practice has arisen whereby a majority of distributors calculate their ACOT payments according to the transmission charges they avoid (as a result of the operation of DG on their network) rather than on the basis of the economic costs avoided.”

7. The lack of motivation by most distributors to implement or evolve principled ACOT payments was clearly explained in paragraph 7.3:

“The pricing disclosures confirm that the ACOT payments are directly funded by consumers – as noted above, such payments are recoverable costs under the regulated revenue process. This type of arrangement suggests that there is little incentive on distributors to heavily scrutinise the calculation of ACOT payments as there is potentially a higher cost in performing a more accurate assessment, and no particular benefit to the distributors as the ACOT payments are a recoverable cost.”

Yours sincerely



Ralph Matthes  
Executive Director