



MAJOR ELECTRICITY USERS' GROUP

26th July 2016

Dr John Rampton
General Manager Market Design
Electricity Authority
By email to submissions@ea.govt.nz

Dear John

Consultation paper – Review of distributed generation pricing principles

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Electricity Authority (EA) consultation paper "Review of distributed generation pricing principles" 17th May 2016.¹ We use the usual abbreviation DGPP to refer to this topic.
2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Some members may make separate submissions.
3. Separately MEUG is submitting second issues paper "Transmission Pricing Methodology: Issues and proposal" also published on 17th May 2016. We using the abbreviation TPM2 to refer to that proposal.
4. Expert advice was provided by the New Zealand Institute of Economic Research (NZIER) primarily on TPM2 with one specific question relevant to this DGPP paper. A copy of the NZIER report, "TPM second issues paper, Advice to MEUG on TPM cost benefit analysis", 20th July 2016 is attached. The question by MEUG relevant to DGPP and NZIER's advice is in section 4.2, p24 of the NZIER report.
5. Responses to questions in the consultation paper follow:

Question	MEUG response
1. Do you consider that the proposed Code amendment described in section 4.1 is preferable to the status quo and the alternatives described in section 4.6? If not, please explain your preferred option(s) in terms consistent with the Authority's statutory objective	Agree the Code proposal is preferable to the status quo and the EA meets the requirements of the Act and the Code amendment principles. MEUG notes that the forecast range of net economic benefits are wide with the lower bound relatively small, ie with the current TPM NPV values are between \$2m and \$21.7m and if

¹ URL <http://www.ea.govt.nz/dmsdocument/20633> at <http://www.ea.govt.nz/development/work-programme/wholesale/review-of-scarcity-pricing/consultations/#c15960>.

Question	MEUG response
	<p>TPM2 proposals to change to AoB proceed NPV values are between \$0.5m and \$4.2m. There are two key factors MEUG has considered in reaching a view on the robustness of the proposed Code amendment.</p> <p>First are there scenarios where NPV may be less than zero? In our view there are no feasible scenarios. Even if unexpected events arose, such as barriers to efficient bi-lateral ACOT and ACOD contracts being agreed, we are confident there are enough regulatory tools by either the EA or Commerce Commission (CC) to undo such risks.</p> <p>CBA such as that required to test this Code amendment where changes in investment behaviour and incentives to innovate are important always have a degree of uncertainty and risk of unintended consequences. In this case DG investor confidence is a key factor that we are satisfied the EA has adequately considered. In particular we agree with the EA view that “Under the proposal, investment in distributed generation that genuinely reduces transmission costs will proceed, which will promote dynamic efficiency.”²</p> <p>In other words if an existing or prospective DG truly does reduce the need for transmission then the owner of that DG will seek a contract with Transpower and Transpower are incentivised to contract with that DG for that service by lowering the costs of delivering their services against the ex-ante revenue path set by the Commerce Commission.</p> <p>Second the NPV of the gross benefits to consumers from implementing a change are very high being between \$232m and \$325m for the current TPM and between \$46m and \$64m for a TPM2 AoB TPM. The EA does in part take the change in gross benefits into account in its legislative CBA requirement calculus as follows:</p> <p>“There are also efficiency benefits associated with these gross benefits. This is because the existing payments to distributed generation raise electricity prices to end-consumers, thereby distorting their consumption decisions. The Authority has considered this effect in calculating the efficiency benefits noted in the table below”³</p>

² EA DGPP paper, page J

³ Executive summary, page K.

Question	MEUG response
	We think there is another benefit of making code changes where there are demonstrable wealth transfers to suppliers that can be undone at the same time as improving, albeit modestly, economic welfare. That benefit is to defuse consumer confidence being eroded by a regulator failing to do anything about a clear wealth transfer that could, without any downside to long term economic welfare, be unwound.
2. Do you consider that the proposed Code amendment described in section 4.1 complies with section 32(1) of the Act, and with the Code amendment principles, and should therefore proceed?	See response to Q1 above.
3. Do you have any comments on the drafting of the proposed Code amendment described in section 4.1? (The drafting is included in Appendix B.)	No.
4. Do you consider that the proposed Code amendment should come into force at a single date, or should it be phased in?	It's a package and see no reason why the total Code amendment should not come into force at a single date.
5. Is the proposed phasing for the Code amendment appropriate? (The phasing is discussed in section 4.3.) If not, what alternative phasing or dates would you propose and why?	Phased in, that is LNI and LSI first and then UNI and USI, is reasonable subject.
6. If the proposal were to proceed, do you consider that there would be barriers that might prevent agreements being reached between Transpower and distributed generation owners to efficiently reduce or defer transmission network costs? If so, what are these barriers? Please consider both existing and proposed new distributed generation.	No barriers that we are aware of. Should barriers emerge we see no barriers to either the EA or CC modifying the regulatory regime to remove unforeseen barriers.

Question	MEUG response
<p>7. If the proposal were to proceed, do you consider that there would be barriers that might prevent agreements being reached between distributors and distributed generation owners to efficiently reduce or defer distribution network costs? If so, what are these barriers? Please consider both existing and proposed new distributed generation.</p>	<p>Development by the EA of mandatory default distribution services terms and conditions including a process for managing disputes on agreeing pricing should remove the highest risk barrier.</p>
<p>8. If the proposal were to proceed, do you consider that those distributors that were no longer able to recover the cost of making ACOT payments would cease making such payments?</p>	<p>We will be interested in the views of EDB on this question.</p>

6. We look forward to the Code amendments being implemented.

Yours sincerely



Ralph Matthes
Executive Director