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Alistair Dixon  
Electricity Authority  
2 Hunter Street  
WELLINGTON

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

Dear Alistair

## Separate review of ACOT is warranted

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Genesis Energy Limited welcomes the opportunity to provide a submission to the Electricity Authority (“the Authority”) on the working paper “Transmission Pricing Methodology: Avoided cost of transmission (ACOT) payments for distributed generation” dated 19 November 2013 (“the ACOT paper”).

Overall, we agree that the ACOT paper raises legitimate questions regarding the current incentives for distributed generation. These questions need to be considered carefully by the Authority and we have identified two material issues that need further consideration.

But more importantly, we agree with the Authority that the TPM review is not the proper place to determine whether the ACOT regime is efficient or can be improved. We support a separate review into the ACOT regime<sup>1</sup> and consider that it is likely that such a review will require consequential amendments to the TPM. It is therefore important that the Authority complete any review of Part 6 *before* concluding deliberations on a future TPM. This will enable the Authority to incorporate any consequential changes from the ACOT payment regime.

### Questions with the current ACOT regime

Genesis Energy agrees that a review of the purpose of the ACOT payment regime is timely. We also agree with the ACOT paper that a consistent

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<sup>1</sup> As highlighted in the ACOT paper.

methodology for distribution companies would be useful. This change would allow standardisation of the treatment of such payments, and remove the unnecessary costs associated with managing the financial implications of differing approaches across the country.

However, we have two comments on the ACOT paper that we consider are material and should be further explored by the Authority:

- No consideration of investor impacts. Whilst the ACOT paper raises some legitimate questions regarding the overall purpose of ACOT payments, it fails to address a fundamental concern expressed by distributed generators in submissions on the proposed TPM. It does not address the concern that the proposed TPM will undermine investor certainty in receiving such ACOT payments. In our view, this impact on investor certainty is a legitimate impact that the Authority needs to consider as part of any review of the regime.
- Inadequate consideration of “other benefits”. We consider that the Authority’s cursory treatment of “other benefits”, particularly perceived environmental benefits of renewable generation, is inadequate. We expect a much more quantitative analysis of these benefits to be incorporated into any review of the current ACOT regime.

### **Separate review of ACOT needed**

We support the need for a separate review of the ACOT regime.<sup>2</sup> A review of the ACOT regime will need to consider a number of issues. It will need to address the fundamental question of whether the current incentives for distributed generation are necessary, or adequate. To do this it will need to examine the benefits of distributed generation, and in-turn, identify the purpose of any incentive or payment.

As noted above, the review will also need to account for the impact on current investors in distributed generation. In particular, the review will need to quantify the risk of dis-incentivising not only new distributed generation builds, but also the maintenance (or re-powering) of existing distributed generation.

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<sup>2</sup> Paragraph 1.18, ACOT paper.

We consider that the ACOT review will complement the Part 6 reviews that the Authority has already signaled in its work programme.<sup>3</sup>

### Consequential changes to Proposed TPM

It is likely that any changes to the ACOT regime from the review will impact the proposed TPM. We suggest that the Authority has two options for incorporating the review results, and any consequential changes, into the proposed TPM:

- (1) Delay the Authority's decision on a Proposed TPM until the review of Part 6 is completed; or
- (2) Continue the TPM review, taking into account the investor impacts of any proposed TPM on the *current* ACOT payment regime.

In our view, the first option is preferable. It avoids uncertainty for stakeholders and enables distributed generation stakeholders the ability to consider the impact of ACOT changes in a targeted forum. It also provides a more complete direction to Transpower.

While the second option enables the Authority to move forward with the TPM review, it requires the Authority to consider the impact of any indirect change to the *current* ACOT regime when it considers changes to RCPD.<sup>4</sup> This is because, in our view, the Authority cannot consider the consequential impact from potential changes to the ACOT regime without first completing the comprehensive ACOT review.

If you would like to discuss any of these matters further, please contact me on 04 495 3340.

Yours sincerely



Jeremy Stevenson-Wright  
Regulatory Affairs Manager

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<sup>3</sup> Project C6 "Distribution Pricing Review" and Project E1 "The Review of Part 6 Pricing Principles", *2013/14 Appropriations and Work Priorities, and EECA Work Programme*, Electricity Authority, 24 September 2012.

<sup>4</sup> We presume this will be discussed in the Authority's TPM working paper on allocation of residual costs.

