

31 January 2014

Submissions
Electricity Authority
PO Box 10041
Wellington 6143

Dear Authority

Re: Avoided cost of transmission (ACOT) payments for distributed generation

Thank you for the opportunity to comment on the Transmission Pricing Methodology: Avoided Cost of Transmission (ACOT) payments for distributed generation working paper (**working paper**).

Contact agrees with the Authority¹ that the ACOT payment policies as they stand are not promoting efficient outcomes and that this is inconsistent with the Authority's statutory objective to "*promote competition in, reliable supply by, and the efficient operation of the electricity industry for the long-term benefit of consumers*".

In Contact's view ACOT payments have:

- had little, if any, effect on reducing Transpower's transmission investment requirements
- resulted in an additional \$50m² of transmission charges being passed through to consumers with no material reduction in transmission spend
- led to perverse incentives, where owners of embedded generation actually benefit from rising transmission costs. This undermines the increased scrutiny of transmission investment argument that the Authority has used to justify changes to the TPM as these parties are always incentivised to argue for additional transmission investment.

Like the HVDC charge, Contact views ACOT payments as an historic anomaly that creates perverse incentives and requires addressing. Accordingly Contact is pleased to see the Authority looking into this matter and agrees with the Authority's preliminary findings.

We can think of very few, if any, instances where embedded generation that receives an ACOT payment avoids the need for grid investment. This is because generation will never be able to provide the reliability that transmission can. While there is a benefit from embedded generation meeting load during planned transmission outages, grid connected generation provides this benefit to a greater

¹ Para 12.2

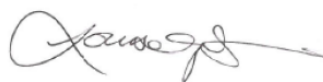
² Para 1.14

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extent and receives no supplementary payment for doing so. We do not think this is an optimal outcome or is in line with the Authority's objective.

Ultimately power flows will change on the grid as consumption patterns change, and both grid connected and embedded generation comes and goes. What was once an exporting region could become an importing region, yet transmission investment costs are recovered irrespective. In our view, unless a generator actually avoids the need for transmission investment to occur, it should not receive an ACOT payment.

Yours sincerely

A handwritten signature in black ink, appearing to read "Louise Griffin".

Louise Griffin

Regulatory Affairs and Government Relations Advisor

Contact Energy Limited

PO Box 10742
Wellington 6143

Level 2 Harbour City Tower
29 Brandon St, Wellington 6011

P: +64 4 499 4001
F: +64 4 499 4003

www.contactenergy.co.nz