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2 June 2016

Board Members  
Electricity Authority  
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Dear Board Members

**RE: Review of the DGPP and TPM Consultation Papers**

The purpose of this letter is to seek an extension to the period of consultation on the Review of Distributed Generation Pricing Principles.

The IEGA appreciated the Chair, Chief Executive and team attending our meeting on 26 May 2016. However, the information provided during the presentation and discussion of the consultation paper raised serious issues for our members.

This is the first time we have seen any analysis of a proposal to remove Schedule 6.4 from the Code. Further, and potentially of more significance, the Review includes a proposal to change the pricing principle that requires distributors to charge owners of distributed generation no more than the incremental cost for connection and distribution services. Members are particularly concerned about this change to connection charges and IEGA is now going to engage financial advisors to ascertain the potential risks and impacts of the additional and unquantified cost relating to connection. This cost is not included in the Concept economic benefits analysis, or discussed in the consultation paper, nor could the Authority answer a question about it at the briefing.

As well as getting financial advice, we are contacting our network companies to gain an understanding of how common costs might be allocated to distributed generation. We also plan to engage with Transpower about how they might implement these proposals.

We note that there is a great deal of uncertainty about the current distribution pricing principles. The Electricity Authority has acknowledged the level of uncertainty about what distribution pricing could look like in the future in its decision to hold a conference<sup>1</sup> in August 2016 to “facilitate an industry-led approach to developing and adopting efficient distribution pricing structures”. This conference is also going to discuss incentives – views on the strength of incentives on distributors to adopt efficient prices and the nature of any regulatory response”.

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<sup>1</sup> See Market Brief 10 May 2016 “Next steps in distribution pricing review”

It is impossible for the IEGA to consider the impact of the proposal to change incremental costs for connection when the likely approach by distribution companies is so fluid. It is like the saying “out of the frying pan and into the fire”.

A submission due date after the Authority’s August conference would give the IEGA better information about the likely direction of the change to connection service charges than we can understand now from the Review of DGPP consultation paper. Without this information our submissions on the Review of the DGPP will be a stab in the dark and made without prejudice to information that will in the near term be made available by the Authority.

The IEGA is looking to be constructive in its submissions – providing practical implications and empirical analysis as well as suggested solutions. The IEGA needs to understand the practicalities of how these proposals might be implemented and the additional costs that our members could face before being able to prepare a quality submission.

Neither of these changes were discussed in the ACOT Working Paper of November 2013. Both proposals have a very material impact on the financial viability of our members. The current consultation period does not allow sufficient time for us to understand the financial and operational consequences.

In our view there would be material prejudice if an extension is not granted.

This leaves aside the fact that any decision on the Review of the DGPP will be made late 2016 – well after this winter when demand on the transmission and distribution systems is likely to be at its peak as well as, under normal circumstances, output from distributed generation. ACOT is paid in arrears. As with transmission charges, the RCPD periods are determined this year for payments from 1 April 2017. Should distributed generation owners be incurring costs in operating their plant during this winter under the current TPM arrangements when the basis and mechanism for payment may be different from 1 April 2017? Clarity about this issue could be provided by the Authority.

Yours sincerely



**Warren McNabb**  
Chairman