

Dear Board Members

Re: Consultation Paper – Review of distributed generation pricing principles

I am one of two owners of a very small 100 kW hydro generator connected to the Local line Network in the lower North Island.

We also have a letter from our line company acknowledging that our scheme is now considered to be connected under regulated terms as per the original distributed generation regulations 2007, although it was in fact connected some years earlier.

Our line company has never paid ACOT to our hydro scheme, due to their internal minimum size policy threshold. The consented capacity of our scheme is above the line company's minimum size policy threshold but we had elected not to complete the scheme to capacity using a risk based decision due the current EA direction. The Authority's proposals, in practice reverse the original distributed generation regulations and distributed generation pricing principles.

We quote a press article dated 17 May 2016, which questions whether submissions are to be of any value as it appears that the Electricity Authority has already decided what is to occur (which may result in fewer submissions and therefore affect due process).

“Carl Hansen, Chief Executive of the Electricity Authority says, "Under the current approach, consumers can be paying for something without getting any benefit. That's because distributed generators are paid to operate to avoid transmission charges rather than to defer or reduce transmission investments and costs. This just leads to higher transmission charges on other distributors and their consumers,

which is a 'pass the parcel' outcome that's of no benefit to consumers overall."

"The Authority believes that consumers are paying distributed generators between \$25 and \$35 million each year for which they are not receiving any benefit in terms of reduced transmission costs. This means consumers are paying higher electricity prices than would otherwise occur. The Authority's proposal would mean over the next 15 years consumers would pay up to \$325 million less in electricity charges than would otherwise occur."

Mr Hansen says, "Our statutory objective is to promote an electricity market that creates long-term benefit for consumers. We do not believe the current pricing rules for distributed generation do that."

"While distributed generators can provide valuable support services to distributors, they need to pay an efficient share of network costs. Our proposal would make the 'playing field' more level for all generators and ultimately encourage more efficient investment decisions."

We challenge these comments for the following reasons –

- 1) Distributed generation does reduce the volume of transmission power flowing through the network – most of the Transmission network in most cases rather than any small part of it - if North Island distributed generation is considered, although local constraints will occur.

If rising loads are the prime reason the Transpower network is upgraded, local DG will defer the need to provide upgrades at some point in the future. If inefficient long term planning within the transmission network occurs, resulting in a network built that is far in excess of what is required to service loads, it is not the fault of DG that this has happened - and the root cause of this planning issue should be addressed first.

Ripple control to limit line company peaks has an equivalent effect compared to any DG that generates between June and August (generally) at peak times. It is illogical and commercially

irresponsible to consider penalising ripple control systems and DG for reducing peaks and thereby inefficiently increasing investment in line and transmission networks up to an “unconstrained” peak load. We assert that DG is the equivalent – the exact equivalent - of a ripple control process as far as the transmission network is concerned. We contend therefore that if DG is to lose ACOT status, ripple control owners should be charged on exactly the same basis!

- 2) Removal of the DGPP’s seems to be focussed on removing ACOT, as it forms a large part of the DGPP’s. However if these are removed, and not replaced with anything else, line companies will simply seek to charge DG up to the point that the market can stand through commercial market monopoly power i.e. charges would be introduced at a point just below where the generator’s business would fold - but possibly breaching competition law. Some line companies may actually want to ignore commercial considerations and wish to eliminate all generators because of a perceived view that the network is easier to operate without them. Competition law principles are based on a business being able to compete for customers on an even playing field, so any action that eliminates competing generators from the market is likely to be illegal - and so we are concerned that the EA may be ignoring principles of competition law.

Any anti-competitive charges that eliminate generators from the market must by logic have a detrimental effect on consumers – which the EA may not have adequately considered. The extent to which this would be an issue would depend on the charges that line companies would place on DG. But if the EA must go down this road, we propose that such charges are regulated, fair to all generators such that DG can compete on an equivalent basis with transmission level (large) generation, and that such charges become the role of the Commerce Commission as these are where they would fit.

- 3) It also concerns us that the article claims that DG increases transmission costs to all other users – an exact equivalent is the rise of

solar power on distribution networks for which noises are heard both here and overseas that such customers do not pay a fair share of distribution charges as a result, if charges are by kWh only. This concept appears to be an incredibly socialist view – there was a rule prior to 1993 that it was illegal to generate your own power if power lines were at the gate – which was changed after the 1993 reforms. We believe the current EA view is inappropriate for a modern competitive power system.

Adapting to Technology Change

Our view is that technology change allowing people to generate power on their own is a similar event to that of any other normal market which is disrupted from time to time by new innovations, market led changes, and new technologies. In the 1990's, for instance, many hill country sheep and beef farms were converted to forestry and the loads of those farms disappeared from the power distribution network as a result of these market changes. By logic of equivalence to the comments by Carl Hansen to justify solar and other generators being charged for "common costs", forestry owners should be charged or fined for having the audacity to create exits from the distribution network and by doing so, make everyone else pay more per km for the line network!

We contend that the power system should just adapt to market forces and technology changes, and allow competition to freely occur, rather than fight it using market power of the larger users, or to justify past transmission spend that may have been based on incorrect forecasts. It is far more efficient and competitive for a network to keep its generation rather than allow it to be eventually disconnected – go out of business and / or result in several “islanded” networks (if distribution or transmission charges to DG are increased.)

Summary

The proposal returns the market to the state that existed before 2003 – 2007 when the government undertook consultation and finalised the

Electricity Governance (Connection of Distributed Generation) Regulations. The Government at that time acknowledged DG was having immense difficulties negotiating with monopoly network companies for connection and recognition of the value of avoided and avoidable costs of transmission and distribution.

Our business would be adversely impacted by these changes, and depending on the charges levied by the lines company, may result in disconnection from the network. Local generation to an islanded section of customers may be the end result for us in the worst case scenario, which would be counterproductive to the intended outcome of such charges i.e. to gain more revenue for the line company. Some generated excess power would also be wasted as heat in the islanded situation, because there is no longer a market to generate into.

We also support suggested solutions by the IEGA, Pioneer Energy and Trustpower.