

Review of Distributed Generation Pricing Principles

Submission to the Electricity Authority

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Executive Summary

Buller Electricity does not support the changes proposed in the Electricity Authority's review of the distributed generation pricing principles in their current form. While Buller Electricity agrees that the existing regulations require modification, particularly with respect to the Avoided Cost of Transmission payments to Distributed Generators, further consideration needs to be given to a number of key areas. These areas are discussed in our submission, as well as BEL's overall viewpoint that further information and clarity needs to be provided before changes to the DGPPs will be supported.

1. Introduction

Buller Electricity Limited (BEL) does not support the Electricity Authority's review of the Distributed Generation Pricing Principles (DGPP) in their current form. While BEL agrees that the existing regulations need modification, our overall view is that more information is required, and further consideration needs to be given to a number of important issues. BEL's submission supports the views expressed by the ENA in their submission, and is organised as follows:

1. Introduction
2. Distributed Generation Policy
3. Avoided Cost of Transmission (ACOT)
4. Timing of DGPP & TPM Regulation Changes
5. Transpower & Distributed Generation Contracts
6. Charging of Common Costs
7. Response to Questions

2. Distributed Generation Policy

The current DGPPs were introduced to encourage the development of Distributed Generation (DG), and this remains the primary mechanism for delivering a secure and diverse DG outcome. The impact of removing the DGPPs needs to be considered in the context of wider DG policy and strategy. It is unclear if removing the DGPPs will deliver on policy intent and/or result in a policy vacuum. While this is an area which may lie outside the EA's jurisdiction, it is perhaps worth considering whether alternative, and perhaps more appropriate mechanisms, need to be considered.

3. Avoided Cost of Transmission (ACOT)

BEL is of the view that existing ACOT payments to Distributed Generators are neither cost reflective nor service related, and are simply a cost burden on consumers. While the operation of certain DG reduces transmission cost by, relieving transmission constraints, deferring transmission upgrades, and/or providing less costly non transmission solutions, this is not universal for all DG which are currently receiving ACOT payments. Furthermore, in cases where a DG operation is providing ACOT related benefits, the level of ACOT payments is not necessarily related to the actual benefits provided.

The escalation in the Interconnection Rate over the past 5 years, predominantly due to the completion of major North Island transmission grid upgrade projects, has seen the ACOT payments to which DG are entitled increase dramatically. In many situations it is clear that this increase in ACOT payments is totally unrelated to the operation of the DG, change in use of the transmission grid, or in the level of benefits provided by the DG operation.

As a result, BEL considers the existing methodology used to determine ACOT payments to not be dynamically efficient as they; send the wrong price signals to distributed generators, are not sustainable in the longer term, and are not in the best interests of end use consumers.

ACOT payments are clearly an area of the regulations which require modification, and the proposal to replace existing ACOT payments with direct Transpower to DG contracts/payments in situations where DG are providing transmission related benefits, is a proposal which BEL supports. However, in order for future EA DGPP reviews to gain BEL support, more consideration needs to be given to the issues raised in this submission.

BEL is aware that contracts for ACOT payments currently exist which would be adversely affected by the proposed changes to the DGPPs. How these existing contracts are dealt with needs to be given further consideration.

4. Timing of DGPP & TPM Regulation Changes

The changes currently proposed for the DGPPs and the TPM are not independent, as changes in one have implications for the other. BEL is of the view that the changes to the DGPPs & TPM should be developed/finalised as a package, and preferably implemented at the same time. Should DGPP changes be finalised and ready for implementation in advance of TPM changes (the most likely

scenario), then a transition to the new ACOT payment system can be phased in. However, this should not be begun until a new TPM is finalised (though not yet necessarily implemented).

5. Transpower & Distributed Generation Contracts

BEL is of the view that these contracts should be generic in form and transparent in nature. Depending on the methodology which is used to determine the value of the transmission related benefits provided by DG, the value of these contracts could be determined as a part of Transpower’s annual pricing process.

6. Common Costs

With the increased penetration of DG in Distribution networks, it is important that Distributors have the ability to charge all Distribution network users (both generation and load) for the network connection services provided. This will allow Distributors to freely implement pricing structures which they deem to be the most appropriate for their particular circumstances, and in the best interests of consumers.

Aside from the economics of scale and the nature of the local distribution network, which dictate whether or not generation should be distribution network or transmission grid connected, all generation (whether distribution network or transmission grid connected) should be treated in an equitable manner and on a level playing field. In order to ensure that this outcome can be achieved, it is BEL’s view that Distributors should have the ability to charge DG the common costs associated with providing the connection service they use.

7. Response to Questions

Question No.	Question	Response
Q1.	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.	Yes, although the outcomes need to be more clear for a number of the issues proposed for change.
Q2.	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?	Yes

Q3.	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
Q4.	Do you consider that the proposed Code amendment should come into force at a single date, or should it be phased in?	Phased in.
Q5.	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?	Changes to the TPM & DGPPs would preferably be developed/finalised/implemented in tandem. This would eliminate some of the uncertainty regarding the potential outcomes for Distributors & DG.
Q6.	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.	Yes, BEL is of the view that barriers might prevent agreements being reached between Transpower and distributed generation owners. Agreement must be reached on the value of the service being provided by distributed generation.
Q7.	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.	No (in our own case). However, this may prove to be more uncertain and problematic for other Distributors.
Q8.	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?	Yes, this is true for the case of Buller Electricity, but may not be for other EDB's.