

26 July 2016

Submissions
Electricity Authority
Level 7, ASB Bank Tower
2 Hunter Street
Wellington

By email

Dear Electricity Authority

Distributed Generation Pricing Principles

Thank you for the opportunity to comment on the Distributed Generation Pricing Principles (DGPP) proposal.

Given the implications for Avoided Cost of Transmission (ACOT) payments, Contact supports the Authority's proposal to remove the DGPP from the Code. We are also pleased to see the Authority addressing this matter with a degree of urgency as some of the current payments appear to be inconsistent with the original intention of the scheme. Contact also believes this change should be made regardless of whether changes are made to the Transmission Pricing Methodology.

As we have noted in previous submissions, we believe ACOT should be abolished as these payments have:

- Had little, if any, effect on reducing Transpower's transmission investment requirements;
- Resulted in tens of millions of dollars in transmission charges being passed through to consumers¹ with no material reduction in transmission costs; and
- Led to perverse incentives, where owners of distributed generation actually benefit from rising transmission costs.

Like the Authority, Contact does not favour a ban on all ACOT payments. Payments should still be made where distributed generation (or other new technologies such as batteries) genuinely reduces or defers transmission costs. In Contact's view the Authority's proposal to shift responsibility to Transpower to make this decision on whether transmission costs will be avoided or deferred is pragmatic. We also agree with the Authority that it may take some time for Transpower to be ready to fulfil this increased role, and that distributed generators will need some time to prepare for the new arrangements. Lastly, Transpower should also have the obligation to ensure that any new distributed generation solution is provided at least cost through a competitive process.

With regard to distributed generators' connection charges, it is fair and reasonable that distributed generators are charged their share of connection (or common) costs, and not just incremental costs. However, to ensure that distributed generators do not pay a disproportionate share of these common costs, distributed generator owners will need to rely on distributors maintaining and disclosing robust pricing methodologies that:

- a) Explain how costs are allocated among different customers;
- b) Are rigorously reviewed; and

¹ While we agree with the Authority that the financial benefit to consumers may be significant, we note that the actual saving depends on what volume of distributed generation is inefficient and any new "transaction costs" incurred by Transpower or the owners of distributed generation in seeking new arrangements with Transpower. To this extent any arrangements that can be made to reduce transaction costs will help benefits flow to consumers.

c) Align with economic theory
as is presently the case under the Commerce Commission's disclosure regime.

Overall, Contact prefers the proposal put forward by the Authority to the other alternative as this is the simplest approach to implement, and captures the vast majority of the benefits offered by the other alternatives.

Please contact me should you wish to discuss any matter raised in this submission.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Catherine Thompson', with a long horizontal line extending to the right.

Catherine Thompson
General Counsel