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Submissions
Electricity Authority
P O Box 10041
Wellington 6143

By email: submissions@ea.govt.nz

Dear Sir / Madam,

RE: Consultation Paper-More Efficient Distribution Prices

The Independent Electricity Generators Association Incorporated (IEGA) welcomes the opportunity to submit on this consultation paper relating to amending the Distribution Pricing Principles (DPPs) and the proposal to monitor and rate the efficiency of distribution companies' prices.¹

The IEGA has an interest in the DPPs from the perspective of the services distributed generation, as users of the distribution network, provide distribution companies.²

Distribution Pricing Principles

We support the change to the DPPs to be specific about "services provided by users and to users"³ (previously referred more generally to "stakeholders"). Distributed generation is a user of the network that can and does provide services to distribution companies. Compensation for these services is currently at best sporadic and mostly non-existent.

The IEGA has previously submitted that the distribution pricing principles must include solutions for network companies to compensate distributed generation for services provided in improving local and national power quality and for mitigating local network congestion. As we stated previously, network companies are already compensating electricity consumers for mitigating local network congestion by charging them less if they go on a controlled or off-peak tariff. Distributed generation provides the

¹ The Committee has signed off this submission on behalf of members.

² Charges from distribution companies to distributed generation are regulated by Part 6 of the Code

³ Header in clause (b)

same solution. A level playing field in what could be competitive provision of services means distributed generation must also be compensated. In addition, any payment by distribution companies to their own 'distribution alternatives' (such as batteries) should apply equally to independently owned distributed generation.

If the above is the intent of the Authority's change to refer to "services provided by users" then we support the change and look forward to distribution companies amending their price schedules to include payments to distributed generation.

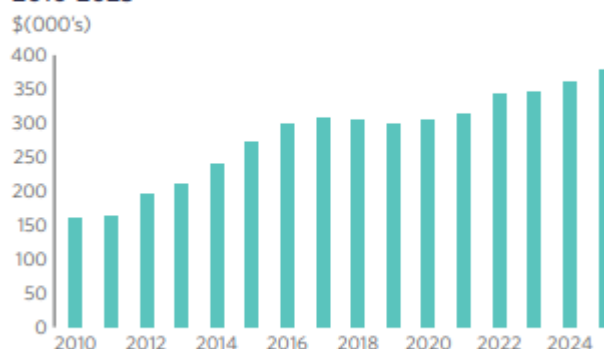
Further, we support retention of the requirement for distribution prices to "encourage investment in transmission and distribution alternatives (eg. distributed generation or demand response) and technology innovation" (clause (b)(iii)). Distributed generation can be more efficient than additional investment in transmission or distribution assets and it is in the interests of New Zealanders that the approach of distribution companies is facilitative.

The IEGA is surprised that the draft principles no longer require distribution pricing to signal the economic costs of service by "signalling, to the extent practicable, the impact of additional usage on future investment costs" (clause (a)(iii) in the current principles).

This pricing principle seems particularly relevant at this time when significant asset replacement and renewal expenditure is forecast. The Thirty Year New Zealand Infrastructure Plan 2015⁴ includes forecast network asset replacement and renewal – see graph.

There are also increasing opportunities / technologies that could defer or avoid investment in distribution assets if the right incentives are in place – consistent with the principle discussed above that prices encourage investment in transmission and distribution alternatives (eg, distributed generation or demand response) and technology innovation" (clause (b)(iii)).

Actual and forecast asset replacement and renewal expenditure for electricity distribution businesses: 2010-2025



Source: Commerce Commission (2015)

We note Transpower's latest report in the Te Mauri Hiko series about solar pv⁵ playing a bigger role in New Zealand's energy future. Solar is one of a number of forms of distributed energy connected to distribution networks. Transpower notes that solar is closer to demand so the need for additional new transmission is reduced. "It is critical network pricing structures encourage these outcomes ..."

⁴ See <https://treasury.govt.nz/sites/default/files/2018-03/nip-aug15.pdf> page 14

⁵ See <https://www.transpower.co.nz/sites/default/files/plain-page/attachments/Te%20Mauri%20Hiko%20%E2%80%93%20the%20sun%20rises%20-%20published.pdf> page 17

Efficient distribution pricing

The IEGA appreciates the clarity the consultation paper provides about “more efficient distribution prices – what do they look like?”

The Authority’s proposed more efficient tariffs for use of the network would all signal the opportunity, or incentivise, distributed generation to reduce congestion on the network by generating to meet local demand on the right side of the constraint / congestion if distributed generation is paid the network price.

It may be easier for distribution companies to contract static or dynamic critical peak congestion demand charges/payments with distributed generation than with other classes of customer. This is because there are fewer counterparties, a contractual relationship exists and distributed generation can be more responsive, or guaranteed via contract, to take timely action given prevailing network conditions (a ‘bigger bang for the buck’ compared with say residential customers). This might require a ‘distribution system operator’ approach but definitely requires distribution companies to compensate the distributed generation for this service.

We would welcome the opportunity to discuss this submission with you.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Warren McNabb', written in a cursive style.

Warren McNabb
Chair