Chairman: Warren McNabb, warren.mcnabb@altimarloch.com
Secretary: David Inch, david@nzenergy.co.nz

INDEPENDENT ELECTRICITY GENERATORS ASSOCIATION

30 January 2018

Submissions
Electricity Authority
P O Box 10041
Wellington 6143

By email: submissions@ea.govt.nz

Dear Electricity Authority Board Members,

RE: Consultation Paper – List of distributed generation eligible to receive ACOT, lower South Island

The Independent Electricity Generators Association Incorporated (IEGA) welcomes the opportunity to submit on the LSI eligible DG. [1]

This is the first time any DG investor has had the opportunity to submit to the Electricity Authority on implementation issues arising from the December 2016 decision by the Electricity Authority (Authority) in relation to ACOT payments and Part 6.4 of the Code. Our submission focuses on the:

a. poor regulatory process that has got us to this point; and

b. lack of certainty that DG investors continue to face.

Individual members will be checking the Authority has the right ICP for their DG and submitting.

a. Poor regulatory process

The only consultation the Authority has undertaken, in May to July 2016, was about the proposal to eliminate all ACOT payments and require DG to pay common costs. We, obviously, focused on first order issues and not the detail of implementation of that proposal. Then, in December 2016, the Authority made a different decision - to use the GRS test. In our view everyone would have benefited from establishing a working group to discuss implementation issues as the test was developed and the implications of the new approach became clearer.

In our view, the December 2016 decision was based on assertions and not quantitative analysis or an understanding of the value of DG. Transpower's power system modelling has revealed that 70% of the DG Winter MWs are required to maintain power system reliability. This result differs starkly from the

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

Authority's assertion when it decided to apply the new test to the Lower South Island first because it expected the most savings for consumers from this region given it is a region that overall exports electricity to the rest of New Zealand. This implies the Authority's expected savings of $25 – 35 million per annum are in doubt.

Further, Mitton ElectraNet have identified benefits provided by DG that they cannot take into account due to the narrow scope of the test. Mitton ElectraNet list these benefits on page 4 of their report[2]. Transpower's report[3] agrees with Mitton ElectraNet and goes further to be specific about the benefits for consumers from DG helping to mitigate the impact of grid outages – copied below:

> We note Mitton's commentary (on page 4) about the broader benefits of DG. We agree DG provides benefits that are not assessed as part of this report and confirm that DG in the LSI region helps to mitigate the impact on consumers of grid outages (removing grid assets for maintenance or enhancement purposes).

In addition, the Authority assumed minimal transaction costs in its consultation paper and asserted that the December 2016 decision would result in lower transaction costs. The reality is that implementation costs being incurred by our members, network companies and Transpower are far in excess of the Authority's estimate.

The IEGA is losing confidence in the Authority to make objective, consistent and high quality decisions based on well informed analysis.

b. Lack of certainty DG investors continue to face

DG investors now, finally, have some visibility of the methodology being used to assess DG's contribution to grid reliability. However, the methodology is like a black box and cannot be replicated or peer reviewed on behalf of IEGA members to check its accuracy. This is an unsatisfactory position to place DG investors in given the significant long term financial consequences of this methodology for DG investors.

It is our expectation that the methodology applied to the Lower South Island (LSI) would be replicated in each of the other 3 transmission regions (with the delay in undertaking this analysis only reflecting Transpower's limited resources). However, the Transpower and Mitton ElectroNet reports imply there is some discretion about the assumptions and methodology to be applied in the other regions. The Authority created a 'drop dead date' of 6 December 2016 for DG. We suggest the same 'setting in stone' be applied to the transmission grid.

The IEGA seeks clarity about this. We feel no more informed about this process than before the LSI report was released.

Uncertainty also continues for investors in new DG who are expected to negotiate a Grid Support Contract with Transpower. It is over twelve months since this requirement was introduced but we understand from Transpower4 that a mechanism to contract with DG is yet to be finalised.

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[2] https://www.ea.govt.nz/dmsdocument/22904

[3] Page 4 https://www.ea.govt.nz/dmsdocument/22902

[4] IEGA thanks representatives from Transpower and the Authority for attending an IEGA meeting on 14 December 2017

Further, the Authority continues to talk about reviewing arrangements for DG again. For example at the time of the December 2016 decision the Authority[5] said the issue of incremental costs may "may be revisited in the future after final decisions are made about how the costs of the transmission grid are allocated, and distributors have made more progress with setting cost-reflective charges."

This level of uncertainty is unprecedented. It is also disproportionate to the size of DG in the market as well as the scale of the business of our members. This uncertainty is impacting the bankability of existing and new DG investments.

Summary of our main points:

1. The outcome of the grid reliability test for the Lower South Island is starkly different from the outcome expected by the Authority, with the Authority's expected total savings unlikely to be realised.
2. Further, IEGA members and DG investors are facing substantial implementation costs that if taken into account would have overturned the Authority's cost benefit analysis.
3. A poor regulatory process has contributed to this contradiction.
4. DG investors continue to face a highly uncertain regulatory environment. Indications are that this environment might only become more stable in about five years when changes to the TPM and distribution pricing are in place. The level of uncertainty is disproportionate to the size of this sector and the scale of the businesses owned by IEGA members.

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

Yours sincerely

Warren McNabb
Chair

[5] https://www.ea.govt.nz/development/work-programme/pricing-cost-allocation/review-part-6-dg-pricing-principles/development/authority-decision-on-the-review-of-dgpps-and-acot/