



Chairman: Warren McNabb,

Secretary: David Inch,

9 August 2023

Vhari McWha
Commissioner
Commerce Commission
P O Box 2351
Wellington 6140

By email: IM.review@comcom.govt.nz

Dear Vhari and team,

RE: Cross-submission on EDB draft Input Methodology Determination

The Independent Electricity Generators Association (IEGA) welcomes the opportunity to engage on the Commerce Commission's (Commission) review of the Input Methodologies applied to non-exempt electricity distribution businesses (EDBs).¹

This submission can be published on the Commission's website and does not include confidential information.

IEGA members own small commercial scale generation assets that are connected to local distribution networks. The IEGA's principal interests in the EDB IMs is to ensure:

- timely, efficient and cost effective connection of generation assets to local distribution networks; and
- a level playing field for the consideration of non-network solutions that defer or avoid investment in traditional network infrastructure.

Large Connection Contracts

A number of EDBs have raised questions about the Commission's proposed approach for Large Connection Contracts (LCC). We support the Commission providing clarification / more specificity on this proposal.

The Part 4 regime is about ensuring EDBs' recovery of the costs of ongoing operation of their network plus the return on/off investment in the refurbishment and expansion of the asset base is equivalent to what could be expected in a workably competitive market.

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

IEGA members have had experiences of costings by EDBs (or their preferred suppliers) for a new generation connection being well above the cost from an ‘unrelated’ party (also discussed by Contact).

The IEGA urges the Commission to ensure its regime enables a competitive tension in providing this ‘service’ (as well as that of non-network solutions discussed below). This includes being able to discuss and agree the level of ‘quality’ the generator requires from the network.²

We are unclear whether the LCC proposal to place connection costs outside the RAB is positive or necessary. Our impression is that a generator wanting to connect to an EDB must work with the EDB to achieve technical connection³ and this bilateral conversation includes discussion/agreement on costs and charges to recover these costs.⁴ If there is competitive tension then whether this asset is subject to regulatory scrutiny by being included in the RAB or not may be irrelevant.

New connections is a detailed and relatively controversial topic. Submissions demonstrate there are a range of views on how to make this aspect of the regulatory regime less complex.

The IEGA supports Contact Energy’s proposal for *“a separate workstream is established in conjunction with the Electricity Authority to develop the right set of rules and incentives on connection costs”*.⁵ The IEGA suggests this important workstream should commence with a workshop with EDBs, connecting parties and regulators to prepare a clear problem definition.

The Commission’s proposals do not adequately address the issue of first mover disadvantage or EDB investment in anticipatory capacity. Until these issues are addressed in the Part 4 regime (and distribution charges) processing and investing in new connections will, in our view, remain problematic for both EDBs and the connecting party.

Unforeseeable and Forseeable large projects

The draft IM is very specific about what a ‘large project’ is and how this cost can be recovered.⁶

Recovering the cost of an ‘Unforeseeable large project’ and ‘Forseeable large project’ relating to system growth expenditure that involves an opex solution includes forecasting the total ‘lifetime solution costs’. The definition of ‘lifetime solution costs’ relates to the purchase or supply of flexibility. If the EDB is ‘supplying’ flexibility the EDB is required to value this at its NPV calculated using the mid-point estimate of vanilla WACC. This WACC is (very) likely to be less than the required rate of return of a commercial third party (who is not a regulated monopoly) whom the EDB could be ‘purchasing’ flexibility from. We suggest this mismatch in required returns leaves the EDB favouring its own supply of flexibility.

² In fact the generator may be providing services that improve the power quality on the distribution network and this should be reflected in a reduction in overall connection costs (ie payment to the generator). Transpower’s new connection process is very clear that a price-quality trade-off decision can be made.

³ Part 6 of the Electricity Industry Participation Code

⁴ PowerNet’s submission describes how these Delivery Service Agreements differ across connection customers in paragraph 26. Unison also raises questions about the detail of this proposal (paragraphs 109-113).

⁵ Page 2 and Page 8, 9 and Attachment 1 provide detail about the suggested content of this workstream

https://comcom.govt.nz/_data/assets/pdf_file/0015/323115/Contact-Energy-Submission-on-IM-Review-2023-Draft-Decisions-19-July-2023.pdf

⁶ Clause 4.5.9 and 4.5.10

Reopener provisions

IEGA supports amendments proposed by EDBs and MEUG⁷ to the reopener provisions to improve the timeliness of final decisions (this includes mandated timeframes for the process of considering applications) and more prescription about the information the Commission requires in these applications. This is particular relevant if the reopener mechanism is to apply to connections of small commercial scale distribution generation and would provide more certainty for EDBs and connecting parties for the long term benefit of consumers.

The IEGA hopes Alpine's expectations of the Commission's approach are realised with respect to non-network solutions, namely:

"We are encouraged by the Commission extending reopeners to include opex solutions and capturing opex solutions within system growth expenditure. These decision will assist the industry as it looks for new, non-network opportunities to support decarbonisation efforts." (paragraph 15)

There are a lot of different suggestions regarding the threshold for a reopener. A standard ratio of EBD assets may accommodate the varying sizes of regulated EDBs.

Innovation and Non-Traditional Solutions Allowance and the Distributed Generation Allowance

The IEGA queries whether grouping together 'innovation' and 'non-traditional solutions' implies that the non-traditional solutions must also be 'innovative'. More importantly there are non-network solutions/alternatives that are 'traditional' and from low risk existing technologies. These solutions are not a higher risk 'experiment' where the money allocated to these activities should be controlled / limited.⁸

For example, distributed generation has previously been incentivised to generate during peak demand periods thus avoiding or deferring investment in traditional network infrastructure. This is a traditional non-network solution. The Pricing Principle in Part 6.4 of the Code continues to require EDBs to consider avoided and avoidable costs when setting connection charges for generation.

The IEGA submits the Commission should not remove the 'Distributed Generation Allowance' from Recoverable Costs. The IEGA also supports Orion's submission that avoided cost of distribution payments should be included as a type of expenditure for reopeners.⁹

It seems unlikely that the proposed 'Innovation and Non-Traditional Solutions Allowance' could be used to compensate traditional non-network solutions. The new 'Innovation and Non-Traditional Solutions Allowance' is being interpreted very differently by EDBs and other stakeholders¹⁰ compared with the services distributed generation has and can continue to provide to EDBs. In our view, the Distributed Generation Allowance continues to have a role.

⁷ Page 4-5 https://comcom.govt.nz/_data/assets/pdf_file/0021/323139/Major-Electricity-Users-Group-MEUG-Submission-on-IM-Review-2023-Draft-Decisions-19-July-2023.pdf

⁸ It also raises the question - does 'non-traditional' solutions differ from non-network solutions and if not it would be easier to use one term in all parts of the regulatory regime.

⁹ Paragraph 24 https://comcom.govt.nz/_data/assets/pdf_file/0018/323154/Orion-Submission-on-IM-Review-2023-Draft-Decisions-19-July-2023.pdf

¹⁰ For example see Contact Energy, Electra, Mercury Energy submissions

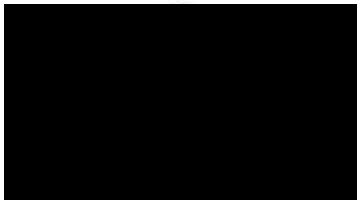
Other topics

The IEGA strongly supports Counties Power suggestion the Commission focus on network utilisation, noting that peak demand growth drives new network investment and that an EDB's assets can be well underutilised at other times. Providing incentives for small commercial scale distributed generation to operate during peak demand periods have been successful – Transpower has commented that the removal of RCPD price signals is contributing to the frequent occurrence of high peak demand over the last 2 years. The Part 4 regime should encourage EDBs to enable growth in controllable local electricity supply as it faces growth in electricity demand.

The IEGA supports EDBs efforts to ensure the regulatory regime supports financially viable businesses investing in long-life assets.

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

Yours sincerely



Chris Fincham
IEGA Committee