



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

18 July 2019

Dane Gunnell
Manager, Price-quality Regulation
Commerce Commission
P O Box 2351
Wellington 6140

By email: regulation.branch@comcom.govt.nz

Dear Dane,

RE: EDB DPP3 reset

The Independent Electricity Generators Association (IEGA) welcomes the opportunity to make this submission on the Commerce Commission's (Commission) draft decisions in relation to the EDB price-quality path to apply from 2020 -2025 (DPP3).

The IEGA comprises about 40 members who are either directly or indirectly associated with predominantly small scale power schemes connected to local networks throughout New Zealand for the purpose of commercial electricity production.¹

Distributed generation competes with distribution infrastructure to deliver electricity to end consumers. As you know the Input Methodologies require EDBs to consider alternatives to traditional distribution infrastructure. Non-network alternatives or solutions, such as investment by third parties in distributed generation, provide EDBs with services that assist with delivery and reliability of supply of electricity to consumers.

The IEGA is also engaged with the Electricity Authority and Commission's joint project placing a spotlight on emerging contestable services. The IEGA queries whether the Commission will be able to take into account the outcomes / learnings from this joint project – where relevant – in the final decision for DPP3. While some of the changes proposed in the draft decision may address issues raised by the joint project it would be disappointing to miss out on implementing any other changes during this DPP3 reset.

Our submission that follows focuses on a few key aspects of the proposed changes to the regime with reference to the 'DPP3 draft at a Glance' table on pages 4-6 of the draft decision reasons paper.

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

Equalising capex and opex retention factor (I1)

The IEGA supports the change to equalise the capex and opex retention factors. Our interest is to ensure that, in practise, EDBs are indifferent between contracting third parties to provide non-network solutions using distributed generation (opex) or capex on traditional network infrastructure.

We suggest there are other factors that would assist in ‘equalising’ a distributor’s approach to non-network solutions – distribution alternatives. As with transmission investment, distribution alternatives have numerous attributes and benefits that are different from traditional network infrastructure. EDB’s analysis of distribution alternatives has to be able to value these attributes and benefits, which include:

- Distributed generation provides the benefits of being a quicker solution, can be movable, stackable and incremental.
- Distribution alternatives have difference performance criteria compared to distribution assets. Distribution alternatives should not be required to meet the same standards otherwise there is an inherent bias to distribution assets.
- Distribution alternatives will be connected to a local network but also provide benefits to the transmission grid. There must be the opportunity to realise the value the full range of products or services distribution alternatives can provide.

Information about the opportunities for distribution alternatives is also critical – ie information on need, location, capacity, type of service etc. Standard form agreements

Large unforeseen consumer connections (U1)

The IEGA supports the introduction of a reopener for large unforeseen new connection projects – such as new distributed generation.

We agree with the aim of the proposed reopener “*to ensure, where possible, that distributors can connect and manage significant new demand and low carbon technologies if New Zealand increases its focus on decarbonisation, while maintaining network reliability and meeting the long-term interests of consumers.*”²

Generation capacity close to load has numerous system benefits as well as long-term benefits to consumers.

Innovation allowance recoverable cost (U2)

The Commission is proposing a new targeted recoverable cost to incentivise innovations that lower cost or improve quality – the innovation recoverable cost.

The proposal includes a number of criteria for this expense. We note the business case is to be submitted to the Commission during annual reporting with an independent engineer’s report. A business case is prepared to gain approval to make an investment and can be expected to show a positive return.

² Paragraph 4.38 https://comcom.govt.nz/_data/assets/pdf_file/0023/149801/Default-price-quality-paths-for-electricity-distribution-businesses-from-1-April-2020-Draft-Reasons-paper-29-May-2019.pdf

However, we assume this innovation investment could be testing an emerging technology, product or service that may or may not prove to be successful. We query if the recoverable cost mechanism is available if the innovation proves to be unsuccessful?

The IEGA suggests the entire industry and consumers would benefit if the learnings or outcomes of these innovation investments were shared. The investment is being made by a natural monopoly so there should be no competition issues from making information widely available about what the investment was and the impact it had on network costs or quality. Other EDBs could then make similar investments. Also the rollout of a successful innovation initiative could become a contestable product or service that third parties scale up and take on the risk of wider deployment.

The above assumes the EDB will make the investment in an innovation. Is this the least cost approach? An alternative is for third parties to bid for this innovation incentive amount (using a Dutch auction approach) to test and develop products and services that lower cost or improve quality for an EDB or group of EDBs.

Network reliability (Q11)

The IEGA notes the proposed revenue-linked incentive on reliability - set at \$5,200/MWh across all regulated network connections. The Commission has derated a VOLL of \$25,000 due to other aspects of the DPP regime to reach this number – we do not have a view on this derating approach. However, we suggest VOLL should be the same across the sector – Transpower’s recent consultation on the Waikato Upper North Island Voltage Management project uses VOLL of \$26,500 – being the \$20,000 VOLL in the Electricity Industry Participation Code adjusted for inflation to 2019 dollars.

The purpose of this incentive is stated to be to encourage EDBs to find inexpensive solutions to improve reliability as the marginal benefits will outweigh the marginal cost for the EDB and consumers.

EDBs are required to consider non-network solutions when designing and planning their networks and have a strong focus on reliability when considering non-network solutions. We strongly believe that distributed generation, and other forms of non-network solutions, can be a least regrets opportunity to achieve incremental increases in the ability to deliver electricity and improve reliability of supply, especially in the current environment when the outlook for regional growth in net electricity demand continues to be uncertain.

Some non-network solutions are different and have different characteristics to traditional network infrastructure. These different characteristics can be managed via contractual arrangements to meet the service requirements of a distributor. Regulatory incentives should not encourage distributors to invest in a risk adverse manner when another solution (non-network) could result in better outcomes for consumers.

This network reliability incentive should mean EDBs are prepared to pay up to \$5,200/MWh to third parties to maintain reliability using non-network solutions (and a higher amount if the non-network solution improves reliability).

We query the relationship between the value of this reliability incentive at \$5,200/MWh and the:

- requirement for distributors to pay distributed generation for the avoided and avoidable cost of distribution – is this ACOD payment now \$5,200/MWh?

- current payments / discounts for residential consumers with ripple control enabling distributors to manage reliability during peak periods (estimated at \$34/MWh – ranging from \$10/MWh to \$80/MWh)
- EDB peak TOU charging to customers targeted at managing network reliability
- Transpower’s assumptions about demand management – a post-fault load shedding VOLL at specific GXPs in the Waikato Upper North Island region of \$17,000/MWh to \$24,000/MWh³ and pre-fault demand management of \$2,000/MWh
- the cost of a non-network solution such as a diesel genset (well economic at this VOLL cost) or an emerging technology like batteries – the level of this incentive might encourage higher cost investments in reliability as they become economic at these levels
- value of a short term shortage / reliability event or would this be paid to achieve reliability for an extended period of time.

While different customers may value loss of electricity supply for a length of time (VOLL) differently, is the value of reliability higher (or lower) as you get closer to the consumer?

We query whether this incentive – or the value of the incentive – will make EDBs more risk averse in relation to non-network solutions.

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

Yours sincerely



Warren McNabb
Chair

³ <https://www.transpower.co.nz/sites/default/files/projects/resources/WUNIVM%20Short-list%20Consultation%20-%20June%202019.pdf> page 38