
Consultation paper: Proposal to amend Aurora Energy's pricing methodology

15 September 2017

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1 Introduction

This document outlines a proposal to amend Aurora Energy's use-of-system pricing methodology. The proposal comprises three parts:

1. a proposal to alter the qualifying criteria for avoided transmission charges, payable to large distributed generators, and the manner in which they are calculated;
2. a proposal to clarify how HVDC charges are recovered from large distributed generators; and
3. additional definitions and terminology changes unlikely to materially affect the pricing methodology of the charges that result from it.

2 Submission on Proposal

We invite feedback on this proposal from distributed generators connected to the Aurora Energy network. As the proposal does not affect connected electricity retailers, feedback from other parties is not being sought. Further, we are not seeking feedback on the associated decisions made by the Electricity Authority that are the driver for the pricing methodology change.

Submissions should be forwarded to:

Alec Findlater
General Manager Network Commercial
alec.findlater@auroraenergy.co.nz

on or before 9 October 2017.

Please note that we are not seeking distributed generators' views on the Electricity Authority's (the Authority) decisions to amend the pricing principles or to accept Transpower's revised methodology for allocation HVDC costs. Affected parties' views were canvassed by the Authority prior to making those decisions.

3 Consideration of Feedback

We will consider in good faith all submissions received, and subsequently make a decision to either proceed with the proposal, to drop the proposal, or to amend the proposal. In making any decision, we will ensure that the decision is consistent with Schedule 6.4 of Part 6 of the Electricity Industry Participation Code (distributed generation pricing principles).

At the time we publish our decision, we will publish a summary of submissions received and our response to them.

4 Consultation Timeline

We intend to determine this proposal in sufficient time to incorporate any change into charges effective from 1 April 2018, and meet our contractual notice obligation to distributed generators. The indicative consultation timetable is shown below:

Consultation paper released	15 September 2017
Submissions close	9 October 2017 (5pm)
Decision whether to continue with proposal	18 October 2017
Recommendation to Aurora Board	31 October 2017
Outcome of proposal notified	2 November 2017

5 Consequential Contract Amendments

If consequential amendments to existing connection contracts are required in order to give effect to this proposal, Aurora will notify those amendments under the applicable provisions of the affected contracts.

6 Proposal

6.1 Qualifying Criteria for ACOT Payments

Aurora Energy proposes to alter its pricing methodology to bring the qualifying criteria for avoided cost of transmission (ACOT) payments – also known as avoided transmission payments – into line with the pricing principles stated in Schedule 6.4 of Part 6 of the Electricity Industry Participation Code (the Code).

6.1.1 Impact of proposal

The impact of this proposal, on large distributed generators, is that they would be unable to charge ACOT to Aurora Energy unless their generation was identified on the list of qualifying generation published by the Electricity Authority.

6.1.2 Rationale for proposal

Part 6 (Distributed Generation) of the Electricity Industry Participation Code (the Code) contains a set of pricing principles that requires *“Charges to be based on recovery of reasonable costs incurred by distributor to connect the distributed generator and to comply with connection and operation standards within the distribution network, and must include consideration of any identifiable avoided or avoidable costs”*.

Prior to December 2016, these pricing principles provided more specific guidance regarding *“avoided or avoidable costs”*, restricting connection charges for distributed generation to incremental cost *“net of transmission and distribution costs that an efficient distributor would be able to avoid as a result of the connection of the distributed generation”* and that where incremental costs are negative *“the distributed generator is deemed to be providing network services to the distributor, and may invoice the distributor for this service...”*.

Most distributors with significant distributed generation embedded in their network, including Aurora Energy, complied with this requirement by making payments to distributed generators equal to the Transpower interconnection charge that would have been incurred in the absence of the generation – Avoided Cost of Transmission (ACOT).

ACOT payments are recovered from electricity consumers, reflecting the regulatory policy that avoided transmission costs that would otherwise accrue to consumers are allocated to the distributed generators that give rise to those avoided costs. The Commerce Commission's (Commission) Input Methodologies (IMs) qualify these payments as a recoverable cost since they are *“made in accordance with Schedule 6.4 [pricing principles] of Part 6 of the Electricity Industry Participation Code”*.

On 6 December 2016, the Electricity Authority (Authority) determined that the principles in the Code would be amended so that from 1 April 2018 (in the Lower South Island) *“distributed generation that does not efficiently defer or reduce grid costs will no longer receive ACOT payments under the regulated terms”*. To give practical effect to that change, Transpower is now required to periodically report the details of supportive generation to the Authority who will, in turn, publish a list of distributed generation that may be considered eligible for ACOT payments.

Aurora is amending its Use-of-System Pricing Methodology in order to ensure that the pricing methodology for connection of distributed generation accords with the revised distributed generation pricing principles. This change will affect both existing and new connection contracts.

Aurora considers it is appropriate to amend its Use-of-System Pricing Methodology for two reasons. First, the Authority has determined that ACOT payments made in respect of distributed generation

that does not provide grid support are inefficient and not in the long-term interests of consumers. Aurora Energy considers it is appropriate to reflect the Authority's policy and amendments to the Code in Aurora Energy's connection contracts for distributed generation.

Second, ACOT payments are only treated as recoverable costs to the extent they are made in accordance with the distributed generation pricing principles. ACOT payments that do not accord with the amended Code are accordingly not recoverable under the IMs. Aurora Energy considers it is appropriate to ensure that connection contracts reflect the treatment of ACOT under the Code and the IMs.

6.2 Recovery of HVDC charges

Aurora Energy proposes to alter its pricing methodology to clarify the method of allocating HVDC recoveries to multiple contributing generators within a grid exit point.

6.2.1 Impact of proposal

The impact of this proposal is administrative, and formalises the allocation method that was used for the 2017/18 HVDC allocations to large distributed generators within the Clyde grid exit point.

6.2.2 Rationale for proposal

The rationale for the proposal is to create greater transparency around the calculation of HVDC recoveries.

6.3 Definitions and terminology

Aurora Energy proposes to alter its pricing methodology to provide additional definitions and some terminology changes.

6.3.1 Impact of proposal

The impact of this proposal is administrative, and has no material effect on distributed generator.

6.3.2 Rationale for proposal

The rationale for the proposal is to provide definitions that, while associated with the Transmission Pricing Methodology, were not explicatively included within the pricing methodology (ACOT, CMP, HAMI, RCPD, SIMI). Likewise, some definitions that were defined within the body of the pricing methodology have been moved to the definitions section.

7 Pricing Methodology

A copy of Aurora Energy's Use-of-System Pricing Methodology accompanies this consultation document, and is marked with the proposed changes.