

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

28 December 2017

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1 Introduction

On 15 September 2017, Aurora Energy consulted with distributed generators connected to its network under commercial terms regarding a proposal to amend Aurora Energy's use-of-system pricing methodology. The proposal comprised 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 Submissions on Proposal

Aurora Energy received submissions on its proposal from TrustPower Limited and Pioneer Energy Limited.

We thank submitters for their contribution.

Submissions were a combination of:

- comments on aspects of the pricing methodology change proposal; and
- comments on the implications of the change proposal for submitters' connection contract (use-of-system agreement).

In this decision paper, we respond to submitters' views about the pricing methodology change proposal. Where we consider that feedback is aimed at the implications for a submitter's individual circumstances or its use-of-system agreement, we will address the submitter's comments directly with them.

2.1 Summary of submissions

Submitters considered that the overarching principles of any pricing methodology should be efficient, reflect the level of service provided and, if a generator provides a network support service to a distributor and the distributor receives a benefit, then that benefit should be passed through to the generator.

Aurora Energy agrees, subject to the following qualifications:

- *Where the benefit is to the transmission network, the transmission provider is best placed to determine the efficiency of the generation support provided, and whether a benefit is being provided in truth. This is the approach taken by the Electricity Authority (EA) in its 2016 amendment to Schedule 6.4 of the Electricity Industry Participation Code (the Code).*
- *There may be circumstances where generation defers distribution investment, or otherwise supports distribution. In those cases, some payment may be warranted; however, this is not the purpose of the current ACOT payments. Further, it is expected that any such benefits will be jointly agreed and valued.*

Similarly, submitters expressed the view that Aurora Energy should adhere to the core principle that benefits enjoyed by Aurora Energy through the actions of DG owners should be adequately considered and shared.

Aurora notes that qualifying ACOT, under its proposal and the EA's Code amendment, is provided on the basis of grid support. The generator is the provider of that support, Transpower/consumers are the beneficiary, and Aurora is simply an intermediary for payments. Where there is evidence of generation providing an agreed and measurable benefit to Aurora Energy, then avoided cost of distribution (ACOD) payments may be negotiated with the generator. Aurora Energy's proposal is focussed only on ACOT.

Submitters considered that other technology, and not just generation, may be employed to provide network support services, and that having a pricing methodology that includes a number of principles providing direction would deliver an adaptable and flexible process as technology and the market changes.

Aurora Energy agrees, and will consider further changes to its pricing methodology over time, as both the technology and its application matures and becomes more certain.

Submitters considered that because avoided cost of transmission (ACOT) payments are calculated over historic trading periods and paid in arrears, the commitment to payment in arrears remains unchanged in the proposal.

Aurora Energy disagrees. The fact that ACOT is calculated using historic trading periods does not entail a continued obligation to pay ACOT contrary to the EA's pricing principles. Since the intent of the proposal is to align with the DG pricing principles, then the ACOT payment will not include generation that does not provide efficient grid support, irrespective of the method of calculation.

Submitters considered that Aurora Energy is able to recover any costs associated with beneficial distributed generation, including ACOT, under Part 6.4 clause 2(a)(ii) of the Code, provided that those additional costs have a net long-term benefit to Aurora Energy's consumers.

Aurora Energy disagrees. Submitters are confusing ACOT with ACOD. ACOT is defined as a recoverable cost under the Commerce Commission's Input Methodologies (IMs). However, the IMs only allow recovery of ACOT if those payments are made in accordance with schedule 6.4 of the Code; that is, if the generation, to which ACOT is attributed, is recognised as efficiently grid supporting.

Where the generation is not grid supporting, then there is no benefit to consumers – generation is simply a transmission substitute. However, there may be circumstances where generation defers distribution investment, or otherwise supports distribution. In those cases, some payment may be warranted; however, this is not the purposes of the current ACOT payments. Further, it is expected that those benefits will be jointly agreed and valued.

Submitters considered that changes to the Code that are not directly related to network pricing principles should be dealt with separately to ensure the methodology employed is more durable.

Aurora Energy disagrees. Clause 2.4 of the Electricity Distribution Information Disclosure Determination 2012 (the Determination) requires distributed generation matters to be addressed within distributors' pricing methodologies. Specifically, clause 2.4.5(3) of the Determination requires distributors to:

"Describe the EDB's approach to developing prices for electricity distribution services provided to consumers that own distributed generation, including any payments made by the EDB to the owner of any distributed generation, and including the-

(a) prices; and

(b) value, structure and rationale for any payments to the owner of the distributed generation."

Aurora Energy had previously developed a stand-alone pricing methodology for distributed generation and when the Determination came into force in 2012, we incorporated the distributed generation pricing methodology, without material change, into its distribution pricing methodology as we were required to do by regulation.

Submitters considered that aspects of Aurora Energy's proposal were inconsistent with Aurora Energy's network pricing principles; in particular, points (c) and (d) on page 8 of the Use-of-System Pricing Methodology.

Aurora Energy notes that the pricing principles quoted are part of the distribution pricing principles that apply to consumption delivery tariffs, and not to distributed generation. The pricing principles contained in Schedule 6.4 of the Code are the only pricing principles relevant to distributed generation.

3 Decision

Aurora Energy's proposal was considered by its Directors on 6 December 2017, who resolved to adopt the proposed changes in full.

The revised Use-of-System Pricing Methodology has been certified and was publicly disclosed in accordance with the requirements of the *Electricity Distribution Services Information Disclosure Determination 2012*¹ on 28 December 2017.

¹ Available from www.comcom.govt.nz