

12 September 2012

Allan Carvell
Group General Manager
Regulation & Pricing
Vector

SENT ELECTRONICALLY

Dear Allan

Re: Request for amendment in relation to embedded generation

1. I am writing to respond to the issues raised in your *Request for an amendment to the Commerce Act (Electricity Distribution Services Input Methodologies) Determination 2010* (now the Electricity Distribution Services Input Methodologies Determination 2010) of June 2012, and your subsequent letter of 18 July 2012 *Re: Commerce Act (Electricity Distribution Services Input Methodologies) Determination 2010*.
2. Having considered the issues you raised, we have reached the view that the input methodologies do allow for the recovery of payments to notionally embedded generators. The reasons for this view are outlined below.
3. Under the current DPP set prior to the determination of the IMs, the Commission allowed EDBs to pass through avoided transmission costs, including those relating to notionally and physically embedded generators.
4. Following consultations with industry, the Commission agreed that service-specific recoverable costs for EDBs should include payments to embedded generators. As we noted in our Input Methodologies Final Reasons Paper, at para. J2.30:

Part 6 of the Electricity Industry Participation Code provides a framework to enable connection of distributed generation. Charges for such embedded generation (which may provide a substitute for use of the electricity transmission system) are likely to form part of that framework. Payments of avoided transmission charges to embedded generators have been treated as a distinct recoverable cost category, separate from any avoided transmission charges relating to the purchase of transmission assets. This recognises that those payments are an on-going obligation, whereas the avoided transmission charges relating to transmission assets need only be treated as a recoverable cost for a finite period to provide appropriate incentives for the acquisition of such assets by EDBs.

5. Clause 3.1.3(1)(f) of the Commission Input Methodologies for EDBS provides that an EDB may recover –

an amount equal to transmission costs that an efficient market operation service provider (as 'market operation service provider' is defined in the Electricity Industry Participation Code) is able to avoid as a result of the connection of distributed generation determined in accordance with Schedule 6.4 of Part 6 of the Electricity Industry Participation Code

6. We are satisfied that clause 3.1.3(1)(f) includes both physically embedded distributed generation and notionally embedded distributed generation.
7. The Commission therefore considers that recoverable costs for both physically and notionally embedded distributed generation determined in accordance with this view of clause 3.1.3(1)(f) complies with the Electricity Distribution Services Input Methodologies Determination 2010.
8. When we next undertake a review of the input methodologies for possible amendments, we will consider whether further clarification of this point is necessary to avoid any further confusion.
9. As the questions you have raised will likely address any similar questions from other parties, this letter, and your request for an amendment, will be posted on the Commission's web site for public reference.

Yours sincerely,



Sue Begg, Deputy Chair
Commerce Commission