2 November 2009

Electricity Commission
Level 7, ASB Bank Tower
2 Hunter Street
Wellington

By email: submissions@electricitycommission.govt.nz

Dear Sir/Madam

Todd Energy Submission: Discussion paper – Draft distribution pricing principles and methodological requirements

Todd Energy welcomes the opportunity to comment on the draft distribution pricing principles and methodological requirements discussion paper ("Paper").

We support the Commission's proposal for a principles-based approach to distribution pricing that is further supplemented by published guidelines (methodological requirements) to assist with interpretation and application of the pricing principles.

An important and key aspect of distributor pricing, which historically has been lacking, is consideration of the benefits offered by distributed (embedded) generation.

The pricing principles of the recently introduced Distributed Generation Regulations ("DGR") have been beneficial in levelling the playing field when it comes to negotiating terms of access and distributor charges for generator connections to the local network.

Todd Energy has connected 3 separate embedded generation stations totalling over 12 MW under the ambit of the DGR. Prior to the introduction of these regulations the economics of these projects would likely have been severely hindered through the unreasonable network charge expectations from the distributor, with no recourse available to the generator to challenge the unjust network cost allocation (ie. non-incremental and/or avoided costs).

While the pricing principles of the DGR place the generator in an improved starting negotiating position with the distributor, there remains some contentious interpretation and application of the pricing principles by some distributors, particularly around the assessment and allocation of avoided transmission costs[1].

The Commission's introduction of "methodological guidelines" is a key component of the proposed distribution pricing principles, and with the correct guiding methodology, will help consolidate the relevant government objectives (which are well documented in the Paper) underlying the transmission pricing methodology and DGR in regards to distributed generation.

Distributed generation (often private ownership) competes with transmission (public ownership) by substituting for transmission services at times of chargeable and/or

[1] At the time of writing, and after numerous requests, Todd Energy are still waiting for a distributor's assessment of avoided costs of a 1 MW generation plant some 18+ months after the new generator connection/commissioning, with the distributor continuing to be unreasonable in dealing with the matter.

peak demand. However the distributor often looks to penalise and devalue the generator GXP demand reduction and transmission costs avoided on the grounds that the net demand reduction just results in the redistribution of national transmission charges for no national benefit. This distributor assessment totally defies the economic efficiency objectives promoted by the Commission[2]. With adequate investment and optimal operational incentives signalled through distribution pricing, distributed generation will deliver significant national efficiency benefits, particularly *dynamic efficiency* benefits through the lowering of transmission costs over time.[3]

The distributor uses the inherent shortcomings in the current transmission pricing methodology and associated sunk asset cost recovery (ie. the fixed transmission revenue requirement) to withhold for itself a portion of the tangible benefits effected by the local embedded generator, rather than seeking to address any shortcomings via amendment to the transmission pricing methodology itself.

The following amendments are required to the proposed pricing principles and guidelines, predominantly for more explicit inclusion and identification of distributed generators, retailers and other connected parties as users of the local network that are impacted by distributor pricing methodologies, if the intent of pricing principle (f) is to be met.

Submission on proposed pricing principles

1. Principle (b): replace “consumers” with “connected parties”
2. Principle (d): replace “consumers” with “retailers, consumers and other connected parties” and “users” with “users of the assets”
3. Principle (e): replace “retailers and consumers” with “retailers, consumers and other connected parties”, and replace the second incidence of “retailers” with “retailers and connected parties”

Submission on proposed guidelines (methodological requirements):

1. New guideline (a)(x): development of pricing arrangements that will be used to reflect the value of distributed generation contribution to deferral of investment in transmission assets and transmission costs avoided at the grid exit point.

Please get in touch with Todd Energy should you wish to discuss any of the above points in further detail.

[2] Refer to definition of *economic efficiency* from Para 4.2.4 of the Paper.
[3] The only effective way to lower transmission costs over time is to defer transmission investment.