

14 August 2017

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By Email
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Dear Jason

Clarification request for timing of implementation of ACOT Code amendments

Thank you for Meridian's letter of 8 June 2017 on the timing of the implementation of the Electricity Industry Participation Code Amendment (Distributed Generation) 2016 (the avoided cost of transmission (ACOT) Code amendment).

We have considered your approach to the ACOT Code amendment (as set out in your letter). However, we do not agree with your interpretation.

One of the effects of the ACOT Code amendment is that, from the relevant dates of commencement set out in clause 17.23A, under the regulated terms there is an immediate change to the cap on connection charges payable to a distributor by existing distributed generation that is not included on the list published by the Authority under clause 2C of Schedule 6.4. (The Code amendment also has the effect that distributors will no longer make ACOT payments to new distributed generation. Transpower is responsible for assessing the need for additional grid support from new distributed generation.)

For existing distributed generation located in the Lower South Island, the Code amendment takes effect from 1 April 2018. Accordingly, from that date, for any existing distributed generation in that region that is not included on the Authority's list, under the regulated terms the connection charges payable to a distributor will no longer be required to be net of avoided transmission costs. (That is, the avoided transmission costs will no longer be required to be deducted from the connection charges payable.)

The period for which the avoided transmission costs are calculated (the Capacity Measurement Period) is irrelevant, because the avoided transmission costs will simply not be required to be deducted any longer. What matters is the period for which the connection charges are payable. If the period is after 1 April 2018, and the existing distributed generation is located in the Lower South Island and is not on the Authority's list, the connection charges will no longer be required to be net of avoided transmission costs. After 1 April 2018, ACOT payments will not be required under the regulated terms.

To make this more concrete, consider DG X, which is an existing distributed generator located in the Lower South Island. Assume that DG X does not appear on the list published by the Authority under clause 2C of Schedule 6.4. As a result of the Code amendment, none of the ACOT payments that would otherwise (in the absence of the Code amendment) have been made to the owner of DG X during the pricing year 1 April 2018 to 31 March 2019 are required to be made under the regulated terms.

In the absence of the Code amendment, it is likely that the amount of these ACOT payments would have been calculated based on the operation of DG X during the Capacity Measurement Period 1 September 2016 to 31 August 2017. This Capacity Measurement Period is before 1

April 2018. However that fact is irrelevant to the operation of the Code amendment: it does not change the result that these ACOT payments are no longer required under the regulated terms.

Similar considerations apply to distributed generation located in other regions. For any existing distributed generation not on the Authority's list, under the regulated terms the avoided transmission costs will no longer be required to be deducted from the connection charges payable to a distributor from:

- 1 October 2018 for distributed generation located in the Lower North Island
- 1 April 2019 for distributed generation located in the Upper North Island
- 1 October 2019 for distributed generation located in the Upper South Island.



This means that for existing distributed generation that do not appear on the relevant list, ACOT payments will not be required under the regulated terms after:

- 1 October 2018 for distributed generation located in the Lower North Island
- 1 April 2019 for distributed generation located in the Upper North Island
- 1 October 2019 for distributed generation located in the Upper South Island.

I also wish to clarify that the Code amendment affects only the regulated terms in the Code. It does not override existing contracts. So, to the extent that distributors have contracted out of the regulated terms and entered contractual arrangements to make payments to distributed generators, the Code amendment does not override those existing contractual commitments.

Thank you again for the letter. I appreciate your ongoing engagement with this process.

Yours sincerely



John Rampton
General Manager, Market Design