



Richard Fletcher
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Submissions Administrator
Electricity Commission
PO Box 10041
Wellington 6143

Re: Settlement of Islanded Embedded Generation

Transpower as system operator does not wish to express a view on how the price for an islanded embedded generator should be settled. We are, however, concerned about the implications that such a price may have for security of supply.

Embedded generators that do not offer into the market have agreed to accept an administered price to be payable by the Clearing Manager. While they are connected to the grid, the agreement is that this administered price is the final price at that point of connection. Similarly, purchasers have agreed to pay the final price to the Clearing Manager. Plus, there is the additional option available to the generator of settling with the purchaser via a bilateral contract.

In the case of a disconnected node, the administered price could, in fact, be agreed to be any price. The reference price is one such choice. There always remains the option for islanded generators and purchasers to come to an agreed bilateral contract price if the reference price were not agreeable to both parties. From our experience, this provides sufficient incentive to ensure that security of supply is not affected.

We would like to raise two points about the analysis in the consultation paper:

- The paper does not mention how local losses are to be treated in an islanded situation; this should be clearly explored.
- In the cost benefit calculations, instead of the benefit being the avoidance of the loss of 60 per cent of the embedded generation affected by islanding, the true benefit is avoiding the incremental cost of substituting more expensive generation for the lost embedded generation.

In conclusion, we accept that the Commission's proposal seems to be a reasonable means of achieving equity in the treatment of generators, but would note that settlement at a reference price does not preclude a bilateral contract between the islanded generator and load and thus may render the rule change immaterial.

Yours sincerely



Richard Fletcher
Regulatory Strategy Manager

Consultation questions

	Question	Submitter's Comment
1	Do you think a rule change is the best option to address this issue? If not then please explain why not?	A rule change would be required to alter the administered price. The actual price may be determined by means of a bilateral contract.
2	Do you consider the proposed rule change is the most efficient option? If not then please explain why not?	Refer to question 1.