

Submission by



to the

Electricity Authority

on the consultation

**Reforming network pricing for distributed generation to
promote efficient investment**

19 May 2026

Reforming network pricing for distributed generation to promote efficient investment

— SUBMISSION BY BUSINESSNZ ENERGY COUNCIL—

Introduction

1. BusinessNZ Energy Council (BEC)¹ is pleased to have the opportunity to provide feedback on the Electricity Authorities (EAs) consultation document titled 'reforming network pricing for distributed generation to promote efficient investment.'
2. BEC represents a diverse array of leading energy-sector businesses, government bodies, and research organisations dedicated to creating a sustainable, equitable, and secure energy future.
3. As a brand of BusinessNZ, New Zealand's largest business advocacy organisation, we represent the World Energy Council in New Zealand, aiming to shape better outcomes for our wider energy system both locally and globally.
4. With this work the EA is proposing updates to the Distributed Generation Pricing Principles (DGPPs) to promote and unlock efficient investment and network usage, and to help reduce the cost of supply to consumers.
5. In principle BEC is supportive of this ambition and agrees that network pricing should evolve alongside the changing structure and operation of the electricity system. BEC supports reforms that strengthen cost-reflective pricing, reduce inefficient cross-subsidisation, and improve confidence that network access and pricing arrangements are being applied in a transparent and competitively neutral manner.
6. BEC will not be responding to all parts of the consultation.

Key Recommendations for the EA and the Government

- **BEC recommends** the EA moves forward with the proposed reforms to network pricing.
- **BEC recommends** the EA develop detailed guidance and worked examples before finalising or implementing changes. This should include clear direction on the application of the incremental cost anchor, the treatment of shared network costs and the operation of congestion-related pricing signals.
- **BEC recommends** that any material changes must be accompanied by adequate transition and lead-in periods.
- **BEC agrees** that consumers should remain the residual payers of network connection costs.
- **BEC supports** reframing the incremental cost rule to an anchor.

¹ More about BEC in APPENDIX One

- **BEC supports** amendments to open up the ability for distributors to promote lower cost of supply by allocating costs as network injection capacity is consumed, investing in network capacity proactively and reallocating cost recovery as new connections arrive.
- **BEC supports** extending pioneer schemes from 3 to 7 years.
- **BEC supports** non-discriminatory pricing requirements.

General discussion

7. BEC agrees with the EA that pricing methodologies play an important role in promoting efficient network development and use. Ensuring that pricing is efficient and cost-reflective will help to deliver better outcomes for the system. We are therefore supportive of steps taken to realise this goal.
8. The proposed updates to the DGPPs are likely needed to ensure that the regulatory framework remains fit for purpose in a rapidly changing electricity system. While existing principles have served their purpose, the growth in distributed generation and batteries has created a need for adjustment.
9. The primary objective of this submission is to support reforms that promote efficient investment and network usage, which the EA believes will reduce long-term cost of supply for consumers.
10. While BEC is supportive of the EA's proposals we do believe that the EA should do more in developing detailed guidance and worked examples before finalising and implementing changes. Additionally, any material changes must be accompanied by adequate transition and lead-in periods.
11. The EA is proposing solutions to the following problems they believe DGPPs are no longer fit to address:
 - Under-allocation of costs.
 - Under-allocation of benefits.
 - The "position-in-queue" problem.
 - Ineffective congestion management.
12. To address these problems the EA has put forward a number of proposed Code amendments. This submission will address each of the proposed amendments separately.
13. BEC agrees with the EA that it remains appropriate to regulate how distributors set charges for injection due to the inherent market power Electricity Distribution Businesses (EDBs) have from being natural monopolies.
14. BEC agrees with the EA that offtake connections should remain the residual payers of network connection costs as allocating these to producers could deter supply and increase wholesale prices. There is research supporting this position.

"Regarding the allocation of residual network costs, the problem of charging generation plants will translate these costs, which are not cost reflective, would be that

*generators will translate this cost in their sales to the market, passing them onto consumers. Therefore, residual charges should be solely allocated to customers."*²

15. BEC notes that internationally, residual network costs seem to be overwhelmingly allocated to consumers, with differences mainly in the structure of recovery rather than the allocation itself.

Modifying the incremental cost rule

16. The incremental cost rule new connections cover only their incremental costs as 'neutral point pricing'. This means that each connection covers its incremental cost and does not alter cost for existing users.
17. As the EA points out, currently under the incremental cost rule (as a cap), due to practical limitations and impediments to estimating incremental costs, there is a risk that distributors will price below the cap to manage compliance risk.
18. This essentially creates scenario where consumers are subsidising generators connection costs and uneconomic injection is supported.
19. The EA is proposing to shift the incremental cost rule from a cap to an anchor by changing the wording from "must not exceed" to "must reflect a reasonable estimate of incremental cost".
20. BEC believes that this is an appropriate change to how the incremental cost rule is framed. The incremental cost rule is valuable because it helps to ensure that producers are not overcharged for connecting. It is BECs belief that reframing to an anchor does not remove this protection, it just makes the criteria around it less stringent, ensuring that only economic injection is pursued.
21. In summary, the effectiveness of the incremental cost approach depends heavily on the accuracy of incremental cost estimates. As mentioned before, these estimations are challenging and where EDBs adopt conservative assumptions to manage compliance risk there is a bias towards under-recovery. Reframing to "reasonable estimate" reduces incentives to underprice connections. This will help to limit cross-subsidisation and ensure more efficient investment signals, without materially increasing the risk of overcharging new entrants which BEC supports.

Capacity costs and benefits

22. The EA is proposing amendments to open up the ability for distributors to promote lower cost of supply by allocating costs as network injection capacity is consumed, investing in network capacity proactively and reallocating cost recovery as new connections arrive. They will be also able to set lines charges that promote efficient usage by signalling when and where the network is experiencing injection congestion, setting negative lines charges that signal when and where the network is experiencing offtake congestion.

² N.M. Dameto, J.P. Chaves-Avila, T.G. San Roman, Institute for Research in Technology, ICAI School of Engineering, Comillas Pontifical University, 16.6.2020, Revisiting Electricity Network Tariffs in a Context of Decarbonisation, Digitalisation and Decentralisation.

23. BEC supports this as it helps to provide pricing incentives for offtake and injection to invest in flexibility to shift injection/offtake away from peak windows, deferring the need for physical upgrades, which has been shown to provide significant system wide savings.
24. Amendments on injection capacity pricing, the EA says, have left EDBs with relatively wide discretion as to how they develop and implement them, which BEC is supportive of. There will be instances where continuing with the current method will be more beneficial.
25. BEC also supports the more prescriptive requirements for negative change components for residential and small business consumers. If injection from these consumers helps to free up capacity elsewhere in the network, they should be rewarded for it.

Extended pioneer schemes

26. BEC in principle is supportive of pioneer schemes as a tool to de-risk early investment, or kick start areas where investment would not occur naturally.
27. The extension of pioneer schemes in this instance is to capture injection connections and to broaden the application of pioneer scheme policies to include network injection capacity upgrades.
28. BEC agrees with the EA that extending pioneer schemes to cover injection connections would reduce the effect of first-mover disadvantage. Given that pioneer schemes are currently used for offtake connections that fund network expansion, and that injection connections may also trigger the need for network expansion (or capacity upgrades), we believe extension is appropriate.
29. The shift from 36 month to 7 years under Clause 6B.6 - 6B.9 would socialise cost over a larger group of users, further increasing the value of the pioneer scheme. BEC therefore supports this shift.

Non-discrimination pricing

30. The EA proposes non-discriminatory pricing requirements so that a distributor must price consistently regardless of whether it has ownership or beneficial interest in the connecting party and who the connection owner is.
31. BEC supports this as an important way to enhance the credibility of and trust in electricity connection pricing. As distributed generation continues to expand, confidence that all participants will receive fair treatment is needed to maintain competitive outcomes. For an investor, transparent and neutral pricing can help to improve confidence and support new developments.

Application

32. The EA is proposing that the updated pricing principles would apply to all new connection works and to lines charges for any connection, regardless of when it was built. This will allow for EDBs to address subsidies for existing injection connections.
33. While BEC and BusinessNZ would normally argue for the grandfathering of existing connections to protect the investment environment they were made under, in this instance

it is likely appropriate for new principles to be applied across the board. This is due to the existing subsidisation identified.

34. If there are material impacts on existing connections then a gradual phase in of new costs over a 5-year period may be appropriate.

Conclusion

BEC is supportive of the general thrust of the proposed reforms to network pricing for distributed generation and agrees that the changes are required to ensure that they remain fit for purpose as new technology enters the system. Increasing penetration of distributed generation and the growing shift to “prosumers” are changing how distribution networks are used and the challenges they face. Ensuring that pricing is efficient and reflective of network costs is necessary to support long-term system efficiency and affordability.

Overall, BEC considers that the proposed reforms move in the right direction improving the ability of distributors to recover costs appropriately, reducing unintended cross-subsidisation, and strengthening investment signals for both injection and offtake connections. We are particularly supportive of efforts to better manage congestion, support efficient flexibility investment, and improve confidence in connection pricing through non-discriminatory treatment of participants.

We have not commented on areas we believe to be outside our expertise or where we do not have a sufficiently developed position.

APPENDIX ONE – BACKGROUND INFORMATION ON THE BUSINESSNZ ENERGY COUNCIL

The [BusinessNZ Energy Council \(BEC\)](#) is a group of leading energy-sector business, government and research organisations taking a leading role in creating a sustainable, equitable and secure energy future.

BEC is a brand of BusinessNZ and represents the [World Energy Council](#) in New Zealand. Together with its members, BEC is shaping the energy agenda for New Zealand and globally.



[BusinessNZ](#) is New Zealand's largest business advocacy body, representing:

- Regional business groups: [EMA](#), [Business Central](#), and [Business South](#)
- [Major Companies Group](#) of New Zealand's largest businesses
- [Gold Group](#) of medium sized businesses
- [Affiliated Industries Group](#) of national industry associations
- [ExportNZ](#) representing New Zealand exporting enterprises
- [ManufacturingNZ](#) representing New Zealand manufacturing enterprises
- [Sustainable Business Council](#) of enterprises leading sustainable business practice
- [BusinessNZ Energy Council](#) of enterprises leading sustainable energy production and use
- [Buy NZ Made](#) representing producers, retailers, consumers of NZ-made goods

BusinessNZ is able to tap into the views of over 76,000 employers and businesses, ranging from the smallest to the largest and reflecting the make-up of the New Zealand economy.

In addition to advocacy and services for enterprise, BusinessNZ contributes to Government, tripartite working parties and international bodies including the International Labour Organisation ([ILO](#)), the International Organisation of Employers ([IOE](#)) and the Business and Industry Advisory Council ([BIAC](#)) to the Organisation for Economic Cooperation and Development ([OECD](#)).

