

Reforming Distribution Generation Pricing to Promote Efficient Investment

Submission on the Electricity Authority's [Reforming network pricing for distributed generation to promote efficient investment](#), consultation paper, 19th May 2026

I welcome the opportunity to comment on the Electricity Authority's DGPP consultation paper.

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Submission to distribution.pricing@ea.govt.nz

Key Summary

The proposed changes will continue to drive inefficient investment in networks and supporting services. Any code changes should wait, and be co-ordinated with other price regulating organisations such as the Commerce Commission.

The consultation paper misidentifies the mechanism that allocates costs between off-takers and injectors, making the proposed adjustments to the Distributed Generation Pricing Principles (DGPP) superficial.

A change to the definition of incremental cost will not reallocate residual costs from consumers to generators; a fundamental change to the pricing mechanism is needed.

These Code amendments will reduce the efficiency of investment.

The proposals do not differentiate between technologies, yet they should encourage innovation and the adoption of mature support services. The Authority needs to create policies that clearly transition to more efficient technologies aligned with national strategies, rather than relying on older solutions such as battery energy storage systems (BESS) and residential battery banks.

Introduction

The value and location of avoided cost of distribution (ACOD) signals are important indicators for efficient allocation on the network. The DGPP aims to promote a mechanism that encourages participants to coordinate investment with distributors. However, focusing on adjusting the pricing policy methodology will reinforce the inefficiencies already embedded in all parties' business systems. The Authority's early move on these changes is out of step with other regulators and will create further uncertainty for quality long-term investment, especially as those organisations are signalling a need for a mechanism change rather than a methodological tweak.

The slow progress by distributors in building strong investment ecosystems for service and support businesses is concerning. The core issue has always been the lack of a mechanism to signal how network-connected assets can be sited to avoid distribution costs. The Authority's continued reliance on pricing policy amendments as the primary lever for change shows a disconnect from the historical evidence.

Whilst I agree with the ENA about the affect of the broad-based tariff rebate, estimated at \$12/year, it is an important small step to building a responsive and flexible network. It will be interesting to see how aggregators use this as either temporal usage signalling, incentives to increase DG in low density network zones, or to steal customers from competitors.

Unfortunately, the Authority has not identified the mechanism that produces efficient investment. This may be due to a rushed, narrowly focused consultation process that attracted limited responses from a group of self-interested parties. Because the mechanism has been incorrectly identified, the proposed changes will either make no difference or will create new inefficiencies into pricing indicators.

The Authority has noted that connecting producers are under-allocated connection costs, leaving residual costs to be borne by consumers. However, anyone familiar with network connections knows this is a justification used to seek higher regulated returns calculated on asset base values, or used for inflating subcontracting revenue for service companies. An example of a rent-seeking mechanism is where works allocate a higher component to asset investment, paid by the connecting DER. The overall works cost is reduced to an acceptable amount for the connector by shifting some incremental costs, such as those mentioned in the consulting paper out of these connection projects to residual costs. The network receives an unnatural increase in its asset base, that inflates the returns allowed by regulators.

This distortion is especially acute where there is a bargaining imbalance in small-scale distributed generation (SSDG) connections, leading to unnecessary transformer upgrades, branch upgrades, etc. I acknowledge that many good people within distribution companies are trying to correct this imbalance, but the situation is often sold internally as "recouping the costs of DG connections".

The Authority's repeated tinkering with the Code has been problematic. Often, enforcing the original Code provisions would have delivered better outcomes. When I revisited predictive graphs of residential solar uptake from the mid-2010s and compared them with today's reality, I found that the current pricing principles—resulting from past changes—have performed worse than a "no change" scenario, and far worse than other options. Relying on these DGPP changes will perpetuate inefficient signals, causing market distortions and costs that are ultimately passed on to consumers.

The current DGPP changes introduce a broad-based rebate that only passes on the benefits of GXP peak reductions. This will create further inefficiencies. I am concerned that this rebate may be proportionally large, confusing location ACOD signals and worsening network congestion.

Refining the definition of incremental cost will not reallocate residual costs from consumers to injectors; a change to the underlying pricing mechanism is required. Consequently, these Code amendments will reduce the efficiency of investment rather than improve it.

I offer three suggestions:

1. Coordinate with other regulators -wait and align with other regulatory bodies rather than developing policy at cross-purposes.
2. Redesign the submission process -fundamentally rework the consultation approach to capture a more representative cross-section of industry participants.
3. Extend dispute resolution -require all service participants to be members of the Utilities Disputes scheme, including secondary network operators. This could address immediate contract inequalities and remove 'cowboy' operators in a user friendly organisation.

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Q1. Do you agree with the background and context summary above? Why? Is there additional background, evidence, or context relevant to the proposals in this paper?

The background and context summary are a good reflections of the submissions. It is still worthwhile to read the submission to glean valuable information left out of the limited space of the summary. However, the background omits the history of pricing policy changes, and the market effects, leading up to this consultation.

The consultation paper consistently treats injection management solely as a cost, rather than as part of a load management package that is used to reduce congestion, lower peak demand, and enhance network asset values that contribute to a distributor's regulated revenue. This view removes it from being seen as an 'opportunity' for support services.

Networks are managed differently, use different business models, and produce different outcomes. The ENA rightly noted that while this pricing policy change moves away from incentives for DG uptake to reducing congestion costs and reallocate costs to producers, some networks have very low levels of distributed energy resources and are years away from congestion.

It is also worth pointing out that some distributors do not provide congestion data, location-specific information, or estimated avoided cost of distribution rebates to guide investors. In many cases, no business systems exist to provide or bid this information to prospective distributed generation investors.

Q2. Do you agree there are workability challenges with defining incremental costs under the current DGPPs? Why, why not? Are there any additional challenges not discussed above?

No.

We have the data-handling capabilities; what we lack are the incentives to build the necessary business systems. Large, accessible datasets do already exist, and technology makes gaining new insights affordable. It's up to distributors to apply these costs consistently. They may be

constrained by cultural norms where estimators are reluctant to place certain costs in contracts due to the risk of legal challenges from investors seeking to shift costs away from their projects, or technological constraints like software incompatibilities.

Q3. Do you agree the current DGPPs cause costs and benefits to be under-allocated to injection connections, which can cause the issues listed above? Why?

No.

The current DGPPs do cause costs and benefits, but as a whole are not simply under-allocated to injection connections. I do not agree that some of the listed issues exist in practice—specifically those in sections 3.11, 3.12, and 3.13 of the paper.

The only issue here is the absorption of under-allocated costs into customer line charges, which is part of section 3.14. The past cumbersome approach to estimating incremental costs may have meant producers were subsidised by customers, but estimation errors, software limitations, and other contract-building factors will naturally cause discrepancies. The solution is to build systems that deliver clear, reliable, and robust contract-building services.

Any pricing distortions do not stem from the methodology identified as the cause. The real cause is the mechanism that results in over-capitalisation, with the residual cost ultimately borne by all network users.

Larger commercial connections are more likely to experience true cost allocation, or even under-allocation, because of the bargaining power that comes from access to experienced contract managers, institutional capacity, and longer-term investment planning.

Q4. Do you consider it remains appropriate to regulate injection pricing methodologies? Why

The proposed changes attempt to adjust and monitor the methodologies rather than solving the root cause of the inefficient investment signals.

I support returning to the narrower regulation that existed before DGPPs rather than adopting the proposed DGPP changes. I agree with the level of monitoring proposed but recommend greater guidance and hands-on practical solutions for failing distributors and their service suppliers. Section 4.4 reflects known network experience; section 4.6(d) does not, and is an assumption.

I suggest that the Authority, or other regulatory bodies responding to monitored compliance issues, be prepared to offer more than the mentioned guidance and education to distributors. By drawing on the experience of successful networks, providing basic business structures and correct software can make a huge difference for a distributor to be able to comply with the changes. Some utilities are getting it right; others need practical solutions that move them away from failing business strategies and internal barriers that cause inefficient investments like market-power imbalances, profit-seeking, over-allocation to capital costs, and excessive asset-base growth.

The Authority has failed distributors in the past by not monitoring, and enforcing regulated factors. Some aspects will naturally fall to bodies like the Utilities Disputes scheme, such as testing the validity of including incremental cost in contracts, and the Authority should make sure they are including the costs, and that the validity testing is clear, cheap, and fast. Past problems have arisen when participants skirt contractual and regulatory responsibilities by relying on the Authority's indifference to its responsibility to act in those cases.

Q5. Do you consider that consumers should remain residual payers? Why? Are there any additional economic concepts that should be considered in our reform of the DGPPs?

Processing the residual costs would be consistent to be reconciled with transmission settlement residue from Clause 12A.3 of the Participation Code. The proposed changes do not move the allocation of costs.

I disagree with sections 4.8(a) and 4.9, but agree with 4.8(b) and 4.10.

Cost should be borne by those that have an incentive to reduce those costs. The aim of the current DGPP meant reduction of these costs has been allocated to off-takers in an acknowledgement that; the costs might not be clearly identified, the priority was not cost reduction but to increase the amount of DER on the network. Moving the focus onto the participants who can directly reduce these cost would seem to be where the Authority is heading to increase efficient investments. Load management and ACOD are seen as the best methods to reduce residual costs. Some of these can be directly reduced by customer actions, but whilst other are disconnected from loading decisions. It is unfair to expect that they do bear cost they have no control over. There are mechanism that have more direct impact on these residual costs.

Many distributors and their service providers purposely shift connection costs into residual cost. The current revenue model for distributors and service providers incentives to shift costs. Residual costs can be easily be separated from connection estimates and re-allocated and placed into network-wide line charges, providing further rent seeking through asset base increases. Service providers have also used this system to shift costs onto smaller host distributors, forcing under-investment, tipping them towards a state of takeover or dependency.

There is also a natural allocation error built into most pricing for connection work, caused mainly by actual costs deviating from estimates. These errors are unwanted but occur. In the past, we have aggregated these small costs across line charges to recover them. To discourage estimators from consistently over-allocating resources, contingency funds should be used, with the cost placed into the original connection or upgrade estimate. This means the cost of any undervaluing is directly allocated to the connection works, creating a known incremental cost. Most distributors and their service providers should be using contingency funds, but the consultation paper does not mention them.

Q6. Do you consider that reframing the incremental cost rule to a requirement that charges 'must reflect a reasonable estimate of' rather than 'must not exceed'

incremental costs is appropriate? Why?

The framing is more appropriate but does not properly reflect how estimated costs are actually applied in connection agreements. Submissions on DGPP 2025 lacked descriptions of the business systems that define and allocate incremental costs with injectors; what parts are outsourced, whether bespoke contracts are only provided to large-scale connections, at what capacity, and the size and skills of the team, and so on.

Q7. Do you consider that the proposed amendments to language and framing would support more efficient pricing? Why?

No.

The re-framing will have no effect on increasing efficient investment, as the old framing did not reflect practice, the reframe is closer to what is being actually being provided to current injector connections.

I agree with early preferences of organisations like the Commerce Commission, or the EECA. Any early changes to the code will likely be preemptive to any following legislation.

Aspects of 4.15 are internally contrary.

Q8. Do you consider that a non-prescriptive, enabling approach to capacity pricing is appropriate at this stage? Why?

This is too preemptive, and should co-ordinate with the Commerce Commission, EECA, and others.

This descriptive (non-prescriptive) approach is not enabling.

Q9. Do you consider that the proposed extension of the pioneer scheme for load connections would help address position-in-queue issues for injection connections? Why?

Yes, but only with a defined time limit.

The changes do not address the root causes of the position-in-queue or pioneer problems. While they may have some effect, other factors have greater impacts, such as establishing clear, unchanging processes over longer planning time-frame. These are basic, proven business practices with a track record of reducing such issues.

Q10. Do you consider that pioneer schemes should also cover network injection capacity?

No.

This would likely cause extra residual costs, the lower cost could signal a location for connection of the generation where there is no near load. The difference in signal intensity between ACOD indicators and costs of distribution would be artificially lessened, creating inefficient investment, and unnecessary congestion and constraints costs.

Q11. Do you consider that the proposed non-discriminatory pricing requirements would improve confidence that investors are safeguarded from discriminatory pricing? Why?

No.

Investors can use Parts 76 and 79 of the Electricity Industry Act 2010 to seek redress.

Q12. Do you agree with the proposed application provisions, in particular with regarding to opting out, retrospectivity, and secondary networks? Why?

Yes, No, Yes.

Secondary Networks are at the greatest risks for bargaining imbalance, and lack of regulatory oversight.

Q13. Do you agree with the proposed commencement provisions above? Why?

No. Wait for co-ordination with other regulating organisations. These changes are too fast and will add uncertainty to investors.

Q14. Do you have any suggestions for how we can most effectively support successful implementation?

No comments at this time. See introduction.

Q15. Do you have any suggestions for effective monitoring and reporting, including proposed changes to charge reconciliation requirements.

Yes.

The Authority is under resourced to effectively provide the appropriate monitoring and help for successful implementation. Hire someone, spend time co-ordinating with other organisations, and find out what we don't know. At the same time the Authority could build better expertise by commissioning robust research at a variety of educational institutions, not just Canterbury.

Q16. Do you agree it is appropriate to give distributors relatively wide discretion as to how they implement capacity charges for injection connections? Why?

No. Good quality regulation doesn't need 'wide' discretion. 'Wide' is usually code for 'never' enforcing the changes, rather than allowing multiple solutions using different business system.

Distributors have different operating strategies, and objectives. Some of these strategies do not provide efficient pricing for long-term efficient investments, or correctly signal efficient usage of network capacity.

Distributors are also at different stages of developing a truly two-way flexible network. This should be taken into consideration before code changes are made rather than not-enforcing.

Q17. Do you agree that for larger connection a more bespoke approach that accounts for dependability and mitigates risks such as over-injection or inefficient payments is more appropriate than prescriptive broad-based approach used for residential and small business consumers? What do you consider such an approach should look like?

A non-prescriptive approach is best for both large and small-scale distributed generation. Large-scale connections already have access to specialist contract services. These services could be offered to smaller customers, but broad-based rebates do not allow the service to pass on the benefits, such as locational avoided cost of distribution signals.

Most network companies can and want to provide efficient, flexible pricing but lack the business systems to do so. Adopting these systems will be a natural process if it is seen as the easiest and most efficient solution. The current and proposed changes have lacked the guidance needed to incentivise building the skills and business systems for that service.

Q18. Is there any specific guidance that would be particularly helpful for distributors implementing capacity charges for injection.

No comments at this time.

Q19. Do you consider that inconsistent treatment of transmission connection charges for large generation projects may distort investment? Why?

No comments at this time.

Q20. Do you have a view on the best option to address the connection charge distortion issue? Please explain your rationale.

No comments at this time.

Q21. Do you consider that the restriction on recognising transmission should be reconsidered if the other proposed Code amendments are made? Why?

Yes, It should be re-instated whether the other amendments are made, especially if the tariff rebate is include into the TPM reconciliation process.

Q22. Are there any other matters that you consider important for us to take into account in our reform of the DGPPS?

The proposed pricing does not differentiate between generation sources. The pricing should signal greater uptake of technology, socially responsible, and low impact environmental DER such; as hybrid HESS assets and residential hydrogen regenerative banks, rather than non-recyclable battery technology. The changes still encourage the use of non-recyclable, and environmentally damaging assets, and should further align with the National Energy Transition. The Authority should be encompassing these shifts naturally by providing guidance to Distributors and injectors by inclusion into the definition of efficient investments.

Q23. Do you have any comments on the consumer impact analysis methodology or findings?

No comments at this time.

Q24. Do you agree with the objectives of the proposed amendment? If not, why not?

Objectives of the proposed amendments

B.1. The objective of the proposed amendments is to improve the efficiency of distribution network pricing by:

- a. retaining the position that residual (non-incremental) costs are allocated to off-take connections, *but rather should, and currently are, across all ICPs via increases line charges.*
- b. improving allocation of net incremental costs to reduce instances of under-and over-recovery to injection connections, *but rather incentivise the continued practise of over-recovery on asset bases particularly for SSDG connections.*
- c. more clearly enabling capacity costs to be allocated in ways that avoid 'last-straw' dynamics that can stall investment, *but rather will not be strong enough to have an effect on the root cause that other solutions would.*
- d. more clearly enabling use of congestion charging to promote more efficient use of network injection capacity, *but rather offers a pricing methodology, and broad-based rebate that hinders the use of ACOD to efficiently locate generation.*
- e. more clearly enabling use of lines charges to recover a share of incremental costs *but rather hides these charges amongst line charges, and encourages large-scale generators to seek rebates as a given only to be shared across the entire lines rather.*
- f. more clearly setting out how tariffs should be assigned to connections that both inject and off-take, *but rather clearly sets out how tariffs should be broadly assigned to all connections.*
- g. more clearly requiring non-discriminatory pricing, but rather requires a pricing that shows no evidence that a correction is required, whilst signalling uncertainty to the investor.

B.2. This should support more efficient investment and usage (of networks and injection plant, including generation and batteries), which in turn places downward pressure on electricity prices, *but rather less efficient investment that costs more to put upward pressure on electricity prices, whilst probably no change in usage.*

Q25. Do you agree the benefits of the proposed amendments would outweigh the costs?

No, and there is no evidence that will be the case. See Q1 to Q18

Q26. Do you agree the proposed amendment is preferable to the other options? If you disagree, please explain your preferred option in terms consistent with the Authority's Statutory objective in section 15 of the The Electricity Industry Act?

The DGPP fails to consider how these proposed code changes will affect the Authority's 'consumer protection' objectives. There is no discussion on such protections such as; benefits to vulnerable customers from 'low user consumer tariffs' re-allocated to demand-load management, and DGPP signalling.

Q27. Do you consider that the Authority's proposed amendment complies with section 32(1) of the Act?

Yes.

The proposed amendment clearly complies with the Electricity Industry Act 2010, 32(e) 'any other matter'.

Q28. Do you consider that the Authority's preferred high-level settings for injection pricing are consistent with the distribution pricing principles? Why?

No comments at this time.

Q29. Do you consider that consolidating distribution pricing methodology requirements into Part 6B would improve clarity and consistency? If not, why?

No.

As stated previously, and it seems the Commerce Commission believe the problem is caused by incorrect mechanism, rather than the variety of Distributor Pricing Methodology.

Q30. Do you have any comments on the drafting of the proposed amendment?

Yes. A well-written, clearly set out, and understandable document was produced. However, the design of the questions has never been good with Authority consultation papers.

As previously stated, the submission process resulted in only a small number of stakeholders contributing to the proposed amendment. This suggests the outcome may be skewed towards those who participated, and that the process needs redesigning to be more inclusive and to gain a better understanding of the problem.

End
