



## Submission on Distributed Generation Pricing Principles

3 April 2025

## 1 Submission and contact details

Consultation	Distributed Generation Pricing Principles
Submitted to	Electricity Authority
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Date submitted	3 April 2025
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## 2 Confidential information

There is no confidential information provided in this submission. This submission can be publicly disclosed.

## 3 Introduction

Wellington Electricity Lines Limited (**WELL**) welcomes the opportunity to provide a submission on the Electricity Authority's (EA) consultation '*Distributed Generation Pricing Principles*' (**the paper**).

We support the intent of the paper, specifically, to review the distributed generation pricing principles (DGPPs). We give preference to Option 4 in principle - a comprehensive overhaul of DG pricing principles - provided the scope of the review is clearly established prior. We also note that our support for Option 4 depends on the final principles that come out of the comprehensive review. Specifically, we would like to see the following principles recognised:

- There should be no cross-subsidisation between consumer groups;
- EDBs should not be limited to charging only the incremental cost where additional security of supply is required;
- Distributed generators should incur the network cost of transfer from the ICP to the GXP; and

- The cumulative effect of further DG connections will require reduction in injection to maintain voltage quality levels for all consumers based on network operating signals and volt-var connection requirements (similar to Common Quality standards for the Grid).

We would also like to see greater consistency of pricing principles across the EA's various workstreams. ACOT payment schemes should also be avoided.

Our responses to the consultation questions are set out below.

## 4 Consultation Questions

Questions	Comments
Q1. Do you have a view on the definition of incremental cost that is contained in the Code? Should it be more tightly defined to include only network costs and to exclude consequential costs relating to factors such as frequency keeping and voltage support? Would this lead to more timely generation build and lower energy costs?	<p>We suggest the EA maintains consistent pricing principles (and definitions of terms such as incremental cost) across its workstreams.</p> <p>Should a DG connection result in the requirement to install additional voltage support equipment, then the principles should support this as a cost to be covered by the DG.</p> <p>We also consider that consequential indirect costs should be included within the definition of incremental cost.</p>
Q2. Do you agree with the problems with the incremental cost limit identified in this section? Why or why not? Do you have a view on the relative importance of the problems identified?	<p>The issues identified are valid.</p> <p>While distributed generation not contributing to common costs may be efficient in some circumstances, this is not necessarily true all the time. Common costs of managing the distribution network that are not paid for by distributed generation are then passed on to consumers.</p> <p>As mentioned in our submission on <i>Requiring distributors to pay a rebate when consumers supply electricity at peak times</i>, we also note that with the GXP being the reconciliation point for energy rather than the ICP, distributed generation should also incur the network cost of transfer from the ICP to the GXP.</p> <p>We agree with the EA that "The incremental cost limit creates an artificial advantage for DG, compared to the allocation of transmission costs for grid-connected generators".</p> <p>We do not see first mover disadvantage as a major</p>

	<p>issue on a meshed urban network like Wellington, however, it could be significant for other more rural networks.</p>
<p>Q3. Do you agree circumstances have changed significantly since the DGPPs were introduced, including that there are now far fewer impediments to distributed generation than in the early 2000s?</p>	<p>There has been meaningful uptake of distributed generation since the DGPPs were established, as presented in the paper.</p>
<p>Q4. Do you agree with the assessment of the current situation and implications of incremental cost pricing? If not, why not? What if any other significant factors should the Authority be considering?</p>	<p>Yes, we generally agree with the assessment of the current situation and implications of incremental cost pricing. See comments to Q2.</p>
<p>Q5. Do you agree these are the appropriate options to consider?</p>	<p>We agree with the inclusion of all four options.</p> <p>Option 1 - Retain the existing DGPPs - does not address any of the issues raised in the paper but still seems to be a valid option if the EA determines some of their other workstreams will take priority as a result of the review.</p> <p>As noted above, we consider that Option 4 should only be considered if the scope of the review is established prior. We have proposed some of the core principles that should be recognised as part of the review.</p>
<p>Q6. Are there other options the Authority should consider for improving rules about costs that can be recovered from distributed generators?</p>	<p>As mentioned earlier in the paper, the EA should adopt consistency across its pricing principles.</p>
<p>Q7. Will new aggregator business models emerge to solve the problem?</p>	<p>We believe aggregator business models could be workable but may not create consistency across EDBs. Hence establishing pricing principles consistent with what we propose above is likely the best approach.</p>



Q8. Are distribution price signals alternative to, or complementary to contracting?	Establishing pricing principles are complementary to a contracting model.
Q9. Which, if any of the above options, do you consider would best support efficient pricing for recovery of distribution costs from DG?	We support Option 4 in principle – a comprehensive overhaul of DG pricing principles. However, we note that our support depends on establishing the scope of the review prior and the actual principles that come out of the comprehensive review, which EDBs and other key stakeholders should be closely involved in.
<p>Q10. Do you agree with the Authority's tentative view on a solution? In particular:</p> <ul style="list-style-type: none"> <li>• Should efficient price signals be sent through a revised set of pricing principles?</li> <li>• Would voluntary guidelines or mandating through the Code be the best approach?</li> <li>• Should we rely on the distribution pricing principles outside the Code or codified new pricing principles for DG? Why?</li> </ul>	<p>We agree with a revised set of pricing principles, rather than a more prescribed option.</p> <p>Voluntary guidelines are the best approach, with the EA monitoring the progress of EDBs.</p> <p>We believe the distribution pricing principles can be relied upon outside of the Code.</p>
<p>Q11. Are there any unintended consequences from removing the existing DGPPs?</p> <ul style="list-style-type: none"> <li>• Do you agree with the risks we have identified, and our assessment of them?</li> <li>• Do you think there are any other risks we should consider associated with the removal of the DGPPs?</li> <li>• Do you have any information that would allow the Authority to better assess such risks?</li> </ul>	There could be some potential impacts in relation to distribution pricing for existing DG connections.
Q12. Do you agree market and regulatory settings provide efficient incentives for DG reducing or avoiding transmission costs? What, if any, other significant factors or options should the Authority consider?	Transmission charges are fixed and do not decrease as a result of distributed generation being connected. The practical issues and significant administration costs associated with ACOT payments (based on previous experience of operating such a scheme) clearly illustrate that these types of arrangements and mechanisms should be avoided and not included in any pricing principles or requirements.

## 5 Closing

WELL appreciates the opportunity to provide a submission on the Electricity Authority's consultation paper '*Distributed Generation Pricing Principles*'. We would also welcome the opportunity to further discuss our submission or any aspect of our submission directly with the Authority.

If you have further questions regarding any aspect of our submission please contact Peter Anderson, Commercial and Regulatory Analyst, at [REDACTED]