

Rewiring Aotearoa submission on Requiring distributors to pay a rebate when consumers supply electricity at peak times: definition of a small business

About Rewiring Aotearoa

Rewiring Aotearoa is an independent non-partisan non-profit, funded by New Zealand philanthropy. It is a registered charity working on energy, climate, and electrification research, advocacy, and supporting communities through the energy transition. The team consists of New Zealand energy, policy, and community outreach experts who have demonstrated experience both locally and internationally. We're always fighting for the New Zealanders who use the energy system, and our goal is to help build a low cost, low emissions, high resilience electrified economy for Aotearoa NZ.

Key points

Rewiring Aotearoa is very supportive of the Electricity Authority's introduction of requirements for distributors to provide payments for exports at peak based on the avoided long run marginal cost of peak demand. This will fairly support consumers to invest in batteries and encourage people to supply surplus energy to the network when it is needed, benefiting all customers through lower electricity costs that we all pay through our power bills.

To unlock the full extent of these benefits it is important that the intended group of customers have access to these payments. This intended group is the small businesses who do not have the bargaining power to negotiate fair benefits. It excludes large customers who are already more likely to be rewarded for the benefits their injection (exports) provides.

Unfortunately the preferred proposal the Electricity Authority (the Authority) has set out in this consultation will not achieve this, and will reduce benefits to customers and does not align with the Authority's statutory objectives.

Ultimately we think that because the export tariff payments are efficient price signals based on the long run marginal cost of avoided network costs from

injection (or customer exports) there is no reason for any customers to be limited from accessing peak distribution export tariffs.

However if the Authority is going to define a limit to who distributors are required to provide peak distribution export tariffs to, it should align with the intention of the policy set out in the Decision paper¹ and include all customers who do not have the bargaining power to negotiate fair benefits in their pricing agreements. In this Decision paper the Electricity Authority notes:

“Larger customers are already more likely to be rewarded for any benefits their injection provides, as they can negotiate this in their pricing agreement. Mass market customers do not currently have this bargaining power, so we consider our amendment will put these customers on more of a level playing field, rather than distorting it.”

Our view is that ICPs with up to 1 MW of installed capacity would be a sensible cut off that would include the originally intended small business customer groups who do not have sufficient bargaining power to negotiate with EDBs, targeted by this policy.

The proposal to only include customers in price categories targeting business consumers with a connection capacity of up to 45kVA or up to 45kW capacity of distributed generation in place of the definition of a small business will not achieve the objective of all consumers who do not have the bargaining power of large consumers/generators. It excludes a large number of small business customers and community organisations who would struggle to negotiate fair benefits for peak exports.

It is important to not only think about the current connection size and generation capacity of small businesses, but instead this category should be considering the investments this policy will fairly support - small to mid sized solar and battery systems providing lower cost energy will support businesses to electrify their current fossil fuel loads. This is exactly the type of investment that will help lower grid costs whilst supporting electrification- local supply with storage can help manage peaks and store solar export in summer peaks. Supporting small businesses to invest in batteries alongside distributed generation through fair export payments is clearly beneficial as the energy system transitions.

The 45kVA connection size cut off would result in a penalty for small businesses who are doing the right thing reducing their emissions through electrification of their fossil fuel demand. For example in many parts of the farming sector, bigger

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https://www.ea.govt.nz/documents/7774/2A_Requiring_distributors_to_pay_a_rebate_when_consumers_supply_electricity_at_hYzYEsJ.pdf

connections don't necessarily map to bigger businesses. Connection size is not related to revenue, profit or staff count, but it is related to the ratio of electric to fossil fuel machines. It means the assumption that small businesses can be defined based on kVA limits is fundamentally flawed and actually penalises those that are working in the best interests of the climate and New Zealand.

We disagree that the EA's proposed definition of small businesses will have higher net benefits than alternative options. Benefits identified are overwhelmed by reduced benefits to all consumers. It will result in many instances of payments not being made where they were intended. Logically it follows that this will result in benefits to consumers from this proposal that will be significantly lower than alternatives such as applying the requirements for peak export payments for all customer ICPs with up to 1 MW of installed generation capacity.

The proposed definition of small business does not align with the Authority's statutory objective to promote competition in, reliable supply by, and the efficient operation of, the electricity industry for the long-term benefit of consumers, or the additional objective to protect the interests of domestic consumers and small business consumers in relation to the supply of electricity to those consumers.

In fact it does the opposite and ensures that a barrier to accessing fair export payments remains in place for many small business consumers, and maintains a barrier to provision of distributed flexibility that can lower electricity system costs for the benefit of all consumers.

The whole community would lose out if the proposed limit goes ahead. Providing a fair payment for exports at peak times rewards customers for investing in batteries that can store energy and feed it back to the grid when it's needed. This can lower investment in networks and keep bills lower. It also helps encourage greater resilience and community organisations or local firms with enough generation and storage can provide essential communication, EV charging and basic needs for the community in the event of power outage.

The proposal will add unnecessary administrative costs to EDBs. The interest in solar and battery systems from small businesses including in the farming sector is growing. If these small business customers are not included in the proposal, EDBs will be faced with growing requests to negotiate specific agreements for all these customers, something they may not have capacity for.

Defining “small business” should be in line with the overarching policy intent

The policy intent outlined in the “Requiring distributors to pay a rebate when consumers supply electricity at peak times” decision paper was to reward mass market customers for their injections at peak times, given the system-wide benefits from these injections. The EA decision intended to exclude “larger customers [who] are *already* more likely to be rewarded for any benefits their injection provides, as they can negotiate this in their pricing agreement.”

The intent of the EA in the decision is clearly to ensure all customers who are not the large customers already able to negotiate directly are rewarded. Rewiring, alongside almost all original submitters, agrees with this intent.

To implement this intent, the words “residential or small business consumers” were chosen.

We consider the correct approach to interpreting “small business” for the purpose of this Code change should be to look at the overriding policy intent, and not use the Act as the basis as the consultation paper (para 1.2) does. The proposed approach is flawed and undermines the original intent.

There is no definition in the Electricity Participation Code for “small business”, with the three references to small business relating to 1 September 2025 updates to the Code. The definition of “small business” in the Electricity Act 1992, being a consumer “that is not a domestic consumer... that consumes less than 40 MWh of electricity per year” has been used as the starting point for EA guidance and this consultation. References to “small business” in the Act are fundamentally different and largely unrelated to the policy intent of this overarching proposal.

There are numerous terms that have different definitions between the Act and the Code (for example: **asset, business**), and examples such as **distributor**, where the Code refers explicitly to the definition in the Act: “**distributor** has the meaning given to it by section 5 of the Act”. We consider that the EA is therefore further incorrect from this angle in using the Act definition as the starting point.

This approach is inconsistent with the overriding policy intent outlined in the original decision paper.

Rewiring has invested significant time in this submission and informing communities about this consultation because we consider the overriding policy intent this relates to is very important.

Getting this right will have a significant benefit for all consumers, while getting it wrong could indirectly add hundreds of dollars to the future annual power bills of households and small businesses. It could also add a sizable administrative burden to EDBs from the large “middle” seeking to negotiate bespoke contracts, and the social license of EDBs could suffer if they are unable to satisfactorily meet the demand for bespoke contracts.

Response to Questions

Q1. Do you agree with the issues that we have identified in meeting the policy intent to target small business consumers? Why or why not?

The Authority needs to keep the decisions and intentions set out in its Decision paper² front of mind when considering the intended customer group in this consultation and barriers to target this customer group.

The Decision Paper notes:

Like many submitters, we remain of the view that the principles should apply to injection from mass market customers only. As noted in our consultation paper, we consider that under the status quo, larger customers are already more likely to be rewarded for any benefits their injection provides, as they can negotiate this in their pricing agreement. Mass market customers do not currently have this bargaining power, so we consider our amendment will put these customers on more of a level playing field, rather than distorting it.

The reason for shifting to the current terminology “any price category that has eligible criteria that are designed to target residential or small business consumers” was to avoid capturing large customers who may be on standard contracts.

We agree with the issues this new definition creates include:

- (a) there are challenges for distributors to identify “small business consumers”;
and
- (b) there is a risk that some consumers who meet the definition of “small business consumer” but have large-scale DG may be inadvertently included.

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https://www.ea.govt.nz/documents/7774/2A_Requiring_distributors_to_pay_a_rebate_when_consumers_supply_electricity_at_hYzYEsJ.pdf

We agree that attempting to use the electricity consumption based definition of small businesses in the Act is impractical for EDBs to implement and could include some large scale distributed generators. As we set out above, using the definition of small businesses as set out in the Act is not a sensible approach in this context. It is not necessary for the Authority to attempt to translate this into a workable definition for distributors. This is because this definition in the Act is designed for a very different purpose. There are many ways to define small businesses and the definition here should reflect the reasoning and the intended customer group set out in the decision paper. (Please see the section above *Defining “small business” should be in line with the overarching policy intent* for more details on this).

Q2. Do you agree that applying the negative charge to business consumers below a given connection capacity, and limiting eligibility to distributed generation below that same level, will best achieve the original policy intent? Why or why not?

No. As we note in the *Key Points* section above, setting a connection capacity limit at 45kVA and a maximum deliverable generation capacity of 45kW will exclude many of the customers who this policy is intended to target.

The original intention of the policy and rationale behind the choice of customer group is to apply to customers who do not currently have the bargaining power to negotiate a fair deal for their peak exports and to exclude large customers who are well placed to negotiate.

Rewiring’s engagement with consumer groups indicates that there will be many small businesses who will be excluded under the proposal. Connection size is a poor indicator of business size and is not an appropriate measure to define small businesses in this context.

Likewise using the definition in the Act of a small business as a customer using up to 40 MWh of electricity per year is also unhelpful in this context as we explain above.

The analysis set out in the consultation document does not consider any real world data on the range of connection sizes or potential distributed generation capacity of those businesses that would not be well placed to negotiate a fair deal for their peak exports. It is important that the Authority seeks input from the customers it is mandated to benefit, on how this proposal would limit their ability to access a fair deal for their peak exports.

We question if the Authority has spoken to any small businesses with connections over 45kVA to see if they have the ability to fairly negotiate with their EDB.

In all of our discussions with small businesses to date we have not found one that has had this negotiation power. In fact we regularly hear about the challenges small businesses, farms and community organisations face to negotiate with EDBs. This should be unsurprising as EDBs are regulated monopolies and we don't see them having any incentive to negotiate with community organisations, farms and other small businesses.

Given small business customers are less likely to be engaged in a detailed consultation like this one it would make sense for the Authority to proactively reach out to business groups such as Federated Farmers, Small Business New Zealand and other sector groups with small business members along with other relevant organisations such as the Iwi Leaders Forum, and the Ministry of Education to understand the nature of small businesses and community connections, how connection sizes would be impacted by electrification and capacity of investment in small scale distributed generation and batteries that would make sense for their members.

The 45kVA connection size cut off would result in a penalty for small businesses who are doing the right thing reducing their emissions through electrification of their fossil fuel demand. For example in many parts of the farming sector, bigger connections don't necessarily map to bigger businesses. Connection size is not related to revenue, profit or staff count, but it is related to the ratio of electric to fossil fuel machines. It means the assumption that small businesses can be defined based on kVA limits is fundamentally flawed and actually penalises those that are working in the best interests of the climate and New Zealand.

Quantifying how many small businesses will be eligible based on current connection sizes represents a fundamental misunderstanding of energy system evolution. As small businesses electricity their energy use whether that is heating, irrigation for farms or their vehicle fleet, they will increase their consumption of electricity often 2 -3 times higher than they have today. This will inherently require more energy to be consumed and therefore larger distributed generation installations and upgrades of connection sizes to support the electrification of the economy. This is as if in the 1900s as automobiles first started replacing the horse and carriage, arguing to design the road network based on the small number of cars on the road at the time. The entire point of infrastructure regulation is to regulate for the future system that would most benefit customers.

The Assessment set out in point 3.16, 3.17 and 3.18 does not consider outcomes for consumers from the proposal. It solely focuses on providing a solution that is workable for distributors and appears at first to be easy to use for distributors (without considering long-term additional resourcing demands for distributors that this may create) and that excludes large distributed generation customers. There is no evidence in this assessment that the Electricity Authority is attempting to ensure small businesses are fairly rewarded through its proposal and that wider benefits to all customers from fair payments that support battery investment and operation is provided for. This does not align with its statutory objective to provide for long term benefits of consumers.

Q3. Are both limits required, or could the policy intent be achieved through just one of the proposed limits? Please explain your reasoning.

Neither of the proposed limits are appropriate to include because they do not fairly reflect and include small business customers who do not currently have the bargaining power to negotiate a fair deal for their peak exports.

Q4. Do you agree with our assessment of the proposed threshold for connection capacity? Why or why not? Would you prefer an alternative threshold? Why?

No. We do not think applying a connection capacity threshold is appropriate at all. This is because using connection capacity does not provide a fair or consistent measure of the size of a business and its bargaining power to negotiate a fair deal with their EDB for their peak exports. The definition of customers where peak export payments are required should provide a workable definition that distributors can apply and that reflects the original intention of the policy in the July 2025 Decision paper. The proposed connection capacity threshold does not do this.

The proposed threshold for connection capacity will exclude many small businesses (as explored further below) resulting in outcomes that do not support the Authority's objective to protect the interests of domestic and small business consumers in relation to their electricity supply.

A preferred threshold would be to include ICPs with up to 1 MW of installed capacity. This would provide a sensible cut off that would include the intended small business customer groups and other small community organisations who do not have sufficient bargaining power to negotiate with EDBs, targeted by this policy, be workable for distributors and exclude large customers and generators.

Q5. Do you agree with our assessment of the proposed threshold for DG, and that this should apply based on the maximum deliverable generation capacity? Why or why not?

No, Rewiring Aotearoa does not agree with the Authority's assessment of the proposed threshold for distributed generation (DG). It is far too low and will exclude many small businesses that the peak export tariff was intended to apply to. We think a higher threshold for DG of 1 MW maximum deliverable generation provides a better option that is both workable (as outlined in our response to Questions 4) and inclusive of the intended small business customer group.

As we note in the Key Points section, it is important to not only think about the current generation capacity of small businesses, but instead this category should be considering the investments this policy will support. This is battery systems alongside solar investment that will provide lower cost energy and support businesses to electrify their current fossil fuel loads. This is exactly the type of investment that will help lower grid costs whilst supporting electrification- local supply with storage can help manage peaks and store solar export in summer peaks. Supporting small businesses to invest in batteries alongside distributed generation through fair export payments is clearly beneficial as the energy system transitions.

EECA is running a Solar on Farms program to support farms and growers to unlock farm cost savings and resilience through on-farm solar, battery storage and flexible energy systems. Many farms in this program will be considering solar and battery systems sized for their needs which will exceed 45kW maximum exportable generation, with the maximum size of install available for EECA support installations up to 1MW³.

The interest level in the EECA program and associated demonstration funding from the rural community has been huge. The decision to exclude a large proportion of farmers investing in solar and batteries will impede this momentum and does not align with the efforts of other government agencies when it comes to lowering farm input costs and building resilience in our rural communities.

Q6. Do you agree with the objective of the proposed amendment? If not, why not?

³ "Up to 20% of other solar array costs (like PV modules and installation) — Capped at \$410 per kWp of direct current capacity, up to a maximum of \$100,000."
<https://www.eeca.govt.nz/co-funding-and-support/products/solar-on-farms-demonstration-fund/>

We agree with the objectives set in section 4.2 and 4.3 of the consultation paper. If implemented appropriately the policy and amendment proposed in this consultation would support the statutory objective and additional objectives. As we have noted earlier we do not think the preferred proposal best delivers these objectives and does not align with the Authority's statutory objectives.

We also note that elsewhere in the document, for example paragraph 4.27, a fundamentally different intent/objective is referred to. Being consistently anchored to the objective set out in 4.2 and 4.3 of the consultation paper (and the objective in the original decision paper) in analysis, recommendations and the ultimate decision is necessary.

Q7. Do you agree the benefits of the proposed amendment outweigh the costs?

No. The benefits from the EA's proposed definition of small businesses are overwhelmed by reduced benefits to all consumers. It will result in many instances of payments not being available where they were intended by the overarching policy intent, and potentially stifling the kWh total of battery installations. Logically it follows that this will result in benefits to consumers from this proposal that will be significantly lower than alternatives such as applying the requirements for peak export payments for all customer ICPs with up to 1 MW of installed generation capacity.

The Authority notes that the "amendment is intended to reinforce these efficiency benefits by ensuring that mass market consumers—who have limited negotiating power and face higher transaction costs—are rewarded for the average network benefits their generation provides, while larger operators continue to negotiate bespoke payments which reflect their specific impacts."

The LRMC based approach to defining the peak export payments is efficient, and distributors have the discretion to define peak periods and export rates by customer type in a way that reflects the long term benefit from peak exports. This means if the benefit from peak export is zero or negative export tariffs could reflect this. This means the potential costs from including a wider pool of small business customers is limited.

Further the connection process will be used to set appropriate export limits to ensure exports do not have negative impacts on network operations and voltage levels.

The proposal also adds additional administrative costs to EDBs by excluding many smaller customers, it will result in a significant increase in bespoke negotiation with many small businesses and community organisations.

Q8. Do you agree with our assessment of the alternatives? Please explain your reasoning.

The Authority has provided a selection of alternative options - although this is not an exhaustive list. In point 4.27 the Authority notes “we recognise that no simple measure perfectly aligns with the original intent of capturing consumers who use 40MWh or less of electricity per year”.

We do not agree that the original intent was to capture consumers who use 40MWh or less of electricity, it was to include customers who were not well placed to negotiate fair payment for peak exports. This decision to define small businesses based on the definition in the Act is flawed and the purpose of the definition set out in the Act is vastly different from the intention and reasoning to include small businesses customers here.

Proposals should attempt to reflect the original intent of the policy (include those customers who do not have the ability to negotiate) and exclude those large customers that do.

Q9. Are there other options we should consider to better align the Code with the original policy intent?

Yes - our preferred option is to apply the requirement for distributors to provide peak export payment to customers who invest in up to 1MW of maximum deliverable generation capacity. This would be an upper limit for the amount of generation that a small business such as a farmer would likely invest in. This would mean that small businesses who would struggle to negotiate a fair deal would be included in the scope of this policy and it would exclude large utility scale generators.

Whilst we acknowledge that the 1MW may include some large industrial customers who were not the intended recipients of this policy we think this is less of a concern for the following reasons:

We note that whatever capacity is chosen in this context is separate to what is allowed to be injected. That is the focus of a separate EA consultation that closed on 19 November and it is important the two are not conflated (noting at places in the consultation paper they are).

EDBs have the discretion to define peak times and export rates by customer group so efficient export rates can be allocated to these groups. If the impact of exports from individual large customers does not match with that in its current customer pricing category more granular pricing could be implemented.

Q10. 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 objectives in section 15 of the Electricity Industry Act 2010.

No, option b and option d would provide better outcomes for consumers than the proposed amendment.

As set out above we think option b using another basis for identifying small businesses, based on an installed generation capacity threshold of 1 MW would be preferable. This would be an upper limit for the amount of generation that a small business such as a farmer would likely invest in. This would mean that businesses who would struggle to negotiate a fair deal would be included in the scope of this policy and it would exclude large utility scale generators.

As we set out in the responses above our preferred proposal will ensure payments are available where they were intended by the overarching policy intent, best supporting the kWh total of battery installations. This would maximise the benefits to consumers through increased battery uptake.

We think the benefits from fairly supporting greater uptake of small business batteries and encouraging exports at times when it will lower network investment over the long term will far outweigh any costs associated with this policy. Benefits from this policy will flow to all electricity customers in the community, maximising benefits to all electricity consumers. This directly aligns with the Authority's main objective to promote competition in, reliable supply by, and the efficient operation of, the electricity industry for the long-term benefit of consumers.

Benefits to all electricity consumers that are maximised by this proposal:

- Battery investment will help lower grid costs for all consumers by providing flexible local supply that can help manage peaks and store solar export in summer peaks.
- Battery systems alongside solar investment will provide lower cost energy and support businesses to electrify their current fossil fuel loads, supporting a lower cost and lower emissions energy future.

Rewiring Aotearoa's preferred option (1MW generation capacity threshold) will also ensure a fair deal for all small businesses who invest in solar and battery systems. Investing in solar and batteries can provide lower cost electricity supply and greater resilience to outages for example due to extreme weather events. We have seen recently the devastating effects of power outages on dairy farming communities who rely on electricity to run their milking operations that support their livelihoods.⁴ Our preferred option directly supports and is consistent with the additional objective of the Authority to protect the interests of domestic consumers and small business consumers in relation to the supply of electricity to those consumers.

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<https://www.rnz.co.nz/news/national/577013/southland-farmers-struggling-with-exhaustion-in-wake-of-storm>