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Electricity Authority

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## Cross-submission: Distributed Generation Pricing Principles (DGPPs)

### Introduction

Manawa Energy (**Manawa**) welcomes the opportunity to provide a cross-submission on the Electricity Authority's (the **Authority**) issues paper titled *Distributed Generation Pricing principles* (the **Paper**).

Manawa is an independent power producer (**IPP**) that owns and operates a diverse portfolio of 41 power stations across 25 hydro-electric power schemes, supplying around 5% of New Zealand's electricity needs. It should be noted that on 11 September 2024 Manawa announced it had entered into a Scheme Implementation Agreement with Contact Energy Limited under which Contact agreed to acquire all of Manawa's shares through a Scheme of Arrangement (**Scheme**). Implementation of the Scheme is subject to several conditions, including New Zealand Commerce Commission approval. At the time of this submission Manawa is awaiting a decision from the Commerce Commission in relation to Contact Energy's clearance application. For the avoidance of doubt, this submission represents Manawa's current views and strategy as an IPP.

A total of 22 submissions were made in response to the Paper. These submissions generally fall into two categories:<sup>1</sup>

- Submissions from Electricity Distribution Businesses (EDBs) or related entities (e.g. Electricity Networks Aotearoa) that are supportive of a full overhaul of the DGPPs (option 4 in the Paper); and
- Submissions from Distributed Generation (DG) owners and operators (and, again, related entities such as the Independent Electricity Generator Association) that support a narrower, more targeted review of the DGPPs (including Manawa's own submission).

The key point of difference between these two groups is their views on the incremental cost cap – the former advocates for its removal, while the latter supports keeping the cost cap in place. As such, the focus of this cross-submission is the incremental cost cap and – more generally – the impact this has on the allocation of distribution network costs.

Despite this difference of views on the incremental cost cap, it should be noted that there is general agreement across both groups that first mover disadvantages, and the difficulties distribution networks face when building ahead of the need (i.e. anticipatory capacity), are issues that justify changes to the current DGPPs (this topic is covered in further detail below).

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<sup>1</sup> Noting there are a small number of exceptions to this generalisation (e.g. Orion's and Helios Energy's submissions)

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Manawa also recommends, given the differences of opinions (and interpretations) of the incremental cost cap, that the Authority facilitate an industry workshop to clarify the intent behind the incremental cost cap and how it should be applied in practice. This is an essential first step in for any option analysis of the DGPPs – the industry first needs to agree what status quo is before any changes are made.

### The incremental cost cap should remain

While the responses were framed and delivered in a variety of different ways, the main argument for the removal of the incremental cost cap was based on the inequitable or inefficient allocation of distribution costs onto consumers, where these costs, it is asserted, should be allocated to DG. For example, Horizon Networks asserts that *“if a connection uses the network, they should receive an allocation of shared costs based on their use of the network, regardless of the flow of electricity”*.<sup>2</sup>

The issue with this “use of network” approach to allocation is that, while intuitive, it is unlikely to result in long-term benefits for consumers. This is because:

1. **Allocating costs on a usage basis is notoriously difficult to do efficiently** – most transmission and distribution assets are capacity, rather than throughput, limited, so in theory the most efficient pricing method would be on a capacity basis (i.e. \$/MW rather than \$/MWh). However, as capacity usage at each connection has a unique profile – varying with time of day, season and a variety of other factors – developing pricing mechanisms that are economically efficient, equitable *and* practical is extremely difficult and one of the reasons many EDBs still rely on throughput-based charges. Simplicity often provides better end results for reasons of practicality.<sup>3</sup>
2. **EDBs don’t have the commercial incentives to get this allocation correct** – EDBs are natural monopolies that have little concern for the outcomes in the electricity market; their priorities are efficient asset investment and management, maintaining high standards of reliability and, especially in the case of consumer-owned trusts, keeping the costs of distribution low for their consumers. Expecting EDBs to allocate costs in a way that leads to the most efficient wholesale electricity market outcomes for consumers is unreasonable – it is not their core business, nor their priority (and, to an extent, rightly so). In fact, in the case of consumer-owned trusts, they have a strong incentive to allocate as many costs as possible to DG, regardless of the economic efficiency, as their primary objective is lower costs for their consumers.

These reasons mean it is unlikely EDBs will get the allocations correct, potentially resulting in economically efficient DG investments not occurring, or at minimum, putting them at a competitive disadvantage to grid connected generation – which in the long run increases costs for all consumers.

On the other hand, EDBs are experts in managing their own network – they understand the various constraints and challenges on their network and are well equipped to assess what any change – for example, the connection of new DG – will have on their network. That is, EDBs are well equipped to know what the incremental costs of connections are, and thus an allocation method based on this approach is appropriate.

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<sup>2</sup> [https://www.ea.govt.nz/documents/7053/Horizon\\_Energy\\_-\\_DGPP\\_submission\\_2025.pdf](https://www.ea.govt.nz/documents/7053/Horizon_Energy_-_DGPP_submission_2025.pdf) paragraph 9.

<sup>3</sup> That is, any efficiency gains are often offset by the additional cost of implementing and managing more comprehensive, but complex, arrangements.

### Case-study: Network Waitaki's New GXP

In their submission, Network Waitaki use a real example of the need for a new GXP to illustrate the perceived issue with the incremental cap. They make an argument based on *"The DG is unfairly allowed to leverage a network funded by consumers"*. However, despite Network Waitaki's implicit claim to the contrary, the incremental cost cap is still the most effective way to ensure efficient and equitable outcomes for consumers:

- If the new GXP is required, regardless of whether the new DG is built, and that DG does not necessitate any change to the design of the GXP (to accommodate the generation output), then the most efficient allocation of costs is to consumers. This is because any allocation to the DG will either mean the generation does not get built (so consumers end up with the charge anyway) or, should the generator still get built, the market price will adjust such that consumers still end up paying for the full cost of the GXP (the price will either increase such that the cost of the new build + the additional charges can be recovered through the market, or *not* decrease as much it might otherwise in response to a new, lower cost, generator coming online – again, in response to the additional distribution costs).
- If the new GXP is required, regardless of whether the new generation is built, but there are some additional costs that make sense to include to accommodate DG, then it is entirely appropriate these costs be recoverable under the incremental cost cap. In principle, these costs *are* recoverable underneath the incremental cost cap, however, Manawa acknowledges there are some challenges for EDBs to build ahead of the need when the need is uncertain, and that the current DGPPs impose limits that may lead to these incremental costs not being able to be recovered in practice. This is why Manawa supports refinements to address this specific issue, as described in the following section.
- If the new GXP is not economically justified without DG being built, then the same logic above applies (costs should be recoverable under cost cap). However, in this situation, commercial agreements (i.e. contracts) outside of the DGPPs are likely to occur naturally, ensuring efficient outcomes.

Source for case-study: [https://www.ea.govt.nz/documents/7059/Network\\_Waitaki\\_-\\_DGPP\\_submission\\_2025.pdf](https://www.ea.govt.nz/documents/7059/Network_Waitaki_-_DGPP_submission_2025.pdf)

The second argument for the removal of the incremental cost cap is that it does not allow for the "true costs" of DG on the network to be recovered.

For example, Electricity Networks Aotearoa, in their submission claim:

*"The strict incremental cost approach in the current DGPPs limits the ability of distributors to set cost reflective prices by not allowing them to recover the full costs that DG can impose on the network. These costs can include investments in network capacity, voltage management, monitoring, and protection schemes that are necessary to safely and reliably accommodate DG."*<sup>4</sup>

There are several problems with this claim, including:

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<sup>4</sup> [https://www.ea.govt.nz/documents/7050/Electricity\\_Networks\\_Aotearoa\\_-\\_DGPP\\_submission\\_2025.pdf](https://www.ea.govt.nz/documents/7050/Electricity_Networks_Aotearoa_-_DGPP_submission_2025.pdf) section 3.4.3

1. The definition of incremental costs in the DGPPs directly contradicts this claim; in fact, the DGPPs are deliberately agnostic to the cost category – for example, any operating costs that can be reasonably linked to DG falls within the definition.<sup>5</sup>
2. The DGPPs specifically allow for approximations and ex-post adjustments providing significant flexibility for EDBs to allocate costs that, due to the inherent complexity of the system, may be difficult to directly attribute to DG.<sup>6</sup>
3. This limit is not observed in practice; for example, Counties Power charges all DG on their network approximately \$10/MWh to export electricity over their network (specifically noting that this charge is to cover network and overheads costs).<sup>7</sup>

## Manawa supports changes to the DGPPs to remove first mover disadvantages and allow for anticipatory capacity on networks

While Manawa opposes the removal of the incremental cost cap, it is supportive of changes to DGPPs to better manage issues such as first mover disadvantages and building network capacity ahead of the need – i.e. anticipatory capacity. Manawa agrees with the first two summary points made by Counties Energy Limited (CEL):

*“CEL’s key concern for any new DG pricing framework is that it will need to: ensure that EDBs can make a fair return on DG connections so that they can make efficient plans through DG charges to fund grid capacity upgrades; ensure that the current first mover advantage doesn’t limit future DG capacity”<sup>8</sup>*

Much like capacity-based charging, this is a difficult challenge to navigate – network investments are easiest to justify when there is a high level of certainty associated with future growth or developments, yet generation developments are highly uncertain.

However, despite this challenge, Manawa reiterates its support for the Authority to review aspects of the DGPPs that may be resulting in first mover disadvantages and/or limiting the EDBs in their ability to build ahead of the need.

## Clarity regarding definitions

Finally, throughout the submissions, there was support for providing clarity around definitions, especially with regards to the incremental cost cap. This was accompanied by a range of different interpretations of the current DGPPs.

Given this appetite, and need, for further clarity, Manawa recommends the Authority host and facilitate an industry workshop prior to any further policy development work on the DGPPs. It is essential the industry agree on what the current settings mean, and how they should be applied, before detailed options analysis be carried out.

For any further information on this cross-submission, please contact Bennet Tucker (contact details in covering email).

<sup>5</sup> [www.ea.govt.nz/documents/5932/Code - Part 6 - Inflation Adjustment to Prescribed Maximum Fees 2024 - 1 November 2024.pdf](http://www.ea.govt.nz/documents/5932/Code_-_Part_6_-_Inflation_Adjustment_to_Prescribed_Maximum_Fees_2024_-_1_November_2024.pdf) Schedule 6.4, paragraphs 2(b) and 2(f)

<sup>6</sup> [www.ea.govt.nz/documents/5932/Code - Part 6 - Inflation Adjustment to Prescribed Maximum Fees 2024 - 1 November 2024.pdf](http://www.ea.govt.nz/documents/5932/Code_-_Part_6_-_Inflation_Adjustment_to_Prescribed_Maximum_Fees_2024_-_1_November_2024.pdf) Schedule 6.4, paragraphs 2(b) and 2(c)

<sup>7</sup> [https://assets.countiesenergy.co.nz/app/uploads/2025/04/10142830/810-Pricing-Methodology-31-March-2025\\_v8.pdf](https://assets.countiesenergy.co.nz/app/uploads/2025/04/10142830/810-Pricing-Methodology-31-March-2025_v8.pdf) section 8.2

<sup>8</sup> [http://www.ea.govt.nz/documents/7047/Counties\\_Energy - DGPP\\_submission-2025.pdf](http://www.ea.govt.nz/documents/7047/Counties_Energy_-_DGPP_submission-2025.pdf)