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Tēnā koutou

CROSS-SUBMISSION ON DISTRIBUTED GENERATION PRICING PRINCIPLES ISSUES PAPER

Unison Networks Limited (**Unison**) is an electricity distribution business operating in Hawke's Bay, Taupō and Rotorua. Centralines Limited (**Centralines**) is a distributor operating in Central Hawke's Bay.

We thank the Electricity Authority (**Authority**) for inviting further feedback on the proposed Distributed Generation Pricing Principles (**DGPP**) and we support the intent of the review to update the regulatory arrangements for distribution price signals for distributed generation (**DG**) to drive more efficient investments in DG.

1. Summary

The submissions reveal strong support for reforming the current DGPPs, with widespread consensus that the incremental cost principle is outdated and no longer fit for purpose. Stakeholders argue this rule prevents fair recovery of shared network costs, distorts investment signals, and creates inequitable outcomes, particularly for load customers.

There is broad endorsement for aligning DG pricing with the Transmission Pricing Methodology (**TPM**), 2019 Distribution Pricing Principles, and Energy Competition Task Force (**ECTF**) Initiative 2A to promote consistency, efficiency, and equitable treatment of all network users. Many Electricity Distribution Businesses (**EDBs**) favour Option 4 (a comprehensive overhaul) as the most effective path to address systemic issues and enable more cost-reflective pricing, improved investment signals, and fairer cost allocation across early and late DG connections. While some non-EDBs' submissions support retaining the current framework to preserve investor certainty, others back reform to ensure DG contributes fairly to network costs and system-wide impacts.

A recurring recommendation is to keep detailed DGPPs outside the Code to maintain flexibility in a dynamic energy environment, though a hybrid approach with high-level principles in the Code is also suggested. Overall, there is a clear recognition that reform is needed to unlock the full value of distributed generation, support fair and efficient outcomes, and future-proof the regulatory framework.

We support the Authority's preferred Option 4, drawing on existing methodologies to design a framework that is transparent, cost-reflective, and adaptable, one that supports innovation while ensuring fair cost recovery and sustainable investment across Aotearoa's electricity networks.

2. Incremental costs

Current Incremental cost principle is a dominant theme across many submissions. Several submissions argue that this principle **prevents EDBs from recovering a fair share of shared network costs from DG**. This is seen as creating an **uneven playing field** where DG gains network access without contributing fairly to infrastructure costs, providing an artificial advantage over grid-connected generators. This imbalance is viewed as **distorting investment signals**, potentially leading to inefficient outcomes where DG is prioritised even when grid-connected alternatives might be more cost-effective.¹ This is echoed by other non-EDB submissions suggesting that the incremental cost rule is outdated, leads to **cross-subsidies** where load customers bear common network costs, hinders efficient pricing signals, and prevents distributors from recovering legitimate costs associated with integrating DG.² They advocate for its removal or significant overhaul.

Some EDBs highlight that the incremental cost limit can incentivise developers to maximise the size of their DG projects to utilise all available export capacity, sometimes leading to network constraints and hindering the connection of new DG.³⁴

The current DGPP's incremental cost principle is criticised for creating an **uneven playing field compared to the TPM** and its potential to incentivise DG connections over direct grid connections, even for grid-scale generators.⁵

There is a general acknowledgement from many submissions that pricing should be more cost-reflective and send efficient signals for investment in and operation of DG. However, different interpretations exist on what this means in practice. Those supporting an overhaul believe cost-reflectivity requires DG to contribute to broader network costs and reflect the system-wide impacts (both positive and negative) of DG.

Unison and Centralines support alignment of DGPPs with TPM so DG connects where it makes the most sense from the whole of system perspective.

3. First Mover Disadvantage

The current DGPP under Part 6 of the Code, specifically the "incremental cost" limit, allows early DG connections to utilise existing network export capacity at minimal or no cost. This contrasts with how later connections, or load connections, are treated, where they may face substantial costs for network upgrades, including potentially major infrastructure like Grid Exit Points (**GXPs**).

¹ [Aurora Energy submission](#) – Q1, p. 6

² [EEA submission](#) – Q1, p.2

³ [Network Waitaki submission](#) – Q2, p. 3

⁴ [Counties Energy submission](#) – Q2, p. 4

⁵ [Horizon Energy submission](#) – para 5, p. 1

Network Waitaki highlights that this prevents the allocation of costs for investments like GXP upgrades to earlier, potentially large DG users, leaving the predominantly small residential consumer base to bear these significant expenses.⁶

The Electricity Engineers' Association (EEA) highlights the problem from the other perspective, where early adopters of DG are penalised by being allocated the full cost of upgrades required for their connection, even when these upgrades will benefit subsequent users.⁷

We support DG pricing principles that will include a mechanism to anticipate and allocate cost of upgrades triggered by DG in a way that is fair to both early and later connecting parties.

4. Network Benefits

There is a general agreement in the submissions that benefits to the electricity networks should be based on the underlying principle that, where generation reduces network costs and reduces overall costs to all consumers in the long run, this should be recognised by rewarding DG.⁸⁹

The most frequently discussed mechanism for rewarding network benefits is through **rebates**, with some suggesting that a kW-based credit for generation that reliably addresses congestion could be a better way to structure an incentive.¹⁰ We note that not all exports generate cost benefits to the network. Even if injection occurs at consumption peaks, it may not reduce network costs if the network is not congested.¹¹

EEA stresses that any future framework must support efficient, fair and future-ready outcomes through interaction with flexibility services and dynamic pricing – pricing has to have a potential to incentivise or disincentivise DG behaviours and must account for localised network constraints and congestion.¹²

Unison and Centralines support alignment with the ECTF Initiative 2A proposal where distributors offer peak export rebates to mass-market consumers based on the benefits their generation provides to the network at specific times and locations.

5. Principles to stay out of the Code

The general feedback from the EDB submissions is largely supportive of keeping the DGPPs or related pricing guidance outside of the Electricity Industry Participation Code (Code) The primary reasons for this preference are centred around the need for **flexibility and adaptability** in a rapidly evolving electricity sector.¹³

⁶ [Network Waitaki submission](#) – para 3, p. 2

⁷ [EEA submission](#) – Q2, p. 3

⁸ [Vector submission](#) – para 2, p. 1

⁹ [ENA submission](#) – Table 1, p. 8

¹⁰ [EA Networks submission](#) – para 9, p. 3

¹¹ [ENA submission](#) – para 3.1.2, p. 11

¹² [EEA submission](#) – Q4, p. 5

¹³ [Aurora Energy submission](#) – Q10, p. 8

Embedding highly detailed rules, or even principles, within the Code can lead to **regulatory lag**, where outdated provisions hinder progress and limit participants' ability to innovate. The current DGPP framework, particularly the incremental cost principle, is cited as an example of rules that were once appropriate but have now become a barrier.¹⁴ We note that keeping principles outside the Code allows for easier and more flexible amendment by the Authority if required.

We recognise that many non-EDB submissions consider that revised pricing principles for DG should be codified within the Code, rather than being implemented as voluntary guidelines. The key reasons in these submissions were sector-wide consistency, provision of regulatory certainty for investors, and timely and coordinated implementation.¹⁵

Vector suggests high-level principles in the Code supported by more detailed guidance outside the Code might be the best way forward. This acknowledges the need for some foundational elements within the regulatory framework while retaining flexibility in the specifics.¹⁶

A number of submissions point out that the general Distribution Pricing Principles already sit outside the Code. Aligning the DGPPs with this approach would create consistency. The Authority could **monitor compliance with voluntary guidelines** (e.g. scorecards) and, if necessary, reconsider the approach, potentially codifying principles if required.¹⁷

We recommend keeping DGPPs outside the Code to enable consistent treatment of generation and load, while supporting innovation, cost efficiency, and fair network access through clear contractual guidelines.

6. Alignment with other methodologies

There is considerable support from EDBs for **aligning the DGPPs with other relevant methodologies**, namely the Transmission Pricing Methodology (TPM), 2019 Distribution Pricing Principles, and the ECTF Initiative 2A regarding peak export rebates.

Several submissions, particularly from the Independent Electricity Generators Association (**IEGA**)¹⁸ supported by NZ Energy¹⁹ and Pioneer Energy Renewables²⁰, strongly emphasise the need for a **level playing field** and competitive **neutrality** between distributed generation and transmission grid-connected generation.

The current DGPP's incremental cost principle is criticised for creating an uneven playing field compared to the TPM, as it prevents distributors from allocating anticipatory costs or benefits-based charges to DG.²¹ This can incentivise DG connections over direct grid connections,

¹⁴ [ENA submission](#) – para 3.4.4, p. 28

¹⁵ [EEA submission](#) – Q10, para 2, p. 11

¹⁶ [Vector submission](#) – para 5, p. 1

¹⁷ [ENA submission](#) – Q10, p. 44

¹⁸ [IEGA submission](#) – para 5, p. 1, para 1, p. 2

¹⁹ [NZ Energy submission](#) – para 11, p. 2

²⁰ [Pioneer Energy Renewables submission](#) – para 7, p. 1

²¹ [ENA submission](#) – para 2, p. 28

even for grid-scale generators. Several submissions raise concerns and present diverse perspectives about the current treatment of shared costs related to DG under the current DGPPs. Alignment with a methodology, such as the TPM, which has seen many years of development seems reasonable and avoids distorting generation investment decisions.

The Electricity Engineers' Association of New Zealand (**EEA**) supports building from the existing Distribution Pricing Principles that apply to load, rather than creating a completely separate set for DG. They advocate for a single, coherent framework to ensure alignment across pricing for both load and generation, reflecting that many customers will both import and export energy.²²

Alignment with other methodologies will **simplify the regulatory framework** and remove unnecessary complexity from multiple sets of pricing principles and will ensure **equitable treatment** of all network users, whether generators or consumers.²³

Unison and Centralines agree that DGPPs should be based on the same principles as TPM and be aligned to the 2019 Distribution Pricing Principles, with the exception of residual charges, which should not be allocated to distributed generators to avoid disincentivising investment. DGPPs should also align with the current ECTF Initiative 2A relating to peak export rebates.

7. Preferred Option

Option 4, a comprehensive overhaul of the DGPPs, appears to be the most frequently supported option among EDBs, who believe it is the best way to address the current issues and ensure more efficient outcomes.

Aurora Energy states that Option 4 would best support efficient pricing for the recovery of distribution costs from DG.²⁴ Buller Electricity supports Option 4 and notes that a complete overhaul will be a major exercise and suggests that a review of the principles for DG pricing should draw on a significant body of existing work (such as TPM, Distribution Pricing Principles) to expedite the changes.²⁵ Network Waitaki is supportive of Option 4, favouring a principles-based approach outside the Code.²⁶ Powerco supports Option 4, advocating for harmonising the DGPPs with the Authority's Distribution Pricing Principles. They suggest that the policy intent of removing barriers to efficient DG investment could be further supported by repealing the DGPPs and relying on guidance on how the pre-existing 2019 distribution pricing principles apply to DG connections.²⁷ Wellington Electricity indicates a preference for Option 4 in principle, provided the scope of the review is clearly established and addresses cross-subsidisation, incremental cost charging limitations, and network cost recovery from distributed generators.²⁸

²² [EEA submission](#) – para 3, p.12

²³ [Aurora Energy submission](#) – para 8, p. 4

²⁴ [Aurora Energy submission](#) – Q9, p. 7

²⁵ [Buller Electricity submission](#) – Q5, p. 2

²⁶ [Network Waitaki submission](#) – Q5, p. 4

²⁷ [Powerco submission](#) – Q9, p. 10

²⁸ [Wellington Electricity submission](#) – para 3, p. 1

The EEA too supports a comprehensive overhaul (Option 4), provided it incorporates strong emphasis on cost-reflectivity, efficiency, and clear economic signals for investment. They believe this option provides a robust foundation for efficient cost recovery from DG while enabling flexibility.²⁹

Some submitters express support for Option 4 with caution, highlighting a **lack of sufficient detail** on how it would be implemented. Electricity Networks Aotearoa (**ENA**) notes that it is difficult to express a strong preference on the options given the paper does not define how the DGPPs would be revised under the proposals.³⁰

Among non-EDBs submitters, there is a notable division in the preferred approach. A strong contingent supports retaining the existing DGPPs based on the principle of incremental cost and concerns about disadvantaging DG compared to transmission-connected generation. However, an equally strong group advocates for a comprehensive overhaul towards more cost-reflective and principles-based pricing, aiming to address perceived inefficiencies and ensure all network users contribute fairly to costs.

The IEGA for example argue that DG will be at a competitive disadvantage to transmission grid-connected generation if charged any amount more than the incremental cost for connection.³¹ We disagree with this assertion, as TPM does have mechanisms to deal with Type 1 (free riders) and Type 2 (anticipatory connections assets) first mover disadvantage (**FMD**) situations, which we suggest be implemented in the revised DGPPs.

Unison and Centralines support a comprehensive overhaul of the Distributed Generation Pricing Principles (DGPPs) and endorse the Authority's preferred Option 4 as outlined in the consultation paper.

8. Conclusions

We fully support the Authority's objective to create a regulatory environment that supports more efficient DG where it delivers genuine benefits. This includes enabling all New Zealanders to share in the advantages DG can offer, such as reduced network congestion, improved security of supply, and lower electricity prices. The Authority also aims to address concerns that current restrictions on distributors recovering more than incremental costs from DG may hinder efficient network planning and reinforce the FMD. Ultimately, the goal is to improve the regulatory framework so that it is better equipped to realise the full potential of DG in delivering long-term value to consumers and the wider electricity system.

The submissions to the Authority's proposal make it clear that the current incremental cost principle, while once appropriate, now poses a significant barrier to achieving these objectives. Many stakeholders, particularly EDBs and the EEA, agree with the Authority that this principle prevents fair recovery of shared network costs from DG, distorts investment signals, and creates an artificial advantage for DG over grid-connected generation. This results in inefficiencies and inequitable cost allocations, ultimately borne by load customers.

²⁹ [EEA submission](#) – para 1, p. 2

³⁰ [ENA submission](#) – Table "Summary of key ENA views", p. 10

³¹ [IEGA submission](#) – para 3, p.4

The issue of first-mover disadvantage further highlights the need for reform. The current framework allows early DG projects to utilise available capacity at minimal cost while subsequent parties may face significant upgrade charges. Conversely, early movers may also bear the full cost of upgrades that benefit others. There is broad support for pricing principles that fairly allocate upgrade costs across both early and later connecting parties.

There is also strong agreement, especially among EDBs, that detailed DG pricing principles should sit outside the Code, enabling greater flexibility and responsiveness to future changes in technology and network needs. While some submitters argue for codification to ensure consistency and investor certainty, a balanced approach may involve high-level principles in the Code supported by more detailed, adaptable guidance.

A recurring recommendation is the alignment of DG pricing principles with existing methodologies, particularly the Transmission Pricing Methodology (TPM), the 2019 Distribution Pricing Principles, and the Energy Competition Taskforce (ECTF) Initiative 2A on peak export rebates. This would help eliminate inconsistencies, simplify the regulatory framework, and ensure equitable treatment of all network users.

Given the wide-ranging and complex issues raised, there is considerable support, especially from EDBs and EEA, for Option 4: a comprehensive overhaul of the DGPPs. This is seen as the best path forward to create a more cost-reflective, efficient, and future-ready framework. While some submitters express caution due to the lack of detail in the proposal, the direction of travel is clear: the current framework needs to evolve to meet the sector's changing needs and enable the long-term benefits of DG to be realised for all New Zealanders.

We therefore support the Authority's preferred Option 4 and recommend that the overhaul of the DGPPs draws from the strengths of existing frameworks, incorporates clear economic signals, and ensures fair, efficient, and flexible cost allocation. This will allow DG to be integrated in a way that delivers enduring value to the electricity system and to consumers across Aotearoa.

No part of this submission is confidential, we acknowledge it will be published. Please do not hesitate to contact us for further information including on operational requirements.

Nā māua noa, nā

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