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Electricity Authority

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Consultation submission: Cross submission on Reforming network pricing for distributed generation to promote efficient investment

Nova has reviewed the proposed changes to the network pricing for distributed generation consultation paper issued on 2 April and the submissions of various participants subsequently.

General observations

Reform of network pricing for distributed generation (DG) to promote efficient investment is inherently complex, involving a wide range of technical, economic, and behavioural variables. Pricing frameworks must strike a careful balance between cost-reflectivity, simplicity, and stability, while also supporting efficient investment signals and equitable outcomes for all consumers. The increasing diversity of technologies and usage patterns across the electricity system further amplifies this complexity.

A critical consideration in this reform is the need for internal consistency between distribution network pricing and the Transmission Pricing Methodology (TPM) for grid-connected generation. Pricing frameworks across both distributed and grid-connected generation must align in their objectives and mechanisms. Failure to do so risks distorting investment incentives, potentially leading to inefficient generation siting decisions, higher overall system costs, and reduced reliability for consumers. A coherent, whole-of-system approach is therefore essential to ensure that investment signals are neutral and efficient, regardless of whether generation connects at the transmission or distribution level.

Reform must also reflect the rapidly evolving regulatory and technological landscape. This includes the implementation of the new TPM, as well as the growing penetration of new and emerging technologies such as grid-scale and distributed solar PV, battery storage systems, electric vehicles (including vehicle-to-home and vehicle-to-grid capabilities), and the increasing role of distributed demand response enabled by innovative retail and network pricing plans. These developments are materially changing how electricity is generated, consumed, and managed across the system, and pricing frameworks must be adaptable to remain fit for purpose.

Submitters have raised a broad range of issues, with a notable degree of consistency in several key themes. At the same time, there are clear divergences in views, often reflecting differing commercial positions and interests. These differences are not unexpected given the complexity of the issues involved, and the inherent trade-offs in designing pricing frameworks that affect a wide range of stakeholders. While areas of disagreement should not be dismissed, they highlight the presence of genuine tensions that must be carefully navigated.

It is also important to recognise that there is unlikely to be a single “perfect” or universally optimal framework for network pricing. Instead, the objective should be to develop a framework that performs well across a range of plausible future scenarios, acknowledging uncertainty and the evolving nature of the electricity system.

In Nova's view, the long-term interests of consumers will be best served by ensuring that investors—whether in networks, generation (both distributed and grid-connected), or consumer-side technologies—are able to make decisions within a pricing framework that provides stability, certainty, and longevity. Given the capital-intensive and long-lived nature of these investments, frequent or unpredictable changes to pricing frameworks risk undermining investment confidence and leading to suboptimal outcomes. A stable and coherent pricing regime, aligned across transmission and distribution, will support efficient investment, innovation, and ultimately lower costs and improved reliability for consumers.

Specific comments on parties submissions

1. Electricity Networks Association submission and “pioneer scheme” arrangements

We note the ENA's comment that distributed generation projects are often sized to utilise all economically available network capacity, whereas load customers may not face the same incentive. While that proposition appears reasonable at a high level, distributed generation investors may also be influenced by factors other than connection cost when determining project size. Nova is aware of a recent process on a regional network in which more than 20 projects of varying sizes, ranging from small-scale developments to projects of up to 25 MW, were at different stages of development or commitment and seeking connection capacity. In many cases, project size is likely to have been driven as much by land availability and resource access as by network capacity. A pioneer scheme of the kind proposed could assist participants willing to underwrite a network capacity upgrade that subsequently enables additional projects to connect at a later date.

2. Network companies and incremental cost allocation

Many network companies have submitted that they are currently unable to recover the full costs associated with distributed generation connections, and that these costs are therefore being cross-subsidised by other consumers. Some submitters, such as Electricity Ashburton, have provided supporting evidence for this view, while distributed generation parties generally argue the opposite—that the benefits they provide to local networks are not being fully recognised. Nova supports, in principle, the view that distributed generation parties should face an appropriate and reasonable allocation of the costs they impose on a network, even where those costs may be difficult to calculate or quantify precisely. The ENA also raises an important and consequential issue regarding the move away from the current ‘bright line’ test of incremental cost cap toward a new allocation approach that will be more complex and uncertain. Nova recommends that the Electricity Authority consider clarifying the definition of incremental costs, or alternatively developing standard practices or guidelines for their calculation, in order to reduce uncertainty for both network companies and distributed generation investors.

3. Lodestone submission on cost allocation inconsistencies between distributed and grid-connected generation

We note and support Lodestone's submission in response to question 19 of the consultation regarding inconsistencies between the TPM and the distributed generation regulations. As noted in our general observations, the pricing and cost allocation frameworks for grid-connected and distributed generation should be aligned and designed to work together to provide balanced investment incentives. As Lodestone highlights, that is not currently the case. The result is distorted investment signals and, ultimately, higher prices or network charges for consumers than would otherwise occur. We support Lodestone's recommendation that, alongside any rule changes for distributed generation, the TPM should also be reviewed to improve consistency across the two frameworks.

Please do not hesitate to contact us if you have any questions regarding this submission.

Yours sincerely

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