19 May 2026

Electricity Authority
Wellington 6011

Via email: distribution.pricing@ea.govt.nz

Subject: Distributed Generation Pricing Principles Consultation

Thank you for the opportunity to comment on the Distributed Generation Pricing Principles (DGPP) consultation.

We welcome the Authority's attention to this issue. Our view is that efficient and effective network pricing is essential to the functioning of the market.

However, we do have some concerns about whether the desired outcomes from the DGPP will be achieved. In particular, it is highly unusual to be changing the TPM and the DGPP independently, and to be using different pricing principles for each. We ask that the EA considers a more coordinated and consistent approach to all network pricing activities.

Efficient price signals are essential

Efficient price signals for distribution pricing are a necessary, but not sufficient, condition for economically efficient investment in load and generation.

Price signals need to be consistent between transmission and distribution, and avoid arbitrary boundary issues that skew investment decisions (by scale or location).

Unfortunately, the independent development of transmission pricing methodology (TPM) and distribution pricing principles (DPP) is resulting in pricing that is inconsistent. Even if the TPM and DPP were each deemed to be efficient in isolation, if they are inconsistent it will still result in market distortions.

Why is the Authority using very different principles for Distributed Generation and Grid Generation?

The EA proposes that distributed generation is charged on an incremental cost basis,, but this is very different to the TPM cost allocation to generator connections.

Under the TPM, generators that are directly connected to the grid face materially higher charges than incremental cost. This is by design. The TPM has a 'deep connection' approach, and also allocates a share of core and regional grid assets to grid connected generators (i.e. via Beneficiary Based Charges).

These TPM charges that grid connected parties face do not necessarily flow through to DG parties via distribution charges. This is because the TPMs various BBC allocation methods sometimes use a net approach to embedded generation, and sometimes a gross

approach. This distorts some pricing signals, and also causes inconsistencies with grid generation.

We would like to understand why the Authority has different principles and approaches for allocating network costs to generators. If 'incremental cost' for generation is the best principle for networks, then why not for grid generation?

Avoided costs of transmission

It is rare for embedded generation (e.g. must run solar or small hydro) to be reliable enough, and controllable enough, to be a true transmission alternative.

Contact's view is that Avoided Costs of Transmission[1] (ACOT) payments should only be made when they result in a demonstrably lower delivered cost of electricity for consumers. This requires that at least the following criteria be met:

- The technology is of broadly comparable reliability as transmission (i.e. it is always providing a peak reduction service when required)
- The technology actually defers a near-term network expansion (e.g. within a 5 year look ahead period) – ACOT should not be paid where a DG is reliably generating at peak but there is plenty of spare network capacity.
- A payment is required to make the DG project happen, or to operate in a specific manner (e.g. for dispatchable hydro) – we do not believe that parties should be paid for operating as they always have operated, such as dictated by nodal pricing.

For example:

- If an embedded generator (e.g. PV) is occasionally providing energy on the edge of the evening peak (e.g. at 5:30 pm in late May), then this should not qualify for ACOT
- Similarly a small embedded hydro that reliably generates at peak should not get ACOT if it was always going to generate at peak anyway because that is what the wholesale prices strongly encourage.

If ACOT were paid in these two examples above, it would not reduce costs for consumers.

We believe that it is important to have very clear guidelines for when ACOT can be paid as the inefficiencies of getting ACOT wrong are material. It is not just the wealth transfers from consumers to embedded generators. There are consequential inefficiencies in over investment in more expensive DG with a reduction in more efficient generation projects (whether embedded or grid-connected).

Answers to selected consultation questions

Consultation question	Contact response
Q2. Do you agree there are workability challenges with defining incremental costs under the current DGPPs? Why, why not? Are there any	There will always be challenges with defining incremental cost across 29 network companies. In particular, whether it is the average-incremental cost across groups of assets or truly

[1] The terminology 'avoided cost of transmission' or ACOT, is assumed to also cover the avoided cost of distribution.

additional challenges not discussed above?	the incremental cost of a specific connection. In addition, key issues to consider are: - Consistency of pricing between the TPM and distribution pricing - Consistency from network to network
Q3. Do you agree the current DGPPs cause costs and benefits to be under-allocated to injection connections, which can cause the issues listed above? Why?	It is much more likely that DG will be under-charged (i.e. a technical cross-subsidy as it is below the incremental cost), than if the changes are made. This is because the current principles are framed as a cap in charges for injection customers, and because 'incremental cost' is poorly defined (and thus open to interpretation on a case-by-case basis).
Q14. Do you have any suggestions for how we can most effectively support successful implementation?	The Authority and Transpower have work underway to revisit the TPM via an Industry Working Group, It is Contact's view that there are material issues with the TPM, and it is important to improve the TPM if the market is to work effectively and deliver lower costs for consumers. It doesn't make sense to be changing the TPM and the DGPP independently, and using different pricing principles for each. This is not a good approach. We ask that The EA reviews it's work programme and plans a coordinated and consistent approach to all network pricing activities.

Yours sincerely

David Rohan
Snr Commercial Development Manager
Renewable Growth