Meridian

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

Reforming network pricing for distributed generation to promote efficient investment

Executive summary

Meridian supports the Electricity Authority's proposal to reform network pricing for distributed generation. We support reforms that promote more cost-reflective, efficient pricing and increased flexibility for distributors to use pricing to incentivise injection that will reduce network costs.

Meridian agrees with the Authority that the reforms should ensure that distribution pricing for injection remains anchored to the recovery of incremental costs only. Care should be taken to ensure that the changes do not enable networks to include residual or legacy cost allocation in their charges for distributed generation.

The effectiveness of these reforms will depend on how 29 distributors implement them; Meridian has broader concerns regarding the efficiency of such disparate implementation methods and the postcode-lottery risk and investment uncertainty that results. While we appreciate that resolving wider distribution pricing standardisation issues is not likely in scope of the current consultation, it remains a concern.

We recommend the Authority provide practical guidance (including worked examples), require transparency in distributor methodologies, monitor outcomes, and ensure careful treatment of boundary and legacy assets.

Meridian's assets

Meridian's portfolio includes:

- Several large distribution-connected generation assets, including assets near grid exit points (GXPs) and with minimal downstream network use but subject to distributor pricing.
- Retail and solar propositions, with a growing customer base interested in distributed energy resources.
- Power purchase agreements (PPAs) for distribution-connected assets, many of which include regulatory change clauses that may pass through new costs.

Distribution pricing reforms therefore affect Meridian's investment decisions, operational planning, and customer offerings.

Meridian supports the proposed non-discrimination rule and pioneer scheme

Meridian supports the introduction of a non-discrimination principle and the extension of pioneer schemes as important improvements to the current framework:

- **Non-discrimination:** strengthening non-discriminatory pricing requirements will support investor confidence that pricing methodologies are applied neutrally, particularly as distributor involvement in generation increases. This is an important safeguard for maintaining a level playing field between distributor-owned and independent projects.
- **Pioneer schemes:** extending pioneer schemes to include injection and network capacity upgrades helps address first-mover disadvantage and reduces the risk of efficient projects being stalled due to "last-straw" cost allocation. This is a practical mechanism to support more timely and efficient investment in distributed generation.

Incremental vs residual cost boundary

The Authority's reforms have the potential to widen the scope of incremental costs recovered from distributed generation. If residual or common costs are loaded onto injection, prices become a revenue-recovery tool rather than an efficient investment signal, distorting investment and undermining confidence.

Meridian suggests that the Authority provides worked examples and FAQs to anchor interpretation. In addition, there should be strong transparency expectations for how distributors assess and allocate incremental costs.

Boundary cases and legacy assets

Meridian owns several large generation assets at 33kV near GXPs, with minimal downstream network use but full distributor pricing control. We note that many long-lived assets will have limited ability to respond to new price signals. There is a risk of cost reallocation without efficiency gains if pricing is not demonstrably linked to incremental congestion or capacity. Our view is that the Authority should be mindful of this risk, and consider preparing guidance and requiring a level of transparency on how incremental costs are applied in these cases, including clear expectations for GXP-adjacent assets and legacy distributed generation.

Development of new generation assets

Meridian supports the move to more cost-reflective distribution pricing, recognising that efficient price signals are essential for well-informed investment and operational decisions. We agree that aligning charges with incremental costs will, over time, support better network utilisation and more efficient development of distributed generation and batteries. However, the transition to new pricing methodologies brings several practical considerations:

- **Investment certainty:** predictable and transparent up-front and ongoing network charges are critical inputs for any business case to invest in distributed generation and storage. Significant variation in how distributors set and update charges can create uncertainty for business cases.
- **Contractual risk allocation:** many industry PPAs and connection agreements include regulatory change clauses that pass through new or increased network charges above a materiality threshold. This means that changes to pricing principles or methodologies can directly affect the cost base and risk profile for parties to a PPA.

Overall, Meridian supports reforms such as these that encourage efficient connection and network use. However, it is important that the transition to new pricing methodologies supports, rather than undermines, efficient investment in distributed generation and batteries.

Closing remarks

Nothing in this submission is commercially sensitive. We would be happy to discuss this feedback, and we welcome future engagement as this work evolves.

Nāku noa, nā

Evealyn Whittington
Senior Regulatory Specialist

Specific questions

	Question	Meridian response
1	Do you agree with the background and context summary above? Why? Is there additional background, evidence, or context relevant to the proposals in this paper?	Yes. Meridian supports the direction toward more cost-reflective pricing and efficient investment, provided reforms remain anchored in incremental costs only.
2	Do you agree there are workability challenges with defining incremental costs under the current DGPPs? Why, why not? Are there any additional challenges not discussed above?	Yes. The objectives are appropriate, especially the focus on efficiency, cost-reflectivity, and improved network utilisation.
3	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?	Yes. .
4	Do you consider it remains appropriate to regulate injection pricing methodologies? Why?	Yes.
5	Do you consider that consumers should remain residual payers? Why? Are there any additional economic concepts that should be considered in our reform of the DGPPs?	Yes.
6	Do you consider that reframing the incremental cost rule to a requirement that charges 'must reflect a reasonable estimate of' rather than 'must not exceed' incremental costs is appropriate? Why?	Yes. Our concern would be that incremental costs may inadvertently end up including other types of costs, such as residual costs. The Authority should actively monitor methodologies to ensure such scope creep does not occur.
7	Do you consider that the proposed amendments to language and framing would support more efficient pricing? Why?	Yes.
8	Do you consider that a non-prescriptive, enabling approach to capacity pricing is appropriate at this stage? Why?	Yes.
9	Do you consider that the proposed extension of the pioneer scheme for load connections would help address position-in-queue issues for injection connections? Why?	Yes.
10	Do you consider that pioneer schemes should also cover network injection capacity? Why?	Yes, in principle. Meridian considers that extending pioneer schemes to network injection capacity could help address first-mover and last-straw issues and support more efficient investment. Any such approach should have clear incremental cost causation and be transparent and predictable, so it promotes efficiency rather than re-allocating residual or legacy network costs.
11	Do you consider that the proposed non-discriminatory pricing requirements	Yes. Meridian strongly supports this safeguard. Transparency and oversight

	would improve confidence that investors are safeguarded from discriminatory pricing? Why?	will be important to ensure the requirements operate effectively in practice.
12	Do you agree with the proposed application provisions, in particular with regard to opting out, retrospectivity and secondary networks? Why?	Yes. However, as the Authority has noted, there will be impacts on legacy assets and existing PPAs, which will depend upon the contractual arrangements for a given asset or agreement. This highlights the importance of having a predictable transition and clarity of pricing changes flowing from distributors.
13	Do you agree with the proposed commencement provisions above? Why?	Yes. A 1 April 2027 commencement (with option to defer to 2028) gives time for distributors to respond (noting that more efficient pricing is able to be established from any date) and for affected parties to prepare.
14	Do you have any suggestions for how we can most effectively support successful implementation?	Meridian considers successful implementation will be supported by clear guidance and transparency. In particular, worked examples or FAQs illustrating how incremental costs and benefits should be identified and allocated (including for boundary cases and legacy assets) would help reduce uncertainty and promote more consistent outcomes across distributors.
15	Do you have any suggestions for effective monitoring and reporting, including proposed changes to charge reconciliation requirements?	Meridian supports enhanced monitoring and reporting to improve confidence that pricing outcomes align with the intent of the reforms.
16	Do you agree it is appropriate to give distributors relatively wide discretion as to how they implement capacity charges for injection connections? Why?	In Meridian's opinion, further consideration should be given to principles, requirements or guardrails on when and how distributors must apply various approaches to capacity pricing. In general, Meridian is supportive of measures that will improve the consistency of approached across distribution networks and considers there to be significant efficiency benefits that would flow from increased consistency. Principles, requirements, or guardrails could be designed to accommodate both network regions that are, and are not, experiencing congestion.
17	Do you agree that for larger connections a more bespoke approach that accounts for dependability and mitigates risks such as over-injection or inefficient payments is more appropriate than the prescriptive broad-based approach used for residential and small	Yes. Meridian agrees that a more bespoke approach is appropriate for larger injection connections, given their scale, locational impacts, and potential to materially affect network capacity. The approach will be bespoke to each large

	business consumers? What do you consider such an approach should look like?	connection but should be monitored to identify potential inefficiencies.
18	Is there any specific guidance that would be particularly helpful for distributors implementing capacity charges for injection?	Yes. Guidance through worked examples on incremental cost allocation, treatment of boundary and legacy assets, and the interaction between capacity and congestion charges would support more consistent implementation.
19	Do you consider that inconsistent treatment of transmission connection charges for large generation projects may distort investment? Why?	Yes. Meridian considers that inconsistent treatment of transmission connection charges, depending on whether a project connects to distributor-owned or Transpower-owned assets, may distort investment and encourage inefficient connection or design choices aimed at cost avoidance rather than least-cost outcomes for the system. We do not at this stage have a view of the scale of this risk or whether it is playing out in practice.
20	Do you have a view on the best option to address the connection charge distortion issue? Please explain your rationale.	No firm view at this stage. Meridian agrees with the Authority that this interface issue is complex and unlikely to be resolved through a single change. We support the Authority considering this issue alongside Transpower's operational review and wider transmission pricing work, with a focus on reducing inefficient connection incentives and improving neutrality between distributor- and Transpower-owned connection options. This can be progressed without reconsidering the restriction on recognising transmission benefits (please also note our view in question 21).
21	Do you consider that the restriction on recognising transmission benefits should be reconsidered if the other proposed Code amendments are made? Why?	No, it should not be reconsidered. We agree with the Authority's view.
22	Are there any other matters that you consider important for us to take into account in our reform of the DGPPs?	No.
23	Do you have any comments on the consumer impact analysis methodology or findings?	No.
24	Do you agree with the objectives of the proposed amendment? If not, why not?	Yes. In general, Meridian is supportive of proposals to improve the efficiency of distribution pricing.
25	Do you agree the benefits of the proposed amendments would outweigh the costs?	Yes, in principle. Meridian agrees that the proposed amendments are likely to deliver net benefits by promoting more

		cost-reflective pricing, reducing inefficient position-in-queue dynamics, and enabling more efficient use of network capacity. Our view is that the primary benefits of the reforms will arise from improved efficiency and more robust investment signals, as compared with other forms of benefits. While the reforms will involve some reallocation of costs and implementation effort, these costs are likely to be small relative to the scale of generation and network investment decisions they affect. Realising these benefits in practice will depend on implementation that remains clearly anchored in incremental cost causation and is supported by guidance, transparency, and monitoring.
26	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 objective in section 15 of the Electricity Industry Act 2010.	Yes. Our view is that the proposed amendment is preferable to the other options that were considered. The other options would either entrench existing inefficiencies or increase the risk of residual cost allocation and distorted investment signals.
27	Do you agree the Authority's proposed amendment complies with section 32(1) of the Act?	Yes.
28	Do you consider that the Authority's preferred high-level settings for injection pricing are consistent with the distribution pricing principles? Why?	Yes. Meridian is comfortable that the Authority's preferred high-level injection pricing settings are consistent with the 2019 distribution pricing principles. The approach appropriately applies a common set of economic principles to injection and offtake, while recognising that different classes of connection can give rise to different pricing outcomes. Consistency with the pricing principles will, however, depend on how these changes are applied in practice.
29	Do you consider that consolidating distribution pricing methodology requirements into Part 6B would improve clarity and consistency? If not, why?	Yes. Meridian considers that consolidating distribution pricing methodology requirements into Part 6B would improve clarity, coherence, and consistency of the framework. Bringing pricing obligations together under a single Part, framed in terms of injection and offtake rather than specific technologies, would make the Code easier to navigate and support more consistent implementation across distributors.
30	Do you have any comments on the drafting of the proposed amendment?	No.