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The DGPPs should support a decentralised, competitive electricity system

SUPA Energy (SUPA) considers that reform of the Distributed Generation Pricing Principles (DGPPs) is an important component of the broader move to a more "decentralised" electricity system, consistent with the Authority's decentralisation green paper.[1] If we want greater choice and and a more competitive, 'level playing field', for the long-term benefit of consumers, we need to be thinking about the barriers to competition for both traditional generators and retailers and also from alternative and disruptive supply options.

Disruptive new technologies are providing consumers with more and more choice and mean that consumers are less beholden to traditional forms of electricity supply. That is patently a good thing for the electricity industry and consumers.

SUPA welcomes the Authority's strategic focus on affordability, prosperity and ensuring " Consumers have choices in accessing the energy they need".

The Authority should be explicit about how its proposals fit with decentralisation

The consultation does not mention decentralisation but the Authority has subsequently clarified that the reforms are intended to be consistent with its decentralisation work. This includes the Authority's view on the importance that, as DG becomes more prevalent, pricing better reflects costs and benefits, consistent with broader pricing principles. SUPA agrees with the Authority that improving the DGPPs will support efficient decentralisation.

We also think it would be useful for the Authority to build support for its proposals by modelling the potential benefits from the reforms, including network cost savings from lowering peak demand.

[1] https://www.supa.energy/post/decentralisation-is-key-to-our-electricity-system-meeting-the-needs-of-all-new-zealanders

DGPPs should support an open access framework for networks

SUPA enjoys a constructive relationship with many electricity distributors, but we feel that their role as an open access platform for different users and technologies could be enhanced and supported by reform and clarification of the DGPP rules and requirements.

Electricity distributors are going through a transitional phase and are exploring the most effective ways to integrate flexibility services, distributed generation (DG) and consumer participation into their networks.[2]

Network pricing should be subsidy-free

SUPA supports DGPPs that are consistent with the distribution pricing principles; in particular, that the price for connection of DG should be subsidy-free, and prices should signal the economic costs of network use (which, as a corollary, should be interpreted as including network benefits from injection).

SUPA agrees that DG should pay the full incremental cost of connecting to distribution networks.

It isn't clear from the consultation what evidence there is that DG is currently being under-charged or the extent to which this is a problem. SUPA notes that stakeholder views on this matter are mixed. Our expectation is that the incremental costs are likely to be low, so it is unlikely there is any significant subsidy problem. Electricity distribution businesses are well-placed to provide evidence of subsidies or pricing below incremental cost if this is occurring.

Incremental cost should be more clearly defined

The problem may simply be that the DGPPs do not define "incremental cost" well, and this could impact what costs are allocated to DG. SUPA agrees with Orion that the definition is vague. Similarly, ENA's suggestion that the current DGPPs prevent EDBs from recovering the "full costs that DG can impose on the network" indicates the incremental cost principle needs to be better defined or explained.

Unfortunately, we do not consider the revised definition of incremental cost provides sufficient clarity.

The consultation paper defines incremental cost as "the additional costs incurred to serve an additional connection or group of connections" and separately clarifies that "full

[2] https://www.ea.govt.nz/documents/7050/Electricity_Networks_Aotearoa_-_DGPP_submission_2025.pdf

incremental cost" is "net of incremental benefits". The consultation paper definition should be explicitly reflected in the Code.

A problem with the proposed Code definition is that instead of explaining the concept of incremental cost, it only lists cost categories that should be included.

The draft Code lists cost types, including attributable costs, "cumulative costs" (undefined) that are attributable, and a "share" (undefined) of "programmatic costs" (undefined) "that are difficult to attribute". SUPA considers this definition to be divorced from the concept of incremental cost and open to a range of different interpretations and cost allocations.

Network benefits should be more clearly defined

The "net of incremental benefits" element of the draft Code is open to differing interpretations. The reference to "distribution costs ... a distributor avoids as a result of providing electricity distribution services to the injection connection" [emphasis added] could be interpreted as implying actual costs that the distributor avoids which would be difficult to determine ex ante. Our interpretation is based on the distinction that avoidable costs are the costs that an access provider could avoid, whereas avoided costs are those costs that the access seeker actually avoids.[3] The existing terminology "would be able to avoid" could be interpreted as being more in line with an "avoidable cost" approach, as "would be able to avoid" is broader that "would avoid".

SUPA considers that the draft wording lends itself to understatement of the potential network benefits of DG and, accordingly, could result in DG being over-charged for connection services.

SUPA considers that the Code should explicitly reference that incremental costs are "net of incremental benefits" and incremental benefits include costs that are "avoided or avoidable" in the long-term.

DG and other market participants etc should be rewarded for transmission benefits

SUPA fully endorses the statement that "The Authority, together with the Commerce Commission and the Energy Efficiency & Conservation Authority (EECA), have a strong focus on ensuring distributors manage investment pressures by optimising use of network capacity. For our part, we expect distributors to recognise and reward injection where it provides network benefits and will be closely monitoring how distributors use injection pricing (including negative charges) to incentivise efficient network use and investment."

[3] See, for example, ACCC. Pricing principles and indicative prices Local carriage service, wholesale line rental and PSTN originating and terminating access services, Final Determination and Explanatory Statement, 29 November 2006.

We similarly agree electricity distributors should "make full use of pricing and other regulatory mechanisms to optimise network investment."

This sentiment should apply equally to ALL electricity networks, including both distribution and transmission. The regulations should be indifferent or blind to whether network benefits are distribution benefits or transmission benefits.

There continues to be widespread commentary amongst stakeholders that regulation of distribution and transmission pricing is diverging with, for example, the Authority adopting LRMC/congestion pricing for distribution while it is prohibited for transmission. Part of this may be a timing issue with Authority decisions to promote LRMC pricing for distribution, in response to the energy transition, being made well after the Authority had made decisions on transmission pricing and the TPM Guidelines.[4] There have been material changes in circumstances in the electricity sector since the Authority made its transmission pricing decisions.

There has been commentary pointing out that exclusion of transmission results in understatement of LRMC pricing signals as LRMC will only reflect distribution costs and not transmission.

While the Authority has noted that it agrees "distributed generation may lower transmission costs" it has suggested "nodal prices provide adequate reward to distributed generation for such benefits" [emphasis added] and that it "disagreed with, alternative views that spot prices would not be able to get high enough to appropriately compensate distributed generation for avoiding transmission costs or supporting reliability."

We respectfully refer the Authority to its own LRMC Working Paper which explains that LRMC pricing provides dynamically efficient pricing signals while reliance on nodal pricing provides weaker allocatively efficient pricing signals. The Authority's working paper spelt out that "nodal pricing is likely to result in price signals systematically below LRMC" and nodal pricing provides a "muted" signal.[5] We are not aware of any new evidence or reason to think that the Authority's LRMC Working Paper on the relationship between nodal pricing and LRMC pricing is incorrect. It reflects orthodox economic theory and thinking.

SUPA contends that the approach to network pricing should be consistent at the distribution and transmission pricing levels for it to be fully efficient and for network pricing to send complete and coherent pricing signals. Where there is a choice between dynamically efficient or allocatively efficient pricing, dynamic efficiency should generally be preferred.

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[4] We understand that it wasn't until the Authority's Issues Paper, Targeted Reform of Distribution Pricing, published on 5 July 2023, that the Authority explicitly endorsed LRMC pricing for distribution.

[5] The consultation paper suggests that "Any case for removing restrictions to enable injection payments would need to show how doing so would supplement nodal price signals and not over-signal the value of deferral." The Authority's LRMC working paper has already addressed this point suggesting "it may be appropriate to adjust LRMC charges to take into account the signals provided by nodal prices".

At the moment, an allocative efficiency approach is being taken to transmission pricing and a dynamically efficient pricing approach to distribution. The risk is that this ‘hybrid’ approach results in network pricing achieving neither of the efficiency standards because the overall (distribution + transmission) pricing signal distributors pass-through in their distribution pricing is a confused hybrid of the two approaches.

Other matters

SUPA supports initiatives to address first-mover disadvantage, including by providing "more flexibility in structuring the timing of cost recovery to help to avoid position in queue dynamics (‘last straw’ or ‘first mover’) – eg, by charging for capacity as it is consumed (capacity costing)". We are wary of proposals such as adoption of Pioneer Schemes that would still require the first mover to fund upgrades and then be subsequently compensated by next movers (if any). First movers should not be expected to fund or take on the risk of network upgrades that are beyond their own requirements.

SUPA fully supports the proposal to introduce “a non-discrimination pricing principle that distributors should not take ownership of (or beneficial interests in) projects into account when determining charges.” We agree it is appropriate to regulate to mitigate against market power.[6]

SUPA supports aligning how the Authority and Rulings Panel resolve injection charge disputes with how they must resolve offtake connection charge disputes and making it clear that the Authority or the Rulings Panel may direct a distributor to recalculate its DG charges, so they are consistent with the relevant pricing rules.

Concluding remarks

Decentralisation and democratisation should be seen in terms of greater choice for consumers and non-traditional forms of competition (not just generator versus generator or retailer versus retailer). Disruptive competition can ‘democratise’ electricity supply by enabling a large number of smaller, localised distributed energy resources (DER), such as solar and batteries to cut across and compete against the traditional, centralised supply chain.

As a supplier of solar solutions which turns large buildings into energy generation hosts that share power locally, SUPA’s activities are at the heart of decentralised solutions and the competition and choice the Authority is seeking from non-traditional supply sources.

[6] For the same reason, we continue to question why the new negative solar injection rate rules only apply to mass market customers under 45 kVA. Although there is the argument that larger customers could negotiate with electricity distributors, “due to their market power, distributors can dictate how charges are determined – ie, distribution pricing is not restrained by competition”.

The Authority has an important facilitative role in New Zealand's energy future. As industry regulator, the Authority should make sure market rules and vested interests don't impede competition from non-traditional sources.

Markets work best when there are a large number of suppliers – with different business models and different product and services offerings – with competing views on what consumers want and need.

A strong focus for the Electricity Authority, as industry regulator, should be on removing barriers to competition from both traditional supply and from non-traditional sources.

Yours sincerely,

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