Electricity Authority Advisory Group meeting notes

Sub Group – Distributed Generation Incentives

4pm-5pm Wednesday 27 August 2025

Attendees

Electricity Authority

Carl Billington - Principal Advisor Advisory Groups; Daniela Aguilar – Analyst; Janet Humphris – Manager, Network Pricing, Ross Parry – Concept Consulting.

Advisory Group

Jamie Silk (Chair); Fiona Wiseman; Gareth Cartwright; Jeremy Adamson; Paul Baker; Jason Larkin; Michael Jefferson; Daniela Aguilar; Keith Scoles.

No Apologies

Confidentiality

The confidentiality status for this engagement was set as **closed: temporary** – which means this engagement includes privileged information which cannot be discussed until there is an open public consultation. We will advise when this changes.

EAAG – Confidentiality & Information Sharing Rubric			
OPEN		**CLOSED**	
1. No restriction: share openly & widely	2. Limited: share in-confidence with a pre-agreed circulation. This might also mean we are open about the topic we are discussing but not the detail yet.	**3.Temporary: will become open for sharing soon, but hold til then.**	4. Confidential: Don't share.

Introduction and problem statement

The Authority sought advice from EAAG members to help inform it's thinking as it works to convene a public consultation process for a potential code amendment later in the year. It was taken that members had read the Distributed Generation Pricing Principles (DGPP) paper, a link to the initial issues paper (February 2025) and the summary of feedback provided circulated prior to the workshop – and members did not need to revisit points raised and addressed in them.

The DGPP paper noted that distributors may recover no more than incremental costs from DG, and are only able to charge for any costs directly attributable to DG activity. There is concern the incremental cost rule may be:

a) *increasing the risk of incentivising excessive investment in DG (potentially raising consumers' costs)*
b) *impeding efficient investment in DG, by diluting incentives for distributors to dedicate resources to hosting DG*
c) *potentially limiting distributors' ability to use efficient prices to broaden the revenue recovery base and signal costs using pragmatic approaches involving approximations*.

The Authority is concerned this creates a potential imbalance that undermines fairness (ie between DG and grid-connected generators, with DG often contributing less to shared infrastructure) and may discourage investment in shared assets that benefit the wider network.

The workshop was convened to explore potential refinements to the DGPPs, which govern how distributors recover costs from distributed generators. The discussion was structured around two phases: immediate tactical amendments to improve clarity and fairness, and longer-term strategic reforms to support system-wide planning and investment. The Authority was keen to seek feedback on whether this two-stage approach seemed sensible, as well as canvass any other related areas of discussion.

Key discussion themes

Phase one: Tactical amendments to improve clarity

a) Incremental costs

The first phase of reform focuses on quick, targeted changes to the Code that would improve transparency and workability without requiring a full overhaul. One of the initial proposed areas of focus is clarifying what constitutes "incremental cost" and allowing recovery of other attributable costs (e.g., safety and maintenance work, system upgrades).

The following key points (bulleted) were raised by one or more group members in relation to the intent to clarify incremental costs:

- Incremental costs can be difficult to determine as not all future costs are predictable at the start (see later discussion). This differentiation leads to complex arrangements as people try to anticipate incremental costs at the outset, whereas with load there's a standard connection charge that has a future revenue stream baked into it.
- The Authority clarified that their intention to broaden the recovery of incremental costs would be expected to include an ongoing allocation for things that are recurring (vegetation, maintenance etc) so people could use an appropriate proxy to allocate those costs (in a similar approach to monthly lines charges etc).
- Why is distributed generation treated differently than load when it comes to connecting? Why do we need to distinguish between the two? It's more equitable to treat everyone the same (a widely repeated but not universal view discussed further below).
- Regarding the proposed principle of treating all connecting parties the same, the Authority's starting point is that any costs allocated to DG connections will end up being paid by consumers eventually – so if costs are going to come to consumers in the end, the preference is to allocate them straight to consumers to avoid distorting supply upstream.
- This principle was acknowledged as sensible but there was concern that the wrong customer ends up paying while some who gain the benefits don't carry any cost. The specific example provided was where significant DG connects in a distribution network and the energy is exported outside that distribution network. In this case consumers in that network are paying all the "non-incremental" costs whilst consumers in another network get the benefit.
- Other members voiced strong support for the pragmatic focus on workability the Authority was taking and the benefits of an approach that has more uniformity across EDBs
- There was collective agreement that (to the extent there are more complex issues that will not be resolved quickly) the approach of two stages is a good one as it will realise substantial early benefits.

b) Policy direction

Several participants raised questions about the overarching policy goals driving DGPP reform:

- Is the system still intended to be “pro-DG,” or should it move toward neutrality and market competition? It’s understood that the original intent was to encourage greater DG capacity and uptake – it was seen as strongly “pro-generation.”
- There was also a call for clearer articulation of the desired outcomes, including how DG fits into the broader energy transition.
- Providing this policy context clarity has collective support.

c) Equity in Cost Allocation

A recurring theme from some members was the need to treat DG and load customers consistently and between DG and Transpower connections when it comes to cost recovery and connection rules. The following items were raised by one or more members:

- Potential level playing field issue between generation connected to a transmission network versus a distribution network
- Questioned why DG is treated differently, especially when both types of customers use the same infrastructure (see discussion in a) above).
- There was a strong philosophical push for equitable treatment, recommending a unified approach to pricing.
- Some EDBs are protective of their load customers and give less favourable access to DGs at times. However, this perspective was strongly challenged by other members who observed that DG customers come from inside the network as well at times, so there is no inherent bias or referencing their direct experiences across EDBs (working on behalf of customers directly or EDBs).
- There are inconsistencies in where generation is connected – whether its connected to the transmission grid or the distribution network. There was a consensus that we need an approach that sends clear consistent signals and encourages connections at the most efficient place, with clarity and consistency about how those costs will be met.
- Editorial note: The group does not have the information to resolve different perspectives on this (e.g. perspective that transmission connected generators are disadvantages as they pay for transmission that DG does not versus DG pays for distribution costs that transmission connected generators do not). However this is anticipated to be addressed in phase two work.
- There was collective support for extending the pioneer scheme—currently available to load customers—to DG, helping to address risks of first movers being disadvantaged or investment delayed.
- There was broad consensus that as DG grows, spare network capacity is utilised and DG increasingly becomes as investment driver, the timing is appropriate to revisit DG Pricing Principles. It was noted that DG developers wish to deliver projects

efficiently and have expressed willingness to pay for the reasonable services needed to do this. Transparency and workability in the rules will help reduce uncertainty.
- These was collective agreement that these are low-hanging fruit that could be implemented relatively quickly to improve fairness and reduce ambiguity.

Editorial note: as outline in the introduction users of this record should note that the discussion did not aim to repeat matters raised in the consultation responses and this section did not therefore explore all difference of opinion across the sectors impacted to reach a collective view between equity, equivalence and efficiency (and what they may mean in this context). The more fundamental issues are expected to be investigated during phase two.

Phase two: System-Wide Planning and Strategic Investment

The second phase of reform aims to address structural issues that limit distributors' ability to plan and invest proactively. The Authority framed a number of questions that inform this phase of work:

- How do we treat load vs DG on a distribution network?
- Similarly, how do we treat grid connected generators and distribution network connected generators?
- Who's the collector of residual costs and where do you allocate those costs?
- Do you apportion costs equally, or proportionately against load?
- How do we manage potential bypass incentives and cost avoidance?

The Authority noted that outlining insights on phase two is helpful to the market as it indicates the direction of travel and so the market can focus on the specific tactical opportunities on phase 1, with confidence the more complex matters are being framed in phase 2. Doing these together makes phase 1 engagement more efficient (focused) for all parties and facilitates early input to frame phase 2. These was collective agreement that this was a useful approach. The group did not seek collective agreement on the opinions provided as Phase 2 is subject to significant additional work – though these comments do provide some insights on areas than can be expected to need to be investigated post consultation.

In addition to comments captured above during the phase 1 discussion that are being addressed in phase 2, one or more group members made the following key points in relation to the intent to clarify incremental costs:

- The group agreed with the Authority position that the current framework lacks the pricing tools to coordinate investment across the system, especially in anticipation of future DG uptake e.g. pricing models for anticipatory capacity/ investment and other tools that help access seekers contribute appropriately to costs, access capacity and collectively get the best value out of the system.

  - Ideas floated included benefit-based charging, hybrid customer models, and pricing signals that reflect the timing and location of DG injection.

- This phase will require deeper consultation and possibly legislative support, but it's seen as critical for enabling a future-ready distribution system.
- The term "Distributed Generation principles and incentives" is likely to draw the attention to engage to a limited group directly interested in DG connections. This risks other stakeholders who will be materially impacted by decisions not engaging. This is relevant to load customers (balance of costs) or transmission injecting connections (level playing field). It was later noted that the initial consultation had a relatively small number of respondents and also that as other changes occur e.g. V2G, the characteristics of and pricing for injecting customers becomes even more important (and relevant to a wider audience).
- Questions were raised about the practicality and relevance of any model that attempts to send a bill for distribution costs back upstream to grid-connected generators (which links back to challenges in equivalence of treatment noted under phase 1 above)
- Further to comments recorded under Phase 1, the question of what DG should pay was revisited from the perspective of equivalence to the TPM benefit-based methodology, with a suggested commonsense principle be that where there is investment going into the distribution network that generators connected to and are benefiting from, they should be allocated some of those costs (note this may conflict with the earlier principle discussed regarding if the end consumer is paying then what is the specific value (efficient investment signal) of loading costs elsewhere only to be recharged and connects with the discussion about the benefits of utilising latent spare injection capacity for DG and whether we are reaching a pivotal point as injection congestion builds up in distribution networks).
- As generation is increasingly connected alongside load, a challenge arises regarding when is a generator a generator versus a load customer etc suggesting when behind the meter generation is "over built" relative to load, it changes the nature of the connection? The Code might need to provide some guidance there).
- Whether you push or pull, there's a connection to the network which drives some cost – whether you're a generator or a load customer (or perhaps a hybrid). Thinking about it in these terms the key challenges are:
  - How can we send the right pricing signals to those different customers?
  - Then that will enable us to create the flexible grid (including access seeker incentives and reward for flexibility in design) we need as the response to those signals will help show where we need injection to occur.

    - These signals will be reflected in the prices EDBs set, which will guide people for when to inject and when not to.
    - This approach allows us to focus on the connections rather than the different types of customer complexity. DG and load customers both need the network, just for different reasons – and the network just needs to be able to manage the flow of electrons whether it's pushing or pulling.
- Distributors have had to get very granular with their understanding of what's happening on the network right down to the LV activity, so we shouldn't assume the need for granularity is a barrier for being able to allocate costs or structure incentives targeted specifically to each type of customer.
- The overlaps with ComCom was also noted as well as technically the exclusion of the connection between the generator and the distribution network.

The key areas of phase 2 collective support were

- Signalling early the direction of travel alongside phase 1 recommendations as it will help focus responses to phase 1
- The time is right for forward looking pricing signals where spare capacity is being used up including what is needed to support anticipated and optimised (incl flexible) investment and smart networks
- Clear transparent direction is needed on key policy directions e.g. the balance between incentivising DG positively, equivalence, equitable cost allocation and forward-looking price signals.
- Pricing need not be oversimplified as the industry has granular knowledge (but we do benefit from transparency and consistency)
- Explicit recognition of what are load, hybrid or generation customers
- Packaging and naming the work programme in a way that connects with all the current and future impacted stakeholders

Next Steps

The Authority staff thanked the group for their input and signalled this would help inform the discussion paper they are due to draft next and invited any final input.

- EAAG group members emphasised the importance of inclusive consultation and effective communication to ensure stakeholders understand the scope and relevance of proposed changes.

- Alongside the earlier points about how the consultation will be framed (technical language and terminology etc) to ensure key stakeholders register the relevance of this work for their interests, group members encouraged the Authority to include a number of illustrative examples to help people engage in the discussion.

- It was felt a workshop with the industry for more detailed discussion might also be of value to help guide people through what's actually being considered so they can engage with the conversation.
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