Requiring distributors to pay a rebate when consumers supply electricity at peak times

Northpower Submission to the Electricity Authority

Northpower

Introduction

Northpower appreciates the opportunity to provide feedback to the Electricity Authority (**Authority**) on *Requiring distributors to pay a rebate when consumers supply electricity at peak times*.

Northpower is a consumer trust-owned company, our electricity distribution business connects consumers to our electricity network in the Whangārei and Kaipara districts, operating and maintaining a network servicing more than 63,000 connected customers.

Executive Summary

Northpower supports the Authority's principle-based approach for distributors to pay a rebate when consumers supply electricity at peak times. We encourage efficient distributed generation (DG) connections and operations to reduce or slow peak demand on our network, which can provide benefits to all consumers over the long term.

We raise the following key considerations regarding the Authority's proposal:

- **Identifying network benefits first before providing rebate**
  The proposed principles lack clarity on whether networks should first identify and quantify benefits before sharing them with relevant ICPs or set rebate tariffs as an upfront incentive. If rebates are offered without guaranteed response, it may lead to inefficient outcomes where consumers bear both rebate costs and future investment expenses. To prevent this, we recommend the Authority clarify that networks must first identify and quantify benefits before distributing them to those who create them.
- **Importance of LV visibility**
  LV network data is essential to ensure rebates are accurately allocated to ICPs that create network benefits, preventing overestimation and unfair costs to existing consumers. We recommend the Authority prioritise LV visibility before fully implementing the export rebate requirement to ensure fair and efficient outcomes.
- **Scale, reliability and responsiveness**
  For DG resources to create material network benefits, they must be deployed at scale, be reliable, and respond in near real-time—conditions that mass-market DG exports currently do not meet.
- **Implementation timeframes and guidance**
  We recommend the Authority reconsider the 1 April 2026 implementation date, as the proposed timeframe does not allow sufficient time for distributors to adjust pricing and comply with new requirements. Additionally, the lack of clear implementation guidance and concurrent regulatory changes pose further challenges.
- **Interaction with existing DG pricing principles**
  We recommend the Authority clarify the interaction between the new export rebate proposal and existing DG pricing principles under Part 6. Consistent with our earlier points, avoided or avoidable costs should be identified before being passed on to customers. Additionally, the Authority should confirm that benefits should be shared rather than fully passed through as part of the Part 6 DG pricing principle overhaul, ensuring long-term benefits for all consumers.

We encourage the Authority to consider this feedback to ensure the proposed requirements achieve their intended outcomes effectively and equitably.

Identifying network benefits first before providing rebate

Under the proposed principles, it is unclear whether:

(i) network should identify and quantify the benefits first, then share these benefits with the group of ICPs responsible for creating them, or
(ii) network should set rebate tariff as an incentive in anticipation of a group of ICPs who could potentially provide network benefits at a network identified location and times.

If it is the latter, it could create an inefficient outcome that is not in the long-term interest of all consumers on the network. This is because if the targeted ICPs do not respond to the rebate tariff signal, network will still need to incur the future investment and the remaining consumers will end up paying twice reflecting both the rebates provided to the targeted ICPs, as well as the future investment not voided or deferred. Given there is a lack of direct contractual arrangements with the consumers to stipulate reliability and certainty (discussed further below), this situation is likely to happen.

In terms of the approach of sharing the benefits, a tariff-based approach can inherently lead to the risks mentioned above. An ex-post approach may be more appropriate, similar to how some distributors calculate discounts at the end of the financial year where the discount amounts are based on the actual data during the year. Similarly, in an export rebate scenario, distributors can assess the benefits the group of ICPs have created during the year and provide an annual payment to the ICPs, which could be more effective than tariff based approach as the amount will be bigger and the approach is more targeted.

Therefore, we strongly recommend the Authority to clarify that network must identify and quantify the benefits first to be able to then share these benefits with those customers responsible for creating them. In addition, the Authority should not restrict the method on how distributors should pass through the benefits.

Importance of LV visibility

To ensure the rebate only goes to the group of ICPs who created the network benefits, LV network data is critically important. This is because any avoid or defer of upstream network investment (i.e. reduction or slower increase in peak demand) can be caused by multiple factors, for example, load customers change of behaviour, more efficient appliances, etc. Without the LV visibility, it could result in an overestimated rebate subsidised by existing load customers who cannot afford the new technologies.

While we appreciate the Authority's workstream on LV visibility, we encourage prioritising LV visibility implementation before fully enacting the export rebate requirement.

Scale, reliability and responsiveness

For DG resources to create material network benefits, they must satisfy some key conditions:

- Scale: Currently on our network, electricity supplied from DG accounts for only 1.8% of total electricity entering system, with no identifiable benefits from mass-market DG exports. To create network benefits, ICPs need to be already located in areas subject to load congestion who then also inject power during the winter peak, however this is just not present at the moment. By contrast, our ripple relay is around 10% of our network peak demand which has proven to be effective in managing network peak demand particularly during the Transpower tower failure last year.
- Reliability: Without any aggregator or direct contractual arrangement in place, export profile from mass market customers cannot be guaranteed, therefore not reliable. The customers may only export at certain times, therefore, during the remaining period, network peak still exists and future investments would still be required.
- Responsiveness: To manage network constraints, resources must respond in near real-time, similar to ripple control. Mass-market DG resources currently lack this capability without aggregators or direct contractual agreements.

Given these limitations, to reinforce our first submission point, network must identify the benefits first before sharing with the ICPs, otherwise benefits may not eventuate even with rebate provided and as a result the other customers would be worse off.

Implementation timeframes and guidance

We understand the Authority proposes to implement these requirements from 1 April 2026, however this timeframe is not practical due to the following reasons:

- Pricing timeframe: Even if a decision is made by 1 April 2025, distributors would have only five to six months to implement changes, as price setting typically begins in September/October for board approval by November and retailer notification by January.
- Implementation guidance: The consultation document mentioned that the Authority would publish additional guidance on how the principles should be considered, however, it is unclear on when it will be published and the actual content of it. Therefore, it will likely further shorten the actual implementation timeframe mentioned above. Going forward, we would appreciate if the Authority could provide draft guidance along with the consultation document. Distributors could then provide feedback on both the principles and practical implementation which would help implement the new rules more effectively and efficiently.
- Concurrent regulatory changes: Other major regulatory changes, including connection pricing and Part 6 connection processes, also require implementation by 1 April 2026. For smaller distributors, managing all these changes simultaneously is challenging.

Interaction with existing DG pricing principles

Current DG pricing principles under Part 6 require consideration of identifiable avoided or avoidable costs. It is unclear how these principles interact with the new proposal. Our key recommendations include:

- Further supporting our first submission point and aligning with the existing principles under Part 6, avoided or avoidable costs should be identified first before passing onto the customers.

- Part 6 is not clear on whether distributors should pass on the entire avoided or avoidable costs, or only share some of the benefits so that all customers can benefit over the long term as proposed under the export rebate. As part of the DG pricing principles overhaul, we suggest the Authority should clarify that benefits should be shared, rather than fully passing through.

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