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nova energy

Nova Energy Limited
[redacted]

26 March 2025

Submissions
Electricity Authority / Energy Competition Task Force

By email: taskforce@ea.govt.nz

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

Nova Energy (**Nova**) appreciates the opportunity to contribute to the Electricity Authority/ Energy Competition Task Force's (**Task Force**) above-mentioned consultation.

The **attached** table provides our response to most of the Task Forces' questions regarding the proposal.

Some key points that we would like to highlight are:

1) If the proposal is adopted, it is Nova's view that any new requirements to provide incentives to parties connected to local distribution networks should dovetail and complement the distributed generation rules under Part 6 of the code. This would help provide comprehensive coverage and avoid gaps where a party might otherwise fall between the cracks and not have access to some form of incentive.

2) The proposal envisages a principled approach to rebates being set at a level that are economically efficient so as to avoid wealth transfers between groups of consumers. While we think that is right, we are sceptical about the net benefits of a regime for the following reasons:

    a. Calculating with precision such pricing signals is difficult in practice and measuring the effectiveness through time will also be very difficult.

    b. As with our observations with respect to time varying plans for consumers under initiatives 2B and 2C, the incentives required to incentivise distribution connected parties, and in particular mass market consumers, to invest in distributed generation capabilities may be higher than what is economically efficient relative to alternatives such as batteries connected at a distribution network level.

    c. The transaction costs of developing, implementing and monitoring a central regime will likely offset any benefits, which we consider would be limited / minimal (refer to our November 2024 submission to the Task Force's information request on this topic).

Please let us know if you have any queries regarding our submission and thank you for considering Nova's feedback.

Yours sincerely

[redacted]

Charles Teichert

General Manager Commercial and Strategy

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

<table>
<tr><th>Questions</th><th>Comments</th></tr>
<tr><td>Q1. Do you agree with the problem definition above? Why, why not?</td><td>Yes. Nova agrees that in principle there is, structurally, a lack of incentives being offered to consumers by distributors regarding peak demand injection and in part this is due to the monopoly nature of distributors and the regulatory framework that governs them.</td></tr>
<tr><td colspan="2">Proposed solution: principles-based rebates</td></tr>
<tr><td>Q2. Do you agree with these principles? Why, why not?</td><td>Yes</td></tr>
<tr><td>Q3. Do you agree that the principles should only apply to mass-market consumers, or should they apply to larger consumers and generators also? Why, why not?</td><td>In Nova’s view there should be requirements on regulated monopolies to efficiently price network services including rewarding consumers, large or small, or other connected parties such as owners of network connected distribute generation (including batteries) for injection at times that assist in lowering distribution charges through avoided or deferred investment.

Nova recommends that requirements regarding mass market customers should provide coverage for any consumer or network connected party that is not covered by the distributed generation regulations under Part 6 of the Code. This would provide comprehensive coverage for any connected party to a distribution network.</td></tr>
<tr><td>Q4. Do you agree the principles should apply to all mass-market DG, including inflexible generation (noting that the amount of rebate provided will still be based on the benefit the DG provides)?</td><td>In Nova’s view, rewards for distributed injection will need to meet appropriate reliability standards consistent with customer expectations and regulatory requirements under Part 4 of the Commerce Act. Intermittent non dispatchable generation will likely therefore not qualify in many circumstances.

Regarding mass market customers specifically, we note that:

a) Only a very small number of customers who have battery systems are able to control or delay their generation export times to peak times and their ability to export this generation is likely to be constrained in some way by their electricity line’s capacity.

b) Customers with battery systems are not likely to be as price sensitive as some market segments, and thus may not be as responsive to exporting their energy for a few more cents per kWh.

c) In Nova’s experience, generating export revenue is a secondary benefit for customers who generate their own electricity, compared to reducing their import volumes and</td></tr>
</table>

	therefore bill amounts. Therefore, and similar to b) above, Nova is of the view that rewarding customers will not hugely alter their export volumes.
Q5. Do you agree with the direction of the guidance that would likely accompany the principles? Why, why not?	
Q6. Are there any additional issues with the principles where guidance would be particularly helpful?	The guidance demonstrates the complexity in constructing pricing signals to drive efficient behaviour and investment. Nova is concerned that there is a level of precision expected that will never be able to be met and that, at best, signals can be directional. The complexity of trying to calculate with precision the right level of pricing signal will create transaction costs in development of them, as well as ongoing administration that are higher than the expected benefits (which Nova considers would be limited / minimal in any event).
Q7. Do you agree the principles should be incorporated within the Code, rather than being voluntary principles outside the Code? Why, why not?	Nova supports that the requirements and the principles should be included in the Code and should dovetail and complement the requirements for Distributed Generation under part 6 of the Code.
Q8. Do you agree with the proposed implementation timeline for this proposal? If not, please set out your preferred timeline and explain why that is preferable.	
Q9. Do you agree the proposal strikes the right balance between encouraging price-based flexibility and contracted flexibility? Why, why not?	
Q10. Do you agree the proposal will lead to relatively minor wealth transfers in the short term, and will lead to cost savings for all consumers in the longer term?	Relatively minor wealth transfers in the short term - yes, due to the number of DG systems capable of participating in providing controllable injection are limited in size and number. The risk is that inappropriately high incentives may drive consumer investment decisions that may be inefficient relative to alternatives such as local distribution network investment in batteries or backup generators. The example of the failure of Solar Zero is an example of the difficulties and risks associated with distributed energy resources and the business models that support them.

Alternative option: prescribed rebates	
Q11. Do you agree that more prescriptive requirements to provide rebates will be less workable than a principles-based approach, and therefore should not be preferred? Why, why not?	There are pros and cons associated with either approach. A principles-based approach would likely involve reduced costs of developing and designing a centralised rebate scheme. But any centralised rebate scheme (regardless of whether it is principles-based or prescriptive) comes with the issue of reduced levels of localised information as to the best design and expected benefits of such a rebate scheme vs higher costs of each network company doing the same work individually (but with more accuracy and better effect due to better local information).
Alternative option: consumption-linked injection tariffs	
Q12. Do you agree that a consumption-linked injection tariff would not be sufficiently targeted, and therefore should not be preferred? Why, why not?	Yes – we agree with the assessment and that the risks of inefficient capital investment by consumers at the expense of other consumers who cannot afford to take advantage of distributed technologies are too high and impactful (wealth transfers from low income families to the wealthy), which is inconsistent with the EA's statutory objectives.
Q13. If this approach was progressed, do you think:	
a) injection rebates should perfectly mirror consumption charges?	No - consumption tariffs include cost recoveries related to the Transpower national grid and distribution company corporate overheads (plus other third party costs / retailer costs to serve) that are unrelated to local distribution network peak load requirements and investments that could be avoided/deferred.
b) there are sufficient safeguards in place that would allow distributors to avoid over-incentivising injection to the extent that it incurs additional network costs?	
Regulatory statement	
Q14. Do you agree with the objective of the proposed amendment? If not, why not?	As noted above, Nova's view is that the scope of the regulations should apply to consumers and other connected parties that do not fit under the ambit of Part 6 of the code regarding distributed generation.
Q15. Do you agree the benefits of the proposed amendment outweigh the costs?	Nova is concerned that the degree of complexity involved in developing, implementing and applying rebates to reward consumer injection that is economically efficient may not be

	practicable (particularly in the context of expected benefits). This is not to say that a process of rewarding consumers for injection is too difficult, just that achieving economic efficiency may be difficult to do with any precision and even more difficult to measure.
Q16. 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 objectives in section 15 of the Electricity Industry Act 2010.	
Proposed amendment Code drafting	
Q17. Do you have any comments on the drafting of the proposed amendment?	