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Electricity Authority Te Mana Hiko
Energy Competition Task Force

By email to taskforce@ea.govt.nz

Tēnā koutou

SUBMISSION ON CONSULTATION PAPERS FOR TASK FORCE INITIATIVES 2A, 2B AND 2C

Unison Networks Limited (**Unison**) is an electricity distribution business operating in Hawke's Bay, Taupō and Rotorua. Centralines Limited (**Centralines**) is a distributor operating in Central Hawke's Bay.

We thank the Electricity Authority (**Authority**) and the Energy Competition Task Force (**Task Force**) for inviting feedback on the proposed Code changes that support the Package Two initiatives 2A, 2B and 2C.

We acknowledge the Authority's and Task Force objectives to:

1. ensure distribution pricing for mass-market consumers with distributed generation (**DG**) appropriately incentivises investment in and operation of DG when and where it provides network benefits by avoiding or deferring network costs; and
2. improve the incentives for consumers to shift their electricity consumption away from peak times and to supply electricity (e.g., from rooftop solar) into the network when it is most needed.

1. Summary

Unison and Centralines fully support the objectives of these initiatives, as they align with the broader goal of enhancing consumer participation in the energy market and promoting efficient network usage. We highlight several key considerations to ensure that the proposal is practical and effective.

The proposed 2A principles align with the feedback provided during the consultation and recognise that a broad export rebate is an inefficient signal that provides incentive where there is no benefit and can encourage over-investment which, as is the case in other jurisdictions, can lead to network issues, resulting in additional costs.

While the proposal aims to create a fair and transparent framework for export rebates, it introduces a level of complexity that, while necessary, may be difficult to implement and challenging for consumers to understand. We recommend that:

- Changes be made to the Code and the Registry that will enable locational pricing by distributors to retailers and by the retailers to end consumers.
- Direct pass-through via retailers to be eventually mandated, so EDBs' strategic and locational peak export negative prices provide the desired signal.

Once the environment has been appropriately set up for a strategic and locational pricing, the Authority and the Task Force can expect EDBs to create multi-tier locational rebates to be passed onto consumers by their retailers, depending on the benefit they provide to the network. While there will be some cross-subsidy in the short term, this will be mitigated in the long term through savings achieved by reducing the necessary infrastructure investment.

Locational pricing, while in theory offering stronger benefits, presents significant practical challenges. Its effectiveness would likely be limited to a short timeframe, as it incentivises investment that may no longer be justified once the network constraint is removed and pricing mechanism adjusted. This could lead to investment distortions and undermine long-term planning.

The Authority and the Task Force must also be mindful of the implications of the term "rebates". Rebates implies a committed discount (liability) which may have tax and other accounting and regulatory implications. Instead, the use of "negative prices" or "negative tariffs" is more accurate and less administratively burdensome (we use negative prices in this submission).

Access to low-voltage (**LV**) network data will be crucial in assessing the effectiveness of negative prices and ensuring their optimal design. To achieve the desired consumer uptake, it may be necessary for distribution charges and negative prices to be directly passed through by retailers. This will help ensure that financial incentives reach consumers effectively and predictably influence their behaviour.

A clear and transparent mechanism must be established to coordinate the coexistence of flexibility aggregators and negative charges on the same network. For example, there is a risk of harm if a flexibility aggregator is providing a pricing signal at the same time as the EDB applies a negative charge. Networks will need to be cautious not to pay for the same electricity export twice.

We would also like to emphasise that, while forward-looking incentives can attribute a Long-Run Marginal Cost (**LRMC**) value to avoided costs, they may not always materialise as expected. Given the uncertainties in mass-market participation, this approach could result in a higher level of cross-subsidisation without necessarily delivering long-term cost reductions. Also, LRMC-driven location rebates will likely exceed peak charges, as those are based on LRMC for the whole network or region.

Finally, we agree with ENA's advocacy that principles are more important in times of change and that these principles should sit outside of the Code.

2. Problem statement – 2A

We do not consider that the problem statement, as defined in the 2A consultation paper, is complete because it does not acknowledge that signals from distributors are not directly seen

by the end consumer (often only as an indirect pass-through) and that EDBs still struggle with access to data at reasonable terms to enable LV constraints visibility at ICP level.

Suggested additional points for the problem statement:

- **Distribution costs are not directly passed through to end consumers, curbing EDB's ability to signal network cost or benefits to end consumers**
- **EDBs still struggle with access to data at reasonable terms to enable LV constraints visibility at ICP level**

For clarity, direct pass-through occurs when the consumer is billed the exact distribution cost the retailer is charged by the EDB. Indirect pass-through means an end consumer is charged a distribution cost that has been spread across the retailer's customers and is therefore lacking the distributor's signal at an ICP level.

EDBs that have trialled export rebates encountered a lack of willingness from retailers to pass through to consumers.

3. Transparent signals to end consumers

Through both consultation papers, the Authority and Task Force are trying to empower consumers to make informed choices. Unison and Centralines consider this is best achieved by transparently communicating the distribution network pricing signal and its impact on the distribution network through prices.

Effective implementation requires identifying clearly to the consumer the distribution cost attributed to their power bill so changes in behaviour can be transparently measured against the distribution signal, and the retailer and generation portions of the bill carved out.

Distribution pricing signals will not influence the desired behaviour without negative injection prices (or more importantly peak or shoulder charges) being passed through to consumers. The time, effort and cost linked to elaborate locational pricing and costly billing system upgrades would be wasted should these signals not be passed through to the end consumer.

4. Higher value for aggregators and consumers

Guidance and potential changes to the Registry will likely be required to enable the coexistence of aggregators, virtual power plants (VPPs) and standalone consumers without the doubling of the signals in the form of a negative price or payment.
If managed poorly, aggregators who have the potential to bring higher value to distribution networks, could be crowded out from establishing themselves in the market. Consumers should be able to access a higher value from their investments (home batteries, V2G, PV) if aggregated and dispatched when needed.

5. Ex ante vs Ex post

The proposed principles for injection pricing suggest that negative prices should be determined based on benefits that injection can provide in the future (on an ex ante basis). As export from mass-market connections can be very intermittent, EDBs are likely going to reward export, while still having to build the hard infrastructure to provide the capacity when there is no export. Calculating injection pricing based on materialised benefits (ex post) would avoid rewarding export that provided no benefit.

6. Limits in in the current retail market

While innovation in retail pricing has been an effective tool for creating retail competition in the New Zealand market, it also has a number of limits and drawbacks that inhibit greater participation that technology has the potential to unlock and which is now needed as we decarbonise our energy systems:

- Blended or bundled retail offers must be marketed to groups of consumers, usually by network region. Additionally retail systems are based on this mass market business model and therefore **do not support targeted pricing to small groups or individual ICPs**. These represent practical barriers to more locational pricing encouraged by the Distribution Pricing Principles and the 2A proposal. Separation of delivery and energy charges would enable retailers to simply pass through delivery pricing signals associated with an ICP while still enabling retailers to innovate, market and compete on energy offers.
- It makes **price comparison difficult** if not impossible. Powerswitch acknowledges it has over 17,000 mass market price plans across NZ. Consumers should not have to rely on a comparison service or AI to make a purchase decision for a commodity utility service. For this reason, lines and energy charges are separated on consumer bills in the UK.
- Market participation requires price discovery. Blended and bundled retail pricing means that prices for both **energy and delivery do not reach consumers** which limits their ability to effectively participate in markets for either energy or flexibility services.
- Where existing retail bills do have both fixed and variable components, the majority of consumers incorrectly assume that the fixed component is the delivery or lines component and the variable component is the energy component. Separation and pass through of delivery prices would remove this confusion which is a barrier to an efficient market and consumer participation.
- Greater competition for services at the ICP would benefit consumers through, for example ‘Multiple Trading Relationships’, however blended and bundled retail pricing confers an advantage on an incumbent. Separation of delivery and energy pricing would create a level playing field for competition at the ICP.

7. Regulation of competitive market – 2B and 2C

Unison and Centralines recognise that customers on time-varying price plans are more likely to adjust their behaviour, leading to an overall reduction in peak demand - a benefit to the network. However, given the competitive nature of the market, we recommend caution when considering regulation of these offerings. Currently, time-of-use plans are available to the extent that the market demands them. Customers seeking to take advantage of lower off-peak prices for charging electric vehicles or home batteries will naturally gravitate toward retailers offering suitable plans.

Rather than regulate retail price structures, requiring separation of delivery charges from energy would better promote cost reflectivity of both delivery (2A) and energy costs (2B), while still providing for innovation in retail pricing of energy and retail services as well as power purchase or 'buy-back' pricing and rates (2C). In doing so, separation would better align with the objectives of the Taskforce for the range of initiatives (2A, 2B, 2C) by promoting transparency, and cost reflectivity, along with greater innovation and competition that will enhance customer participation, and choice.

Proposal Part 1 - Requirement to offer time varying price plans:
If regulation is introduced, it should apply consistently across **all retailers** rather than targeting only a subset, ensuring a fair competitive landscape. Additionally, the **definition of a time-varying price plan should remain flexible** to encourage ongoing innovation.

Proposal Part 2 - Promotion requirements:
We feel that promotion requirements are unnecessary at this stage. With over fifty tier one and tier two retailers, the competitive market should organically generate promotional offerings that will entice interested electricity consumers.

Proposal Part 3 - Monitoring and reporting regime:
We support a monitoring and reporting regime in order to better track and understand changes in consumer engagement. This information can be used to create national campaigns to encourage switching and save on electricity bills by switching retailers, changing plans or a combination of the two.

Proposal Part 4 - Ensure all retailers see the full costs of their contribution to peak demand through distribution billing and wholesale reconciliation:
Unison and Centralines strongly support part 4 of the proposal, which requires retailers to provide distributors with half-hourly data (where it exists) for billing purposes. This will eliminate the use of generic profiles used to determine peak and off-peak consumption by retailers or ICPs being assigned to flat residential tariffs by retailers despite half-hourly data being available.

8. Timeframes

While generic rebates (not supported) could be implemented by 1 April 2026, for more strategic and locational prices this may not be realistic.

9. Conclusion

In conclusion, Unison and Centralines support the overarching objectives of these initiatives, recognising their potential to enhance consumer participation, improve network efficiency, and promote fairer pricing structures. However, successful implementation requires a clear regulatory framework that ensures effective price signals reach consumers, encourages efficient investment, and avoids unintended market distortions.

Key to this will be enabling locational pricing, ensuring direct pass-through of network charges, and refining the regulatory approach to support innovation while maintaining market fairness. By addressing these considerations - alongside improved access to network data, a balanced approach to aggregator participation, and careful monitoring of ex ante and ex post pricing

mechanisms - the proposed framework can drive long-term benefits for both consumers and the electricity distribution sector.

We appreciate the work the Authority and the Task Force are doing and the opportunity to contribute to this important discussion and look forward to engaging further. We also urge the Authority and the Task Force to incorporate our points above to create a more transparent, equitable, and sustainable energy market.

Please feel free to contact us if further clarification, particularly on operational matters, may assist. No part of this submission is confidential, we acknowledge it will be published.

Nā māua noa, nā

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