By email: taskforce@ea.govt.nz
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The Authority and Network owners should be agnostic as to who responds to efficient pricing signals

SUPA Energy (SUPA) supports the Electricity Authority's "two important objectives" to: (i) encourage supply of power to networks when it's needed; and (ii) reward the supply of power when it benefits the network.

What matters is ensuring the "reward" (or the "negative charges") reflect genuine network benefits – be they short-term benefits (static efficiency) or medium to longer-term network investment cost savings (dynamic efficiency). If they do, then the more consumers and market participants responding to the price signals the better. If they don't, then the pricing signals should be fixed.

Questions 1, 2 and 6

We agree with the Authority's intent "to encourage people to supply surplus energy to the network when it's needed, because this benefits our electricity system and, over time, lowers the lines costs that we all pay through our power bills."

This intent is not customer-type specific.[1] Similarly, there is nothing customer-type specific about setting negative charges "based on the average long-run marginal cost that such injection can avoid".[2] The Authority should ensure all consumers are able to respond to LRMC pricing signals.

SUPA considers that the Authority and Networks should be agnostic or indifferent to who is supplying power to the networks. What matters is whether the supply/injection is providing network benefits. If so, it should be rewarded. The incentive should be across all volumes. The more consumers and market participants respond to pricing signals that reward/encourage more efficient network usage the better. If the incentive is cost-reflective the network should not care who they are paying.

[1] https://www.ea.govt.nz/documents/7774/2A_Requiring_distributors_to_pay_a_rebate_when_consumers_supply_electricity_at_hYzYEsJ.pdf
[2] https://www.ea.govt.nz/documents/7774/2A_Requiring_distributors_to_pay_a_rebate_when_consumers_supply_electricity_at_hYzYEsJ.pdf

The Authority previously commented that "larger customers are already more likely to be rewarded for any benefits their injection provides, as they can negotiate this in their pricing agreement" [emphasis added] but this does not mean ALL "larger" customers are rewarded or that customers other than "mass market customers" have the bargaining power or wherewithal to negotiate negative charges.[3]

The Authority should also note that bi-lateral arrangements may require a customer with a national footprint to engage in 29 (potentially simultaneous) sets of bi-lateral arrangements, which is time consuming, expensive and highly inefficient. There is an emerging group of medium-sized organisations that are uniquely placed to benefit the NZ electricity system, such as community groups and schools, but are not well placed to negotiate with individual electricity networks. These medium sized organisations risk being missed by the current customer definition.

SUPA is also cautious about articulating the objective narrowly as rewarding mass market consumers only as this muddles the 'how' with what the Authority wants to achieve i.e. it confuses 'means' with 'objective'.

Question 7

It may be that the Authority's Code amendments to implement "negative charges" has wider coverage than the Authority originally intended, but as long as suppliers are only being rewarded for genuine network benefits that should not be a problem. It could just mean the Authority will better achieve its objectives of encouraging and rewarding supply of power when it benefits networks. We therefore do not consider that the Authority has sound basis for concern the Code "may not fully achieve our policy intent."

There is no evidence in the consultation that the wider coverage or will result in inefficient outcomes or that there is something unique about the particular pricing signals that are being introduced with the "negative charges" which means only a certain, narrow category of residential and small consumers should 'see' the pricing signal or be able to respond by supplying power to networks when it benefits the network. All consumers should be able to respond to LRMC pricing signals at all parts of the electricity network system.

It may be that electricity networks would see benefit in providing more tailored or bespoke rewards to certain larger suppliers and they should be able to do so. The Authority should satisfy itself that there is nothing in the current Code requirement that "A distributor's pricing methodology must ... include a negative charge for injection of electricity into the distributor's network" that would inhibit the way in which networks set efficient LRMC pricing signals/ negative charges to particular customers.

[3] https://www.ea.govt.nz/documents/7774/2A_Requiring_distributors_to_pay_a_rebate_when_consumers_supply_electricity_at_hYzYEsJ.pdf

SUPA accordingly does not agree that the proposed narrowing of the coverage of the negative charging regime would improve competition, efficiency or reliability for the long-term benefit of consumers. We consider the opposite is more likely, and we do NOT "agree the benefits of the proposed amendment outweigh the costs".

Questions 9 and 10

SUPA considers that it may well be that the coverage of the "negative charges" regime is too narrow rather than too wide. The Authority should undertake a quantified efficiency assessment of the impact of widening/narrowing the range of consumers/market participants that can respond to the negative charging/LRMC pricing regime. Failure to do so is likely to unnecessarily exclude a highly valuable cohort of motivated consumers.

We acknowledge that the significant impact of grid scale generation could potentially create issues, so it may be that a middle ground (Goldilocks) solution may be optimal which is broader than just domestic and small business consumers but not so large that it includes grid scale generation. At a capacity above this level it is far more feasible that bilateral arrangements could be made.

Setting the scope of the rule change at a lower level may well exclude participation by schools, clubs and businesses who have the ability to provide significant efficiency enhancements to network investment or deferral.

Decentralisation

The issues with providing rewards (negative charging) for injection that has network benefits fits firmly within the auspices of Authority's decentralisation framework and should be assessed within that framework. Unfortunately, the proposed Code amendments are likely to harm rather than help enable and facilitate entry and growth of non-traditional and potentially disruptive, and highly beneficial, supply options.

The Authority should be wary of Network owners' natural incentive to continue to invest in their own assets in favour of the natural efficiency of distributed assets owned by customers.

If successful, decentralisation should result in greater localised energy solutions – of varying sizes from domestic premises upwards – and less reliance on large generation investments across the national grid. This includes realisation of the potential benefits such as more efficient network upgrades, improved investment in distributed energy resources (DER), and more efficient planning and investment by distributors.

Yours sincerely,

[redacted]

Luke Blincoe

CEO

SUPA Energy

m. [redacted]

e. [redacted]

w. www.supa.energy