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Energy Competition Task Force
Electricity Authority Te Mana Hiko and
Commerce Commission Te Komihana Tauhokohoko
Wellington

By email: levelplayingfield@ea.govt.nz

Open Letter: Energy Competition Task Force work programme

Introduction

Tēnā koutou,

1. Vector Limited (Vector) welcomes the opportunity to provide feedback on the Electricity Authority's (the Authority) and Commerce Commission's *Open Letter: Energy Competition Task Force work programme*, dated 15 December 2025 (Open Letter).
2. Vector is New Zealand's largest electricity distribution business and also owns and operates Auckland's gas distribution pipelines. Our distribution networks will host increasing volumes of consumer energy resources (CER) and other distributed energy resources (collectively, DER) – including solar panels, batteries, EV charging and discharging, other controllable load and distributed generation. Competition settings that support efficient connection, interoperable participation, and transparent pricing are therefore increasingly material to consumer outcomes and to the least-cost energy transition.
3. The transition toward high penetrations of DER means competition settings and technical settings increasingly interact. Consumers' devices will increasingly be optimised by retailers, independent aggregators and other third parties, and those portfolios will shape both wholesale outcomes and local network outcomes.
4. For distribution networks, the key outcome is that competition, reliability and safety increasingly depend on clear "rules of the road" for aggregation and behind-the-meter optimisation, and on robust coordination between the wholesale market, retailers/aggregators and distribution network operators.

5. Vector supports the submission of Electricity Networks Aotearoa, that while it is hugely positive to have the Commerce Commission and Authority collaborating on competition initiatives, it is important that the Task Force remains true to its original intent and Terms of Reference.
6. Notwithstanding this view, we provide our key points of submission in the remainder of this cover letter, with responses to the specific questions posed following.

The Task Force should prioritise 'market power and flexibility issues', with explicit attention to behind-the-meter optimisation and aggregation settings

7. The trading conduct rules in the Code apply only to resources *offered* into wholesale markets. Vector considers there is a material gap in the trading-conduct framework regarding how large portfolios of *unoffered*, behind-the-meter resources are optimised and dispatched (including demand response, smart EV charging and batteries).
8. This gap will become more material as vertically-integrated gentailers acquire and orchestrate a growing share of flexible resources. Internationally, regulators are moving toward explicitly integrating aggregated behind-the-meter DER portfolios (virtual power plants) into wholesale market participation frameworks[1] – requiring clear participation models, minimum size rules, and coordination between the SO, DER aggregators, and EDBs so that these resources are visible and governable, rather than operating outside market disciplines. In parallel, market monitors are increasingly highlighting that performance and measurement are critical to ensure aggregated demand-side resources deliver when relied upon and cannot be "effectively invisible" in operation.
9. In Vector's view, the Task Force should therefore test whether existing trading-conduct settings, guidance and monitoring are sufficient to deter outcomes that reduce wholesale competition (for example, by enabling portfolio optimisation strategies using DER that materially influence spot price outcomes, wholesale contract liquidity, or consumer choice). Portfolios of non-offered, behind-the-meter resources should be optimised in ways that are consistent with the operators not wielding significant market power, as per the trading conduct rules for generation.
10. Vector also considers there is a clear gap in the Code for *non-retailer* aggregators of DER. Retailer aggregators are required to operate under Default Distributor Agreements (DDAs) and Load Management Protocols (LMPs) with their host EDBs, whereas non-retailer aggregators are not subject to equivalent obligations. This can tilt the playing field away from retailer-based aggregation and, critically, can create network safety and operability risks where large blocks of load and/or export are controlled without consistent coordination and compliance settings.
11. Vector supports the Task Force examining options to ensure equivalent coordination, transparency and enforceability across retailer and non-retailer aggregation models.

[1] See, for example: https://www.ferc.gov/ferc-order-no-2222-explainer-facilitating-participation-electricity-markets-distributed-energy, https://www.caiso.com/documents/demand-response-issues-and-performance-2024-mar-14-2025.pdf and https://www.caiso.com/documents/department-of-market-monitoring-update-mar-2025.pdf

12. Internationally, jurisdictions enabling large-scale DER participation have increasingly paired 'market access' reforms with clear roles, obligations and coordination requirements.

13. Examples include the United States' *FERC Order 2222* (DER aggregations) with explicit coordination between market operators and distribution utilities; Great Britain's work on independent aggregation and wholesale access (including access, measurement and balancing responsibility); and the EU's *Clean Energy Package* which provides a framework for independent aggregators and consumer participation. Australia has also introduced a new registration category for storage and hybrid resources (the *Integrated Resource Provider*) to simplify participation and clarify roles. These examples illustrate the value of pairing competition objectives with durable technical and compliance arrangements.

The Taskforce should avoid duplicating connection pricing methodology work already underway, but apply a competition lens to the components that drive connection charges

14. Vector supports the objectives of improving efficiency, transparency and consistency in connection outcomes. However, connection pricing methodology reform is already underway through the Authority's processes, and the Task Force should avoid duplicating that work.

15. Instead, the Task Force could add material value by focusing on competition and efficiency in *upstream* cost drivers that often dominate connection expenditure – particularly traffic management and related third-party costs in urban environments. Traffic management can form a large proportion of connection build costs, and therefore materially influences the charges faced by consumers and new entrants. We encourage the Task Force to test whether there are structural inefficiencies, market concentration, or regulatory frictions in traffic management procurement and delivery that could be addressed in a discrete, competition-focused way.

Long-term flexibility and 'essential' swing resources should be monitored as a competition risk

16. The Task Force has signalled it will continue to monitor generation investment and the market's ability to deliver firming capacity. Vector supports this and encourages the Task Force to consider whether some long-term flexibility resources could, in practice, operate as 'micro-monopolies' where swing capability of substance is concentrated in a limited set of assets.

17. Vector's view is that the Huntly Rankine units and Lake Pukaki are examples of resources that can be uniquely important for system-wide flexibility, depending on conditions. Where this occurs, the risk is not only spot price outcomes but also the liquidity and contestability of long-dated hedge products and the ability of smaller retailers and new entrants to compete. The Task Force could usefully consider how third-party access to such resources can be monitored and, where necessary, enforced.

18. Relatedly, as demand flexibility resources, large and small, become a key part of virtualised capacity (e.g. the Tiwai demand response contract as a form of dry-year reserve), the Authority should monitor how and when these options are exercised. This will ensure the

resources are being used in line with the national interest. They should be subject to the same level of transparency and scrutiny as physical assets (e.g. aligned with trading conduct requirements and outage reporting requirements).

Vector supports work on non-network alternatives for GXP upgrades with a clear focus on discrete improvements and direction for EDBs' pricing

19. Vector agrees there is merit in ensuring that processes for Grid Exit Point (GXP) and other transmission upgrades appropriately test non-network alternatives and do so at the right cadence, with sufficient transparency to support innovation and competition.
20. In a world of decentralised flexible load and generation at the distribution level, non-network alternatives can be materially cheaper and faster than traditional augmentation, but only if options are visible and evaluation processes are robust.
21. As discussed in detail below, we believe there is a **clear gap in pricing signals sent within the sector** for the costs of impending transmission upgrades to influence consumer decision-making – a gap which the Authority has yet to identify or provide guidance on.
22. Vector's detailed responses to the prompts in the Open Letter are set out below. We would welcome the opportunity to engage further as the Task Force refines scope and prioritisation, including through technical workshops on flexibility market design, connection contestability and any proposed safeguards to ensure non-discrimination.
23. No part of this submission is confidential, and we are happy for it to be published in full.

Ngā mihi,

Yours sincerely

[redacted]

Dr James Tipping
GM Market Strategy / Regulation

Appendix 1: Responses to specific questions posed

Q1: We seek views on the issues and potential projects canvassed in this letter as well as on other issues and projects stakeholders consider the Task Force should focus on to ensure the best outcomes for competition and for New Zealand consumers.

24. Vector supports the Task Force's focus on discrete initiatives that can deliver a material improvement within 12 months, and we agree the four proposed focus areas are relevant to competition and consumer outcomes.
25. From Vector's perspective, the most material and time-critical issues are those at the intersection of (i) wholesale market outcomes, (ii) competitive provision of flexibility services, and (iii) distribution-level safety and coordination.
26. As CER/DER portfolios scale, the ability of a small number of vertically-integrated participants to optimise behind-the-meter resources increases the importance of clear trading-conduct settings and monitoring. In parallel, the Code should provide clear, consistent obligations for all aggregators – retailer and non-retailer – where they control import/export in ways that affect distribution operations and network and public safety.
27. Vector also sees a strong consumer benefit case for the Task Force to maintain visibility of long-term flexibility (firming/swing) and wholesale contract market liquidity, given the importance of hedging access for smaller retailers and new entrants.
28. Finally, Vector supports the Task Force's interest in the competitive dynamics of connection outcomes and GXP upgrade pathways, but recommends the Task Force focus on upstream drivers (e.g., traffic management and other third-party costs) and on encouraging competition in alternatives, rather than duplicating ongoing work on connection pricing methodology requirements.

Q2: We seek stakeholders' views on these projects and focus areas, as well as any further projects and focus areas they think would be appropriate for the Task Force to consider, including suggestions on prioritisation.

29. Vector's suggested prioritisation is as follows:
30. Tier 1 – Market power and flexibility issues (highest priority):
    a) Expand the proposed scope to include the trading-conduct "gap" for optimisation of behind-the-meter resources (including where portfolios are controlled by vertically-integrated gentailers). In Vector's view this is increasingly material to wholesale competition and to the development of a contestable flexibility services sector.
    b) Include the Code gap for non-retailer aggregators of DER as a priority item. Achieving parity of coordination and compliance obligations (including DDA/LMP-type arrangements or an equivalent framework) is important both for competition neutrality (i.e. a level playing field) and network safety.
31. Tier 2 – Monitoring long-term flexibility and wholesale liquidity:

a) Use the Task Force's monitoring mandate to test whether access to long-term flexibility resources is developing in a way that supports entry and effective competition. Vector considers there is a risk that a small number of assets with material swing capability could function as 'micro-monopolies', with implications for contract market liquidity and retail competition. The Task Force could consider what monitoring and enforcement tools are available to support "open access" to such resources (e.g., transparency expectations, conduct monitoring, or market-making-type obligations where appropriate).

32. Tier 3 – Non-network alternatives for GXP upgrades:

    a) Proceed with a tightly-scoped assessment of whether current GXP upgrade pathways (including capacity upgrades) adequately consider non-network alternatives (including flexible load/DER-enabled solutions), and whether there are competition issues in how options are identified and evaluated.

    b) As per the detail in the appendix that follows, analyse and address the clear gap in pricing signals sent within the sector for the costs of impending transmission upgrades to influence consumer decision-making – covering potentially both distribution (use of system) pricing and connection pricing. Efficient price signals must continue as the system's primary mechanism for surfacing and incentivising non-network solutions.

33. Tier 4 – Connections issues (targeted scope):

    a) Vector does not support the Task Force undertaking a deeper dive into connection pricing methodologies, given that work is already in train. However, Vector supports the Task Force examining competition and efficiency issues in major cost drivers that contribute to connection charges – particularly traffic management (permitting, procurement, and any structural inefficiencies) which forms a significant portion of connection build costs in Auckland.

Q3: Views on other projects you consider appropriate for the Task Force to undertake and suggestions of prioritisation against the proposed projects

34. In addition to the proposed projects, Vector suggests the Task Force consider the following discrete projects that meet the Task Force criteria and are closely linked to competition outcomes in a DER-enabled system:

    a) Establish a fit-for-purpose Code participant category and obligations for DER aggregators/portfolio operators – including non-retailers. This should include adherence to the same Load Management Protocols retailers have with their host EDBs (for both import and export control), and clarity on responsibility for measurement, reconciliation and consumer protections.

    b) Clarify and strengthen trading-conduct expectations and monitoring for large behind-the-meter portfolios, including how market participants should manage conflicts where optimisation spans generation, retail and behind-the-meter flexibility. The Task Force could test whether additional guidance (and/or changes to the Code or trading-conduct framework) is warranted.

c) Develop a cross-sector "rules of the road" package for distribution/wholesale coordination as DER participation increases. International experience suggests that enabling DER access to markets works best when accompanied by explicit coordination processes between market operators and distribution utilities (for example, the coordination frameworks developed under *FERC Order 2222* in the United States and independent aggregation work in Great Britain).

d) Continue to monitor long-term flexibility/firming market dynamics and contract market liquidity, including whether any conduct or transparency remedies are required to support entry and effective competition.

e) Provide guidance to distributors on how their pricing could and should incorporate the forward-looking costs of new GXPs and GXP upgrades.

Q4: Feedback on the projects undertaken to date, where you consider that feedback might be helpful in framing our 2026 work programme.

35. Vector supports the direction of the Task Force's work programme to date, including initiatives aimed at improving wholesale liquidity and enabling entry by new generators and independent retailers.

36. Looking forward, Vector encourages the Task Force to ensure that implementation, monitoring and enforcement workstreams explicitly consider how market outcomes may evolve as CER/DER portfolios scale. In practice, a level playing field in retail and wholesale markets increasingly depends on a level playing field in aggregation and on consistent technical/operational coordination with distribution networks.

37. Vector also supports the Task Force continuing to monitor firming capacity and dry-year-risk-related outcomes, and recommends that monitoring explicitly test whether access to long-term swing capability and associated hedging products is supporting competition (particularly for smaller retailers and new entrants).

Appendix 2: The missing price signal for GXP upgrades and alternatives

38. Pricing signals are the key tool used in the New Zealand electricity system to drive efficient operational and investment decision-making – including surfacing and incentivising non-network solutions. Shifting demand to avoid high prices (and take advantage of low prices) is a key motivator for market participants, as we observe in both the wholesale spot market and across distribution networks. It is therefore essential that price signals are cost-reflective, including all relevant information for influencing decision-making.

39. Vector considers there is a material gap in New Zealand's electricity price signals: the long-run, forward-looking cost of upstream transmission augmentation (including new or upgraded GXPs) is not visible in the prices any parties actually see and can respond to. This weakens incentives to use (and invest in) non-network alternatives, and risks inefficient outcomes as electrification, load growth, and DER orchestration accelerate.

40. This is problematic because:

    a) Wholesale nodal prices do not (and cannot) recover or signal the capital cost of future transmission augmentation. Nodal prices are designed to reflect *marginal energy costs* at each location, including losses and constraints, not the fixed/capital cost of building or upgrading network capacity. The market engine SPD has no visibility of future transmission upgrade costs.

    b) By design, the Authority's TPM is primarily a cost allocation / cost recovery framework, not an ex ante customer-facing price signal for future GXP reinforcement. The TPM is the method used to calculate transmission charges and allocate them efficiently between transmission customers. Those charges (benefit-based and residual) are about recovering *existing grid* costs, rather than providing a transparent, forward-looking "capacity price" that end users and flexible resource aggregators can respond to in real time or through standard retail offerings.

    c) End consumers typically do not see a clear, forward-looking, locational signal for upstream GXP / transmission augmentation in retail prices. Transmission charges, which cover *existing* assets only, are generally passed through via distributors / retailers in ways that are not uniform and often smooth costs across time and customer groups. While Vector is one of the few EDBs to pass transmission charges through on a GXP-by-GXP basis, even then, the transmission charges do not signal *future* upgrade costs at all, let alone by location.

41. By way of example, Transpower has several significant GXP upgrades and new GXPs underway in the Auckland region. But it is not signalling these costs in its TPM charges to Vector, and nor is Vector signalling these costs via its connection or lines charges.

42. In fact, the Authority's price-setting guidance to EDBs to date does not appear to have contemplated EDBs doing anything other than passing through transmission charges in as non-distortionary a way as possible. The forward-looking component(s) of EDBs pricing are instead focussed on signalling distribution-level congestion and constraints, not transmission level.

43. This "missing signal" therefore weakens the business case for alternatives to GXP upgrades. When the future cost of upstream reinforcement is not visible to the parties driving new demand/export patterns, markets will tend to:

a) over-rely on “build” solutions (because the avoided cost is not clearly priced), and

b) under-reward flexibility (because the system value of deferring an upgrade is not transparently monetised by avoidance of high, cost-reflective price signals that include all relevant costs).

Competition implications (relevance to the Task Force’s work programme)

44. This gap is not just an efficiency issue; it is a competition issue. If upstream augmentation costs are largely socialised and weakly signalled:

    a) vertically-integrated parties with scale can internalise flexibility value (and shape investment timing) in ways smaller competitors and independent aggregators cannot; and

    b) new entrants face a less predictable, less investable environment for business models that depend on being rewarded for “avoided network costs” (because those avoided costs are not well-defined or observable in the price stack).

45. The Authority has previously explored (in principle) the question of whether nodal prices should be supplemented with long-run marginal cost-style network charging to better align signals with longer-term network costs. This is directly relevant to whether New Zealand’s market settings are creating an uneven playing field as flexibility becomes central to reliability and affordability.

Recommendations for the Task Force

46. Vector recommends the Task Force include a focused workstream on “Upstream augmentation signals (GXP/transmission) and competition in flexibility alternatives”, with the following elements:

    a) Diagnose the signal gap (end-to-end): map how (or whether) the expected costs of new GXPs, or GXP reinforcement, show up in (a) nodal prices, (b) TPM charges, (c) EDB pass-through and distribution pricing (including both connection and lines charges), and (d) retail tariffs – and identify where the signal is lost.

    b) Assess remedies that are competition-neutral: options could include stronger transparency and standardisation of upstream constraint / upgrade drivers (e.g., publish GXP headroom forecasts, upgrade triggers and indicative cost ranges), and mechanisms that enable multiple parties (retailers and non-retailer aggregators) to compete to deliver non-network alternatives where they are cheaper than reinforcement.

    c) Ensure “alternatives to GXP upgrades” are investable: create conditions where flexibility providers can be rewarded against a credible avoided-cost benchmark, via response to published pricing signals, rather than relying on opaque negotiations or vertically-integrated internalisation.