24 February 2026

Tēnā koutou,

Ensuring consumers benefit from efficient investment in non-network solutions

Consumers will benefit significantly from the use of non-network solutions in delivering the capacity needed for the energy transition and for economic growth. This is a joint letter from the Commerce Commission, the Electricity Authority and the Energy Efficiency and Conservation Authority focused on accelerating the use of non-network solutions in electricity distribution networks.

Purpose of this letter

This letter sets out our understanding of the opportunity that non-network solutions offer to improve the efficiency of electricity distributors (distributors). It also sets out some of the key actions we consider distributors should be taking now and in the future to leverage non-network solutions effectively and efficiently. [1]

We are seeking feedback on the contents of this letter from all stakeholders with an interest or involvement in this area. This includes consumer groups, distributors, flex providers, generators, retailers and Transpower.

Your feedback will help inform future thinking on priorities, work programmes, and new/amended regulatory requirements. These include Electricity Authority Te Mana Hiko (Authority) work on network pricing and policy, the Energy Efficiency & Conservation Authority Te Tari Tiaki Pūngao (EECA) work supporting non-network solutions and the Commerce Commission Te Komihana Tauhokohoko (Commission) preparation for the next default price path (DPP5), ongoing work on information disclosure requirements and assessment of reopener applications.

Our role

As regulators and agencies with statutory responsibilities in the electricity sector, the Authority, Commission, and EECA each play distinct but complementary roles in shaping how New Zealand's electricity system evolves. This letter focuses on our common goal – supporting an electricity system that delivers the best long-term outcomes for consumers.

While our responsibilities differ, we collectively shape the regulatory settings that guide how electricity distribution businesses plan and invest in their networks. These settings matter because

[1] Non-network solutions (NNS), also referred to as "non-traditional solutions," are alternatives to traditional network reinforcement that address an identified network need. NNS may include flexibility services (where electricity use or generation is adjusted by customers or third-party providers in response to signals or contracts), distributed energy resource orchestration, demand reduction, distributed generation, energy efficiency, or other commercial arrangements that reduce or shift load so that network upgrades can be deferred or avoided.

distribution investment requires long lead times, is slow and costly to change once initiated with the costs and benefits of decisions ultimately borne by consumers.

Distribution infrastructure underpins almost every aspect of modern life

Decisions about when and where networks are reinforced, and whether consumer and system needs are met through network or non-network solutions, directly affect household electricity bills, the cost of the energy transition (such as electrifying transport, process heat and gas hot water and space heating), and the affordability and reliability of energy for businesses and communities across New Zealand.

Through our respective roles, we seek to ensure distribution investment decisions are efficient, forward-looking, responsive to changing system needs and deliver reliable, least-cost electricity at for consumers. We also recognise the role we play in aligning regulation across government to minimise regulatory burden and simplify processes for market participants, to enable the opportunity outlined in this letter.

Why now

The electricity system is changing rapidly. Renewable generation is growing, bringing greater variability and intermittency. At the same time, overall demand is projected to rise as gas supply declines, transport electrifies, and more industrial and commercial processes transition to electric technologies.

Alongside these changes, new distributed energy resources (DER), including solar, batteries and smart, controllable devices, are becoming more affordable and more widely deployed. With the right signals and frameworks, they can respond dynamically to system conditions and play a significant role in supporting the wider electricity system.

Non-network solutions offer significant, quantifiable potential to reduce costs and defer network upgrades

If this potential for flexibility is unlocked, it can deliver meaningful benefits for consumers and the system. By shifting electricity use away from peak periods and better aligning demand with available network capacity, flexibility can reduce pressure on upstream networks, lower the need for high-cost generation and defer or avoid expensive network upgrades.

Non-network solutions can also buy time before committing to major upgrades and allow network owners to refine their forecasting and demand assumptions. This means when (or if) reinforcement is needed, it is based on better information and more accurate cost-benefit analysis.

The scale of this opportunity is becoming increasingly clear. EECA's recent analysis suggests that, with suitable investment and incentives, there is 1.9GW of potentially shiftable load in the system now, with a further 500MW of sheddable load available.[2]

With distributors forecasting approximately $2 billion in system growth capex from 2026 to 2030, leveraging these non-network solutions efficiently brings a meaningful opportunity to improve performance and reduce costs for networks, consumers and the wider electricity market.

[2] EECA, "The full potential of flexible electricity in New Zealand," (January 2026).

Realising these benefits requires coordinated action across the electricity sector

All key system actors need to play their part in providing the signals, incentives and opportunities that enable participants, including consumers, to fully utilise their flexibility. Open, interoperable approaches, including standardised communication, data exchange and cybersecurity practices, will be essential to enable seamless integration of DER and avoid fragmented solutions that limit consumer value.

What distributors can do

The steps outlined in this letter focus on opportunities to ensure distributors are efficiently leveraging non-network solutions. However, we are similarly focused on other actors in the electricity market to ensure consumers receive the services they demand at an efficient price. To that end, we also welcome feedback on any other actions the Authority, Commission and EECA could take to support the efficient utilisation of flexibility services in New Zealand.

1. Ensure both non-network and network solutions are considered in network planning

Distributors should treat both non-network and network solutions on an equal footing throughout planning processes, as well as their longer-term strategy for managing their networks. This is supported by using objective, comparable, consistent and transparent criteria (eg, net-present-value/cost-benefit analysis, deliverability).

Doing so helps distributors ensure that opportunities to efficiently use non-network solutions are identified early, clearly signalled and given sufficient lead time to be developed and tested so they have a genuine opportunity to address the identified need.

This expectation is consistent with the Commission's Asset Management Plan (AMP) requirements for distributors to identify constraints, assess non-network alternatives, and disclose where these may provide a more cost-effective option than traditional network reinforcement. It also aligns with the expenditure incentive settings under the Commission's price-quality regulation framework - which are technology-neutral and financially balanced, so distributors retain a share of efficiency gains from the least-cost solution whether delivered through opex or capex.

There is significant material from overseas energy markets that can help distributors further develop and mature their network planning processes so non-network solutions are considered on a consistent and comparable basis. This is complemented by workstreams underway in New Zealand, being undertaken by Electricity Networks Aotearoa, the Electricity Engineers' Association and FlexForum.

There are overseas examples of relevance to New Zealand, including the Energy Networks Association in the United Kingdom commissioning Baringa Partners to develop the Common Evaluation Methodology – a standardised cost-benefit evaluation framework used by all of its members to fairly compare the traditional network reinforcement against procuring flexibility services.[3]

Similarly, it has a range of operational, commercial and technical guidance via its Open Networks programme to help ensure its members are integrating non-network solutions efficiently into their networks.[4]

[3] Available here.

[4] More information here.

2. Pricing as an enabler of flexibility

Pricing is a critical lever for making better use of the electricity network and lowering costs for consumers. When prices clearly signal when capacity is available and when it is constrained, electricity use can shift in ways that reduce peaks and defer network investment.

We want pricing to support a future where electricity use is price-responsive rather than being directly controlled by distributors. In this future state, consumers are not expected to actively manage their electricity use day-to-day. Instead, they choose retail products and services that suit their preferences. In addition, retailers or other customer agents respond to network price signals on their behalf, using automation and smart technology to manage assets such as EV chargers, batteries and hot water systems.

Pricing should therefore be designed to enable and reveal price-responsive flexibility over time, rather than assume it appears automatically or remains static. This requires distributors to look beyond directly controlled load and to actively test, monitor and refine pricing structures so they can understand how demand responds and how those responses can increasingly be incorporated into system operation and network planning.

We also recognise that reforms to enable price-responsive flexibility will influence the role and attractiveness of existing controlled load arrangements, such as ripple control, which deliver flexibility through direct network control.

Controlled load can continue to provide system value, particularly during the transition, and pricing should reflect that value where it exists. Controlled load arrangements should remain clear, fair and deliver tangible, straightforward value to consumers, without weakening broader price signals intended to support flexible, automated responses.

To support this direction, the following aspects from the Authority's May 2024 open letter to distributors on Distribution Pricing Reform[5] are particularly relevant:

- Align off-peak and controlled load charges with their low long-run marginal cost (LRMC) – typically close to zero – to encourage demand shifting and EV charging when network capacity is available.
- Make off-peak pricing simple and attractive, recognising that responses will largely be delivered through retailer products and automation rather than manual consumer action.
- Monitor and manage transition risks, including the risk of new peaks forming at pricing boundaries.
- Review non-residential tariffs (eg, flat kWh or capacity charges) to ensure they do not discourage efficient consumption or flexibility.
- Build on existing progress and share learnings. Many distributors have already reduced off-peak rates significantly, with some achieving zero-cost off-peak pricing. Sharing examples like this, of best practice, through industry forums, AMP disclosures or case studies, can help distributors earlier in their pricing reform journey adopt effective approaches more quickly. It also supports consumer understanding and uptake of new tariffs, ensuring that price signals translate into real flexibility outcomes.

[5] Electricity Authority, "Open letter to distributors" May 2024.

3. Engaging with the market

As New Zealand's market for non-network solutions is still developing, procurement and engagement processes need to be designed to encourage participation and reduce barriers for providers.

In practice this means:

- Standardising or coordinating approaches to seeking market offers for flexibility, so providers do not have to navigate 29 different procurement processes.
- Learning from established frameworks in the European Union and United Kingdom, as well as from trials already run in New Zealand, to expedite the implementation of mature procurement approaches.
- Clearly signalling and supporting the use of open communication protocols as the preferred direction for non-network solutions, to enable interoperability, reduce integration costs, and avoid fragmented or proprietary approaches that limit market participation. Consistent use of open protocols can lower barriers for providers, support competition and make it easier for flexibility services to scale across multiple networks over time.
- Demonstrating why any in-house non-network solution represents the most efficient option, compared with what the market could provide. Given distributors' natural monopoly position, and the associated risk of real or perceived leverage into adjacent flexibility services markets, this requires transparent and robust analysis, documented through disclosures or AMPs, showing how in-house options were assessed against market alternatives and why they deliver the greatest value for consumers. The Authority's 'Guidance on distributor involvement in the flexibility services market' should inform this approach to ensure competition is not inhibited and market development is supported.[6]
- Contributing to price discovery for flexibility services by publishing indicative costs, sharing learnings from procurement processes and supporting transparency. This helps build confidence in the market, encourages participation and ultimately drives down the cost of non-network solutions for consumers.

Next steps

We invite responses from stakeholders on the contents of this letter by 24 March 2026 to distribution.feedback@ea.govt.nz. Please use the subject line *"Response to joint letter to distributors on NNS*."

We (the Commission, Authority and EECA) intend to publish feedback we receive unless there is a clear and explicit request to not publish it due to confidentiality or commercial sensitivity. We will consider any such requests on their merits.[7]

Feedback will help inform our future thinking, priorities, and respective work programmes. We will continue to engage with you to monitor progress and identify any regulatory or operational barriers. Your leadership in this area is critical to achieving a future-ready electricity system.

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[6] Electricity Authority, "Guidance on distributor involvement in the flexibility services market," (2 Feb 2026).

[7] Please note, your submission may still be released under the Official Information Act 1982, even if not published. The Authority would normally consult with you before releasing any material that you said should not be published.

Thank you for your commitment to this important work.

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