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Submissions
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ERGANZ SUBMISSION ON REFORMING NETWORK PRICING FOR DISTRIBUTED GENERATION

The Electricity Retailers' and Generators' Association of New Zealand ('ERGANZ') welcomes the opportunity to provide feedback on the Electricity Authority's consultation paper, 'Reforming network pricing for distributed generation to promote efficient investment'.

ERGANZ is the industry association representing companies that generate and sell electricity to Kiwi households and businesses. Collectively, our members supply almost 90 per cent of New Zealand's electricity. We work for a competitive, fair, and sustainable electricity market that benefits consumers.

Executive summary

ERGANZ supports the Authority's overall reforms. The current Distributed Generation Pricing Principles (DGPPs) were developed for a different era and are no longer fit for purpose given the scale and pace of investment now occurring in distribution-connected generation, batteries, and flexible demand.

The Authority has identified issues with the current framework including cost under-allocation, position-in-queue dynamics, and weak incentives to host injection. ERGANZ members investing in distributed generation observe these problems first-hand and agree that these are all genuine impediments to efficient investment.

ERGANZ particularly supports:

- The proposal to extend pioneer schemes to all connection types, including network injection capacity upgrades. This directly addresses the first-mover disadvantage that has stalled efficient investment.
- The introduction of a non-discriminatory pricing principle. This is essential given the Government's signalled intention to lift the threshold for distributor ownership of generation from 50 MW to around 250 MW.

- Maintaining consumers as the residual payers of network costs. Allocating residual costs to producers would inefficiently raise wholesale electricity prices and weaken competition between distribution-connected and transmission-connected generation.

ERGANZ is more cautious on three areas:

- Reframing the incremental cost rule from a cap to an anchor. ERGANZ supports the change in principle, but the reform must be accompanied by robust safeguards. Without strong methodology disclosure, effective dispute resolution, and active monitoring, the change risks shifting compliance risk from distributors to producers and deterring efficient distributed generation investment.
- The breadth of distributor discretion in capacity and congestion pricing. Generation developers operating nationally face 29 distributors, each potentially designing different methodologies. Wide discretion may suit local circumstances but creates investment uncertainties. The Authority should complement the proposed changes with active guidance, best-practice frameworks, and benchmarking.
- Retrospective application of new lines charges to existing injection connections. Predictability of network pricing is fundamental to investment confidence. Care should be taken to respect contractual bargains entered into in good faith under the current settings.

On distribution pricing pass-through, ERGANZ takes the principled position that network pricing should send efficient signals to the market. However, retailers must be able to retain flexibility to design plans that suit customers, without mandatory pass-through of distributor prices to retail tariffs. Mandatory pass-through risks unwinding the very competitive retail innovation that has produced time-of-use plans, export rewards, and bundled solar offers.

Submission points

ERGANZ supports the direction of reforms

The current DGPPs were introduced in 2007 in a very different operating environment. Distributed generation was nascent, batteries were not commercial at scale, and electrification of transport and process heat was not driving demand growth in the way it is today. The Authority is right to revisit a framework that was designed to encourage uptake of distributed generation but is now contributing to inefficient investment patterns and cost shifting.

ERGANZ members have direct experience of the issues identified in the consultation paper:

- Wide variation in connection charges between distributors, with no clear basis for the differences.
- Full allocation of upgrade costs to single applicants, leading to investment deadlocks once 'free' injection capacity has been consumed.
- Limited recognition of the network benefits provided by injection that aligns with peak offtake.

At the same time, retailer members observe how cost shifting flows through to consumer bills. Where distributors cannot recover incremental costs from injection connections, those costs are recovered through lines charges from retailers and ultimately from all consumers. The current settings therefore neither serve producers nor consumers well, and reform is overdue.

Consumers should remain residual payers

ERGANZ strongly supports retaining consumers as the residual payers of network costs. This is the correct economic position. Allocating residual costs to producers raises the marginal cost of supply and flows through to higher prices. Consumers ultimately bear those costs anyway, but with the additional dead-weight loss that comes from distorting investment and operating incentives at the production end.

The position is also consistent with the Transmission Pricing Methodology, which allocates residual transmission charges entirely to load. Departing from this approach at the distribution level would create a fresh distortion between distribution-connected and transmission-connected generation.

ERGANZ does not consider that 'parity' between injection and offtake pricing would deliver more efficient outcomes. Producers are more responsive to network costs than consumers, so allocating residual costs to producers would be more distortionary, not less.

Reframing the incremental cost rule requires safeguards

The proposal to reframe the incremental cost rule from a cap ('must not exceed') to an anchor ('must reflect a reasonable estimate of') is correct in principle. The current asymmetry of compliance risk encourages distributors to set charges below incremental cost, leaving consumers to subsidise producers.

However, the reframing creates a corresponding risk in the opposite direction. If distributors interpret 'reasonable estimate' expansively, charges may drift above incremental cost, creating new subsidies that flow from producers to consumers. This would, in effect, deter efficient distributed generation investment and undermine the Authority's broader objectives. The risk is real and the consultation paper itself acknowledges that distributors face incentives to grow or contain their asset base depending on circumstances, which can shape pricing behaviour.

To manage this risk, ERGANZ submits that the Authority should:

- Require distributors to publish detailed methodologies showing how they have estimated incremental costs and benefits, including the underlying data, assumptions, and counterfactuals.
- Ensure dispute resolution mechanisms are accessible and effective for both small and large connections, with the Rulings Panel empowered to direct distributors to recalculate charges that are inconsistent with the principles.
- Actively monitor allocation outcomes through the standardised charge reconciliations, with regular public reporting that enables benchmarking across distributors.
- Treat costs and benefits symmetrically, so that benefits identified through cumulative analysis (such as freeing up offtake capacity) are recognised with the same rigour as costs imposed.

The Authority's stated commitment to closely monitor how distributors use injection pricing is welcome, but should be backed by clear consequences where pricing is not cost-reflective. Light-touch oversight will not be sufficient given the scale of investment at stake.

Pioneer schemes and non-discrimination are particularly welcome

ERGANZ strongly supports extending pioneer schemes to all connection types, including network injection capacity upgrades. The current 'last straw' dynamic has stalled efficient investment in injection capacity. Generators considering distribution-connected projects often face the prospect of bearing the full cost of an upgrade that subsequent connections will benefit from at no charge. This creates clear incentives to delay or downsize projects, even where investment would be efficient overall.

The proposed seven-year minimum scheme duration, transparent allocator metrics, and published policies are sensible improvements on the current arrangements. ERGANZ encourages the Authority to monitor whether seven years remains the appropriate minimum, given the long lead times of major distributed generation projects, and to consider whether further refinement is needed once schemes have been in operation for some time.

ERGANZ also strongly supports the new non-discriminatory pricing principle. With Government policy to raise the threshold at which distributors may invest in generation from 50MW to around 250MW, the risk of discriminatory pricing in favour of distributor-owned generation will increase significantly. The proposed principle is a necessary safeguard for competition and is timed appropriately.

The Authority should consider whether the principle alone is sufficient or whether it should be supported by additional transparency requirements. Ex-post publication of pricing applied to distributor-owned and related-party projects, on a comparable basis to independent projects, would assist the market and the Authority to assess whether the principle is being given effect.

Capacity pricing requires consistency across distributors

ERGANZ acknowledges that distributor circumstances vary significantly, and that some flexibility in capacity pricing approaches is appropriate. A distributor with ample capacity should not be required to implement complex congestion pricing that delivers no efficiency gain.

However, ERGANZ members and others operating nationwide face 29 distributors, each of whom may design different capacity costing approaches, congestion pricing methodologies, and pioneer scheme rules. Inconsistency on this scale increases transaction costs, complicates project economics, and creates investment uncertainty. The transaction costs of navigating diverse approaches fall on access seekers and ultimately on consumers.

ERGANZ recommends the Authority complement the proposed enabling framework with:

- Clear best-practice guidance, including worked examples for common scenarios such as solar-plus-battery on subtransmission, wind farms on rural feeders, and battery storage at zone substations.

- Standardised templates for methodology disclosures, so that applicants can readily compare approaches across distributors.
- Annual benchmarking reports that identify variations in allocation outcomes.
- A willingness to issue further Code amendments where distributor practices diverge from efficient outcomes.

Best-practice templates and benchmarking are not substitutes for distributor judgement about local conditions, but they would reduce the cost of operating in a multi-distributor environment and improve confidence in the framework as a whole.

Distribution pricing and retailer flexibility

ERGANZ takes the principled position that network pricing should send efficient signals to the market. Cost-reflective distribution pricing supports better investment decisions, more efficient network use, and lower overall costs.

However, retailers must retain flexibility to design plans that suit their customers, without mandatory pass-through of distributor prices to retail tariffs. There are several important reasons for this:

- Retail competition has driven the development of innovative plans that suit different customer profiles, including time-of-use plans, fixed-price plans, and bundled solar offers. Mandatory pass-through would constrain this innovation.
- Retailers face customer service, billing, and financial hardship considerations that are best managed through retailer-customer relationships, not through prescriptive regulatory pass-through.
- The customer experience of complex distribution charges, including capacity charges, congestion charges, and injection rebates, is best mediated by the retailer.
- Where distribution charges are bundled or smoothed in retail plans, the financial risk is borne by the retailer rather than the customer, which is the appropriate allocation of risk.

The Authority should ensure that any further reform, particularly in relation to the small and large consumer export rebate frameworks, preserves retailer flexibility to package, bundle, or smooth distribution charges in retail tariffs. The objective of efficient pricing signals is achieved when distributors charge retailers cost-reflectively. It is not necessary, and may be counter-productive, to require those signals to be passed through strictly to the customer.

Implementation considerations

The proposed commencement of changes to lines charges from 1 April 2027, with an option to defer to 1 April 2028, is tight given the complexity of the reforms. Distributors will need to develop new methodologies, consult with retailers, and update billing systems. Retailers will need to update plans, customer communications, and billing systems.

ERGANZ supports the proposed deferral option but recommends the Authority engage actively with retailers and distributors during the implementation phase to identify and resolve sequencing issues. A coordinated forum bringing together distributors, retailers, and the Authority would assist in resolving practical issues as they arise.

Retrospective application of new lines charges to existing injection connections requires careful handling. Investors will have committed to long-term distributed generation investments on the basis of current pricing settings. While the Authority is right that lines charges may evolve over time, and contractual terms typically anticipate regulatory change, abrupt changes can undermine investment confidence. The Authority should encourage distributors to adopt transitional arrangements where material new charges are introduced for existing connections.

Areas for further reform

ERGANZ considers that the transmission bypass issue identified in section 5 of the consultation paper warrants further work. The current treatment creates an inefficient incentive to design projects to avoid contributing to transmission connection costs, which could lead to suboptimal project configurations. Addressing the issue will likely require coordinated work between the Authority and Transpower, building on Transpower's operational review.

ERGANZ is more cautious on relaxing restrictions on recognising transmission benefits. Nodal prices already provide signals that reward generation locating where transmission costs would otherwise be incurred. Allowing distributors to also pay for transmission benefits in injection pricing risks double-counting and over-stimulating injection. Any relaxation should be approached carefully, after the broader reforms in this consultation have bedded in, and only with clear evidence that nodal price signals are insufficient.

Consultation questions

ERGANZ's responses to the specific consultation questions are set out in the table below, in the format provided in Appendix J of the consultation paper.

Questions	Comments
Q1. Do you agree with the background and context summary above? Why? Is there additional background, evidence, or context relevant to the proposals in this paper?	ERGANZ broadly agrees with the background and context summary. The DGPPs were appropriate for the 2007 environment but are no longer fit for purpose given the scale and pace of investment in distributed generation, batteries, and flexible demand. ERGANZ supports distributed generation and considers reform of the framework is overdue. The summary could be strengthened by acknowledging the role retailers play in mediating distribution charges to consumers and supporting investment in distributed generation through buy-back rates and bundled offers.
Q2. Do you agree there are workability challenges with defining incremental costs	Yes. The current framing of the incremental cost rule encourages distributors to set charges below incremental cost. The connection-by-connection focus, the reference to a hypothetical

Questions	Comments
under the current DGPPs? Why, why not? Are there any additional challenges not discussed above?	'efficient distributor', and the limited treatment of cumulative and programmatic costs all add to the difficulty. ERGANZ also notes that workability problems flow in both directions. Limitations in defining and quantifying benefits, such as freeing up offtake capacity, have led to negligible uptake of avoided cost of distribution payments despite the principle being clear. Reform should address both sides of the equation.
Q3. Do you agree the current DGPPs cause costs and benefits to be under-allocated to injection connections, which can cause the issues listed above? Why?	ERGANZ partly agrees. The evidence suggests both costs and benefits have been under-allocated under the current DGPPs. Reform should ensure that benefits provided by injection are recognised with the same rigour as costs imposed. Otherwise, the reform risks shifting cost burden to producers without providing the offsetting incentives that efficient pricing requires.
Q4. Do you consider it remains appropriate to regulate injection pricing methodologies? Why?	Yes. Distributors are monopolies and pricing methodologies need to be regulated to prevent market power being exercised against access seekers. Connection applicants commit significant resources ahead of securing a connection, exposing them to hold-up risk in an unregulated environment. Regulation is particularly important with the Government policy to lift the threshold for distributor ownership of generation. Regulation helps prevent distributors from using pricing to advantage their own generation over independent projects, undermining competition.
Q5. Do you consider that consumers should remain residual payers? Why? Are there any additional economic concepts that should be considered in our reform of the DGPPs?	Yes. Allocating residual costs to producers would raise the marginal cost of supply and flow through to higher wholesale and retail prices. The position is also consistent with the Transmission Pricing Methodology, which allocates residual transmission charges entirely to load. Producers are more responsive to network costs than consumers, so allocating residual costs to producers would be more distortionary, not less. The current settings recognise this and should be retained. ERGANZ does not consider that any additional economic concepts need to be introduced. The proposed framework draws on well-established cost allocation principles that are appropriate for the New Zealand context.

Questions	Comments
Q6. Do you consider that reframing the incremental cost rule to a requirement that charges ’must reflect a reasonable estimate of’ rather than ’must not exceed’ incremental costs is appropriate? Why?	ERGANZ supports the reframing in principle, subject to robust safeguards. The reframing creates a corresponding risk of over-allocation if distributors interpret ’reasonable estimate’ expansively. The required safeguards include: • Detailed methodology disclosure showing data, assumptions, and counterfactuals. • Effective and accessible dispute resolution. • Authority monitoring with regular public reporting. • Symmetric treatment of costs and benefits. • Clear consequences where pricing is not cost-reflective. Without these safeguards, the reform risks substituting one form of inefficient allocation for another.
Q7. Do you consider that the proposed amendments to language and framing would support more efficient pricing? Why?	Yes. The shift from ‘distributed generator’ to ‘injection connection’, the inclusion of cumulative and programmatic costs, and the explicit recognition that connections may be subject to both injection and offtake charges are sensible improvements.
Q8. Do you consider that a non-prescriptive, enabling approach to capacity pricing is appropriate at this stage? Why?	ERGANZ supports an enabling rather than prescriptive approach but is concerned about inconsistency across distributors. Generation developers operating nationwide face 29 distributors, and inconsistency increases transaction costs and creates investment uncertainty. The Authority should complement the framework with active guidance, best-practice templates, worked examples, and benchmarking. Without guidance, the proposed framework risks producing significant variations in approach.
Q9. Do you consider that the proposed extension of the pioneer scheme for load connections would help address position-in-queue issues for injection connections? Why?	Yes. ERGANZ supports extending pioneer schemes to injection connections. The current arrangements create severe first-mover disadvantage and have stalled efficient investment once ‘free’ capacity is consumed. The seven-year minimum duration, transparent allocator metrics, and published policies in the Part 6B framework are appropriate. Pioneer schemes are one of the most directly beneficial elements of the proposed package for the development of distributed generation in New Zealand.

Questions	Comments
Q10. Do you consider that pioneer schemes should also cover network injection capacity? Why?	Yes. Including network injection capacity upgrades within pioneer schemes is an improvement. It enables capacity investment to proceed without a single applicant bearing the full cost of an upgrade that subsequent connections will benefit from.
Q11. Do you consider that the proposed non-discriminatory pricing requirements would improve confidence that investors are safeguarded from discriminatory pricing? Why?	Yes. The proposed principle would significantly improve confidence that investors are safeguarded from discriminatory pricing. It is particularly important given the Government's policy intention to raise the threshold for distributor ownership of generation to around 250MW. ERGANZ encourages the Authority to consider whether additional transparency requirements would strengthen the principle. Ex-post publication of pricing applied to distributor-owned and related-party projects, on a comparable basis to independent projects, would assist the market and the Authority to assess compliance with the principle.
Q12. Do you agree with the proposed application provisions, in particular with regard to opting out, retrospectivity and secondary networks? Why?	ERGANZ supports the proposed subsidy test for opting out, which protects against cost-shifting between connections. Bilateral arrangements that would shift costs to other customers should be subject to oversight. ERGANZ supports retaining the current secondary network exemptions for now, while recognising the case for a future review. ERGANZ has more concern about retrospective application of new lines charges to existing injection connections. While the Authority is right that contractual terms typically anticipate regulatory change, transitional arrangements should be available where material new charges are introduced for existing connections. Predictability of network pricing is fundamental to investment confidence.
Q13. Do you agree with the proposed commencement provisions above? Why?	ERGANZ supports the direction but considers the timeline tight. The Authority should engage actively with retailers and distributors during implementation to identify and resolve sequencing issues, particularly where new charges affect retail billing systems and customer communications. A coordinated implementation forum would assist.

Questions	Comments
Q14. Do you have any suggestions for how we can most effectively support successful implementation?	ERGANZ supports the Authority's proposed implementation support, including guidance, worked examples, and rapid amendments to resolve minor issues. Additional steps that would assist include: ● Standardised methodology disclosure templates to enable comparison across distributors. ● Coordination workshops with retailers and distributors during the implementation phase. ● A published register of methodology disclosures across all distributors to enable benchmarking. ● Worked examples covering common project archetypes including utility-scale solar, distribution-connected battery storage, and commercial behind-the-meter generation. ● A clear escalation path for implementation issues raised by industry participants.
Q15. Do you have any suggestions for effective monitoring and reporting, including proposed changes to charge reconciliation requirements?	ERGANZ supports the proposed expansion of charge reconciliation requirements to all injection connections. Effective monitoring also requires: ● Regular public reporting on allocation outcomes, including aggregate analysis across the sector. ● Benchmarking analysis identifying variations across distributors. ● Ex-post review of how injection pricing is influencing investment decisions. ● Publication of methodology disclosures in a comparable format. Dispute resolution provisions should be accessible and effective, including for smaller connections that may not have the resources to engage in protracted disputes. The Rulings Panel should be empowered to direct distributors to recalculate charges that are inconsistent with the principles, and should have access to expert support to assess complex methodological issues.
Q16. Do you agree it is appropriate to give distributors relatively wide discretion as to how they	ERGANZ supports discretion at this stage but with active Authority oversight. Distributor circumstances are different, and prescriptive rules at this stage would risk locking in approaches that are not yet well-understood.

Questions	Comments
implement capacity charges for injection connections? Why?	However, any discretion must be accompanied by clear methodology disclosure, benchmarking, and a willingness to issue further Code amendments where practices diverge from efficient outcomes. Discretion is not a substitute for accountability.
Q17. Do you agree that for larger connections a more bespoke approach that accounts for dependability and mitigates risks such as over-injection or inefficient payments is more appropriate than the prescriptive broad-based approach used for residential and small business consumers? What do you consider such an approach should look like?	Yes. A bespoke approach is more appropriate for larger connections. Larger connections are more responsive, more concentrated, and more likely to herd at pricing window edges if subjected to time-of-use signals. A targeted approach should be supported by published methodologies that explain how rates and windows have been set.
Q18. Is there any specific guidance that would be particularly helpful for distributors implementing capacity charges for injection?	ERGANZ recommends guidance on: ● How to derive long-run marginal cost estimates for capacity charges. ● Appropriate revenue recycling mechanisms. ● Design of congestion pricing windows and price levels. ● Integration of injection pricing with offtake pricing for hybrid connections. ● Interaction between capacity pricing and pioneer schemes. Worked examples covering common project types would also assist.
Q19. Do you consider that inconsistent treatment of transmission connection charges for large generation projects may distort investment? Why?	Yes. The treatment described in figure 5.1 of the consultation paper creates an inefficient incentive to design projects to avoid contributing to transmission connection costs. This could lead to developers tilting investment toward smaller projects that connect to distributor-owned assets and away from configurations that may be more efficient overall. The issue affects investment efficiency and competitive neutrality between projects.

Questions	Comments
Q20. Do you have a view on the best option to address the connection charge distortion issue? Please explain your rationale.	ERGANZ does not have a settled view on the best option. Resolution will likely require coordinated work between the Authority and Transpower, building on Transpower's operational review. The reform should aim to ensure that connection contributions reflect the underlying cost of grid spur assets used, regardless of whether the asset is distributor-owned or Transpower-owned. ERGANZ welcomes further consultation on specific options once they have been developed.
Q21. Do you consider that the restriction on recognising transmission benefits should be reconsidered if the other proposed Code amendments are made? Why?	ERGANZ recommends caution. Nodal prices already provide signals that reward generation locating where transmission costs would otherwise be incurred. Allowing distributors to also recognise transmission benefits in injection pricing risks double-counting and over-stimulating injection. Any relaxation should be approached carefully, with clear evidence that nodal price signals are insufficient and with safeguards against double-counting. The Authority should observe how the broader reforms in this consultation play out before considering further change in this area.
Q22. Are there any other matters that you consider important for us to take into account in our reform of the DGPPs?	*Distribution pricing pass-through* As stated in our submission, ERGANZ takes the principled position that network pricing should send efficient signals to the market. However, retailers should retain flexibility to design plans that suit their customers, without mandatory pass-through of distributor prices. Retail competition has driven innovation in time-of-use plans, prepay arrangements, fixed-price plans, and bundled solar offers. Mandatory pass-through of distribution charges would constrain this innovation and would not deliver better customer outcomes. The Authority should ensure that any further reform preserves retailer flexibility to package, bundle, or smooth distribution charges in retail tariffs. *Interaction with broader reform programmes* The proposed amendments interact with several other workstreams, including the Government's review of the threshold for distributor ownership of generation, the Authority's broader work on transmission pricing, and the Commerce Commission's

Questions	Comments
	regulation of distributor revenues. The Authority should ensure that the timing and design of these reforms is coordinated to avoid unintended interactions.
Q23. Do you have any comments on the consumer impact analysis methodology or findings?	The illustrative scenarios are useful for understanding how the proposals could play out. The quantitative analysis suggests modest near-term per-connection impacts but with significant variation between distributors. The Authority should commit to publishing further analysis as the reforms are implemented, including ex-post assessment of allocation outcomes.
Q24. Do you agree with the objectives of the proposed amendment? If not, why not?	Yes.
Q25. Do you agree the benefits of the proposed amendments would outweigh the costs?	Yes. The proposed amendments are likely to deliver benefits that outweigh the costs. Administrative costs are modest relative to the scale of investment in production and network capacity, and even small efficiency improvements are likely to deliver material benefits over time.
Q26. 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 objective in section 15 of the Electricity Industry Act 2010.	Yes.
Q27. Do you agree the Authority's proposed amendment complies with section 32(1) of the Act?	Yes.
Q28. Do you consider that the Authority's preferred high-level	Yes.

Questions	Comments
settings for injection pricing are consistent with the distribution pricing principles? Why?	
Q29. Do you consider that consolidating distribution pricing methodology requirements into Part 6B would improve clarity and consistency? If not, why?	Yes. Consolidation will assist applicants, retailers, and distributors in understanding the framework as a coherent whole and will reduce the risk of inconsistent interpretation across connection types.
Q30. Do you have any comments on the drafting of the proposed amendment?	ERGANZ has no specific drafting comments at this stage.

Conclusion

ERGANZ supports the Authority's reform of the DGPPs and welcomes the constructive approach taken in the consultation paper. The proposed amendments address genuine problems with the current framework and, if implemented carefully, will support more efficient investment in distributed generation while protecting consumer interests.

ERGANZ thanks the Authority for considering our submission.

If there are any outstanding questions or a need for further comments, please let me know.

Yours sincerely,

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