26 MARCH 2025: SUBMISSION TO ELECTRICITY AUTHORITY REGARDING DISTRIBUTION PRICING CONSULTATIONS

Network pricing reform done well benefits all consumers

Entrust supports pricing reform which would help deliver more affordable electricity.

Entrust agrees with the Electricity Authority's (Authority) proposal to require owners of Distributed Generation (DG) to contribute fairly to fixed and common costs, and that households should be compensated for network benefits from their investment in small-scale generation, such as solar photovoltaic (PV) panels and batteries.

Entrust is mindful though that most households do not have access to this technology right now.

Safeguards will be needed to ensure rebates for consumers injecting electricity back into the network ('feed-in rebates') are appropriate. If feed-in rebates are set too high, they will increase network costs and result in subsidies to households with solar at the expense of less well-off consumers that can least afford it.

Summary of Entrust's submission

- Entrust welcomes that the Authority is looking to ensure all consumers share in any network benefits from DG and small-scale generation such as solar PV and batteries.

- Entrust supports the Authority's proposal to require DG to contribute fairly to fixed and common costs. All consumers, including DG and new connections, should contribute to fixed and common costs. We reiterate that "Fixed and common costs should not be loaded onto captive household customers."[1]

- The reasons the Authority has given for requiring DG to contribute to fixed and common costs apply equally to distribution connection pricing. The Authority should align its views on distribution connection to match with DG.

- Entrust supports compensating households for investment in small-scale generation to the extent it helps reduce or delay investment in network capacity. This requires clear evidence of the scale of network benefits. Any rebates that do not result in genuine network benefits will result in subsidies and higher overall network costs.

- Provision of feed-in rebates should be conditional on robust evidence of the scale of network benefits, upon which it is reasonable to rely, and be consistent with the subsidy-free pricing principle.

- Care is needed to ensure the solar rebate proposals align with the Authority's consumer protection objectives and do not disadvantage low-income and vulnerable households. Entrust considers the potential impact on different consumer groups is an area that warrants more in-depth attention.

[1] Entrust's views on this matter are detailed in our submission on distribution connection pricing: https://www.entrustnz.co.nz/media/porfi2sc/entrust-submission-re-distribution-pricing-_18-december-2024.pdf

Entrust's submission

Entrust continues to support and advocate for pricing reform which improves network utilisation and helps avoid or delay investment.[2]

Any increase in customers or network usage, be it from DG or from new connection customers, should enable network costs to be spread more broadly and for average prices for consumers to be lower than they otherwise would be.

The changes the Authority is proposing for both DG and small-scale household generation, if done well, should benefit all consumers. The DG changes will spread fixed and common costs more fairly amongst consumers resulting in lower prices for non-DG consumers. If feed-in rebates reflect genuine network benefits, then over time they should result in reduced or delayed network investment needs and lower costs.

A key to the success of the Authority's reforms is to remove the artificial benefits owners of DG get at the expense of other consumers and ensure households with solar PV and batteries are fairly compensated, but not over-rewarded, for any network benefits from their investment.

The problems with the existing DG pricing rules are well known

The current DG pricing rules discriminate in favour of DG at the expense of other consumers.

The requirements that distributors only charge DG incremental cost and DG receives all the network benefits from their connection has meant that other consumers do not benefit from DG and any potential efficiency benefits are not shared amongst all consumers.

The DG pricing rules are a hangover from arrangements that pre-date the Authority and are well overdue for replacement or overhaul.

Fixed and common costs should be spread fairly across all consumers

Entrust fully supports removal of the rule that electricity distributors can only charge DG their incremental cost.

Entrust agrees with the Authority that if "fixed costs are spread across more network users" it "would lower power costs for all consumers", including both business and residential customers.[3]

These are the same views Entrust, and the majority of other stakeholders raised in response to the Authority's recent consultation on distribution connection pricing. For example, Entrust submitted that:[4]

> *"Charging new connections their incremental cost would not be theoretically optimal. This would result in households having to contribute more to the cost of electricity distribution. It is important new connection customers contribute fairly and proportionately to all network costs they benefit from."*

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[2] See our recent submission in relation to the barriers to investment in batteries and competition caused by the existing transmission pricing methodology: https://www.entrustnz.co.nz/media/ezlhfv2q/entrust-submission-re-tpm-and-batteries_13-september-2024.pdf.

[3] https://www.ea.govt.nz/news/press-release/feedback-welcomed-on-faster-simpler-electricity-connections/

[4] https://www.entrustnz.co.nz/media/porfi2sc/entrust-submission-re-distribution-pricing-_18-december-2024.pdf

Our position remains that fixed and common costs should be shared fairly and proportionately amongst all consumers including new connection customers and DG. We do not consider that the Authority has identified any legitimate policy reason to favour DG or new connections at the expense of other consumer groups.

It is unclear why the Authority considered it would be theoretically optimal for new connections to only pay incremental cost, given that it recognises it is inefficient for DG to only pay incremental cost. The Authority's position on new connections should be revised to align with its views on DG.

Entrust supports compensating households if network benefits arise from investment in Solar PV and batteries

Providing rebates for injection of small-scale household generation can be efficient if it helps reduce or delay investment in network capacity requirements.

The rebates should be set at a level that enables any network benefits to be shared with households injecting electricity back into the grid and consumers in general through lower overall network charges.

Entrust agrees with the Authority that it can be difficult to calculate the value of household generation to local networks. Rebates should only be provided where there is robust quantified evidence of network benefits, upon which it is reasonable to rely.

The feed-in rebate rules need to recognise not all household generation will result in network benefits and not all household generation should receive network rebates.

It will be important to ensure any mandated solar rebate requirements do not conflict with the subsidy-free pricing principle and the Authority's consumer protection objective.

If the compensation is excessive, it will result in subsidies to homes with solar PV and batteries at the expense of other consumers. Households that cannot afford solar PV and batteries could be particularly harmed. These households are disproportionately made up of low income and vulnerable consumers, including elderly and families with young children.

Care is also needed to avoid a repeat of the previous problems with Avoidable Cost of Transmission (ACOT) payments. The Authority showed that ACOT payments resulted in inequitable re-distribution of network charges and higher overall network charges because they were too generous.

The Authority should actively engage on how to minimise the risk that household generation ends up being overcompensated or receives rebates where there is no network benefit.

The Authority's views on distribution and transmission pricing are contradictory

Entrust agrees with the Authority that "Incentivising consumers to supply electricity at peak times helps lower power prices for all of us over the long term." This is true at both the distribution and transmission level.

The removal of transmission Real-time Coincident Peak Demand (RCPD) charges has resulted in there only being peak network pricing signals at the distribution level and not the transmission level. This means that any distribution peak pricing signal will only reflect costs at the distribution level and not the transmission level resulting in an incomplete and weaker network pricing signal than would be efficient.

While the Authority has put faith in nodal pricing to substitute for peak-pricing for transmission, it has also explained that nodal pricing provides weaker short-term pricing signals and are not dynamically efficient e.g. "nodal prices reflect SRMC rather than LRMC".[5]

It is anticipated that significant transmission investment will be needed for Auckland over the next five to ten years. These costs are not being signalled through transmission charges. This is a missed opportunity to achieve efficiency benefits and reduced investment costs at both the distribution and transmission levels.

We consider that the Authority's increasing focus on dynamic efficiency at the distribution pricing level, including the use of LRMC pricing and rewarding solar for injection of electricity during peak periods, is at odds with its requirements for transmission pricing which are focussed on short-term allocative efficiency and making the charges fixed and unavoidable.

Entrust's recommendations

Entrust recommends that:

- fixed and common costs are required to be shared fairly across all consumers, including DG and new connections;

- the Authority undertakes in-depth quantitative analysis to provide surety its feed-in rebates will result in lower network costs and are consistent with its consumer protection objective;

- electricity distributors are provided sufficient time to establish robust evidence of the scale of network benefits from solar injection before they implement any new rebates; and

- feed-in rebates are conditional on robust evidence of the scale of network benefits, upon which it is reasonable to rely, and are required to be consistent with the subsidy-free pricing principle.

Concluding remarks

Entrust wants to ensure electricity is supplied in an efficient and affordable way to all consumers and its beneficiaries, including the 365,000 households and businesses in its area of central, east and south Auckland.

This requires that all consumers, including households with and without solar PV and batteries, new connections and DG are treated fairly. No consumer group should be given preferential treatment.

Entrust is fully supportive of proposals to remove the cap on DG being only charged incremental cost. We also agree that where DG or solar PV and batteries provide network benefits the customer should be fairly compensated but that the efficiency gains should be shared amongst all consumers.

If these electricity distribution pricing reforms are well managed, they should result in lower electricity prices and Kiwi families and small businesses should be made better off financially.

[5] Electricity Authority, Transmission Pricing Methodology Review: LRMC charges Working paper, 29 July 2014.

Kind Regards

Alastair Bell
Chair of Regulation and Policy Committee