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Submissions
Electricity Authority
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SUBMISSION ON THE "REQUIRING DISTRIBUTORS TO PAY A REBATE WHEN CONSUMERS SUPPLY ELECTRICITY AT PEAK TIMES" CONSULTATION PAPER

The Electricity Retailers' Association of New Zealand ('ERANZ') welcomes the opportunity to provide feedback on the Electricity Authority's consultation paper 'Requiring distributors to pay a rebate when consumers supply electricity at peak times' from February 2025.

ERANZ is the industry association representing companies that 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

ERANZ supports the Authority's objective with this consultation to more fairly and efficiently allocate the costs associated with enhancing the electricity distribution network.

A principles-based approach to any rebates regime is likely to be the only one that can properly take network circumstances into account and give distributors the flexibility to make payments for injection in ways that reflect the actual value injection provides to the network at any given time.

However, ERANZ doubts that the rebate system will offer sufficient financial motivation for consumers to invest in distributed generation. The only customers who stand to benefit are those who have solar, a battery system, and sufficient extra capacity to export power to the grid at peak times. For most customers with solar and a battery, the investment they made was primarily to offset their own usage, and they are unlikely to make significant investments in extra capacity for the benefit of the grid if the return on investment is a negligible 0-72c per month.

ERANZ recommends the Authority allow distributors to voluntarily implement rebate mechanisms based on the needs of their individual networks, rather than imposing a mandatory framework. The workability of any rebates proposal needs to be demonstrated further at a smaller scale before broad regulatory changes should be considered.

General comments

ERANZ is supportive of distributors finding ways to more efficiently maintain and grow their networks, as keeping the cost of distribution low ultimately results in cheaper electricity prices for consumers.

However, ERANZ is not convinced that the Authority's proposal will create an environment where consumers are financially motivated to increase their uptake of distributed generation based on rebates from electricity distributors. If rebate amounts are to fairly represent the value distributed generation poses to the distribution network, they will be extremely variable and difficult for consumers to predict.

Consumers may be encouraged to install distributed generation by the promise of strong returns due to a capacity issue in their area, only to shortly thereafter find that more poles and wires have been installed, or their neighbours' distributed generation has picked up the load, meaning they will no longer see the returns they expected.

Most consumers who make the investment in solar panels and batteries do so to reduce their own costs and dependence on the grid from their own consumption. ERANZ does not believe the proposals in this paper will materially change that.

Additionally, a rebate system like the one proposed in this paper would require retailers to pass rebates on to customers, a topic discussed in more detail in the Authority's "Improving pricing plan options for consumers" paper. This poses some significant issues because retailers are responsible for designing and marketing retail plans and retailers consider a wide range of inputs when doing this. Most consumers do not want to be exposed to the complexity of distributors' variable prices and simply want a more predictable monthly bill. For those household consumers who do want to engage with this complexity, retail plans are already available.

Consultation questions

<u>Q1: Do you agree with the problem definition above? Why, why not?</u>

ERANZ is supportive of distributors pricing their networks in line with best practice and regulatory guidelines which works towards reducing expenditure on expanding network infrastructure results in lower power prices for end users.

Traditionally, with electricity typically only flowing in one direction, distributors' efforts have been limited to finding ways to reduce consumption on their networks, but with the advent of distributed generation, distributors are now able to consider sending price signals that would encourage distributed generation to be injected into the network at times when this would be beneficial.

The issue is workability – how do we arrive at a pricing methodology that accurately captures, moment by moment, whether distributed generation is reducing strain on the network, having no effect, or contributing to strain?

<u>Q2: Do you agree with these principles? Why, why not?</u>

A principles-based approach to the rebates regime is likely to be the only one that can properly take individual network circumstances into account, giving distributors the flexibility to make payments for injection in ways that best suit their network.

A more prescriptive approach would run the risk that distributors find themselves paying rebates in situations where injection from distributed generation is not actually providing a benefit to the network.

Q3: Do you agree that the principles should only apply to mass-market consumers, or should they apply to larger consumers and generators also? Why, why not?

ERANZ agrees that the principles should only apply to mass-market consumers. Larger individual customers and those with bespoke contracts will be better placed than consumers to contract directly with distribution companies to be recompensed for the value their injections provide to the network.

Q4: Do you agree the principles should apply to all mass-market DG, including inflexible generation (noting that the amount of rebate provided will still be based on the benefit the DG provides)?

ERANZ agrees that the principles should apply to all mass-market distributed generation. Inflexible generation such as solar panels without batteries are likely to be less useful to distribution networks than flexible distributed generation would be, but as the Authority points out there will still be circumstances where inflexible generation is of value to the network.

The principles-based approach the Authority is proposing is based on recompensing distributed generators based on the actual value they bring to the network. We can see no reason why these principles would not apply to inflexible distributed generation in the same way they apply to other types of distributed generation.

Q5: Do you agree with the direction of the guidance that would likely accompany the principles? Why, why not?

The guidance raises a number of issues with feasibility of the rebate proposal itself, particularly due to the tension between needing rebates to accurately reflect the value posed to the distribution network, and needing a certain level of stability of rebates to incentivise consumers to install distributed generation.

For example, if the true value of distributed generation only presents itself on the highest peaks of electricity demand – such as a particularly cold winter's night – but no other times, consumers are unlikely to find the rebates particularly incentivising. This becomes even more so when you consider a cold winter's night is when consumers are least likely to be able to export their power – due to no solar generation and high demand in their own household.

This is where New Zealand differs from jurisdictions such as Australia, where their highest demand comes from heavy use of air conditioning on the hottest days. These periods of high demand correspond with strong solar generation, meaning distributed generation in Australia poses greater potential benefits for the network than in New Zealand where high demand and solar supply do not align.

Distributors may therefore consider spreading the value of rebates over a greater time period, which provides a more stable price signal to consumers but means that the rebates no longer as accurately reflect the value a distributed generator's power provides to the network.

Q6: Are there any additional issues with the principles where guidance would be particularly helpful?

The principles require distributors to balance incentivising uptake of distributed generation against the need to match the value of rebates with the value the generation provides to the network.

These objectives are inherently at odds, as explained in the 'general comments' section above. Consumers would expect to see stability of returns from the rebates before the rebates would drive any meaningful investment in distributed generation. This in turn would require the rebates payable to be artificially spread, which then limits their ability to achieve the original objective of reducing peak demand on distribution networks.

Q7: Do you agree the principles should be incorporated within the Code, rather than being voluntary principles outside the Code? Why, why not?

ERANZ believes the principles should be voluntary, as the workability of the rebates proposal needs to be demonstrated further before these principles should be incorporated within the mandatory Code.

Distributors should be able to decide for themselves whether incentivising greater uptake of distributed generation through rebates is a more efficient value proposition than building more poles and wires.

If distributors consider it too difficult to work out the value of distributed generation to their networks, then this is perhaps an indication that rebates are not an efficient way to optimise the investments distributors make in their networks.

Q8: Do you agree with the proposed implementation timeframe for this proposal? If not, please set out your preferred timeline and explain why that is preferable.

ERANZ does not believe this rebate proposal should be incorporated into the mandatory Code at all, for the reasons outlined above.

Q9: Do you agree the proposal strikes the right balance between encouraging price-based flexibility and contracted flexibility? Why, why not?

As the Authority points out, contracted flexibility through distributors contracting with aggregators may well result in a situation where price signals for other types of distributed generation are no longer necessary.

ERANZ believes that striking the right balance between price-based flexibility and contracted flexibility is a decision best left to the distributors themselves, as they work out the most effective tool to drive efficient investment on their networks.

Q10: Do you agree the proposal will lead to relatively minor wealth transfers in the short term, and will lead to cost savings for all consumers in the longer term?

ERANZ believes that unfair wealth transfer is a serious risk with this rebates proposal.

Wealthier consumers will be best placed to respond to distributors' price signals and invest in distributed generation, but the corresponding price increases from distributors to cover the rebates will affect all consumers. Less affluent customers will however be disproportionately impacted as they are the most sensitive to electricity price increases.

There is a risk that the system ends up creating an unintended cross-subsidy from less well-off consumers to better-off consumers. As experienced with the phase-out of the low-fixed charge regulations, once a cross-subsidy is established it is very difficult to unwind at a later date.

Q11: Do you agree that more prescriptive requirements to provide rebates will be less workable than a principles-based approach, and therefore should not be preferred? Why, why not?

ERANZ agrees that a more prescriptive approach would be less workable than a principles-based approach, as distributors are best placed with the knowledge and experience to make decisions relating to investment in their distribution networks.

Q12: Do you agree that a consumption-linked injection tariff would not be sufficiently targeted, and therefore should not be preferred? Why, why not?

ERANZ agrees with the Authority's assessment of the different factors driving electricity generation and electricity demand, and that they therefore warrant different pricing methodologies. The pricing structure of distributed generation injections should reflect network benefits, rather than artificially mirror consumption charges.

Q13a: If this approach was progressed, do you think injection rebates should perfectly mirror consumption charges?

No. To achieve the outcomes the Authority is seeking with their rebate proposal, injection rebates should reflect the value the injection provides to the network as closely as possible.

If the rebate pricing methodology does not result in benefits to the network at-large, then the rebate system will end up costing more than the benefits it provides. This would both undermine the purpose of the rebate system and place disproportionate costs on the consumers who are least able to bear them.

Q13b: If this approach was progressed, do you think there are sufficient safeguards in place that would allow distributors to avoid over-incentivising injection to the extent that it incurs additional network costs?

ERANZ believes that basing the injection rebates on consumption charges would set the rebate scheme up on a false premise. The purpose of the proposed rebate scheme is address peak loads conditions on distribution networks and help distributors manage these conditions, and the pricing methodologies should focus on this rather than artificially tying the rebates to consumption charges.

Q14: Do you agree with the objective of the proposed amendment? If not, why not?

ERANZ agrees with the Authority's stated objective.

Q15: Do you agree the benefits of the proposed amendment outweigh the costs?

ERANZ does not believe the benefits of the proposed amendment outweigh the costs.

The Authority is positioning this proposed Code amendment as a way for distributors to be able to manage load on their network to such an extent that they can reduce the investment that they put into poles and wires.

However, as the Authority itself notes in paragraph 6.10, "the additional incentive to invest in batteries as a result of this proposal may possibly be small". If the impact of the proposal is so limited that consumers are unlikely to see any significant incentive to invest in batteries, then it is difficult to see how this proposal will have the desired impact on distributors' ability to manage their peak loads.

Distributors would of course need to pass on the costs of paying the distributed generation rebate on to consumers at large, a cost that the Authority has not considered in its cost/benefit analysis. This cost to consumers would disproportionately affect less affluent consumers who are the least able to respond to distributors' price signals and the most sensitive to price changes.

Q16: 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 objectives in section 15 of the Electricity Industry Act 2010.

ERANZ believes that the status quo is preferable to the proposed amendment.

As the Authority points out, distributors are already able to introduce such price signals under regulatory settings, if they believe this is the most efficient way to manage periods of high demand on their networks.

The Authority would be better placed to support distributors to implement this type of price signalling on a smaller scale where distributors believe its benefits can be realised. This would provide an opportunity to test the workability of the proposal on a smaller scale, which is also more consistent with Principle 3 of the Code Amendment Principles which establishes a preference for small-scale 'trial and error' options.

Forcing distributors to use price signals where they do not believe this to be the most efficient way to manage periods of high demand is likely to lead to increased costs for distributors, which would in turn be passed on to consumers. This would be inconsistent with section 15(2) of the Act which requires the Authority to protect the interests of domestic and small business consumers.

Q17: Do you have any comments on the drafting of the proposed amendment?

ERANZ has no further comments to make on the drafting of the proposed amendment.

Conclusion

ERANZ would like to thank the Authority for considering our submission.

Yours sincerely,

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