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Submission on Distributed Generation Pricing Principles Consultation

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Q1. Do you have a view on the definition of incremental cost that is contained in the Code? Should it be more tightly defined to include only network costs and to exclude consequential costs relating to factors such as frequency keeping and voltage support? Would this lead to more timely generation build and lower energy costs?

BEL Response: If the incremental cost principle is retained, BEL supports a clearer definition of incremental cost to ensure that the approach aligns with the fundamental efficient cost-recovery principles and ensures that distribution networks are not required to subsidize distributed generation (DG) in a manner that distorts market efficiency. A clearer definition may also provide certainty to investors in DG projects, facilitating a more efficient and predictable market environment that encourages timely and cost-effective generation builds.

It is important that the Authority is consistent across its regulated pricing principles where appropriate, and aligning terminology and definitions is one way to achieve this, including for load and DG connections.

Q2. Do you agree with the problems with the incremental cost limit identified in this section? Why or why not? Do you have a view on the relative importance of the problems identified?

BEL Response: BEL agrees that the current incremental cost limit presents challenges for network operators, as it disproportionately benefits DG owners while transferring additional costs onto non-DG consumers, undermining pricing fairness. The current incremental cost recovery framework does not adequately reflect the operational and infrastructure costs incurred by distributors to maintain reliability and network stability due to DG embedded within the network. A more comprehensive approach is needed to ensure that all consumers contribute equitably to network costs while maintaining incentives for efficient DG development.

We agree that the disjoint between grid and network connection pricing for DG disincentivises grid connections. The incremental cost recovery principle limits efficient cost sharing and recovery of costs incurred by distributors in managing new DG connections.

Q3. Do you agree circumstances have changed significantly since the DGPPs were introduced, including that there are now far fewer impediments to distributed generation than in the early 2000s?

BEL Response: Yes, the energy landscape has evolved significantly since the early 2000s, with technological advancements, improved regulatory frameworks, and greater access to DG options. The initial barriers to entry for DG have largely diminished, and as a result, DG operators no longer require preferential pricing structures. This shift necessitates a reassessment of the DGPPs to ensure that they reflect current market realities and do not create artificial advantages or cost imbalances in the electricity sector, particularly where there are no apparent benefits to consumers from this approach.

Q4. Do you agree with the assessment of the current situation and implications of incremental cost pricing? If not, why not? What if any other significant factors should the Authority be considering?

BEL Response: BEL agrees with the general assessment that incremental cost pricing as currently structured does not reflect the full financial impacts on distribution networks. DG owners should contribute a fair proportion of the costs associated with their grid usage. These costs include network upgrades required to integrate DG, load balancing requirements, and administrative overheads related to metering and billing complexities. Failing to address these issues could lead to continued cross-subsidization and potential inefficient DG investment, which is neither equitable nor sustainable in the long term and could result in higher costs for consumers.

Q5. Do you agree these are the appropriate options to consider?

BEL Response: BEL supports exploring a wider range of options, including revising the cost recovery framework to ensure fair contribution from DG owners. One potential solution is to introduce a capacity-based charge for DG operators that reflects their network impact. Additionally, changes to pricing structures may need to be phased in to manage impacts on existing DG investments.

Our response to the proposed options is summarised in the table below.

Option	Response
1 Retain the existing DGPPs	Not supported. They are not fit for purpose
2 Limited modification of DGPPs to address identified issues	We support amendments to address identified issues, however the DGPP Paper suggests these would be limited to refining the application of the incremental cost principle. These refinements may not be sufficient to address the issues identified.
3 Remove DGPPs and rely entirely on contracting	While we support market solutions in principle, the backstop provisions in the Code are useful because they reduce administration costs and promote certainty. The ability to contract on negotiated terms should continue to be available for DG connections to networks.
4 Comprehensive overhaul of DG pricing principles	We support a review of the pricing principles for DG, and potential alignment with the principles for load customers – where appropriate. We are concerned that the DGPP Paper suggests that this option could be a major exercise. The analysis presented in the DGPP Paper, and the work completed over many years on distribution pricing principles for load connections, including the recent work on connection charges, suggests there is a significant body of existing work to draw on. This should be leveraged to expedite the changes to the DG connection pricing principles in the Code.

Q6. Are there other options the Authority should consider for improving rules about costs that can be recovered from distributed generators?

BEL Response:

While the DGPP Paper examines issues with the Part 6 provisions for network pricing for DG connections, the DGPP Paper does not provide sufficient detail about how the DGPPs may be revised to address the issues raised. The options presented are high level which hinders our ability to provide meaningful input to options for addressing the issues raised. BEL supports including DG pricing principles in the Code, with the option of contracting out via mutual agreement.

BEL suggests that the pricing principles should allow for networks to consider alternative options such as a proportional charge for DG owners based on the volume of electricity exported to the grid. This approach would enable networks to recover from DG operators, fair contributions to network maintenance and expansion costs while still benefiting from self-generation. Additionally, locational pricing mechanisms may better reflect the true cost of integrating DG into different parts of the network.

Q7. Will new aggregator business models emerge to solve the problem?

BEL Response: Aggregator models may play a role in optimizing DG integration, but they are unlikely to fully resolve the core issue of cost recovery for distribution networks. While aggregators can enhance market efficiency by consolidating small-scale DG operations, they do not eliminate the need for an equitable cost-sharing framework. Any regulatory changes should account for the evolving role of aggregators while ensuring that cost allocation remains fair and transparent.

Q8. Are distribution price signals alternative to, or complementary to contracting?

BEL Response: Distribution price signals should be viewed as complementary to contracting arrangements. Price signals provide transparency and efficiency in cost recovery, while contractual agreements allow for customized arrangements that reflect specific operational and commercial considerations. An effective regulatory framework should allow for both elements to achieve a balanced and sustainable DG pricing model.

Q9. Which, if any of the above options, do you consider would best support efficient pricing for recovery of distribution costs from DG?

BEL Response: BEL supports an approach that includes a combination of cost-reflective pricing principles, which allow for capacity-based charges, and locational pricing adjustments where appropriate for DG connections. These measures will help ensure that DG operators contribute fairly to network costs while maintaining appropriate incentives for investment in renewable energy.

Q10. Do you agree with the Authority's tentative view on a solution?

BEL Response: BEL agrees that revised pricing principles should be established to ensure a fair cost allocation. A codified approach for pricing principles within the Code would provide regulatory certainty and mitigate against unnecessary inconsistencies across different networks. However, the implementation of the principles should allow for flexibility to accommodate regional variations and specific network conditions.

Q11. Are there any unintended consequences from removing the existing DGPPs?

BEL Response: Potential unintended consequences include reduced investment in local DG if the DG is unable to meet a fair share of network costs. However, consumers will be better off if the DG pricing principles encourage efficient investment in DG and efficient recovery of network costs

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Q12. Do you agree market and regulatory settings provide efficient incentives for DG reducing or avoiding transmission costs?

BEL Response: The current settings provide some incentives for DG, but additional refinements are needed to align cost recovery with actual network impact. Ensuring that DG operators pay an appropriate share of distribution costs is crucial to maintaining a fair and sustainable electricity market. BEL's transmission charges are fixed. We understand they are independent of DG which may connect to our network.

Conclusion: BEL appreciates the opportunity to provide feedback on this consultation and strongly supports efforts to ensure a fair and sustainable approach to DG pricing. We urge the Electricity Authority to adopt a cost-recovery framework that reflects the true impact of DG on distribution networks while maintaining an appropriate balance between cost allocation and investment incentives.

Submitted by: Buller Electricity Limited

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