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Using non-network solutions to unlock an efficient energy transition and network use

SUPA Community Energy (SUPA) submits that consumers should not pay more for electrification because of regulatory settings favouring traditional network investment over lower-cost non-network solutions. The Commerce Commission should ensure batteries, flexible demand, solar and other distributed energy resources are given a fair opportunity to compete with network upgrades, so the lowest-cost solutions are chosen to the benefit of consumers.

EDBs (and Transpower) need to adapt and change in response to the energy transition. Managing electricity networks is becoming much more complicated.

Our experience accords with the Commerce Commission and MBIE's observations that different EDBs have different capabilities and are making the necessary changes at different speeds. We agree with the Commission that "While some EDBs are putting in place clear initiatives to meet future challenges, improve efficiency and optimise utilisation of their networks through effective asset management and commercial arrangements, these efforts do not appear to be systematic across EDBs."

While this is inevitable to a certain degree, it will be important to ensure all EDBs have the capability and capacity to change and can, at the very least, be 'fast followers'. From SUPA's perspective the industry is at an immature stage with a large number of untapped opportunities for better utilisation of distributed energy resources. This isn't a criticism. It just reflects the reality that the industry is in a state of transition, and everyone is on a learning curve.

SUPA is developing solutions that integrate flexibility services, distributed generation and consumer participation into electricity networks, with batteries and solar increasingly able to defer or avoid conventional network upgrades where they are more efficient.

MBIE consultation on EDB efficiency and Part 4 Commerce Act reform

Because of the large overlap between the Commerce Commission and MBIE consultations, we enclose the SUPA MBIE submission as part of our submission in response to the open letter.

Executive summary

SUPA supports the Commerce Commission's goal of improving electricity network efficiency and ensuring EDBs are prepared for the energy transition. Batteries, flexible demand, solar and other distributed energy resources can often provide a lower-cost alternative to traditional network investment and should be given a fair opportunity to compete.

SUPA is concerned current regulatory settings, network pricing arrangements and procurement practices favour conventional network upgrades over non-network solutions. There are gaps in effective peak-demand price signals and potential conflicts of interest where EDBs assess third-party non-network solutions while also developing their own.

SUPA recommends that the Commerce Commission work with MBIE and the Electricity Authority to ensure: (i) significant network expenditure is only approved after credible non-network alternatives have been properly tested, (ii) network pricing is reformed to reward flexibility and peak reduction, and (iii) to establish transparent, nationally consistent processes for procuring and integrating non-network solutions. There would be benefit in greater investment scrutiny.

Consumers should receive the lowest-cost pathway to electrification and the energy transition, regardless of whether that is delivered through traditional network assets or distributed energy resources.

SUPA supports the Commerce Commission's intent

SUPA agrees with and supports the Commerce Commission's intent, including in particular that:

- **EDBs deliver core network operations well:** "This means not only actively managing costs, but also looking for and making efficiency improvements, and being well prepared to provide a platform that supports innovation and investment by others." [emphasis added]

- **EDBs adopt modern asset management approaches:** "This includes making the most out of existing assets by avoiding premature replacement or upgrades. Consumers should not be disadvantaged by a lack of capacity and capability to use these modern asset management approaches. Nor should consumers be disadvantaged by a failure to effectively use the flexibility associated with consumer loads/resources such as EV charging that can be orchestrated through cohesive pricing and contracting approaches." [emphasis added]

- "**EDBs hav[e] strong commercial arrangements in place:** pricing structures, connection processes, service offerings and contracting approaches with consumers or their agents promote efficient utilisation of network assets, non-network solutions and support efficient investment decisions."

- "**Common streamlined interfaces and processes** are applied for third parties, including pricing structures and terms, connection processes and network information, reducing costs on other sector stakeholders and improving internal efficiencies."

Network pricing methodologies are a major impediment to making the most out of existing assets

Our submission to MBIE details problems with some existing EDB pricing practices and the TPM.

It seems incongruent and contradictory to SUPA that the Authority has:

1. mandated that 'larger' electricity retailers, in what is supposed to be a competitive market, are required to offer time-of-use pricing to signal peak period costs;

2. left it voluntary whether natural monopoly EDBs adopt time-of-use pricing/peak pricing etc, and has not banned pricing methodologies it says or inefficient and should not be used such as Anytime Maximum Demand (AMD); and

3. banned Transpower from using time-of-use/peak pricing and removed the pre-existing RCPD charge.

There also seems to be somewhat of a stalemate with the Authority saying AMD should not be used in pricing, while some electricity distributors continue to use AMD pointing out that the Authority has given it the OK at the transmission level and hasn't explained the contradiction in its position.

ENA could not have been clearer about the stalemate between the Authority and electricity distributors in its submission that:[1]

> ENA believes that historical AMD is an appropriate measurement of the proportion of network capacity needed to service a customer. EDBs must design and deliver networks to meet their customers' peak demands no matter how often this occurs. the Authority recognised this in its choice to use AMD to set residual TPM charges (a fixed charge). ENA does not understand how the Authority can view historical AMD as an appropriate tool for setting fixed changes in the transmission network but not for distribution networks.

ENA has also provided guidance that EDBs can achieve pass-through transmission costs in a way that is consistent with the allocation approaches adopted by the TPM "by adopting the same underlying allocation drivers of demand (AMD) and usage (kWh) share."[2] Other EDBs have explicitly detailed why they disagree with the Authority and have adopted AMD in their pricing.[3]

[1] https://www.ea.govt.nz/documents/3553/ENA_-_Targeted_Reform_of_Distribution_Pricing_-_Submission_Aug_2023_3.pdf
[2] https://www.ena.org.nz/our-work/publications/document/1211
[3] e.g. https://bullerelectricity.co.nz/wp-content/uploads/BEL-Pricing-Policy-2025-26.pdf

The Authority has not publicly responded to any of this EDB commentary on why they disagree with the Authority and continue to use AMD. Instead of engaging with the departures from the Authority's voluntary Guidelines, or the merits of the reasons for departures, the Authority has simply repeated its stance that "distributors continuing to use an individual customer's anytime maximum demand (AMD) as a charging metric to recover residual costs … deters efficient use and sends inefficient investment signals for technologies that matter for efficient electrification."[4]

The current situation seems to be one where the Authority and EDBs effectively 'agree to disagree' and inefficient legacy practices will continue indefinitely.

Electricity network (distribution plus transmission) pricing needs to be reformed to ensure consistent and coherent peak-usage pricing, and to prohibit inefficient pricing such as anytime peak demand pricing, to ensure dynamically efficient network usage and to encourage efficient uptake of new technologies such as batteries. We are particularly concerned about the TPM missing price signal problem as there is presently no pathway for this to be resolved.[5]

SUPA recommends that the Commerce Commission work with the Electricity Authority and MBIE to establish a clear pathway for resolving these pricing barriers, including through the ECTF.

EDB arrangements for third-party procurement are another important focus area

Our submission to MBIE also detailed that the regulatory framework should test whether proposed network expenditure is the lowest-cost way to meet consumer needs and give non-network alternatives a fair opportunity to compete before capital-intensive upgrades are locked in.

We would be happy to share some of our experiences, but our concern is with the inherent conflict where an EDB should be considering third-party outsourcing of non-network solutions but may also be considering in-house options.

We consider that clear protocols are needed to ensure: (i) EDBs select the lowest cost/most efficient solution, rather than favouring its own in-house solution or business; and (ii) commercial information provided by potential third-party suppliers cannot be shared with or used by the in-house business to develop its own solution.

Fully transparent arm's length arrangements are critical to industry trust. We consider that the Commerce Commission should consider including additional guardrails as a condition for INSTA funding.

[4] https://www.ea.govt.nz/documents/4821/Distribution_Pricing_Reform_-_Next_steps.pdf

[5] We have raised our concerns with the Electricity Authority (and also MBIE) on a number of occasions. See in particular: https://www.ea.govt.nz/documents/10233/SUPA_Energy.pdf.

This may also require the development of, or extension to, existing arm's-length rules and restrictions on use of information to apply to non-network solutions in Part 6A of the Electricity Industry Participation Code/previously in the Electricity Industry Act.

SUPA recommends that the Commerce Commission make fair and non-discriminatory procurement of non-network solutions an explicit regulatory expectation, supported by coordination with the Electricity Authority and MBIE, including through the ECTF, where Code changes or legislation may be required.

We reiterate from our submission on ECTF work priorities that:

1. Level playing field initiatives should adopt a more agnostic approach that recognises competition can come from direct and traditional sources (e.g. retailer versus retailer and generator versus generator) and indirect and non-traditional or disruptive sources (e.g. distributed energy resources (DER) competing against traditional poles and wires) and against both generators and retailers; and

2. We also support the intention to prioritise network market power and flexibility issues, including looking at "Identification and evaluation of potential risks to the development of the competitive provision of flexibility services arising from market power in adjacent markets and identify possible remedies."

Concluding remarks and recommendations

Consumers will ultimately fund the investment required to support New Zealand's electrification and energy transition. The question is not whether investment is required. Rather, it is whether the regulatory framework consistently delivers the lowest-cost solution for consumers, regardless of whether that solution is a traditional network asset or a non-network solution such as batteries, flexible demand, distributed generation and other distributed energy resources.

The Commerce Commission has an important role in ensuring regulated expenditure is approved only where it represents the most efficient means of delivering reliable electricity services. To achieve this, credible non-network alternatives should be reasonably considered and tested before capital-intensive investments proceed.

In SUPA's view:

1. The regulatory framework should explicitly support least-cost electrification.

2. Non-network alternatives do not currently compete on equal terms with traditional network investment.

3. Existing regulatory incentives continue to favour network investment over enabling third-party flexibility and distributed solutions.

4. Greater investment scrutiny, monitoring and accountability are required to ensure consumers receive value for money.

5. Network pricing reform is necessary to improve investment and operational efficiency and support the uptake of flexibility solutions.

SUPA therefore recommends that the Commerce Commission, working with MBIE and the Electricity Authority, prioritise the following actions:

- Require EDBs to demonstrate that significant network expenditure represents the lowest-cost option for consumers after reasonable consideration and testing of credible non-network alternatives.

- Establish a clear expectation that non-network alternatives be assessed on a comparable basis to traditional network investment, including transparent procurement processes and appropriate reporting requirements.

- Work with MBIE and the Electricity Authority to reform electricity network pricing, at both distribution and transmission levels, so that batteries, flexible demand and other distributed energy resources are rewarded for reducing peak demand and making efficient use of spare network capacity, while inefficient pricing structures such as anytime maximum demand pricing are prohibited or phased out.

- Develop a nationally consistent framework for access to flexible markets and non-network procurement opportunities, including standardised application processes, metering and data requirements, and transparent technical requirements.

- Introduce appropriate arm's-length safeguards to ensure EDB-owned non-network solutions are not favoured over third-party providers, and that commercially sensitive information obtained through procurement processes cannot be used to advantage affiliated businesses.

These measures would help ensure consumers benefit from efficient competition between traditional and non-traditional solutions, support innovation, and promote the lowest-cost pathway to a reliable and resilient energy transition.

Yours sincerely,

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