09 April 2025

Energy Competition Task Force
Electricity Authority
By email: taskforce@ea.govt.nz

Tēnā koe,

Cross-submission on Task Force consultation 2A - Requiring distributors to pay a rebate when consumers supply electricity at peak times and links to 2B and 2C

Thank you for the opportunity to cross submit on submissions to the Energy Competition Task Force and Electricity Authority (**Authority**)'s February consultation package for Task Force initiatives 2A, 2B and 2C. Our cross submission is focused on *Initiative 2A: Requiring distributors to pay a rebate when consumers supply electricity at peak times* although we make one reference to submissions on 2B and 2C.

Most submitters seem to support the intent of the 2A Consultation Paper – reservations seem to be about how to achieve it and confusion around the implementation. Reading submissions, many of the concerns raised could be resolved by the Authority clarifying terminology and intent.

There are many views on what a "rebate" is	• Our view is the Authority is intending export rebates to be a negative tariff which are simply an extension of our sunk cost pricing – that can be complemented with payments for flexibility services if efficient • Submitters seem to interpret rebates as unique payments to individual customers targeted at a granular level, separate from distribution pricing • The Authority needs to clarify its proposals – how they are interpreted has big implications on their effectiveness, and the assessment of costs and benefits
Who gets the "rebate" is important	• Powerco's export rebates are netted off distribution charges to retailers, we won't be paying them directly to end-customers • Whereas others assume that the rebate is paid directly to individual end-customers • The cost and complexity of administering direct payments to end-customers not only vastly outweigh their benefits but also undermine their effectiveness

There are many views on quantifying network benefits

- Powerco's export rebates are based on the same long-run marginal cost of network augmentation planned in our AMP by pricing region
- Others assume that export rebates should be individually calculated for each exporting customer based on the local network characteristics
- Exporters are already able to receive payments for flexibility but only in cases where we identify a local opportunity for investment deferral – so it's not a rebate available to all customers. It's the regional long-run marginal cost signal which is available universally – so that's closer to the Authority's concept of a rebate

Clarifying that export rebates are simply intended to be negative prices in posted distribution tariffs credited to retailers and calculated across the same regions as demand prices would address the majority of submitters' concerns about the cost, complexity and efficiency of implementing rebates.

Flexibility tenders already offer a mechanism to reward customers or their agents with locally-specific payments for flexibility but these payments are only available where there is an opportunity to defer investment in the short term. Given the granularity of these, it would be inefficient to offer them everywhere all the time.

We are always keen to meet with the Authority to discuss and develop the ideas in our submissions. In the meantime, if you have any questions or would like to talk further on the points we have raised, please contact Emma Wilson (Emma.Wilson@powerco.co.nz).

Nāku noa, nā,

EWilson

Emma Wilson
Head of Regulatory, Policy and Markets
POWERCO

1. The Authority needs to clarify its intention

Powerco's export rebates are simply an extension of our sunk cost pricing – this is what the Authority calls "tariffs". We implemented peak export rebates consistent with the Authority's proposals across our networks on 1 April 2025.[1] Developing and implementing rebates has been a straightforward development of our cost-reflective demand pricing. The most difficult part of the implementation was modifying our billing system to accommodate "negative" prices.

Many submitters seem to interpret "rebates" as unique payments directly to individual customers and are concerned about the cost and complexity of calculating and administering these individual payments. This is not the form of the schemes that Aurora and Orion operate refers to in the consultation paper.[2] We don't believe this is the Authority's intention.

The Authority should explicitly clarify that it does not expect EDBs to calculate and administer unique payments for individual residential customers. This would address many submitters' concerns.

It is important that retailers receive the "rebate", not customers directly

Because Powerco's export rebates are part of our tariff, they are netted off our distribution charges to retailers. However, as drafted, the Authority's proposed Code Amendment requires EDBs to make payments directly to end-customers. Many submitters take the Authority's proposal at its word and rightly identify that the cost and complexity of administering direct payments to residential customers outweighs their benefits and would take a long time to implement.

We argue in our submission on the consultation paper[3] why it is important that the Authority clarify that rebates should be paid to retailers not end-customers. More importantly, requiring distributors to pay rebates directly to end-customers undermines their effectiveness. If this really is the Authority's intention, we agree with these submitters' concerns.

The confusion is similar to the argument that distribution prices need to be passed through directly to end-customers to be effective. This is not the case, as the Authority clarifies[4] where it explains (emphasis added): *Several submissions asked whether retailers should be required to pass on thorough time-varying distribution price signals to end consumers.*

> *Our response: The Authority's view is that to achieve efficient outcomes, it is not necessary for retailers to pass through distribution price structures to end consumers.* ***Our view is if a retailer faces cost-reflective distribution prices, its***

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[1] https://www.powerco.co.nz/-/media/project/powerco/powerco-documents/who-we-are---pricing-and-disclosures/pricing/electricity-pricing/3-electricity-pricing-methodology-and-schedules/11---1-april-2025---31-march-2026/pricing-methodology-1-april-2025---31-march-2026.pdf

[2] Electricity Authority, requiring distributors to pay a rebate when consumers supply electricity at peak times, 12 February, at 4.5.

[3] https://www.ea.govt.nz/documents/6795/D_Powerco_2A_submission_2025.pdf , section 3 and response to Q17

[4] https://www.ea.govt.nz/documents/4821/Distribution_Pricing_Reform_-_Next_steps.pdf, at 5.11

__incentive will be to respond efficiently (as that will help to manage the retailer's input costs and reduce its risk exposure). An efficient response by a retailer could take various forms including providing information to its customers; procuring or managing embedded flexibility resources on behalf of its customers; and/or adopting non-uniform usage charges or rebates__. We note the MDAG Final Recommendations Paper provided a similar view:

> *'… lack of retailer pass-through is not a barrier to flexibility per se, as long as the retailer is developing customer arrangements which see the retailer or flexibility aggregator manage the response on the customer's behalf.'*[5]

We are not convinced that a direct intervention requiring retail pass-through into retail pricing would be in the consumers' interests. It could cause a significant change in the retail operating environment, which could negatively impact competitive pressures that drive innovation, efficiency and customer focus. Our current view is that retailers have a role to play in managing network input costs on behalf on their customers. We plan to expand our monitoring of retail electricity pricing through our current proposal to collect retail data …

WEL Networks sought clarification on whether the distribution pricing reform sought to achieve cost-reflective tariffs or price signals that would lead to demand response curbing the large network capital expenditure over the coming decade.

Our response: We encourage distributors to set cost-reflective tariffs. We expect that __setting cost-reflective distribution tariffs will send price signals that will produce an efficient level of demand response and help defer network capital expenditure to an efficient extent.__

We agree with this assessment from the Authority's May 2024 *Distribution Pricing Reform: Next steps* paper and provide further arguments to support retailer rebundling of wholesale input costs such as spot energy and distribution prices and now distribution export rebates in our discussion about the benefits of a competitive retail market over forcing end-consumers to observe wholesale input costs in our submission on Task Force consultation papers 2B and 2C.[6]

While it is true that early adopters and technology enthusiasts are happy to manage complex, varied and volatile wholesale input costs directly themselves, the opportunity cost of doing this is too high for most consumers, who would rather someone else does it for them. Retailers are exposed to all these wholesale input costs and offer

[5] MDAG, *Price discovery in a renewables-based electricity system: Final recommendations paper*, 11 December 2023, page 130, footnote 210.

[6] https://www.ea.govt.nz/documents/6922/D_Powerco_2BC_submission_2025.pdf, section 2

different product packages, some of which involve managing consumer resources directly or through a trusted agent. In a competitive market, highly engaged consumers can select retail packages which pass through wholesale input costs directly but importantly it is still the retailer who pays distribution costs and receives export rebates.

We note that several submitters on Task Force consultation papers 2B and 2C argue that distribution charges must be passed through directly in retail prices. We note in our submission on 2B and 2C that this is not in the long-term benefit of consumers but that it does rely on retail markets being competitive.

As there are many views on interpreting how to quantify network benefits, it's important the EA clarifies its intent

We ask the Authority to clarify its intention of its proposals, to encourage better engagement and buy in of its direction.

Our interpretation of the Authority's proposals is that it does not expect EDBs to calculate and administer unique export rebates for individual residential customers. Powerco's export rebates are based on the same long-run marginal cost of network augmentation planned in our AMP by pricing region. Our submission[7] explains the importance of pricing export rebates consistently with the Authority's distribution pricing principles. This is not a perfect science, as the Authority notes, and is linked to the long run marginal cost of planned investment across a pricing region by all EDBs. Export rebates must be consistent, but not symmetrical to avoid over-signalling.

Whereas other submitters have assumed that export rebates need to be individually calculated for each exporting customer based on the local network characteristics to quantify benefits. If this really is the Authority's intention, we agree with these submitters' concerns that the cost and complexity of calculating and administering unique export rebates to residential customers outweighs their benefits and would take a long time to implement.

Individual flexibility payments are already available to exporters but only in cases where we identify a local opportunity for investment deferral. We currently do this through a competitive process. However, this is not an export rebate of the form that could meet the Authority's proposed code amendment because it's only available to customers whose export can help defer planned investment of specific assets within a 5-year time horizon.

We see this as complementary to the regional long-run marginal cost signal which is available universally – so that's closer to the Authority's concept of a rebate.

[7] https://www.ea.govt.nz/documents/6795/D_Powerco_2A_submission_2025.pdf, section 2