

Distribution connection pricing and processes webinar – Q&As, Monday 11 November, 2024

The transcript below has been edited, where necessary to make the meaning clearer. View the [video recording](#) for an un-edited version.

Network Connections Project

Does the proposed process now create an obligation on networks to connect the customer. And if so, is that the intent of the Authority?

Part 6 for DG has always required an EDB to approve applications that are consistent with Part 6 and that meet the connection requirements put in place by the EDB.

The Authority has now proposed to extend Part 6 to load applications and apply a similar obligation on EDBs to approve load applicants. That is the intent of the proposal.

We are keen to hear your views on that proposal. If you have any views, please set them out in your submission.

With reference to [the network connection processes] talk, how important is decarbonisation benefit to the Authority's rationale?

We think New Zealand should have abundant and affordable energy and internationally competitive prices. We are, of course, looking to promote our main statutory objective around competition, reliability and efficiency for the long-term benefit of consumers.

Decarbonisation is important in this context. Distribution networks have a critical role to play in the electrification of New Zealand's economy. Electrification of transport and process heat is driving a substantial increase in electricity demand and much of this new load will require a new or upgraded connection to a distribution network. In this context, the Authority is looking to promote an efficient electricity system, which is vital for a competitive growing economy, environmental sustainability and social wellbeing.

Could you walk through an example of the proposed large-capacity load connection process, and would you consider minimum Service Level Agreements?

We have sought clarification on this question. In the meantime, we can advise that once Code changes are finalised, the Authority will review its guidelines and flow charts to assist access seekers to connect. These will be similar to the guidelines and charts that are already available for current application processes in Part 6 (see, for example, 'Connection of distribution (greater than 10 kW) to a local network' guidelines).

What steps will be taken to ensure that the reforms support not only large-scale supply side projects but also on the residential scale, eg. demand side - small businesses and households looking to electrify?

The presenter misheard the question. The Authority's response is below.

Stage 1 of the Network Connections project focuses on larger-scale distributed generation and load connections.

The Authority will consider small-scale distributed generation connections in stage two of the Network connections project. This will include application processes, connection and operations standards, and the Part 1A provisions, which are scheduled to sunset on 1 September 2026.

Small-scale load applications are not currently part of our work programme. However, it is possible that consideration of smaller load applications could be included in a later stage of the Network connections project. We are interested in stakeholders' views on the relative priority of various possible issues to consider in future.

How will the new regulations account for regional differences in electricity demand and infrastructure capabilities to ensure equitable access to network connections across the country?

This question was submitted but missed in the Q&A session. The Authority's response is below:

The proposed changes will assist access seekers to make more efficient decisions by providing more information on a network's available capacity and applications waiting to connect. The proposal to require distributors to have a queueing and management policy and set milestones for proposals should enable projects that are more 'connection ready' to advance ahead of less developed projects.

Distribution connection pricing

Does the introduction of a pricing methodology that is based on 'incremental revenue' mean EDBs (and by extension their owners/customers) are exposed to risk of commercial failure – and therefore the loss of this incremental revenue of large load connection customers?

The incremental revenue piece for most customers will be based on a posted tariff. Most customers are in that kind of world. There's a posted tariff that's used to consider the incremental revenue. For commercial customers, the assumption is that the revenue life of the connections is only 15 years, which is probably shorter than most commercial connections. That's partly a risk mitigation.

For very large customers, they tend not to have a posted tariff. They'll have a special pricing tariff, which leaves it free for the distributor and the connecting party – even with these rules in place – to decide how they're allocating the costs between up-front and ongoing. So I'd say no.

Do you understand that growth capex is not tightly linked to capital contributions? ie. networks invest ahead of need. What have you done around a future-looking view around an appropriate reliance level, rather than a point of view at a specific time?

On the reliance limits, access seekers have told us that high connection charges are deterring investment, and the reliance limits reflect that ratio of connection charges and cost of investment. Our independent expert report has agreed that distributors should not seek to recover all of their connections plus system growth capex through capital contributions. And recovering all of this capex through connection charges would result in an inappropriate cross-subsidy from new customers to existing customers.

That said, we are aware that our proposal on reliance limits will have an impact on some distributors. We're keen to hear your views on this proposal in your submissions, and we'll take those into account.

How and why has the Electricity Authority determined that distributors' reliance is currently too high, rather than being either too low or about right? Perhaps the recent upwards trend suggests reliance levels are being corrected from previously being too low?

In the expert report, there's discussion about how changes in reliance limits cause subsidies. Over a very long period of time, over decades, you can establish an efficient equilibrium with relatively low connection charges on high ongoing charges or vice versa.

If you go from a world where you've got low up-front charges to higher up-front charges, unless you're ring-fencing those new customers and getting them lower ongoing charges, you're going to bear the cost to those newcomers compared to the people already on the network. So, it's not just about the level, but it's about the change in the level, and how that's managed over time.

Why has the Authority used the concept of 'incremental cost' rather than 'avoidable cost'?

They're very related concepts. In the case, when you're thinking about a connection and some costs that are being incurred to establish the connection – incremental cost is a more intuitive term than 'avoidable cost'.

'Avoidable costs' is used in the pricing principles more in the ongoing tariff context and seems like a more intuitive fit for testing residual cost allocation.

In addition to the above reply, it makes sense to think of the terms in this way:

- *a new connection triggers a set of incremental costs, and*
- *for residual cost allocation, what are the costs that would have been avoidable had the consumer group never existed.*

Either way, the principle is the same – prices should be subsidy-free.

Growth capex related to reliance limits. Growth capex is a factor of growth/expected growth within a region. How does the average 48% base provide a suitable benchmark for all EDBs?

It goes back to the rate of change. What reliance level you might end up with as a distributor, if you're sitting at the neutral point or the balance point, will vary by distributor. This is because it's a function of a lot of things, including a mix of connection projects that you have, the types of connection projects – rural versus urban, large versus small – and how you're allocating revenue and what your growth pressures look like.

It's not the case that there's a reliance level that corresponds to one of those points – neutral or balanced or bypass point – that's efficient for everyone. So, it's really a safeguard to prevent the worsening of reliance levels.

Is the EA aware that for most new connections pay no connection charge because it is paid for by the developer The developer sells the section for the highest market price and connection charges are most often around 1% of this price?

This question was submitted but missed in the Q&A session. The Authority's response is below:

Yes, the Authority is aware that in some circumstances, such as land development for residential or commercial use, connection charges are paid by the land developer.

Connection charges can vary significantly as an input cost to development. We consider that overall, subject to demand and supply pressures, connection charges and the cost of coordination frictions are considered a cost of development and developers look to pass these costs on to the end users of goods and services. So these costs add to the costs of homes in new developments.

Both consultation papers

What obligations will be put on distributors to supply options analysis to connecting parties so they can make better decisions? There are a great deal of considerations for connections and not all customers will understand the options.

Network Connections Project – application processes

One of the things to bear in mind with the Code proposals is the Code sets the basic framework. But there will need to be a more detailed layer below that where EDBs and access seekers will need to develop the policy and processes detail – that is more informed, more detailed, more granular.

The consultation paper talks to the Streamlining Connections Programme – the work we're doing with the EEA [Electricity Engineers' Association] and the ENA [Electricity Networks Aotearoa]. That's something that could be addressed in the work the ENA is looking at in terms of best practice policies.

The intention of the Streamlining Connections Programme is that we do the Code, we set the basic framework. The ENA does the detailed policies and processes, co-developed with stakeholders so that it meets the needs of stakeholders. And the EEA does the technical stuff. This is a similar model used in Australia and the UK. That means a lot of the detail that's not in the Code will need to be developed by industry and applied by industry.

The Code itself is really slow-moving, difficult to change. So, we're proposing that if the stuff goes into industry guidelines, it can be kept more up to date and can be amended more quickly.

Distribution connection pricing

This is quite close to the proposed connection enhancement cost requirement. We are proposing that distributors must provide the cost for the minimum scheme. This does not preclude discussions between parties about other options.

We've also proposed allowing parties to agree to share the cost of an enhancement where it would benefit both parties. We are encouraging that dialogue. However, we want to ensure that the access seeker is provided with the cost for the lowest-cost option.