



20 December 2024

Electricity Authority

By email to: [connection.feedback@ea.govt.nz](mailto:connection.feedback@ea.govt.nz)

Tēnā koutou,

### **Response to 'Distribution connection pricing proposed Code amendment'**

Thank you for the opportunity to respond to Distribution connection pricing proposed Code amendment.

One of the key objectives of Contact Energy's strategy is to 'grow demand' by attracting new industrial demand, as well as supporting housing growth, and other new users such as EV charging. We consider that ensuring there is efficient connection charging is an important enabler of this objective.

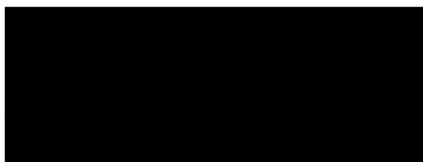
We are, therefore, pleased to see the attention that this has been given by the Authority to this otherwise largely unregulated part of the market. We support the goals of improving efficiency in charging, and consistency across the motu, and consider that the Authority has presented a thorough and thoughtful set of recommendations. We also support the two-staged approach, to ensure critical measures can be fast-tracked and implemented as soon as possible.

However, we want to highlight the importance of ensuring that electricity distribution businesses (EDBs) are fairly compensated for the costs they incur, and incentivised to support efficient connection growth. We recommend that the Commerce Commission joins the next phase of this project to more closely consider implications on the Part 4 regime. In our response below, we highlight a number of places where tweaks to that regime, could improve incentives, ultimately improving outcomes for end-users.

We provide detailed responses to the consultation questions below.

Please contact me at [REDACTED] if you wish to discuss further.

Ngā Mihi



Brett Woods

Head of Regulatory and Government Relations

Contact Energy.

## Appendix A Format for submissions

<b>Submitter</b>	Contact Energy and Simply Energy
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Questions	Comments
Q1. Do you agree with the assessment of the current situation and context for connection pricing? What if any other significant factors should the Authority be considering?	<p>Yes, we agree with the findings of the Authority and strongly support the move to regulate connection pricing.</p> <p>One additional factor for consideration involves situations where the Access Seeker's cost of capital may be lower than Network's. In these situations, it may be efficient for the Access Seeker to fund as much of the connection cost as possible, and benefit from lower OPEX costs in the future. Whilst the proposal does not specifically limit this situation from occurring, some of the proposed regulation may create an incentive, or requirement for the Network to limit the Access Seeker from paying a high(er) proportion of the connection cost. Consideration should be given as to how the Network is incentivised to promote this when requested by an Access Seeker.</p>
Q2. Do you agree with the problem statement for connection pricing?	<p>Yes.</p> <p>Increased consistency across EDB's will make connection process more efficient and understandable for customers operating across different EDB's.</p>
Q3. Do you have any comments on the Authority's proposed pathway to full reform?	<p>We strongly support the move to regulate connection pricing and appreciate the Authority's flexibility in taking a staged approach and fast-tracking some critical measures to ensure change happens as soon as possible.</p>
Q4. Do you consider the proposed connection enhancement cost requirements would	<p>Yes.</p> <p>Increasing transparency, connection options, pricing and flexibility alternatives will help Customers to make efficient investment decisions.</p>

<p>improve connection pricing efficiency and deliver a net benefit?</p>	<p>We also note that Networks are best placed to make decisions regarding enhancement costs that benefit the entire network. So ensuring the regulations allow and incentivise Networks to make these decisions opportunistically off the back of Access Seeker decisions, is important.</p>
<p>Q5. Are there variations to the proposed connection enhancement cost requirements you consider would materially improve the proposed Code amendment?</p>	<p>During this period of energy transition, we believe it is important to ensure Networks have sufficient incentives to find innovative solutions to leverage existing assets more efficiently, through the use of flexible supply agreements to customers who do not need a N-1 supply.</p> <p>However, we note this does put the Network in a position of power regarding how the negotiated/contracted flexibility is delivered. There are currently draft guidelines regarding the role of distributors in Flexibility markets. We believe it is important to progress and finalise these guidelines to work in parallel with these code updates to ensure there is competition to supply these flexibility services.</p> <p>In these situations, the Network, or Network DSO, is the purchaser of flexibility and should be agnostic as to who and how the Customer delivers on the agreed contractual requirements.</p> <p>For many of these arrangements, this will not change the requirements on the Customer to ensure the Network has the highest priority when the flexibility provisions are met. i.e. the connection agreement will contractually manage this risk of security for the Network assets.</p> <p>Finally, we think there should be added protection for these customers in terms of capacity rights. In many situations, customers accepting a lower security connection will likely be doing so as a transition step to full electrification. As such, when upstream assets are going to be upgraded, whether through the actions of another Access Seeker, or natural Growth CAPEX from the Network, these customers are highly likely to be interested in paying the marginal costs to transition to an N-1 connection.</p>
<p>Q6. Do you consider the proposed network capacity costing requirements would improve connection pricing efficiency and deliver a net benefit?</p>	<p>Yes.</p> <p>This will help Access Seekers make efficient decisions during the planning phase, as it will be easier to get a ball-park price of new connections for customers based on published rates.</p> <p>However, we note that because some network capacity upgrades are lumpy, that in practice a connection may trigger an upgrade that costs the network more than published rates.</p> <p>For example, a new connection may require an additional 5MW of transformer capacity, but the most practical actual transformer capacity available to the Network may be 10MW or more to align</p>

	<p>with standardised sizing for the EDB. Our understanding is that the published rates under the network capacity costing requirements would mean that the connecting party is only charged for the cost of a 5MW transformer, but the Network will incur the cost of a 10MW transformer.</p> <p>This may mean the Network is left with unplanned capex costs, which will incur an IRIS penalty. This may lead to unusual capital contributions as Network's aim to mitigate this risk.</p> <p>We therefore encourage the Commerce Commission to join this project and consider tweaks to the incentive regime to align it with the proposed connections regime.</p>
<p>Q7. Are there variations to the proposed network capacity costing requirements you consider would materially improve the proposed Code amendment?</p>	
<p>Q8. Do you consider the pioneer scheme pricing methodology would improve connection pricing efficiency and deliver a net benefit?</p>	<p>Yes.</p> <p>Noting some Networks have offered such schemes already, ensuring Consistency of application across all Networks will have benefits.</p>
<p>Q9. Are there variations to the proposed pioneer scheme pricing methodology you consider would materially improve the proposed Code amendment?</p>	<p>We would expect the Network to be transparent about:</p> <ol style="list-style-type: none"> <li>1) which assets are customer specific and</li> <li>2) which assets will be included in the Pioneer scheme</li> <li>3) which assets would be excluded i.e. those assets that provide a benefit to the wider network and would be capitalised by the Network into their RAB.</li> </ol>
<p>Q10. Do you consider the cost reconciliation methodology would improve connection pricing efficiency and deliver a net benefit?</p>	<p>We consider that the concept of a 'balance point' may lead to confusion about what the appropriate connection costs are.</p> <p>We recommend that the Authority more clearly specify what costs they consider appropriate for a connecting party to pay for. We note that in other jurisdictions a distinction is made between 'deep' and 'shallow' connection charges</p>

	<ul style="list-style-type: none"> <li>• Deep charging holds the connecting party responsible for their sole use assets plus any upstream network upgrades necessary to perform the connection, all the way to the transmission grid if necessary.</li> <li>• Shallow charging holds the connecting party responsible for only the sole use assets and none of the upstream upgrades required to enable a connection.</li> </ul> <p>It is likely that the most efficient outcome is somewhere between these two extremes. A middle ground regime could be premised on the assumption that, above a certain voltage level, any necessary upgrades benefit a wide enough group that those costs should be socialised, while sending some signals to utilise spare capacity where it exists on a local level. We also note that under a full deep charging regime that when a connection is added, other shared costs (ie allowed revenue under the Part 4 regime) are divided amongst a larger number of customers, reducing the lifetime cost for existing customers. It may be appropriate to then consider the upper bound as the point at which existing customers are indifferent to a new connection occurring.</p> <p>We note that the regime in place in the UK is best described as shallow charging, justified on the basis that it supports the decarbonisation of the economy. We understand that Australia has taken a deep charging approach with some limitations.</p> <p>We are concerned that the concept of the ‘balancing point’ may provide a justification for “deep-plus” charging. We want to avoid capital contributions greater than the full incremental costs. We do not consider that this would be an economically, socially, or environmentally efficient outcome.</p>
<p>Q11. Are there variations to the proposed cost reconciliation methodology you consider would materially improve the proposed Code amendment?</p>	<p>As above, we consider that the concept of a ‘balance point’ should be removed, and instead the Authority should clearly state whether it considers there should be a deep or shallow charging regime and specify what costs can be included in connection charges.</p> <p>Given that this decision has wider economy-wide implications it may be appropriate for the Ministry of Business Innovation and Employment to make the judgement between a deep and shallow regime, and for the Authority to then specify how this will be implemented.</p>
<p>Q12. Do you consider the reliance limits would improve connection pricing efficiency and deliver a net benefit?</p>	<p>Overall, if there is evidence that ‘non-connection driven systems costs’ are being charged to connecting parties, we support a short-term stop gap measure to halt this trend while a more</p>

Q13. Are there any variations to the proposed reliance limits you consider would materially improve the proposed Code amendment?

sophisticated solution is designed. However, the ratio of upfront to ongoing connections charges is not an immediate priority.

The reliance limits set the proportion of total system growth capex that can be charged to connecting parties up front. We note that there are three separate concepts involved in this:

- Non-connection driven systems investments. As noted by CEPA at page 25 of their report, these costs include organic system growth, eg due to uptake of EVs, or gas conversions at existing connections. We consider it important that these costs should not be included in any connection charges
- Upfront connection costs – lump sum charges paid by connecting parties to pay for some part of the incremental cost of their connection
- Ongoing connection costs – some EDBs will allow connecting parties to pay back some of their connection costs over several years to minimise the upfront price barriers.

We consider that the first priority for the Authority should be to ensure that no 'non-connection driven systems costs' are being included in connections charges (ie, connecting parties are only charged their incremental costs).

We note that the IRIS incentive scheme has a perverse incentive to drive EDB's to de-risk cost overruns by taking larger capital contributions. Truly solving this problem would likely require tweaks to the IRIS regime, so we encourage the Authority and Commerce Commission to work on this project together.

We consider that the balance between upfront and ongoing connection charges is a lower priority. Having some portion of connection charges paid over time, can support some commercial and industrial electrification projects if the connecting party has limited access to financing. We also note that if implemented correctly it should have no impact on other customers. While a portion of the connection cost will go into the RAB, and therefore increase allowable revenue, the ongoing component of the connection charge should fully offset this increase, leaving all other customers indifferent.

However, we do not consider that this is appropriate for all connections, and may not be appropriate for a regulated limit. For example bespoke ongoing charges would be overly complex to administer at a residential level.

	Should the Authority proceed with the temporary measure of implementing reliance limits, pending stage 2 implementation, it may be more practical to set soft caps, whereby more active monitoring is triggered should those caps be exceeded.
Q14. Do you consider the exemption application process (together with guidelines) can be used to achieve the right balance between improving connection pricing efficiency and managing transitional impacts on non-exempt distributors?	Yes. This approach allows for implementation sooner, which has value, whilst allowing for mitigation of potential differences between what a Network and the Commerce Commission understood and modelled when setting the Default Price Path.
Q15. Do you consider the dispute resolution arrangements proposed (for both participants and non-participants) will provide the right incentives on distributors and connection applicants to resolve disputes about the application of pricing methodologies to connection charges and improve connection pricing efficiency and deliver a net benefit?	We think it is important that there is a clear Dispute Resolution process that is consistent. Whether the applicant is a market participant or not (as per the code definition) should not impact this.
Q16. Are there variations to the proposed dispute resolution arrangements you consider would materially improve the proposed Code amendment?	Any connecting party should be able to use the Dispute Resolution process.
Q17. Do you consider the alternative contractual terms option would be better than the approach in the proposed drafting attached to this paper? Please give reasons.	No. Consistency with the DG approach is preferred for load applications. Inconsistency will likely be difficult to navigate for combined load and DG applications, which we understand are becoming more common.
Q18. Do you think a sinking lid approach to reliance limits would be preferable to the	Noting comments above regarding use of reliance limits, if this approach is confirmed then operating a sinking lid is preferable. If there is evidence that 'non-connection driven systems costs'

<p>proposed static limits approach described in sections 7.80 – 7.105?</p>	<p>are being charged to connecting parties, historic precedent should not allow this inefficient practice to continue.</p>
<p>Q19. Do you think any element of the fast-track package should be omitted, or should begin later than the rest of the package?</p>	<p>We support the measures included in the Fast-Track and believe none should be omitted or delayed.</p>
<p>Q20. Are there other parameters you think the Authority should consider for the proposed connection pricing methodologies? If so, which ones and why?</p>	<p>Please note comments above regarding how connection charges in overseas jurisdictions discuss connection charges in terms of being “Deep” and “Shallow”. Using consistent terminology in NZ will be beneficial.</p>
<p>Q21. Do you agree pricing methodologies should apply to LCC contracts? If not, please explain your rationale.</p>	<p>Yes – As with all access seekers, LCC connections will benefit from transparency and the knowledge that their pricing will be in alignment with other connecting parties.</p>
<p>Q22. Do you agree the proposed requirements, other than reliance limits, can be applied satisfactorily to connections with vested assets? If not, please explain your rationale.</p>	<p>Yes.</p>
<p>Q23. Do you have any comments on the impact of reliance limits on incentives to increase prevalence of asset vesting?</p>	<p>Please note our comments above regarding setting and using these Reliance Limits in general.</p> <p>If they are progressed, it is worth noting that in the same manner that contributions reduce risk of cost overrun and generate IRIS benefits, the reliance limits could be gamed by increased vesting of assets. However vesting also generally involves some greater risks around quality control of installation and install methods. On the balance, it appears unlikely that substantially more vesting will occur, unless through the connection agreement, the Network are able to remove the risks associated with quality control (such as mandating who and/or how those assets are installed).</p> <p>There will also be robust dispute resolution processes available to access seekers should requirements on asset vesting become an issue.</p>



	Implementing monitoring, rather than regulation, may be more appropriate to manage and mitigate this perceived risk.
Q24. Do you agree the proposed methodologies are compatible with contestable connection works? If not, please explain your rationale.	Yes
Q25. Do you agree that fast-track methodologies should not apply to embedded networks? If not, please explain your rationale.	Agree on the principle that the costs would likely outweigh the benefits for the small Embedded Networks.
Q26. Do you have any comments on the Authority's anticipated solution for longer-term reform?	None, other to provide encouragement to the Authority to continue with the current timelines and not rely on the fast-track measures alone to deliver the desired results.
Q27. Are there other alternative means of achieving the objective you think the Authority should consider?	No