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Distribution connection pricing and stage one connections

Counties Energy Trust has significant concerns about the way the Electricity Authority (Authority) proposes to regulate connection charge pricing and network connection processes. The changes are being uncharacteristically rushed. We are concerned these changes have the potential to increase costs for existing consumers and make access arrangements less flexible.

While we consider there is opportunity to improve connection application processes and further improve distribution (including connection) pricing, which we would support, we do not consider the Authority is correct that its proposals, as they stand, would “benefit all parties”.

The Authority’s proposals are likely to be particularly harmful to the interests of consumers in network areas like the Counties Energy area where there is an ongoing large amount of development and growth that has been occurring over decades.

As a consumer trust we are strongly focused on the interests of our consumer beneficiaries, including the 49,000 homes, farms and businesses in the Counties region, and ensuring they are not disadvantaged or unfairly treated by industry regulation.

Support for other submissions

Counties Energy Trust supports the submissions of Counties Energy and Energy Trusts of New Zealand (ETNZ).

Opening comments

Counties Energy Trust is very cautious about the suggestion regulation would “better service consumers, distribution businesses and those wanting to connect to networks.”

This would require that the industry regulator is better placed than electricity distributors to determine how they should operate their businesses and manage their customers (including prospective new connections).

It would be very rare that regulation would benefit all affected parties, as claimed in the consultation, including industry participants that would be regulated. It is more likely that the negative effects and costs of the regulation have not been fully identified or assessed.

We are also concerned the highly prescriptive connection processes the Authority is proposing would make obtaining connection more rigid and less likely to “keep pace with our changing electricity needs”.

The Authority’s connection charge pricing and network connection processes consultations go straight to proposing highly prescriptive regulation. In the case of the connection charge pricing proposals, the Authority had previously said little or nothing about capital contributions beyond that pricing should be subsidy-free and has now gone straight to highly prescriptive rules which could contradict the existing distribution pricing principles (particularly the subsidy-free pricing requirement).

- We are concerned the Authority’s proposed cap would result in higher distribution charges for existing consumers and expose them to business failure/asset stranding risk e.g where a new connection customer closes-down, or scales back their operation, prior to fully paying the network investment required for their connection. It is not clear what the Authority expects would happen if the new customer downsizes their capacity requirements after connecting to the distribution network.
- The Authority should give particular consideration to the risk existing consumers would be exposed to if capital contributions are capped; particularly where: (i) there is a very large amount of growth from new connections; and (ii) the new connection is very large relative to the size of the network/the existing customer base.
- **Allocation of shared and common costs:** Our concerns about the Authority’s view on capital contributions are exacerbated by the Authority’s ‘theoretical’ view that it would be desirable for new connections to only pay their incremental cost. The less contribution new connections make to shared and common costs the less likely existing consumers would benefit from new connections.
- **Lack of CBA:** The Authority should undertake a full quantified Cost Benefit Analysis (CBA) of its proposals, including both the pricing and access regulation components of the proposals. The CEPA report purports to provide a qualitative CBA but this is for the distribution (connection) charging component of the proposals only. The Authority has claimed that its proposals “would lower power costs for all consumers over time” but this should be backed up with quantified evidence if it is to have any weight.

Obligation to Supply

Counties Energy Trust does not support an obligation to supply new connections. The requirement is, in effect, a very heavy-handed form of regulation which would force electricity distributors to undertake certain investments. This goes well beyond the usual forms of economic regulation which include restrictions on price and service quality obligations. This could actually run contrary to Director responsibilities under the Companies Act.

Also distinguish between developers and consumers. A developer may request a connection, but significant time could go by before a consumer(s) takes supply and even then, it may not be at the extent of the built capacity. It is inappropriate that other consumers pay the costs incurred on behalf of a developer. Does the Authority envisage an EDB invoicing developers for the cost of the unutilised and unfunded network investment?

There had previously been an obligation to supply which was removed as part of deregulation under the Electricity Act 1992. Given the significance of the change, we would have expected a detailed discussion of this proposal in the consultation.

Timeframes for applications

We agree with the Authority that it would be a problem if having “no [existing] requirement to approve or decline an initial application, an applicant may wait a significant amount of time before the status of their application is known”. We agree this would create “uncertainty for the applicant and may compromise the development of their final application.” We also agree it could be a problem if final applications were subject to “multiple extensions” depending on the reasons for the extensions.

We consider it could be useful for the Authority to quantify the extent to which this is an actual rather than theoretical problem. This would help ensure the Authority’s decisions are appropriately evidence-based.

Counties Energy Trust considers electricity distributors should be required to provide connection services to access seekers in a timely manner, subject to certain limitations such as reasonable technical and operational practicability and network security and safety.²

² Consistent with the access principles in the Telecommunications Act.

This would be a reasonable principles-based approach to connection applications which would address the concerns with existing arrangements raised in the consultation.

Counties Energy Trust does not support the imposition of fixed timelines for application/final application approval. We have practical concerns with the Authority's proposal to prescribe arbitrary timelines for applications and for extensions.

It is not always possible to approve connection applications/final applications within finite timeframes. Even medium-sized applications can be bespoke and complex.³ Electricity distributors can also have to manage periods of high application requests. While the draft regulations specify that the access seeker must not unreasonably withhold consent to an extension there is likely to be considerable uncertainty about what reasonable/unreasonable grounds would be. The draft regulations should also be clear that if an extension is not granted, and the distributor does not have sufficient time to address the matters it was seeking an extension for, then the application may be rejected.

Remedies for breach of regulated timelines

Counties Energy Trust does not consider that the remedy for a breach of the regulated timeframes should be that the distributor is deemed to have approved the application. This would be a disproportionate penalty. It also ignores that there could be reasonable grounds for not meeting the regulated timeframes and there may be reasonable technical and operational practicability, and network security and safety, issues that need to be addressed before the application can be approved.

Additional costs from complying with the regulated application process and timelines

We are concerned that the Authority's qualitative analysis substantially understates the potential compliance and process costs associated with the proposals. It does not follow that if "Distributors are required to process applications regardless of whether a decision is required ... or final timeframes apply" that the proposals would not be "expected to add significant costs for distributors." The Authority's claim is not substantiated. It would be unsafe for the Authority to conclude benefits outweigh costs, based on incorrect assumptions about cost.

It can reasonably be expected that the shorter the timeframes for processing applications the greater the resourcing requirements (either additional staff or reprioritising work) and these costs will be particularly pronounced on networks such as Counties Energy and the Vector Auckland network where there is substantial ongoing new connections and growth.

The proposed cap on capital contributions and pricing for new connections

Counties Energy Trust is very concerned that the Authority's connection price regulations would result in higher distribution charges for consumers, with the Authority proposing to both limit the capital contributions new connections have to make, and captive existing consumers paying a disproportionate amount of shared and common network costs.

We do not consider that this would be efficient. The proposals would also be contrary to the Authority's consumer protection objective as they would disadvantage small business consumers and domestic consumers to the benefit of larger new connection customers. The safest way to protect small business and domestic consumers is to ensure full user-pays for new connections.

The Authority is proposing to apply a cap on capital contributions without first determining what level of capital contributions would actually be too large. There is nothing in the consultation paper or the accompanying CEPA report to indicate what the threshold for 'too large' is or that demonstrates any existing capital contribution

³ The Authority proposal makes an arbitrary distinction between medium and large connection applications but doesn't provide an opportunity for the distributor to assess whether the application may be simple/standard or complex which has implications for both the reasonable cost and time in processing the application.

requirements are excessive or inefficient. The 47% 'benchmark' is arbitrary and provides a 'one size fits all' type solution that fails to distinguish between the risk profile of low, medium and high growth electricity distributors.

The CEPA report includes a stylised example which attempts to illustrate the impact of capital contributions that are too large. The issues the stylised example identifies, however, could apply to any capital contribution above \$0.

The optimal level of capital contributions is likely to vary amongst electricity distributors with higher contributions likely to be optimal in high growth regions, but not as important in areas where the local economy is stagnant and there is little growth. The Counties Energy submission details how the cost of new connections has increased as a share of total growth capex for many electricity distributors.

This parallels that use of peak-charging is likely to be more beneficial in areas with high growth and capacity constraints than in areas where there is little growth. These observations should not be controversial, and it should not necessarily be seen as a concern if different electricity distributors tailor their pricing strategies to their local circumstances.

We do not consider that the Authority's "neutral point" is a genuine pricing level where existing consumers would be indifferent to new connections. The Authority's formulation for new connections paying their "incremental cost" assumes that the new connections operate for an extended period of time. This ignores the risk that: (i) if new connections do not fully fund the capital costs required for their connection through capital contributions, and (ii) scale back their business activity/network capacity requirements; and/or (iii) don't stay in operation for an extended period of time (15 years), existing consumers will end-up subsidising the new connections. The Authority's commentary is also silent on the implications of decommissioning costs that can occur where a large customer exits.

The Authority's proposed cap on capital contributions would effectively require a component of the investment required to enable new connections to be socialised as part of the distributor's cost recovery.

The Authority has not demonstrated it would be desirable for existing consumers to contribute to the costs of new connections through higher distribution charges or to bear some of the risk of new connections e.g. if new connections are not fully funded through capital contributions, other consumers will end up incurring the cost if the new connection customer closes down for any reason. The consultation paper briefly mentions the "risk of existing users subsidising connection" (Table 7.3) but does not explain why this subsidy would be acceptable or consistent with either of the Authority's statutory objectives. The harm this would impose is not discussed in the qualitative cost benefit assessment.

The Authority should give particular consideration to the risks that its proposals will expose consumers to where: (i) there is a very large amount of growth from new connections; (ii) the new connection(s) is very large relative to the size of the network/the existing customer base; and/or (iii) there could be large decommissioning costs if the new connection exits. The experience with the Pike River Mine (a very large customer relative to total load on the network) closing provides a salutary lesson the Authority should consider.

Our concerns about the Authority's view on capital contributions are exacerbated by the Authority's 'theoretical' view that it would be desirable for new connections to only pay their incremental cost. The less contribution new connections make to shared and common costs the less likely consumers are to benefit from new connections.

We note stakeholders have raised concerns to the Authority, at various times, that the current Distributed Generation Pricing Principles favour distributed generators, with access required to be provided on the basis of incremental cost only. The Authority should consider these submissions and revise the preferential treatment for both distributed generation and, potentially now, new connection customers.

Lack of CBA

The Authority's Consultation Charter is clear that "The Authority is required to include with any Code amendment proposal an evaluation of the costs and benefits of the proposed amendment.⁵ The Authority will also include a summary of this evaluation."

The Authority should undertake a full quantified CBA of its proposals, including both the pricing and access regulation components of the proposals.

The Authority has provided no reason why a quantified CBA has not been undertaken. The CEPA report purports to provide a qualitative CBA but this is for the distribution (connection) charging component of the proposals. Our assessment of the CEPA report is that it is designed principally to provide a justification for the Authority proposals rather than as a CBA. We also do not consider that the assessment provided is sound.

The Authority has claimed that its proposals "would lower power costs for all consumers over time" but this should be backed up with quantified evidence if it is to have any weight.

Boundaries between the Authority and Commerce Commission

We are mindful that issues have been raised about the boundaries between the Authority and the Commerce Commission. One issue is that the Authority's pricing methodology regulations could not only impact on allocation of costs but also the amount of revenue that needs to be recovered through distribution charges.

Another issue is that the Authority's proposals increase the extent to which the Authority and Commerce Commission are regulating dual Information Disclosure Regulations for electricity distributors.

The Authority is proposing to require distributors to publish more information, than is required under the Commerce Commission Information Disclosure Regulations,⁴ on network capacity. We would like to see co-ordination between the Authority and the Commerce Commission, including whether the information the Authority is seeking could be accommodated under the existing Part 4 Commerce Act disclosure requirements.

Concluding remarks

Counties Energy Trust is supportive of reforms that would make it easier for new customers to connect and that would improve the efficiency of connection processes. The advent of new technologies and electrification is driving new demand and increasing need for new connections. This is evident at both the distribution and transmission parts of the electricity market.

We are concerned that the Authority is rushing through introduction of complex, highly prescriptive regulations, some of which are not fit-for-purpose.

We have strong misgivings that highly prescriptive regulations would make connection application processes more efficient and benefit both distributors and new connection customers. We are also concerned that the Authority's proposed connection charging regulation would tilt the playing field too far in favour of new connection customers, including developers, at the expense of existing consumers, including small businesses and domestic consumers.

Yours sincerely,



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Chair

Counties Energy Trust

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⁴ As reflected in the consultation's reference to the Asset Management Plan disclosure requirements which include requirements to disclose information on network capacity.