20 December 2024

Submission to the Electricity Authority on distribution connection pricing proposed Code amendments

Electra Limited (Electra) owns and operates the electricity lines and assets in the Kāpiti and Horowhenua districts. Electra is proudly 100% locally owned by the Electra Trust, a consumer trust, for the benefit of the approximately 47,000 consumers in the region.

Electra has been involved with several forums and sector groups on the Electricity Authority's (Authority) *Distribution connection pricing proposed Code amendment*, and fully supports the Electricity Networks Aotearoa's (ENA) and the Northern Energy Group's (NEG) submissions.

Through our ownership model, we operate with the consumers' best interests as a top priority, which includes all the people and parties wishing to connect to our network to support our region's growth.

We aim to make it easy for people to connect, to ensure that customers pay what they should and costs are not unnecessarily imposed onto others

Electra wishes to emphasise and expand on aspects of the ENA's and NEG's submissions. Electra was involved in the discussion, debate and analysis that went into the submissions, so it is not necessary to repeat the detail of these submissions. There are many general aspects of the proposal that we agree with and align with what we are already doing or future plans. Our submission will focus on the issues relevant to our network, that will we believe will assist the Authority to make prudent decisions in this important area.

The timing is terrible

The Authority's decision to undertake this consultation at a time when it knows all distributors are stretched with price setting, responding to the DDA template changes, other regulatory consultations, setting annual budgets and preparing an Asset Management Plan has had a detrimental impact on our ability to engage and apply in this important issue.

Engaging with this consultation, to the degree it warrants, has placed considerable strain on staff, senior management and the Board, and required external support. The net impact of which is increased costs to our customers that could have been avoided through better sequencing.

To avoid imposing additional and avoidable costs on distributors and their customers, we urge the Authority to consider the timing of consultations. Regard should be given to the limited resources most distributors have and avoid the times of the year that are already busy for the small group of skilled people involved.

Electra is changing its approach

Electra currently operates a vested assets model for non-residential connections and is in the process of moving to a capital contributions approach. The general timing of the changes proposed over the coming months and years can be instructive to the approach we adopt. We have looked to the general model that others operate which broadly align to the principles contained in the consultation, and identified areas that suit our, and our customers', needs. The devil is, however, in the detail and we have concerns about how the inflexible aspects of the regulation could impact on customers.

Electra supports the intent of the Authority to ensure unnecessary barriers are removed and providing clarity on efficient connection pricing through a more standardised approach. We want to make it easy for people to connect to our network and pay their fair share through efficient and cost-reflective pricing, at the time of connection and through future pricing, and so we support the Authority in clarifying how distributors can ensure connection pricing is structured to allow efficient outcomes for all customers.

There are aspects of the proposals that are not consistent with this ambition and run counter to the long-term best interest of consumers.

Primarily, Electra recommends:

- the Authority undertakes more complete analysis to understand the situation, define the problems and address them in an orderly manner
- the Authority provides evidence that capital contributions is a problem, and change is required to address an inefficiency, cost-reflective or fairness issue
- provide a clear problem definition before identifying solutions to address them, and only then implementing change; to bring distributors along on the journey
- the Authority implement principles-based regulation aligned with the distribution pricing principles approach, rather than rules-based regulation seemingly at odds with the well understood prudent pricing principles

Poor outcomes flourish in a rush

As the ENA submits, *"Rushed decision-making will have unattended consequences that impact the already finely balanced cost-benefit analysis. Rushed decision-making can lead to poor decisions and consumer outcomes. This will have a generational impact as the decisions impact long-life assets and even longer connection relationships."* Electra supports this point wholeheartedly, and points to the recent decision by the Authority to the DDA template which created a situation that the Authority cannot have intended.

This request is not made out of a desire to avoid change – quite the opposite. Electra and many distributors already have work in flight to adjust and change their contribution policies to support the changing landscape of connections. This request is to ensure that changes are well made and deliver what is needed.

Principles not rules align with the Authority's pricing principles

The Authority's distribution pricing principles are an excellent example of the way in which a regulator can exercise influence and direct outcomes, in alignment with the sector. The distribution pricing principles are well understood, agreed, and as the Authority's scorecard regime has demonstrated, effective in moving outcomes in the right direction. The principles are effective because they are cognisant of the need to avoid standardised outcomes that do not apply across the board.

As the ENA recommends, *"the Authority apply pricing principles rather than the proposed rules-based approach. Principles-based regulation allows for greater flexibility and empowers EDBs to flex and innovate in the ever-changing electricity environment to create solutions that meet customer needs."*

Distributors are best placed to know their regions and customer's needs, and the sector we all operate in, and to balance the long-term and short-term needs of customers. To the extent the Authority believes this may not be occurring, poor behaviour can be highlighted through the 'name and shame' approach it takes with scorecards.

Principles-based pricing regulation is best practice within the sector. To avoid unintended consequences from incomplete analysis, rules-based approach should be considered as a second order consideration, once the proof of a fundamental, widespread and repeated failure has been evidenced.

Cost-reflective, efficient, fair and avoiding subsidisation

The NEG submission provides some useful examples of situations that Electra requests the Authority considers closely in its decision and summarised as *"The customers that we spoke to were clear that individuals or businesses that will profit from a new connection should be the ones that pay the entire cost. For high-certainty commercial loads, this will not be an issue, however we do not believe that other network users should provide the guarantee to uncertain commercial operators."*

Electra's Trust has also submitted on this consultation and we echo its concerns that *"the proposed changes are designed to favour a small number of connecting parties over others and that these changes will result in increased charges and risk to existing customers."*

As the representative of the customers in the region, the Trust's views carry an impartial weight that the Authority is wise to consider deeply. It is the Trustees that are required to explain the actions of Electra to customers in the region and they, like all of us, do not want to have to explain that the Authority forbade the company from making efficient, fair and cost-reflective decisions.

Electra, the Trust and the wider sector wants to work with its regulators for the mutual benefit of all, and this has demonstrated many times. This particular point is especially concerning for the sector, as the voice of the vast majority of our customers.

The structure of the proposals is highly likely to result in situations where existing customers are subsidising connections of new customers. Large commercially driven connections that may deliver no direct benefits, yet transfer operating cost and failure risk is unlikely to appear fair to an average existing user. This cannot be the Authority's thinking as it flies in the face of the Authority's distribution pricing principles and the Authority's objective under the Electricity Industry Act 2010 to *"protect the interest of domestic consumers and small business consumers in relation to the supply of electricity to those consumers."*

We can only surmise that the wider implications of the intricacies of the proposal have not been considered fully and this is perhaps a reflection of a rush to regulate. Electra implores the Authority to slow its timetable to make well-informed and considered decisions. The sector can be brought along as willing participants, by addressing the most pressing issues that the Authority sees, and demonstrating the clear causes for concern.

Electra reminds the Authority that its role includes protecting the interests of existing consumers, especially domestic consumers and small businesses, and not putting at risk their interests for a few large, commercially driven connecting parties that are more than capable of strongly representing their own interests.

Electra contends that, as written, the proposals will see existing customers subsidising new connecting parties' connections, and if done, the Authority will have failed to meet its legislated objective.

Detail may set the sector backwards

Electra assumes that the reliance limit, both in detail and in concept, is a 'placeholder' to float an idea that may address an issue that the Authority has not yet delved into sufficiently.

As a concept, the notion is fraught with problems that the ENA and NEG submissions already cover in detail and so we will not repeat here. Suffice to say though, that the concept risks setting the sector backward in its evolution as distributors find ways to meet customers' demands and needs for efficient, cost-reflective and fair pricing, instead of being forced to 'play favourites'.

As mentioned, Electra is intending to move from its vested assets approach to a better defined capital contributions model that is broadly aligned with the Authority's and the sector's approaches. There are clear benefits in the current approach which may not be allowed to evolve under what is proposed. Electra, our Trust, our customers and the Authority do not want to see such backward behaviour.

For the avoidance of doubt, no distributor wants to be in the position that as the reliance limit is approached it is forced to make a different capital contribution decision than the prior well-considered ones.

No customer should be in the position that because they 'were early' they have to pay the sensible connection cost, but those that follow get subsidised.

No distributor wants to be thinking of how to reform and evolve their pricing on the one hand, but then adopt a completely different and unworkable tact on the other.

Electra strongly rejects the application of reliance limits as a useful regulatory tool to aid customer outcomes, and counsels the Authority that its inclusion would be counter to its own objectives and principles.

Pioneers should not be disadvantaged

Electra has been planning on how to implement a rebate scheme to mitigate first-mover disadvantages, so was pleased to see the concept incorporated into the proposal. There are issues that Electra wishes to highlight with the proposal which are already well covered in the ENA submission. Simply we wish to highlight the point that to make it workable for customers, and not burdensome for existing customers to pay to administer:

- a de minimis threshold is necessary;
- the Authority should shorten the timeframe to align with record-keeping requirements, i.e. seven years; and
- flexibility should be allowed for distributors to manage pioneer customers that no longer exist.

Closing comments

Electra supports the intent of the proposals, but expects the Authority to adopt a considered approach to implement changes that address actual problems, not perceived problems, and in a manner that is well considered, takes the time to understand the issues that are at the heart of the problem, and implements sensible principles-based changes.

As always, we and the rest of the industry, welcome further engagement with the Authority along with other interested parties to ensure a collaborative approach to designing durable solutions which help to support the electrification of Aotearoa.

Nothing in this submission is confidential, and it can be published on the Authority's website verbatim.

Yours sincerely

Stuart Marshall
General Manager Commercial