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Submissions
Electricity Authority
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Via email: connection.feedback@ea.govt.nz

SUBMISSION ON THE DISTRIBUTION CONNECTION PRICING PROPOSED CODE AMENDMENT CONSULTATION PAPER

The Electricity Retailers' Association of New Zealand ('ERANZ') welcomes the opportunity to provide feedback on the Electricity Authority's consultation paper 'Distribution connection pricing proposed Code amendment' from October 2024.

ERANZ is the industry association representing companies that sell electricity to Kiwi households and businesses. Collectively, our members supply almost 90 per cent of New Zealand's electricity. We work for a competitive, fair, and sustainable electricity market that benefits consumers.

Executive summary

ERANZ supports the Authority's objective with this consultation to more fairly and efficiently allocate the costs associated with enhancing the electricity distribution network. The retailers we represent are always interested in exploring and enabling more ways to achieve increased network capacity at the lowest cost to consumers.

General comments

ERANZ agrees with the Authority that a response is needed to ensure connection charges are efficient. Inefficient connection charges risk deterring new connections and the benefits they bring to consumers, such as public EV chargers and more affordable housing.

Efficient network charges will strike a balance between incentivising network growth while making sure existing customers are not forced to pick up the tab for growth. If connection charges become too low, then the price of growth is essentially being subsidised by existing customers. This could lead to potentially significant cost increases, at a time when consumers are already facing higher cost pressures on top of other cost of living increases.

Consultation feedback

Connection enhancement cost requirements

ERANZ supports the Authority's intention to require distributors to design and price the least-cost technically acceptable solution for connecting each customer, similar to the approach

taken in the United Kingdom and Australia. This will help to avoid gold-plating and ensure that the most cost effective decisions are made, keeping the costs passed on to end users of electricity to a minimum.

We agree that requiring distributors to design and cost the cheapest solution that works will increase consistency and transparency, potentially alerting connection applicants to a more efficient way of connecting to the network.

Providing for customers to request a “minimum flexible scheme” will further contribute to the cost effectiveness and flexibility of the system for customers, allowing them to decide to adopt a cheaper solution in return for allowing the distributor to quickly reduce demand when needed.

Network capacity costing requirements

ERANZ supports the Authority’s intention to “flatten” the cost of network capacity upgrades by charging customers on the basis of capacity consumed, rather than on a per-project basis. This means the cost of network capacity upgrades are spread out across a larger customer base. It also avoids a situation where a potential new connection which triggers a need for extra capacity is expected to pay the full cost of building that extra capacity. Such a situation would be inequitable, potentially depress the demand for new electricity connections, and increase the cost of much needed electrification.

Pioneer scheme pricing methodology

ERANZ supports the Authority’s intention to allow require those who pay for network extensions to be refunded a portion of this cost by those who subsequently connect to the network later through a so called “pioneer scheme”.

This approach avoids the perverse incentives that can occur if first-movers are expected to shoulder the costs of expansion that subsequent connectors can then access at a much lower cost. If “pioneers” have a first-mover disadvantage, this has the potential to distort the timing of connection applications and ultimately depress demand for electricity network growth.

Pricing methodologies

ERANZ agrees with the Authority’s proposal to require distributors to standardise the way they calculate incremental cost and incremental revenue, and provide this information to connection applicants and the Authority as requested.

This information allows distributors to fairly and accurately price new connections in such a way that they cover their growth costs to the network and pay their share of general maintenance, whilst also avoiding fees becoming too high and deterring new connections to the network.

Longer-term reform

ERANZ and its members look forward to participating in the longer-term reform programme. We will watch with interest as the Authority’s fast-track elements come into effect and their full benefits are realised.

Conclusion

ERANZ would like to thank the Authority for considering our submission.

Yours sincerely,

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