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Energy Trusts of New Zealand Incorporated (ETNZ**)** welcomes the opportunity to provide feedback on the Electricity Authority's (EA's) consultations on:

- Network Connections Project – Stage One
- Distribution Connection Pricing Proposed Code Amendment.
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Our feedback on both submissions is combined into this single response.

ETNZ represents and advocates on behalf of regional energy trusts throughout New Zealand. These Trusts are owners of companies operating electricity distribution networks on behalf of local consumers and communities. ETNZ is the collective voice of consumer-owned power distribution in New Zealand.

Twenty of New Zealand's 29 EDBs are Trust-owned – either in part or full. It is the dominant ownership model. Trust-owned EDBs supply electricity to over one and a half million customers and collectively have over $9 billion in assets. Crucially these networks are owned by their customers. This ensures they can strike an appropriate balance between affordability of prices to current customers and investing in an increasingly critical piece of community infrastructure for future generations.

By virtue of their ownership model, trust-owned networks are naturally incentivised to act in the best interest of their customers. Our members are active in our communities – their profits are returned to their customers, they provide local sponsorships and community initiatives, and they are significant employers in their regions.

ETNZ is a passionate advocate for local companies investing their capital in local communities. Many of our members' companies are over one hundred years old and have built a long history in financing regional infrastructue While affecting a different part of our sector, the recent events with SolarZero highlight the fickle nature of relying on capital that seeks high short-term returns.

We support in general the submission by Electricity Networks Aotearoa (ENA). Rather than repeat their points in full; we have chosen to concentrate our feedback on the key matters that affect our customers and beneficiaries. Where there are any differences between the points raised in this letter and their submission the points outlined below take precedence.

We are concerned 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.

Please Slow Down
Firstly, and most importantly, we urge the EA to slow down this process. It is being implemented with undue haste. Mistakes and missteps will only be borne by our existing customers in the form of higher prices and increased risk.

Find a Simpler Way to Achieve the Desired Outcomes
The level of change proposed is overly complex. We acknowledge connection processes, including pricing practices, could be improved and we support initiatives that result in faster, more efficient, and cheaper connection processes. We believe there are simpler solutions than what is proposed, and we would be happy to work alongside the EA to achieve this objective if the changes benefit all customers and there is a clear and realistic process to implement the change.

We do not support changes to existing processes that are designed to standardize processes for the benefit of a small number of customers to the detriment of many**.** Our role, and that of our network company, is to be evenhanded and ensure all customers – current and future – are treated fairly.

Equity is Paramount
The EA fails to recognize that networks have an obligation to treat all customers equitably. Any subsidization of new connections is borne by increased charges to existing customers. It is not clear that the EA has canvassed this matter with existing customers. If it hasn't, it should urgently do so to ensure a balanced and reasoned debate. ETNZ, through its members, can facilitate such discussions.

The proposed changes are likely to impact negatively on existing customers in three ways:

1. New customers are unlikely to pay a fair charge to join the network meaning existing customers will pick up the shortfall.
2. Existing customers will be forced to take on stranding risk on new speculative connections that historically networks would have ringfenced to the investment. A real and recent example is Pike River mine. Westpower made Pike River pay for this connection in full and upfront. Had they not done so the people of the West Coast would still be paying for it. Large, bespoke, dedicated investments should be excluded from this process.
3. The increased compliance load to administer the raft of proposed changes will result in increased costs. The EA openly acknowledges this in the consultation documents. While it would be logical to reflect these to new customers it is unlikely that these costs will be able to be fully recovered, leaving existing customers to fund the shortfall.
4.

Obligation to Supply is Forced Investment
The proposed changes create an explicit obligation to supply new loads. This was acknowledged by the EA on their webinar of 11 November. This obligation was removed by statute at the start of the deregulation of the sector in the 1990's. Reinstatement of this obligation should not be done through lesser and more opaque methods. Furthermore, reinstating the obligation to connect <u>and</u> dictating the terms (including price) on which this is done is tantamount to forced investment.

To be clear, we are not suggesting networks will resort to wholesale refusal to connect, but forcing networks to connect customers under any circumstances is unacceptable.

Exclude MegaLoads

The proposed changes to Part 6 include adding requirements for large connections above 300kVA. We believe a new category should be created for ‘megaloads’ - loads above 2MW - and furthermore these megaloads should be explicitly excluded from Part 6.

These types of connections are not uncommon and, despite the EA’s view expressed in the consultation paper, have generally been well delivered by networks. The EA must be careful it doesn’t confuse customers raising issues that arise as part of normal commercial negotiations with genuine structural problems hindering connection.

These projects have a number of distinct characteristics that don’t lend themselves to the proposed changes. They involve large, custom-designed network infrastructure that is only used to supply a specific customer. Typically, they involve dedicated teams from a network company working closely with the customer and their technical consultants. The delivery timeframes are long and are generally challenging often because customers come to networks late in the process. As the infrastructure is bespoke and only of use to the customer, costs are recovered through a mix of upfront connections charges and a relatively short-term contract. This is done to protect risk and not expose other customers to any costs from stranded assets a la Pike River.

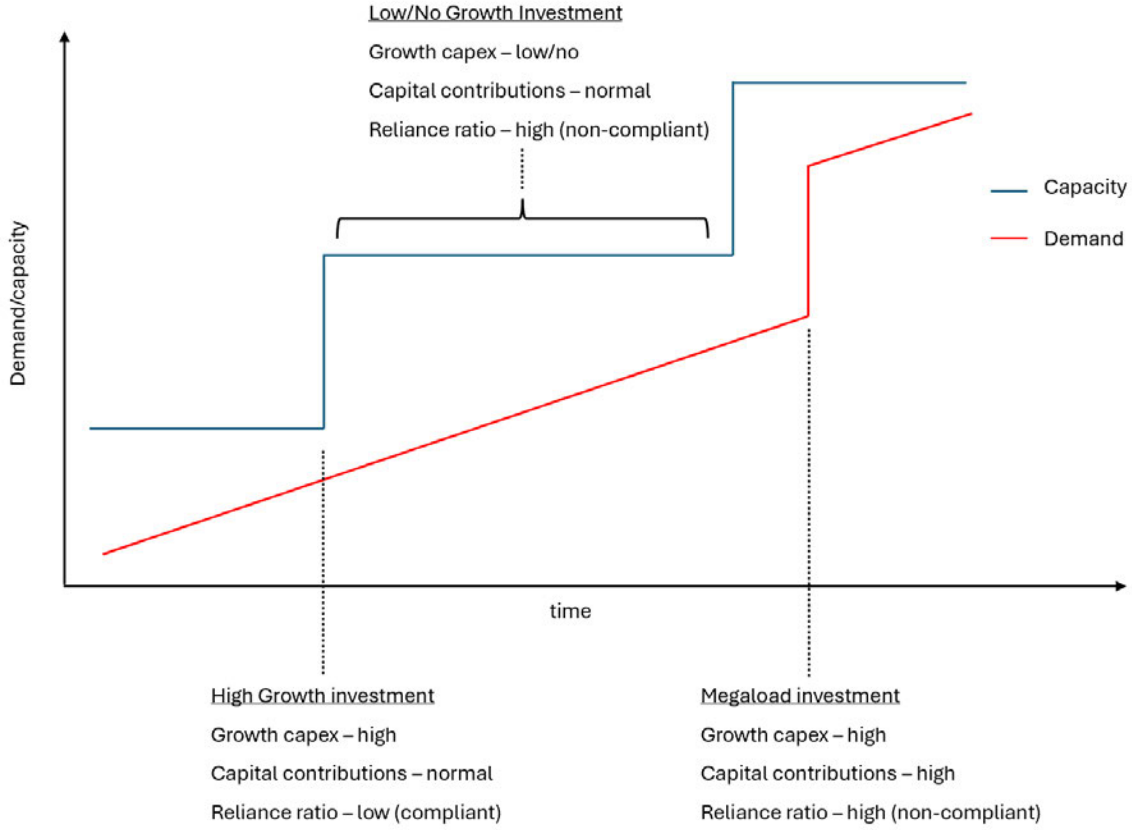
The consultation paper hints at opportunities to share costs. This notion is not applicable to these types of projects. Any cost sharing is really cost shifting – pushing costs onto other customers.

We are happy to have our members reach out to their companies to provide examples of recent projects to the EA on a confidential basis to provide an evidence base to support this change. We also note that if future issues emerge, the EA can make relatively simple code amendments to include these projects.

Growth Capex and Customer Contributions are not Tightly Linked

The Distribution Connection Pricing consultation paper notes a trend of increasing connection charges relative to growth expenditure for the sector. It then proceeds to use this data to set a reliance limit across the sector. No underlying justification is provided for this.

It is dangerous to make such a leap at a global level. Growth capex and customer contributions are not tightly linked as can be seen in the following figure.



Growth investment, particularly deep in the network, can be both significant and lumpy. It is commonplace (and economic) to make investments that provide for many years of growth. This will lead to periods of low reliance ratios. Post this investment as load increases through customer growth, the reliance ratio is high.

Applying a one size fits all limit across the sector is not sensible. The EA should follow the lead of the Commerce Commission and look to the individual circumstances of each network and design a scheme that works for that network's context.

Create the Right Incentives for the Right Parties
Any changes need to ensure the right incentives sit with the right parties. It is not clear that this is the case.

Many networks charge a development fee that is linked to the cost of providing deep capacity within the network. Often this is set as a $/kVA rate. The proposed changes still permit this, but networks are also required to reconcile the incremental cost to the expected incremental revenue. This misses the fact that almost without exception customers request more capacity than is needed. We are aware of a large customer requesting a 9MVA connection but only using 3.5MVA. Who should the cost of overestimating capacity requirements sit with? A higher than net incremental charge provides an incentive for customers to ask for only what is needed.

The consultation paper attempts to provide guidance as to how such charges should be derived. Such charges must be forward looking. Networks, like other sector participants, are experiencing high and persistent construction cost inflation driven by a combination of resource shortages and global supply chain constraints. The upshot is that the future cost of capacity is likely to be significantly higher and it should be priced as such. We need to look forwards, not backwards. Failing to do so encourages inefficient connections.

Why is Transpower Excluded?
Physical supply to customers occurs across a series of networks, or more accurately a series of network layers. In most cases, electricity passes through four layers of network before reaching a customer. The first layer is the transmission network and there is no reason the changes that are mooted should ignore this layer.

It is important that the proposed changes do not further distort markets as has been the case with large DG connections. Connections that should have been direct to the grid have ended up with distribution networks largely because Part 6 gives applicants greater rights particularly in terms of response times. Bottlenecks occur due to resource constraints, particularly with specialized technical skills. Encouraging customers to shift from one counterparty to another when both draw on the same limited resource pool will not lead to better outcomes.

Both consultation papers make reference to expected behaviours, including allowing customers to get contestable quotes for work and encouraging networks to fix prices and take on risk for jobs. These are at odds with current Transpower practice. If the EA considers its approach best practice, then it needs to expand this work to include Transpower. Not doing so invites accusations of bias towards some participants over others.

Better Regulatory Process is Needed
There are many instances within the proposed changes that point to poor regulatory process. We have included some of the more material ones below as examples.

An obvious case in point is the potential for a non-exempt network to find itself limited in its ability to recover revenue for new connections via a combination of its revenue limit and a constraint on capital contributions. It should not rest with the affected party to try and find a way through a problem created by the inability of two regulators to collectively determine a solution. There is no reason that the EA cannot provide regulatory certainty ahead of the change and it should do so.

The use of an arbitrarily determined reliance limit set at an average value is not good practice. All networks are different and should be treated as such. The framework the Commerce Commission uses for non-exempt networks reflects this. Networks are set maximum allowable revenues based on their past and future investment profiles and can also seek customized arrangements if necessary. It is easy to foresee future situations where networks will be constrained by the reliance limit through no choice of their own. As was shown above, network growth capex and customer contributions are not as tightly linked as implied in the consultation document. What is needed is a robust process to arrive at the right outcomes for each network, not a subjective limit that requires networks to apply for exemptions they may not get.

The consultation also makes numerous references to capacity rights. Networks sell access, not capacity. With new connections and upgrades, they provide a maximum capacity limit within an agreed timeframe. Capacity rights imply ownership and with ownership comes the perception of having something that is tradeable. This is dangerous territory, and this should not be embedded in the code.

Slowing this process down would allow the EA time to address the above issues.

We have not reviewed the draft code within the consultation. Given the many questions that are likely to be raised around how the EA intends to implement its plans, we feel it is premature to do so at this point in time. If the EA were to implement the draft code without any change, it would surely point to a lack of intent to consult openly. We therefore reserve the right to provide feedback on this at an appropriate stage in this process.

In summary we ask that the EA:

1. Slow down the current process;
2. Find a way to work constructively with networks to implement a simpler process via an agreed timeline;
3. Exclude 'megaloads' above 2MVA from the proposed changes,; and
4. Provide regulatory certainty to networks that may be inadvertently affected by the changes ahead of implementing any changes.
5.

Should you wish to discuss any of the points raised above please feel free to contact me via ETNZ stakeholder manager Cathie Bell (cathie@korimako.nz or 027 4998467). We welcome further engagement in this area to find enduring solutions that do not result in existing customers shouldering an unfair burden of cost and risk.

Yours sincerely

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