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Electricity Authority
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By email: connection.feedback@ea.govt.nz

Horizon Energy Distribution Limited (Horizon Networks) submission on Distribution Connection Pricing Consultation

1. Thank you for providing us with the opportunity to provide further feedback on the Distribution Connection Pricing Consultation.
2. Horizon Networks is a small trust-owned Electricity Distribution Business (EDB) serving over 25,000 consumers in the Eastern Bay of Plenty region. As a trust-owned EDB, we have a strong consumer focus and seek to benefit both our Shareholder Trust Horizon and the communities we serve.
3. Horizon Networks supports the Electricity Authority's intention to support efficient, cost-reflective connection pricing however we have significant concerns regarding the proposed fast-track Code amendments and assumptions that underpin the proposed changes.
4. Critically, this proposal will result in customer connection assets that are dedicated to one customer being funded by the EDB. The shortfall in costs of providing those assets will be recovered across all consumers on the network.
5. In addition to our response to the questions in Appendix A, Horizon Networks would like to emphasise the following:
 - The connection charge reconciliation pricing methodology will deliver inconsistent outcomes
 - The Electricity Authority has stated and or assumed there is a problem with current connection pricing and has not provided any evidence and or examples of this in the consultation documents
 - The reliance limit is flawed and based on incorrect assumptions
 - The proposed fast-track measures are not quick to implement and does not fully consider the under recovery of revenue
 - One size fits all approach to all load customers is not appropriate and there needs to exemption for all HV connected load requests.
 - Irrespective of position arrived at by the Electricity Authority, the EDB needs to have absolute discretion to connect or not any new customer after taking into account its ability to finance any new connections and the EDBs obligation to its shareholders and lenders.

The context for distribution connection pricing

A brief history of connection pricing

6. The Electricity Authority began focusing on distribution pricing reforms in 2019. This included distribution pricing principles and the use of scorecards to monitor and evaluate EDB's pricing structures and progress towards distribution pricing reform.
7. While capital contribution policies have been within the scope of the 2019 pricing reforms, the Electricity Authority has never issued guidance and did not raise connection pricing as a concern until 2023.
8. In 2023 the Electricity Authority identified connection pricing as one of five potential areas for targeted reform.¹

¹ https://www.ea.govt.nz/documents/3367/Issues_Paper_-_Target_reform_of_Distribution_Pricing.pdf

9. Since 2023, the Electricity Authority has not clearly communicated what efficient connection pricing looks like. As a result, many EDBs, including Horizon Networks have worked to ensure their connection pricing methodology aligns with the distribution pricing principles published by the Electricity Authority.

Horizon Networks context for distribution connection pricing

10. Horizon Networks' aim is for connection charges to be cost reflective. Connecting parties only pay for the cost associated with assets dedicated to that connection, and existing consumers do not face higher prices because a new party has to connect to the network.
11. Horizon Networks has a well published process available on its website to support any new connection requests. Our connection charges include:
- An **application fee** (to cover the cost of processing the request to connect)
 - An **LV livening fee** (to cover the cost of livening the connection once it is ready)
 - An **infrastructure development contribution (IDC)**² (to cover the impact this connecting load will have on Horizon Networks' upstream infrastructure work programme)
 - **Vested assets**³ (where the connecting party pays for any aspect of the connection assets and then vests them to Horizon Networks to maintain).
 - **Capital Contributions** (where Horizon Networks has agreed to pay for the connection assets but has requested the connecting party contribute towards the connection assets).
12. Most connections are fully paid for by the connecting party via vested assets, which are solely for the connecting customers use. So capital contributions (where Horizon Networks builds the assets with a capital contribution from the connecting party) are typically zero or very low.
13. Horizon Networks has taken this approach to ensure that any new connection does not create a financial burden on Horizon Networks and ultimately our consumers do not face higher costs as a result of providing assets that are solely for that connection. This approach removes any future risk of the new connection disconnecting earlier than expected and removes any need to consider future incremental revenue and costs. As drafted, there is real risk that existing consumers will face increased costs which is contrary to the statutory objectives of the Authority⁴.
14. Horizon Networks' approach aligns with the distribution pricing principle that charges should be subsidy free. Assets that are solely for that customers use are paid for by that customer.
15. Horizon Networks also operates a 'pioneer scheme' to address first mover disadvantage.
16. Horizon Networks does not typically pay for the customer-specific assets required for new connections; therefore the regulated asset base (RAB) does not increase.
17. As a result, existing consumers do not face higher ongoing line charges due to new connections given there is no return on (WACC) or of (depreciation) the connecting assets.
18. Horizon Networks operates with efficient, cost-reflective connection pricing in mind.

Price-quality regulation

19. The Commerce Commission sets the price-quality path 16 non-exempt EDBs. The Commerce Commission uses a "Building Blocks Allowable Revenue" (BBAR) approach to set allowable revenue.
20. Under the BBAR approach, revenue is set using the regulated asset base (RAB), and operating expenses.

² We understand the Electricity Authority refers to this as "Network Capacity Costing". Horizon Networks IDC is due for review, and we expect IDCs to need to increase in order to remain cost-reflective and prevent the additional load from new connections from placing a burden on existing consumers.

³ This is also referred to as a "direct capital contribution" in our [capital contribution policy](#)

⁴ Requiring existing consumers to pay for connecting customers dedicated connection assets will not support the efficient operation of the electricity industry, for the long term benefit of consumers. It will also not preserve efficient incentives for investment and innovation, as described in the [Interpretation of the Authority's statutory objective](#).

How 'building blocks' are used to calculate allowable revenue

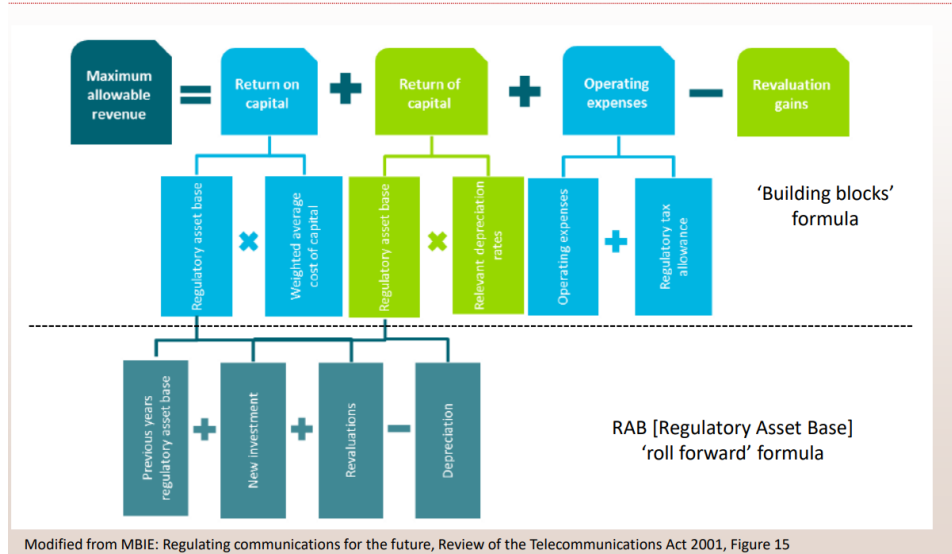


Figure 1: How 'building blocks' are used to calculate allowable revenue⁵

21. Price-quality regulated EDBs revenue is set up to five years in advance and is reset by the Commerce Commission every five years.
22. The new DPP4 pricing period commences on 1 April 2025. DPP4 allowances do not take into account the Electricity Authority's proposed changes to the connection pricing regime. Any inability to recover the full cost of connection from the connective party will negatively affect the EDBs returns and seriously dent investment appetite in a sector that is experiencing increased cost pressures.

The Connection charge reconciliation pricing methodology will deliver inconsistent outcomes

23. The Electricity Authority proposes to require EDBs to prepare a reconciliation that shows the incremental cost, incremental revenue and 'network cost contribution' components of a quoted connection charge, using a standardised methodology.⁶
24. The formula for calculating the connection charge is:⁷

⁵ See Page 3 of the Overview of Part 4 Regulations and 'Building Blocks' Approach presented to IPAG Meeting on 5 May 2022. [PowerPoint Presentation \(ea.govt.nz\)](#)

⁶ See para 7.69 of the [Distribution connection pricing proposed Code amendment consultation paper](#).

⁷ See para 7.59 of the [Distribution connection pricing proposed Code amendment consultation paper](#) and 6B.13(1) of the Proposed Code Amendment.

6B.13 Connection charge reconciliation requirements

(1) A connection charge reconciliation must show:

$$CC = (IC - IR) + NC$$

where

CC is the connection charge or connection charges, other than any connection fee or pioneer scheme contribution

IC is the incremental cost estimate

IR is the incremental revenue estimate

NC is the network cost contribution

25. EDBs are not required to use this formula to calculate the connection charge but are required (on request) to provide this calculated reconciliation charge for comparison against the actual connection charge.
26. The Electricity Authority has not clearly articulated the problem this proposed new obligation is intended to address, however, the consultation paper does infer that there is a need for connections to be charged at the net incremental cost.⁸
27. The Electricity Authority also describes how this requirement is a stepping stone to full reform.⁹
28. Horizon Networks supports improvements to make connection pricing terminology more consistent, however we consider that:
 - New connections do not result in incremental revenue for price-quality regulated EDBs.
 - The connection charge reconciliation methodology does not allow shared costs to be allocated to connecting parties.
 - The connection charge reconciliation methodology will result in existing consumers subsidising new connections
 - Negative connection charges will incentivise uneconomic connections.
 - As drafted the connection charge reconciliation rules will force EDBs to adopt the methodology for pricing.

New connections do not result in incremental revenue for price-quality regulated EDBs

29. The Commerce Commission uses a “Building Blocks Allowable Revenue” (BBAR) approach to set price-quality regulated EDBs allowable revenue. The BBAR approach relies on the regulated asset base (RAB) and a ‘base’ year for operating expenses.
30. Revenues are set up to five years in advance, under the default price path (DPP), or customised price path (CPP).
31. As a result, at a DPP reset, a price-quality regulated EDBs change in revenue will predominately be driven by¹⁰:
 - The change in RAB since the previous rest
 - Any changes to OPEX over the past five-years
32. Over-recovery of revenue, including where more ICPs connect than forecast, is self-balancing and feeds into the wash-up process and reduces allowable revenue in future periods.
33. **The BBAR approach means price-quality regulated EDBs revenue does not change when the number of new connections changes, even at the DPP reset.**

⁸ See para 7.50 of the [Distribution connection pricing proposed Code amendment consultation paper](#).

⁹ See para 7.78(d) of the [Distribution connection pricing proposed Code amendment consultation paper](#).

¹⁰ Assuming the underlying inputs the EDB does not control, such as cost of capital and inflation remain constant.

34. **Horizon Networks recommends:** The incremental revenue is excluded from the connection charge reconciliation calculation to arrive at a cost-reflective connection charge that reflects the true cost of the connection.

The connection charge reconciliation methodology does not allow shared costs to be allocated to connecting parties

35. The Electricity Authority is proposing to require incremental revenue (IR) to be calculated by:
- Estimating the revenue for the first year of operation
 - Estimating the revenue for subsequent years, and discounting this to its present value by:
 - (a) Using a time period of 30 years (residential) or 15 years (non-residential)
 - (b) Using a discount rate of the WACC, less an inflation adjustment
 - (c) Using a multiplier of 0.9 to adjust for OPEX costs
36. The incremental revenue will offset the connecting party's up-front connection costs.
37. Horizon Networks considers this calculation is seriously flawed and will result in the costs associated with shared network assets being borne solely by existing connections.
38. In simple terms, the annual network service charge for any given connection comprises of:
- **Network OPEX** – to maintain the networks and respond to emergencies
 - **Non-Network OPEX** – to be able to run the business and control room
 - **Pass-through costs** – Rates and Levies
 - **Recoverable costs** - IRIS and quality incentives
 - **Transmission charges** – Passed through from Transpower
 - **Depreciation** – recovering the value of the network 'consumed' over time
 - **Return on capital** – Based on the weighted average cost of capital.
39. Assuming that WACC adjustment allows for a return on capital, and the 0.9 multiplier accounts for OPEX, the incremental revenue does not account for depreciation or pass-through and transmission charges¹¹.
40. In other words, the future incremental revenue recovered from the connection includes a share of future shared costs. These future shared costs are not considered by the connection charge reconciliation methodology.
41. As a result, existing consumers will need to cover 100% of these shared costs, even though these costs benefit all consumers on the network. This creates an inequitable outcome where existing consumers face higher bills to cover costs that should be fairly allocated to all consumers, including the new connection¹².
42. This approach to the regulation of the incremental revenue calculation will result in poor consumer outcomes and burden existing consumers with a disproportionate share of network costs.
43. Horizon Networks is firmly of the view that the costs of network use should be fairly shared amongst all connections, in a cost-reflective manner.
44. **Horizon Networks recommends:** The incremental revenue and cost approach be removed and that the Electricity Authority reconsiders the problem it is trying to solve and the impact of this problem on consumers. The proposal risks real and enduring consumer harm and has not been sufficiently identified or quantified by the Electricity Authority.
45. **Horizon Networks recommends:** If the Electricity Authority considers there is a need to include an incremental revenue calculation, this calculation allows the EDB to calculate the true incremental revenue. This must take into account the impact of price-quality regulation (if applicable) and an equitable share of the costs of providing the network for all consumers.

¹¹ There is the provision for including incremental transmission charges within the IC calculation, however very few connections are likely to trigger a notified increase in transmission charges.

Additionally, notified increases in transmission charges do not occur until several months after the connection has occurred. The publicly available information provides a range of charges but does not enable EDBs to accurately estimate the new transmission charges in time for the reconciliation process.

¹² The new connection will pay these costs, but already had this cost 'refunded' via a connection charge that was below cost.

The proposed connection charge reconciliation methodology will result in existing consumers subsidising new connections

46. The proposed connection charge reconciliation calculation will result in an increase in EDBs customer connection capital expenditure (CAPEX) to pay for assets dedicated to the connecting customer. This increased expenditure has not been allowed for by the Commerce commission in the upcoming DPP4 regulatory period. This increase would result in EDBs being penalised under the current incremental rolling incentive scheme, through no fault of their own.
47. Any expenditure on assets will go into the EDBs regulated asset base (RAB).
48. Through the DPP BBAR process, the EDBs allowable revenue will increase at the next price reset, based on the increased value of the RAB.
49. This increased revenue will be socialised across all consumers on the network through the price setting process.
50. As a result, whenever a new customer connects to the network, the EDBs RAB increases and ultimately prices increase for all consumers.
51. This means, under the proposed reconciliation methodology existing consumers will be subsidising new connections, contradicting the distribution pricing principles and Electricity Authority's statutory objectives to promote the efficient operation of the electricity industry and protect the interests of domestic and small business consumers.
52. This cross-subsidisation can be addressed by treating connection and use of system charges separately, and limiting the instances where assets dedicated to one new connection are paid for by the network and socialised across all consumers.
53. **Horizon Networks recommends:** Up-front connection charges are considered independently from use of system charges so that existing consumers do not pay more because EDBs are being forced to pay for dedicated assets for new connections.

The connection charge reconciliation methodology can be improved, but where the EDB funds dedicated consumer assets, the cost is distributed among all consumers

54. As outlined above, the proposed reconciliation methodology would:
 - result in poor consumer outcomes because existing consumers would need to cover 100% of the shared costs, even though shared assets equally support new consumers.
 - result in existing connections covering the costs of additional investment.
55. These inequitable outcomes are driven by the fact that under the proposed methodology:
 - connection charges are offset by all revenue, including revenue used to cover shared costs; and
 - any customer specific assets funded by the EDB will increase the RAB and be recovered across all connections.
56. The first inequitable outcome can be addressed by amending the reconciliation methodology to only consider incremental revenue associated with the provision of new assets for that customer, not the incremental revenue associated with shared network costs, including OPEX, return on 'core' network assets, IRIS and quality incentives.
57. The second inequitable outcome can be addressed by limiting the reconciliation methodology to situations where the customer has an individually set distribution charge. This will allow the EDB to set prices based on the use of network assets by that customer, including dedicated network assets, rather than recovering the costs across other consumers on the network.¹³
58. This is consistent with the price-quality path regulation where allowable revenue is based on the value of the RAB.
59. Under this alternative approach, the incremental revenue would be calculated, based on 15 years of return on capital for the assets used to supply the new connection.

¹³ This assumes the new connection will be connected to the network over the life of the asset. There are no guarantees that this will be the case. Rather than asking existing consumers to underwrite the shortfall, connecting customers need to factor the connection costs into their investment decisions and amortise their returns over an increased period of time.

60. For example;

- The upfront cost to connect a customer is \$10 million¹⁴
- There is a WACC of 6.8% and discount rate of 2%.
- Over 15 years the incremental revenue solely due to return on capital on \$10 million of assets is \$6.5 million (NPV).¹⁵
- Because the EDB is providing \$10 million of assets and is receiving \$6.5 million (NPV) in incremental revenue¹⁶ for providing those assets, the net cost to the EDB is \$3.5 million.

61. As a result, if the connecting party pays an up-front contribution of \$3.5 million, then the \$10 million in capital expenditure associated with the EDB providing the physical assets to connect the customer will be covered.

62. In this example, \$6.5 million in up-front capital expenditure will be borne by the EDB. Given the expected increase in new connections, particularly large, capital-intensive new connections not all EDBs will be able to sustain the additional levels of debt required to fund an unknown number of dedicated connection assets. This financial commitment is in addition to the forecast increase in debt considered by DPP4 to fund essential work on the 'core network' that benefits all consumers. This will result in material financeability constraints for EDBs.

63. Ultimately, this proposal requires EDBs to become a 'money lender'. The EDB pays for the connecting customers dedicated connection assets up-front and must recover that cost over the period of the connection. EDBs are not resourced to provide unlimited finance to connecting parties.

64. To address this uncapped connection financing risk, EDBs need to have absolute discretion to connect, taking into account the EDBs ability to fund the new connection and its obligations to its shareholders and lenders.

65. **Horizon Networks recommends:** If the Electricity Authority considers there is a need to include an incremental revenue calculation, the incremental revenue is limited to situations where the customer has an individually set distribution charge, and the incremental revenue is set to be the return on capital of the additional capital expenditure (if allowed under the DPP). This reflects the true incremental revenue for the EDB from providing new connection assets and will allow that revenue to be recovered from the customer that triggered the investment.

Negative connection charges will incentivise uneconomic connections

66. Paragraph 7.160(b) of the consultation paper states:

7.160

Table 7.4 assesses how our proposed requirements apply to vested assets and is relevant to considering the impact of our requirements on contestability. Key observations are that:

(b) connection works that include vested assets are more likely to result in a negative connection charge – ie, where the incremental revenue exceeds the incremental cost and contribution to network costs. To support contestability in such cases, distributors should make a payment to the applicant (or their contractor).

67. This indicates that, to support contestability EDBs should be making payments to the applicant (or their contractor).

68. Paying parties to connect will:

- Incentivise uneconomic connections
- Inhibit competition

¹⁴ This is "CC" in the connection charge reconciliation and is for assets solely used to connect that customer.

¹⁵ This would be the new "IR" in the connection charge reconciliation, reflecting the true incremental revenue that is attributable to the addition of \$10 million of assets to the network.

¹⁶ Assuming the Commerce Commission allows the EDBs price-path to be reopened due to the increase in capital expenditure.

Incentivise uneconomic connections

69. The as proposed the connection charge reconciliation methodology may result in negative connection charges (refunds) where the connecting party is vesting assets. This will result in the EDB needing to make an up-front payment to the connecting party which is offsetting up to 30 years of future revenue.
70. This heavily incentivises connecting parties to abuse connection regulations by connecting, solely for the up-front revenue and take actions such as disconnecting from the network or decommissioning the connection to avoid having to make those future payments.
71. These additional costs are ultimately borne by existing consumers and will result in resources being allocated to process the new connections and network capacity being reserved for connections that do not intend to use or pay for it.
72. **Horizon Networks recommends:** If implemented in a cost-reflective manner, the reconciliation methodology does not require payments when there is a negative connection charge. To address flight risk, uneconomic connections should provide an on-demand bond equal to the amount of any upfront payment made by the EDB.

Inhibit competition

73. Electricity distribution charges have two key components:
 - A connection charge – to cover the costs of connecting new consumers to the network.
 - A network use charge – to cover the ongoing operation of the network¹⁷.
74. In a competitive environment, connecting parties have a choice of who to use to safely connect to the network.
75. Under the connection charge reconciliation methodology, connecting parties will benefit from using the EDB to connect as the EDB will be required to charge at below cost. Third-party providers will look to charge their true costs.

As drafted the connection charge reconciliation rules will force EDBs to adopt the methodology for pricing

76. The connection charge reconciliation methodology appears to be based on an assumption that connection charges should be equal to the incremental cost, plus network costs, less incremental revenue.
77. If an EDB has an existing approach that ensures consumers are no worse (or better) off after a third party connects but does not apply this formula, then there is the implication that this alternative approach is leading to an incorrect outcome.
78. Regulating EDBs to calculate and report connection charges using a prescribed methodology, effectively requires EDBs to adopt the connection charge reconciliation methodology.
79. Any EDB that does not adopt this methodology will be exposed to disputes in accordance with clauses 6B.14, and Schedule 6.3.
80. Schedule 6.3 requires the Electricity Authority and Rulings panel *to apply the connection pricing methodologies set out in Part 6B to determine any connection charges payable in respect of connections of load.*
81. The connection pricing methodologies include the connection charge reconciliation process, and there is a very real risk of the Electricity Authority or Rulings panel setting a precedent via the compliant process that charges should be set using this connection charge reconciliation process.
82. This would create a contradiction, where the Electricity Authority presents the reconciliation methodology as a process that does not influence an EDB's methodology for setting connection charges, however through the disputes process the Electricity Authority or Rulings Panel is required to apply the methodology when determining connection charges payable in the event of a dispute.
83. To avoid this uncertainty, the Electricity Authority should make it very clear that the reconciliation process is not part of the connection pricing methodologies set out in Part 6B used to determine any connection charges payable in respect of connections of load.

¹⁷ This includes OPEX, pass-through costs, transmission costs, depreciation and return on capital.

84. **Horizon Networks recommends:** The Code is amended to clarify that the connection pricing methodologies used for determining connection charges does not include the connection charge reconciliation methodology under 6B.12 and 6B.13.

The Reliance Limit is flawed and based on incorrect assumptions regarding how elements of connection contributions are disclosed

85. The Electricity Authority considers there is a risk that distributors will manage pressures on their businesses by inefficiently increasing connection charges. To mitigate this risk, the Electricity Authority is proposing to set reliance limits, in cases where reliance on up-front contributions is already high. The Electricity Authority proposes to set a reliance limit of 47% (or an alternative set based on the 2024 information disclosure.¹⁸
86. This reliance limit has been set based on historical analysis of EDB information disclosures.

The assumptions regarding which elements of connection contributions are disclosed are incorrect

87. The information disclosures allow EDBs some discretion regarding how the various elements of connection contributions are disclosed.
88. Horizon Networks manages the IDCs and vested assets through its RAB¹⁹. As a result, neither is reported as capital contributions in Schedule 6a of the IDs.
89. This means that the Electricity Authority's assumption that Horizon Networks has a very low reliance on capital contributions²⁰ is incorrect. Almost 100% of customer connection CAPEX is funded by the customer that is connecting.
90. Additionally, assumptions regarding the timing of expenditure appear to be incorrect. Contributions towards future system growth will not be representative of the system growth expenditure for that year.
91. As a result, the reliance limit is flawed.
92. In addition to the assumptions underpinning the reliance limit being incorrect, which will lead to inefficient outcomes, the reliance limit will not achieve the goal of managing the risk of distributors inefficiently increasing connection charges for the following reasons:
- The reliance limit contradicts the more prescriptive regulations regarding connection charges and capacity costing
 - The reliance limit itself does not represent an efficient connection charge
 - It is not feasible for reliance limits to consider vested assets, which can influence EDB behaviour
 - The reliance limit does not address the issue of inefficient undercharging, which can harm existing consumers

The reliance limit contradicts the more prescriptive regulations regarding connection charges and capacity costing

93. The proposed Code amendment includes requiring EDBs to:
- Charge connection applicants for the 'minimum scheme' (except where greater scheme is requested)
 - Charge connection applicants for consumption of 'network capacity'. This charge is a posted rate, based on the average cost of adding capacity by network 'tier'. This rate cannot be altered for the two future years.
 - On request, provide a comparison of the connection charge against the regulated methodology (connection charge reconciliation pricing methodology).
94. Under these three sets of prescriptive regulations, EDBs will be setting charges based on the cost to connect, and the forecast costs associated with adding network capacity.
95. If an EDB was to follow these three requirements, they could easily have a reliance limit of greater than 100% for a given year.

¹⁸ See para 7.82 of the [Distribution connection pricing proposed Code amendment consultation paper](#).

¹⁹ IDCs are a negative asset that is depreciated over 45 years, while vested assets are recorded in the regulated asset base (RAB) but with a net \$0 asset value.

²⁰ See Figure 1.3 of the CEPA report [Regulation of distribution connection charges in New Zealand](#)

Simplified example:

96. If an EDB has only one new connection in a year and no other expenditure. If that connection is intended to be fully cost reflective then:
- **Connection Charge** could be \$0, based on a vested asset of unknown value, and the EDB costs for connecting the site being offset by the future revenue in accordance with the 'connection charge reconciliation pricing methodology')
 - **Capacity Costing** could be \$1500, based on posted rates.
 - **System growth expenditure** could be \$0, based on the fact that the \$1500 capacity costing is not going to be used to create new system growth capacity (such as a new substation) until a future year.
97. The EDBs annual connection and system growth CAPEX may be disclosed as (say) \$500, but the EDB receives \$1500 for the connection resulting in a reported 'reliance limit' of 300%, greatly exceeding the 47% threshold.
98. The EDB cannot make any changes to its 'capacity costing' for at least two years, so through following the prescriptive requirements regarding connection charges and capacity costing, can fail to meet the reliance limits threshold.
99. Taken within the context of the wider regulation of connection pricing, the reliance limit is impractical and can place EDBs in a position where they need to under-recover connection charges or capacity costs solely to keep within the reliance limits.

The reliance limit itself does not represent an efficient connection charge

100. The Electricity Authority is proposing to set a reliance limit that is arbitrarily based on its analysis of historic connection charges.
101. This limit is not linked back to efficient connection pricing. This lack of clear linkage risks preventing EDBs from complying with the proposed new requirements regarding cost-reflective pricing, including connection enhancement costs (including scenarios where the EDB needs to fully allocate the cost of any customer-selected enhancements to the customer) and network capacity costing requirements (where there is clear evidence for a network capacity cost, set at least two years in advance that would place the EDB in breach of the reliance limit).

It is not feasible for reliance limits to consider vested assets, which can influence EDB behaviour

102. The Electricity Authority acknowledges that in some cases there may be extensive use of the vested asset approach. Where it is not a result of an approach to require assets to be funded by connecting parties and then vested to the distributor, it is likely to result in existing users inefficiently subsidising newcomers.²¹
103. Horizon Networks requires connecting parties to provide and vest assets that are solely for their use²². We consider this is aligned with cost-reflective pricing, as the party that needs the new assets, pays for them. This avoids existing users inefficiently subsidising newcomers.
104. Other EDBs may be taking an alternative approach, where they are funding some of the costs to connect customers, and over time recovering this expenditure from all consumers through a higher RAB.
105. It is not feasible for reliance limits to consider vested assets. There are instances where the EDB does not have access to information regarding the value of the vested asset and associated works (this is a commercial arrangement between the customer and supplier). The EDB does not need this information to provide distribution services to the consumer.
106. The Electricity Authority acknowledges that EDBs could reduce their reported reliance limits by increasing the prevalence of asset vesting. The Electricity has not proposed any measures to directly counter this behaviour.²³
107. Placing reliance limits on EDBs will not incentivise efficient behaviour, because:

²¹ See paragraph 7.98(b) of the [Distribution connection pricing proposed Code amendment consultation paper](#).

²² With a pioneer scheme in place where subsequent parties connect to the vested assets.

²³ See paragraph 7.152 to 7.155 of the [Distribution connection pricing proposed Code amendment consultation paper](#).

- EDBs that are over their reliance limit may increase their reliance on vested assets to give the impression that connection charges are dropping. Where these vested assets are not directly for the new connection, this may be inefficient.
- EDBs that reduce connection charges to remain under the reliance limit may be creating cross-subsidies where existing consumers are funding assets that only convey electricity to the new consumer.

The reliance limit does not address the issue of inefficient undercharging, which can harm existing consumers

108. The reliance limit is a cap designed to limit EDBs' ability to increase capital contributions in the face of increasing connection and system growth CAPEX requirements.
109. The reliance limit does not address inefficient undercharging, where EDBs are funding new connections via connection CAPEX and socialising those costs across all consumers via the RAB.
110. Undercharging connecting parties is as undesirable as overcharging connecting parties.

The reliance limit is a form of price regulation that has historically been the mandate of the Commerce Commission

111. The reliance limit is a form of price regulation and sets the maximum revenue an EDB can recover.
112. The Electricity Authority's price regulation has been made in addition to the price-quality regulation set by the Commerce Commission under 53M of the Commerce Act, which limits the maximum revenues EDBs can recover for provision of line services.

113. Clause 32(2)(b) of the Electricity Industry Act 2010 states:

32 Content of Code

(2) *The Code may not—*

(b) purport to do or regulate anything that the Commerce Commission is authorised or required to do or regulate under Part 4 of the Commerce Act 1986 (other than in accordance with subsection (4)); or

114. Subsection (4) states:

(4) The Code may contain provisions that do any of the following, regardless of whether such a provision would otherwise be prohibited under subsection (2)(b):

(a) set quality or information requirements for Transpower or 1 or more distributors, in relation to access to transmission or distribution networks:

(b) set pricing methodologies for Transpower or 1 or more distributors.

115. Horizon Networks recognises the right of the Electricity Authority to set pricing methodologies for EDBs but challenges the underlying goal of reliance limits. The proposed reliance limits abuse the Electricity Authority's power to set pricing methodologies, by setting a cap on EDB connection revenue.

116. If implemented reliance limits would contradict the price paths set by the Commerce Commission under Part 4 of the Commerce Act.

The proposed fast-track measures are not quick to implement and will divert resources from distribution pricing reform

117. The Electricity Authority describes these changes as fast-track measures, however, the proposed changes are complex and will not be simple to implement.
118. If the suite of proposed changes is adopted, Horizon Networks estimates it may take up to 18 months to implement.
119. This includes:
- Six months to understand the decision and determine an appropriate solution that meets the multiple (and sometimes contradictory) requirements set out in the proposed Code amendment package.
 - Six months to develop systems and processes to meet the new Code requirements.
 - Six months to test, implement and address any issues ahead of go-live.
120. This will utilise existing staff and impact our ability to process new connections in a timely manner and progress non-connection related pricing reform.
121. We note that the Electricity Authority has recently pursued unrealistically aggressive timelines for EDBs to update systems and processes to comply with Code changes.
122. Connection pricing is a sensitive and complex issue, that should be handled with consideration.
123. The greatest consumer benefit will be achieved when regulated participants are aligned with and can meet the Electricity Authority's expectations. This requires direct engagement with the industry, as well as support and guidance to help participants understand and achieve the Electricity Authority's decisions and expectations.
124. Unless the Electricity Authority takes the time to implement connection pricing correctly, the regulatory uncertainty and ad-hoc implementation that has driven historic decisions will continue.
125. **Horizon Networks recommends:** The Electricity Authority work with EDBs and connecting parties to chart a realistic, efficient implementation roadmap to support any fast-track decisions regarding connection pricing reform, starting with the problem definition.

Consumer views and needs must be considered

126. The Electricity Authority has two objectives²⁴:
- To promote competition in, reliable supply by, and the efficient operation of, the electricity industry for the long-term benefit of consumers.
 - To protect the interests of domestic consumers and small business consumers in relation to the supply of electricity to those consumers²⁵.
127. The Electricity Authority indicates it takes consumer impact very seriously, and one of the Electricity Authority's strategic ambitions is 'Consumer centricity'²⁶.
128. Despite claiming to have a consumer focus, the consumer voice is absent from the connection pricing consultation paper. It is essential consumers, including domestic consumers and small business consumers voices are heard.
129. Consumers will be materially impacted by the proposed changes, however the Electricity Authority has had not yet engaged with consumers or attempts to communicate the individual consumer impact of the proposal.
130. As drafted the reconciliation methodology and reliance limit will:
- prevent EDBs from recovering future costs from new connections²⁷
 - require EDBs to partially fund assets that are dedicated to connecting parties.

²⁴ Clause 15 of the [Electricity Industry Act 2010](#).

²⁵ This objective applies only to the Authority's activities in relation to the dealings of industry participants with domestic consumers and small business consumer

²⁶ https://www.ea.govt.nz/documents/5962/Electricity_Authority_Te_Mana_Hiko_Annual_report_2023-24.pdf

²⁷ As the EDB needs to discount the upfront cost of connection by the future revenue.

131. In both cases, it is existing consumers that will end up paying for the extra costs EDBs face due the proposed connection pricing regulations.
132. Before any decisions are made regarding this proposal or the regulation of connection pricing, the Electricity should quantify the individual consumer impact, communicate this impact to consumers and engage with consumers or consumer representatives to understand their willingness to cover these costs that historically been borne by connecting parties.
133. **Horizon Networks recommends:** The Electricity Authority engage with consumers on connection pricing regulation and the impact these changes will have on their electricity bills.

In conclusion, Horizon Networks supports the move towards connection pricing reform but has concerns that the elements of the proposals are not well aligned and will have unintended outcomes.

134. Horizon Networks supports the Electricity Authority's intention to move towards consistent, cost-reflective connection pricing. Connection pricing has historically had limited regulatory oversight and guidance, resulting in EDBs developing cost-reflective connection prices, methodologies and terminology independently but consistent with the regulations. There is a clear benefit in aligning terminology and clarifying what cost-reflective connection pricing looks like.
135. However, some of the proposed amendments create uncertainty, place contradictory obligations on EDBs when setting and changing connection charges and will result in unintended outcomes that impact all consumers.
136. These unintended outcomes can be avoided by avoiding prescriptive regulation, clarifying what cost-reflective, efficient connection pricing looks like and aligning connection pricing with the existing distribution pricing principles.

Yours Sincerely



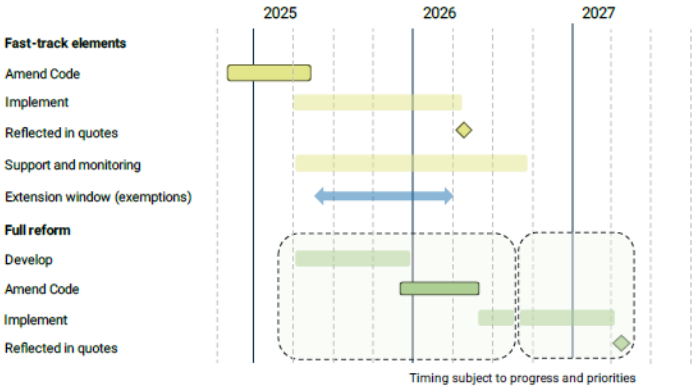
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HORIZON ENERGY DISTRIBUTION LIMITED

APPENDIX A: FORMAT FOR SUBMISSIONS

Questions	Comment
<p>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>	<p>Horizon Networks agrees that distribution pricing, including distribution connection pricing, should be cost-reflective.</p> <p>Consistent with the distribution pricing principles, Horizon Networks developed a connecting pricing policy that was designed to be cost-reflective and ensure that existing consumers did not face higher line charges due to the costs associated with new connections.</p> <p>Horizon Networks considers there are several significant factors that the Electricity Authority did not fully consider or communicate in its consultation paper.</p> <p>These factors include:</p> <p>Make-up of 'capital contributions'</p> <p>Horizon Networks has three types of contributions that are related to new connections.</p> <ol style="list-style-type: none"> a. Vested Assets – These are assets that are dedicated to the customer connecting, are paid for by the customer and then vested to Horizon Networks to maintain. Most connection-specific capital contributions on Horizon Networks are vested assets. b. Infrastructure Development Contributions (IDCs) - These are the connecting customer's contribution to cover future system growth expenditure that can be driven by increased load from new connections. Horizon Networks understands the Electricity Authority refers to this as “network capacity costs”. c. Capital Contributions – These are payments from the connecting customer to help fund assets being built by Horizon Networks. <p>Only Capital Contributions are reported in Schedule 6a of Horizon Networks information disclosures.</p> <p>Vested assets are included as assets within the RAB at zero value, and IDCs offset capital expenditure.</p> <p>Some capital contributions are not associated with new connections</p> <p>Capital contributions are not always associated with new connections. At times other organisations will provide capital contributions to support or bring forward changes to the network, such as relocation transformers or undergrounding of lines.</p>
<p>Q2. Do you agree with the problem statement for connection pricing?</p>	<p>Horizon Networks understands that the problem statement for connection pricing is that:</p> <p><i>Current settings have led to some connection pricing inefficiencies</i></p> <p>Horizon Networks agrees there are some inconsistencies that may be leading to inefficiencies however we also note these inconsistencies have been driven by a historic lack of guidance or emphasis on connection pricing.</p> <p>This has led many EDBs, including Horizon Networks to develop connection pricing policies that are consistent with the regulations and meet the individual EDB's needs.</p>

Questions	Comment
	<p>Horizon Networks supports actions that will improve consistency and reduce costs to electricity consumers, but we do not think EDBs should be punished for a lack of historical guidance or consistency.</p>
<p>Q3. Do you have any comments on the Authority's proposed pathway to full reform?</p>	<p>Horizon Networks understands the pathway for full reform is depicted in Figure 6.1 of the consultation paper.</p> <p>Figure 6.1 Indicative timeline for fast-track and full reform</p>  <p>Horizon Networks supports the underlying principle that distribution pricing should be cost-reflective and existing consumers should not pay more because of new connections.</p> <p>Horizon Networks supports delaying any consideration for further reforms until can be adequately addressed as part of the DPP5 reset decisions so that it can be considered as part of the price-path.</p> <p>As depicted in figure 6.1, the Electricity Authority needs to ensure it considers implementation timeframes as part of all Code amendments, so the Code only comes into force after EDBs have had the opportunity to make relevant operational and financial changes to support the outcomes.</p> <p>The proposed changes (including 'fast-track' changes) will be complex to understand and implement. Sufficient time and guidance needs to be provided to allow for an effective implementation, once the Electricity Authority has determined what (if any) changes need to be made.</p>
<p>Q4. Do you consider the proposed connection enhancement cost requirements would improve connection pricing efficiency and deliver a net benefit?</p>	<p>Horizon Networks understands this proposal is for prices to be set with reference to a least-cost scheme, with enhancement costs (if any) allocated to the selecting party.</p> <p>Horizon Networks agrees with this principle and believes we are already setting prices for the least cost scheme for that connecting party.</p> <p>However, it is unclear how this least-cost scheme will apply to subsequently connecting parties where the EDB chooses to make 'distributor selected enhancements'.</p>

Questions	Comment
	<p>For example, if the ‘least cost scheme’ met the connecting parties’ requirements, but the EDB provided a larger solution to support future connections, could the EDB charge future connecting parties for this investment?</p> <div style="border: 1px solid black; padding: 10px; margin: 10px 0;"> <p><i>Hypothetical example: It costs \$10,000 to provide connection assets for one customer or \$15,000 to produce a ‘future proof’ solution that would allow a second party to connect.</i></p> <p><i>The EDB charges the first connecting customer \$10,000 for the connection, but spends an extra \$5,000 for ‘distributor selected enhancements’.</i></p> <p><i>A second party intends to connect. Arguably the least cost scheme is \$0, as the assets are already in place, however \$5,000 is a sunk cost by the EDB for this connection.</i></p> <p><i>Under the least cost approach, could the EDB charge the second connecting party the \$5,000 already spent, or are they required to charge \$0, representing the least cost scheme?</i></p> </div> <p>Additionally, where the connecting party has opted for a flexible connection, they will have received a connection discount.</p> <p>This may allow the EDB to control or limit the load at that connection to avoid needing to invest in network upgrades.</p> <p>This will be governed by a contract between the connecting party and the EDB. If the connecting party is no longer at that ICP (for example the connecting customer moves out and a new customer moves in) there will be no contractual right for the EDB to control the new customer’s load, and there will be a need for network upgrades that cannot be recovered from the causer.</p>
<p>Q5. Are there variations to the proposed connection enhancement cost requirements you consider would materially improve the proposed Code amendment?</p>	<p>Yes.</p> <p>The proposed connection enhancement cost requirements should allow EDBs to charge connecting parties for historic ‘anticipatory’ expenditure (expenditure that occurred in the past to more efficiently accommodate this connection) and to be able to recover any additional future costs that may not have been anticipated at the time of connection (for example where an ICP loses its flexible 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>Horizon Networks supports the concept of being able to require an ‘infrastructure development contribution’ (IDC), which reflects the costs related to providing upstream network capacity.</p> <p>Horizon Networks currently has a published rate of \$150 per kVA. Based on historic trends this rate per kVA will provide less than thirty percent of planned investment in capacity.</p> <p>Horizon Networks considers that existing consumers should not have to pay more as a result of new consumers connecting. This principle will underpin a potential review of the level of infrastructure contributions required from new connections.</p> <p>Horizon Networks is concerned that the interaction between cost-reflective IDCs and other Code requirements that look to place an</p>

Questions	Comment
	<p>arbitrary cap of 47% of customer connection and system growth expenditure will place EDBs in breach of that cap.</p> <p>This can occur because:</p> <ol style="list-style-type: none"> 1. IDCs are calculated based on the average costs to provide additional capacity at each network tier but are collected in the year of connection. 2. There is a two-year window where IDCs can't be altered, meaning if an EDB does breach the "reliance limit" due to IDCs, this will not be addressed for several years. <p>Horizon Networks supports cost-reflective IDCs, which are 'posted rates' and can be linked to the average costs to provide capacity at each network tier.</p> <p>This provides a consistent and defensible IDC that applies equally to new connections.</p> <p>However, we have concerns that recovering the true cost of adding capacity to the network contradicts and will breach the reliance limit.</p>
<p>Q7. Are there variations to the proposed network capacity costing requirements you consider would materially improve the proposed Code amendment?</p>	<p>The proposed Code amendment could be improved by:</p> <ol style="list-style-type: none"> 1. Removing the rule that prevents posted capacity rates from being revised within the current disclosure year and the following disclosure year. 2. Providing guidance and worked examples of the calculation of network capacity costing at each network tier.
<p>Q8. Do you consider the pioneer scheme pricing methodology would improve connection pricing efficiency and deliver a net benefit?</p>	<p>Horizon Networks considers the pioneer scheme could improve connection pricing consistency, but not necessarily connection pricing efficiency.</p> <p>There will be significant additional administrative overhead in publishing information regarding all of the pioneer schemes running on the network and keeping this information up to date.</p> <p>This will increase the timeframes and costs associated with managing new connections.</p>
<p>Q9. Are there variations to the proposed pioneer scheme pricing methodology you consider would materially improve the proposed Code amendment?</p>	<p>Yes.</p> <p>As worded the proposed pioneer scheme sets the requirements for a pioneer scheme, and it is not possible for EDBs to 'exceed' this scheme (for example by providing a pioneer scheme for assets below the threshold).</p> <p>Horizon Networks believes the Code should set minimum thresholds for a pioneer scheme. EDBs that can exceed those minimum thresholds are permitted to do so.</p> <p>Horizon Networks also recommends the publication requirements be relaxed. Requirements 6B.11(c)(iv) to 6B.11(c)(vii) should form part of a pioneer scheme policy so do not need to be provided separately for each pioneer scheme.</p> <p>Additionally, we note a typographical error, as 6B.11(c) refers to the requirements of clause 6.9. We assume this was intended to be 6B.9.</p>
<p>Q10. Do you consider the cost reconciliation methodology would improve connection pricing efficiency and deliver a net benefit?</p>	<p>No. Please refer to the cover letter that makes up part of this submission.</p>

Questions	Comment
	<p>As worded the reconciliation methodology is a de facto regulation setting out how EDBs calculate connection charges. Due to its interaction with the dispute resolution process, it risks EDBs being forced to follow the formula set in the Code regardless of the intent for optionality.</p> <p>Additionally, the calculations do not:</p> <ol style="list-style-type: none"> 1. Consider the differences in incremental revenue impact between price-quality regulated EDBs and exempt EDBs, where price-quality regulated EDBs do not receive additional revenue for that new connection. 2. Allow for a fair recovery of shared network costs. <p>Horizon Networks is concerned the proposal will result in customer connection assets that are dedicated to one customer being funded by the EDB. The shortfall in costs of providing those assets will be recovered across all consumers on the network.</p>
<p>Q11. Are there variations to the proposed cost reconciliation methodology you consider would materially improve the proposed Code amendment?</p>	<p>Yes.</p> <p>Please refer to the cover letter that makes up part of this submission.</p> <p>As drafted the proposed cost reconciliation methodology will require EDBs to fund dedicated connection assets and recover these costs from all consumers.</p> <p>Horizon Networks preference is for the Electricity Authority to not implement the proposed connection charge reconciliation methodology, and instead consider the problem it is trying to resolve and how this problem can be addressed without harming existing consumers.</p> <p>However, if the Electricity Authority intends to proceed with this proposal, the potential for consumer harm could be mitigated by removing the prescriptive incremental revenue calculation and allow EDBs to calculate the true incremental revenue for connection customers, taking into account a fair share of network costs.</p> <p>The Electricity Authority should also provide guidance around expected revenue timeframes for different consumer classes but allow EDBs to apply discretion when determining what is true incremental revenue, taking into account pass-through costs, recoverable costs and the costs of doing business.</p>
<p>Q12. Do you consider the reliance limits would improve connection pricing efficiency and deliver a net benefit?</p>	<p>No.</p> <p>Please refer to the cover letter that makes up part of this submission.</p> <p>The reliance limits appear to use incomplete data to make an inaccurate assessment regarding an EDBs reliance on connecting parties to fund connections.</p> <p>The reliance limits create a barrier to cost-reflective pricing and undermine the Electricity Authority's statutory objective by preventing efficient, cost-reflective distribution pricing from being available to connecting parties.</p>
<p>Q13. Are there any variations to the proposed reliance limits you consider would materially improve the proposed Code amendment?</p>	<p>Yes.</p> <p>Please see the cover submission.</p> <p>Horizon Networks considers the concept of a reliance limit fundamentally flawed as the IDCs are not necessarily linked to expenditure within the year the IDCs are received.</p>

Questions	Comment
	<p>This could result in huge swings in reported reliance limits.</p> <p>We recommend the Electricity Authority clarify what efficient distribution pricing looks like and provide guidance to allow EDBs can achieve cost-reflective, efficient distribution pricing, aligned with the distribution pricing principles.</p>
<p>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?</p>	<p>No.</p> <p>The proposal around reliance limits is not going to improve connection pricing efficiency.</p> <p>We also have concerns that the Electricity Authority has not understood what information is being disclosed in the annual information disclosures. This will result in reliance limits that don't meet the purpose of reliance limits and don't reflect each EDBs existing connection requirements.</p>
<p>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?</p>	<p>No.</p> <p>We are concerned that the dispute resolution process as written will create de facto regulation of EDBs connection pricing by regulating the calculation of connection charges, even when those charges may not be fully cost reflective.</p> <p>Any disputes should be assessed against published connection pricing methodologies, contracts and published rates, not against the Code that regulates these elements of connection pricing.</p>
<p>Q16. Are there variations to the proposed dispute resolution arrangements you consider would materially improve the proposed Code amendment?</p>	<p>Yes.</p> <p>Disputes should be assessed against the EDBs published pricing policies, rates and any contractual agreements the EDB has with the participant or connecting party.</p> <p>These are the underlying terms that create a level playing field for all connecting parties.</p> <p>If the EDB has breached by not meeting the requirements of 6B of the Code, then this is not a dispute, this is a Code breach allegation that should be handled via the established Code breach process.</p>
<p>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.</p>	<p>Horizon Networks understands this proposal would replace the regulated terms for connection, the calculation of connection charges in accordance with pricing methodologies and the dispute resolution process.</p> <p>We also understand that the underlying proposed new obligations, including minimum scheme requirements, connection charge reconciliation and reliance limits would remain in the Code.</p> <p>Horizon Networks considers that the use of contractual terms would be a better approach than the drafting proposed in the paper²⁸.</p> <p>A contract is a customer-focused method of reaching an agreement on actions and how to resolve any issues or disputes.</p> <p>It is likely many connecting parties will not be aware of the Code but will be aware of and have access to a connection contract.</p>

²⁸ On the understanding that if a customer does not agree to the contract there is no obligation on the EDB to connect.

Questions	Comment
Q18. Do you think a sinking lid approach to reliance limits would be preferable to the proposed static limits approach described in sections 7.80 – 7.105?	<p>No.</p> <p>Reliance limits are fundamentally flawed and will not achieve the outcome of managing the risk that EDBs inefficiently increase connection charges.</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>Yes.</p> <p>Horizon Networks recommends that connection charge reconciliation and reliance limits be deferred until the problem these technical changes would address is clearly defined and this risk of consumer harm is quantified and adequately mitigated.</p> <p>The connection charge reconciliation methodology is a fundamental shift in how connection charges are calculated and would result in existing consumers paying for dedicated connection assets.</p> <p>Horizon Networks estimates it will take 18 months from the decision being made to understand, design, develop, test and implement the systems and processes that will be required to comply with the Code. This does not fit the proposed timeframes.</p> <p>Horizon Networks recommends: The Electricity Authority work with EDBs and connecting parties to chart a realistic, efficient implementation roadmap to support any fast-track decisions regarding connection pricing reform, starting with the problem definition.</p> <p>Additionally, the proposed reliance limits appear to be arbitrary, and based on flawed data that does not link to efficient pricing outcomes. As a result, they risk incentivising inefficient behaviour and contradicting other obligations within the proposed suite of changes.</p> <p>The Electricity Authority should omit reliance limits from the fast-track measures and review what appropriate alternatives exist to manage the risk of EDBs setting inefficient connection prices.</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>Yes.</p> <p>The Electricity Authority should consider behaviour-based incentives and guidance.</p> <p>The distribution pricing principles and scorecards have been effective in supporting distribution pricing reform. Connection pricing could be thought of as an extension to the existing use of system pricing.</p>
Q21. Do you agree pricing methodologies should apply to LCC contracts? If not, please explain your rationale.	<p>No.</p> <p>LCCs are ‘ring-fenced’ and based on an agreement between the EDB and connecting party.</p> <p>As a result, LCCs do not have the same impact on existing consumers as general new connections.</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>Not in all cases. As a principle, the net customer impact should not change if an asset is vested or if an asset remains owned by the consumer²⁹.</p> <p>Connection cost enhancement - EDBs can require assets to be vested but cannot control if the connecting party is acquiring the assets at minimum scheme cost. Horizon Networks supports the comment that</p>

²⁹ Noting that all direct costs associated with the asset will be paid either through lines charges (once vested) or by the customer directly (as a customer-owned asset).

Questions	Comment
	<p>parties should be permitted to agree not to determine minimum scheme for vested works.</p> <p>Network capacity costing – Agree that vested assets are not normally relevant to shared assets.</p> <p>Pioneer scheme – Agree that EDBs may not have direct visibility of the cost of connection works. Horizon Networks considers that the pioneer scheme rules should not apply where an EDB is not provided information regarding the value of the vested assets by the connecting party (initial beneficiary of the pioneer scheme).</p> <p>Connection charge reconciliation – Disagree that vested assets should be considered. Vested assets reflect the site-specific costs associated with connecting the site. Regardless of if the vested assets are \$2 or \$2,000 the incremental costs and revenue that drive the formula remain the same.</p> <p>Reliance limits – Agree that vested assets cannot be applied. As noted earlier in this submission the reliance limits seem to be based on an assumption regarding the appropriate treatment of vested assets, IDCs and capital contributions.</p>
<p>Q23. Do you have any comments on the impact of reliance limits on incentives to increase prevalence of asset vesting?</p>	<p>Yes.</p> <p>Reliance limits create incentives to increase the prevalence of asset vesting to reduce the risk of exceeding the reliance limit.</p> <p>The reliance limit does not incentivise efficient connection pricing and incentivised inefficiently low connection charges, which increases the CAPEX requirement for networks, and is ultimately borne by existing consumers.</p>
<p>Q24. Do you agree the proposed methodologies are compatible with contestable connection works? If not, please explain your rationale.</p>	<p>No.</p> <p>Considering the connection charge and ongoing use of system charge within the same calculation can create cross-subsidies which means third-party connections will always be more expensive than the EDB minimum scheme.</p> <p>Only by separating the connection charge and the use-of-system charge can you provide a system where third parties can compete for connections.</p>
<p>Q25. Do you agree that fast-track methodologies should not apply to embedded networks? If not, please explain your rationale.</p>	<p>Not applying connection pricing consistently will allow existing issues to continue to be perpetuated across embedded networks.</p> <p>Providing embedded networks with the same guidance and expectations of cost-reflective pricing will ensure all consumers are treated fairly, regardless of whether they are connected to a local network or an embedded network.</p>
<p>Q26. Do you have any comments on the Authority’s anticipated solution for longer-term reform?</p>	<p>Yes.</p> <p>The long-term reform appears to be a continuation of fast-track elements.</p> <p>The Electricity Authority notes that following fast-track reform, they will lack sufficient assurance that connection pricing will be efficient.³⁰</p> <p>Horizon Networks considers the lack of assurance is not a reason for rules-based regulation, but rather a symptom of the lack of a clear definition regarding what efficient connection pricing looks like.</p>

³⁰ Paragraph 8.2

Questions	Comment
	<p>Clearly defining what efficient connection pricing looks like, and producing guidance on efficient connection pricing will be far more effective than writing Code, which will simply place additional regulatory burden on EDBs.</p> <p>Horizon Networks recommends: The Electricity Authority clearly articulate what efficient connection pricing looks like and provide practical guidance regarding how to achieve efficient connection pricing.</p> <p>This is a practical alternative that addresses the historic lack of guidance or feedback from the Electricity Authority regarding connection pricing practices.</p>
<p>Q27. Are there other alternative means of achieving the objective you think the Authority should consider?</p>	<p>Yes.</p> <p>Horizon Networks understands the objective of the proposed amendments is to improve the efficiency of distribution network pricing.</p> <p>Horizon Networks disagrees that the proposed amendments are the most effective mechanism to achieve the objective of improving the efficiency of distribution network pricing.</p> <p>A core issue is that the Electricity Authority has not clearly articulated what efficient connection pricing looks like and linked the proposed Code amendments back to efficient connection pricing.</p> <p>As a result, there is no alignment regarding what appropriate actions will improve the efficiency of distribution network pricing.</p> <p>Before attempting to regulate, the Electricity Authority should be looking to educate EDBs and connecting parties on what efficient connection pricing looks like, and how to measure efficiency.</p> <p>This will help make connection pricing reform a collaborative effort, with a clear shared understanding of the goals and how to effectively achieve them.</p> <p>Providing guidance and support will allow EDBs to understand and achieve the underlying goals.</p> <p>Without this context and engagement, the currently proposed rules-based approach could result in a checkbox compliance mentality, where EDBs do not necessarily understand the goal being achieved, only the formulas to apply to avoid non-compliance.</p>