20 December 2024

Electricity Authority

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

Network Connection Pricing

Meridian appreciates the opportunity to provide comment on the Electricity Authority's (Authority) consultation on the fast track measures proposed to improve connection pricing.

It is unclear whether the proposals will achieve the desired benefits

Meridian agrees with the Authority that "*connection pricing is a fundamental component of network access (and that) (t)here are inconsistent practices across the distribution sector (that add) inefficient cost and complexity for connection applicants*". We support measures that will quickly resolve identified barriers to efficient pricing methodologies.

Meridian supports the Authority's efforts to streamline pricing methodologies, increase transparency and reporting, and prohibit practices that unfairly penalise connection applicants (e.g. charging connection applicants for upstream network enhancements that benefit other users).

As we found the consultation paper relatively complex and confusing, it's unclear whether the proposed Code changes will deliver the outcomes envisaged by the Authority's proposals. For example, there are some proposed changes that could lead to increased costs (for example, setting the capital contribution guidance at a level above the average for non-exempt distributors) and other proposals that the Authority tenuously assumes will lead to cost reductions (for example, assuming cost reductions will result from requiring distributors to breakdown connection costs). Similarly, although the amendments require that connection work should be done at the lowest relevant cost, distributors can still decide what work is needed and how it's designed, potentially making this proposed amendment ineffective. We have also observed that the proposals in the consultation paper caused considerable confusion in discussions amongst industry experts, indicating a likelihood of different interpretations by distributors and connection applicants and creating further questions around whether the Authority's intended outcomes will be achieved.

Barriers to efficient pricing

Variation in costs incurred to connect to electricity networks is a significant barrier to the Government's decarbonisation and electrification goals, especially for public EV charger deployment. Connection quotes received from distributors by Meridian in 2022 ranged from $127 to $119,483 for 100 amp connections and from $127 to $169,700 for 160 amp connections (see table below). This wide variation in costs indicates the difficulties that charge point operators (CPOs) face when identifying and selecting sites to deploy EV chargers.

Connection size	Quotes	Average	Minimum	Maximum
100A, 69kW	44	$20,132	$127	$119,483
160A, 100kW	17	$39,417	$127	$169,700

Minimum scheme and minimum flexible scheme

Meridian supports the fast track proposal to require distributors to provide minimum cost designs and flexible options. As a CPO, Meridian values the opportunity to obtain pricing for multiple capacity levels (including different flexibility options and offers). This enables us to select a commercially viable option that will lead to the best customer outcomes and experience.

However, since the connection works and the minimum relevant scheme design and the feasibility of flexibility options still remain at the distributor's discretion, it is unclear whether this change will lead to reduced costs for applicants. We encourage the Authority to monitor costs and the uptake of flexible schemes and consider further intervention if distributors do not provide appropriate options to applicants.

It is also not clear whether the allocation of connection enhancement costs is limited to only those requested by applicants or whether they also include situations where the distributor has determined the need for the additional enhancement costs. We encourage the Authority to clarify this and restrict charging connection applicants for distributor-led enhancements.

Capital contributions and network capacity costs

Meridian acknowledges the Authority's goal of ensuring efficient, cost reflective pricing. However, we are concerned about the absence of a proposal to reduce capital contributions. Rather, the Authority has simply endorsed the status quo by both accepting existing capital contribution percentages used for exempt distributors and by using an industry average (which includes a % for exempt retailers) as a benchmark for non-exempt distributors. This allows some distributors to continue increasing costs borne by applicants.

It's also unclear how use-of-system charges (e.g. ongoing network capacity costs) would be allocated to different customer groups and whether this will lead to either a fair allocation of costs or a reduction in overall costs.

We encourage the Authority to undertake additional analysis to be confident that the proposed fast track measures adequately result in pricing efficiency.

Reconciliation reporting and pricing methodology

Meridian supports the requirement for distributors to calculate a reconciliation for each connection that breaks down the connection charge into incremental and network costs to allow the Authority to use this information to monitor connection costs across the industry. This obligation will improve Meridian's knowledge of costs for different connection scenarios, such as when upgrades to the network are required, and support our commercial viability assessment of potential public charging sites. However, it is less clear how these reports will lead to behaviour change and ultimately reduced costs, as the Authority seems to hope.

Transparent pricing methodologies

Meridian supports the Authority's aim to improve cost transparency. In addition to visibility of pricing and capacity, simple, easily understood and transparent pricing methodologies are necessary to enable access seekers to self-assess the potential costs of connecting.

The Authority is however silent (in both this consultation paper and the Network Connections Project – Stage One consultation paper) on requiring distributors to make their pricing methodologies available in a way that connection applications can reasonably estimate costs. We encourage the Authority to include such a requirement in the fast track measures.

Proposed fast track measures leading to full reform

Meridian supports the Authority's proposal to implement the fast track measures as a stepping stone to full reform. However, Meridian encourages the Authority to ensure that full reform remains a top priority on its work programme and the full benefits of efficient connection pricing are delivered for consumers.

Concluding remarks

This submission is not confidential and can be released in full. I can be contacted to discuss any of the points made.

Nāku noa, nā

Debby Abrahams
Senior Legal Counsel

Appendix A

Submitter	Meridian Energy Limited

Questions	Comments
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?	Meridian agrees that inefficient connection pricing practices over the years (such as distributors' increasing reliance on upfront capital contributions to fund investments and the extensive variances of distributor connection charges and processes) have created significant barriers to new connection seekers. Meridian supports measures that will ensure connection charges are not too low such that new connectors are subsidised by existing users on the network or too high such that they create barriers to new connection applicants thereby impacting further electrification, housing and business growth.
Q2. Do you agree with the problem statement for connection pricing?	Meridian agrees that the Authority should introduce regulatory reform in the form of Code changes to address network connection pricing inefficiencies. Improved pricing certainty and consistency of approach between distributors will help reduce barriers to new connections and facilitate benefits to consumers, including accessibility to EV chargers, process heat conversions and affordable housing.
Q3. Do you have any comments on the Authority's proposed pathway to full reform?	Meridian supports the Authority's proposed fast track measures as a stepping stone to full reform measures. Meridian supports the Authority's focus on quickly reducing barriers to efficient pricing while encouraging the Authority to ensure that the full package of reform remains a top priority.
Q4. Do you consider the proposed connection enhancement cost requirements would improve connection pricing efficiency and deliver a net benefit?	Meridian supports the Authority's proposal to require distributors to design and price the least-cost technically acceptable solutions to connect applicants to the network with the option to allow applicants to request an alternative design (ie a flexible connection) that uses load control when networks are constrained at a lower cost. Meridian agrees that these requirements should provide transparency, consistency and improved visibility of and access to the alternative ways to connect to the network.

	This in turn will enable applicants to make cost effective decisions. However, since distributors retain discretion in respect of their approach to connection charges, we consider it is unlikely the connection enhancement cost requirements will result in consistent outcomes across distributors. It is also unclear whether the costs for enhancements that are being passed on to applicants are restricted to those requested by the applicant. We encourage the Authority to clarify this and to limit distributors from passing on the cost of distributor-led enhancements to applicants. We also encourage the Authority to monitor distributor costs and the uptake of flexible schemes and to intervene if distributors do not adequately provide options to connection applicants.
Q5. Are there variations to the proposed connection enhancement cost requirements you consider would materially improve the proposed Code amendment?	No feedback.
Q6. Do you consider the proposed network capacity costing requirements would improve connection pricing efficiency and deliver a net benefit?	Meridian supports the Authority's proposal to require capacity costs to be charged using published rates (and not on a project by project/project build basis) and for distributors to charge for consuming capacity and not for constructing/adding capacity to the network. Meridian agrees that this requirement will increase predictability and certainty and reduce cost variations for applicants such as those wishing to connect EV charging infrastructure to the network. It will also ensure that distributors carefully manage their construction costs as they will only be able to recover the published rates.
Q7. Are there variations to the proposed network capacity costing requirements you consider would materially improve the proposed Code amendment?	No feedback.
Q8. Do you consider the pioneer scheme pricing methodology would improve connection pricing efficiency and deliver a net benefit?	Meridian supports the Authority's "pioneer scheme" proposal that allows the early funders of a network extension (the "pioneers") to be reimbursed for a portion of that extension cost by those who later connect to the network.

	We do, however, propose that the Authority replace the term "connection works" with "network extension" to ensure that the scheme does not include upstream capacity upgrade costs when charging applicants for connections to the network.
Q9. Are there variations to the proposed pioneer scheme pricing methodology you consider would materially improve the proposed Code amendment?	No feedback.
Q10. Do you consider the cost reconciliation methodology would improve connection pricing efficiency and deliver a net benefit?	Meridian supports the Authority's fast track proposal for distributors to standardise the methodology to estimate incremental cost and incremental revenue, to prepare a reconciliation showing the incremental costs, incremental revenue and network cost components of a connection charge, and to share this information with both the Authority and connection applicants on request. Standardisation and preparation of reconciliations should improve understanding of connection charges for both applicants and the Authority. We note, however, that the proposed amendments do not go as far as requiring distributors to set connection charges according to the pricing methodology described in the amendments. The proposal is merely a stepping stone to full reform (which may or may not occur in the future) and lacks an enforcement mechanism. It is also unclear whether the proposal will deliver efficient pricing. It seems the focus is on whether connection charges are too low and not on those that are too high. This may not deliver benefits to consumers.
Q11. Are there variations to the proposed cost reconciliation methodology you consider would materially improve the proposed Code amendment	We propose that the Code amendments be amended to ensure that distributors are required to comply with a cost reconciliation methodology to support connection applicants in connecting to networks, as identified in Q10) above.
Q12. Do you consider the reliance limits would improve connection pricing efficiency and deliver a net benefit?	Meridian supports placing a limit on changes to a distributors' reliance on capital contributions. However, the proposed 47% limit (which appears to be calculated using an industry average that includes exempt retailers) will still allow ongoing room for increases for those networks that currently rely on capital contributions lower than this limit. This is untenable to connection applicants like CPOs who

	already face issues due to increasing upfront investment to secure load.
Q13. Are there any variations to the proposed reliance limits you consider would materially improve the proposed Code amendment?	No feedback.
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?	No feedback.
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?	Meridian has no comment on the dispute resolution changes for Part 6 other than to note that if a default connection agreement (a "DCA") regime (as supported by Meridian in Q17 below) were implemented, it would allow for private dispute resolution arrangements to apply, which may be more relevant to the parties.
Q16. Are there variations to the proposed dispute resolution arrangements you consider would materially improve the proposed Code amendment?	No feedback.
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.	Meridian supports the alternative contractual terms option as discussed in item Q) in our response to the Network connections project: Stage one amendments, October 2024. With the experience of having operated with 29 different network agreements before the default distribution agreements ("DDAs") were introduced, Meridian supports the development of a DCA. While this may introduce an administrative burden to implement and manage, the benefits of doing this outweigh the costs. A DCA would introduce the necessary consistency and fairness across the sector as it would apply to all parties equally, it would negate the need for separate terms for non-participants and participants (as is currently proposed by Schedules 6.2, 6.2A and 6.2B.), it can accommodate a private dispute resolutions clause, and it's been done before and the industry understands how it would work. Similarly to the DDAs, DCAs

	could then be published as standard agreements on distributors' websites.
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?	No feedback.
Q19. Do you think any element of the fast track package should be omitted, or should begin later than the rest of the package?	As set out in Q10 above, Meridian proposes that the network reconciliation methodology be made a requirement under the fast track package.
Q20. Are there other parameters you think the Authority should consider for the proposed connection pricing methodologies? If so, which ones and why?	No feedback.
Q21. Do you agree pricing methodologies should apply to LCC contracts? If not, please explain your rationale.	No feedback.
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.	No feedback.
Q23. Do you have any comments on the impact of reliance limits on incentives to increase prevalence of asset vesting?	No feedback.
Q24. Do you agree the proposed methodologies are compatible with contestable connection works? If not, please explain your rationale.	No feedback.
Q25. Do you agree that fast track methodologies should not apply to embedded networks? If not, please explain your rationale.	No feedback.
Q26. Do you have any comments on the Authority's anticipated solution for longer-term reform?	No feedback.
Q27. Are there other alternative means of achieving the objective you think the Authority should consider?	No feedback.