

20 December 2024

Tim Sparks
General Manager, Networks & Systems Change
Electricity Authority
PO Box 10041
WELLINGTON 6143

Sent via email: connection.feedback@ea.govt.nz

Dear Tim

Distribution connection pricing

1. This is a submission from the Major Electricity Users' Group (MEUG) on the Electricity Authority's (Authority) consultation paper *Distribution connection pricing proposed Code amendment*¹ published on 25 October 2024.
2. MEUG members have been consulted on the approach to this submission. This submission does not contain any confidential information and can be published on the Authority's website unaltered. Members may lodge separate submissions.

Support for majority of proposals to address connection pricing

3. MEUG welcomes the Authority taking action to improve both the pricing and processes² for customers connecting to distribution networks across New Zealand.³ We have long advocated for stronger regulatory action around electricity distribution, outlining our concerns with a lack of transparency around distribution pricing, a lack of consistency regarding how electricity distribution businesses (EDBs) operate, the imbalance of bargaining power during negotiations, and the different approaches and prioritising of customers connecting to the networks. While MEUG acknowledges improvements in the distribution sector have been made, performance across the 29 EDBs, and therefore customers experience, still varies greatly.
4. From MEUG's perspective, when we consider what action is needed to improve distribution connection pricing, we are concerned with the following factors:
 - What is the cost of the connection? Is it the lowest or most cost-effective option?
 - Are businesses paying for only the necessary capacity that it needs to connect to the network? Is it the best technical solution?
 - Is the business getting value for money from this regulated electricity distribution business (EDB), given that connection charges are outside of the price-quality regime?

¹ https://www.ea.govt.nz/documents/5954/Distribution_connection_pricing_proposed_Code_amendment.pdf

² MEUG has also submitted on the Authority's consultation paper – *Network connections project stage one*.

³ Or expand the capacity to a property.

- What proportion of the total connection cost will a business have to pay for its connection? What is required upfront versus what may be recovered overtime? Are some new businesses connections being unfairly subsidised by the existing customer base?
 - How does this cost compare to a similar type of connection that might be undertaken for a similar business or on a different network? How have costs changed over time?
 - Do businesses get a similar process and experience when connecting across multiple networks in New Zealand? Do businesses know what to expect? Are the requirements reasonable given the scale of the connection requested?
5. MEUG supports the majority of the “fast track” proposals put forward in this consultation paper, as part of the Authority’s intended full reform of the distribution sector. We agree that greater urgency is needed in this area, and therefore support the proposed go-live date of April 2026.
 6. The only proposal that we do not support is the reliance limit of 47%. It is unclear what exact problem this proposal is intending to address, and whether it will achieve the results the Authority intends. We believe that greater evidence and discussion is required on this proposal, to ensure that it works as anticipated and does not see existing customers unfairly subsidising new connections or other unintended consequences. We believe a targeted workshop on this proposal would greatly aid stakeholder understanding and development of a more effective intervention. We expand on our points below.

Support proposal to allocate enhancement and network capacity costs

7. MEUG supports the proposal to introduce requirements that connections prices be determined with reference to a least-cost scheme, with enhancement costs (if any allocated) to selecting parties. This proposal will address concerns raised by some MEUG members, that when they have sought a connection, they have been quoted for works that are beyond their requirements, i.e. include capacity upgrades to other parts of the nearby network. This proposal should ensure that only the necessary connection assets are quoted for the customer, while still enabling some flexibility in the requirements, whether driven by the customer or the EDBs.
8. We also support the proposal that upgrade contributions (if any) are to be based on published rates and applied as network capacity headroom consumed. This should aid transparency and understanding of the charges for connections. We query if the Authority will undertake monitoring of these published rates, to understand the variation and outliers in rates used across the 29 EDBs, and if the rates are efficient. We support measures that compare the performance of the EDBs, encouraging lower-ranked EDBs to lift their performance and cost efficiency / delivery metrics.

Support proposal to refund parties who fund network extensions

9. MEUG welcomes the proposal to introduce a pioneer scheme pricing methodology. This addresses the well-known “first-move disadvantage” encountered by businesses across New Zealand and is something, as the Authority notes, is present in both Australia and the United Kingdom. It is also like the minimum guaranteed scheme that was present in the electricity sector before the 1990s reforms. We consider that the benefits of this proposal will outweigh the initial set up and administrative costs for distributors.

Welcome measures to improve transparency

10. We support the Authority's proposal to require EDBs to provide a break down of connection charges into incremental and network components using a standardised methodology. MEUG supports a standardised approach as this will greatly assist our members who operate across multiple networks.
11. We recognise that this information will be only provided to customers upon request. We encourage both EDBs and the Authority to monitor the uptake of this option by customers, to understand how effective this measure is and to seek feedback on any improvements that would aid customers understanding of this information. We request that if the Authority uses this information for monitoring purposes, that it takes all the necessary privacy and security measures to protect this commercially sensitive information.

Ensuring consumers' voice during negotiations

12. MEUG welcomes the proposal to extend the dispute resolution provisions for distributed generation to cover the application of the connection pricing methodologies. This will help to reduce the imbalance of power between an EDB (a monopoly) and a customer when negotiating or seeking to resolve disputes. Most customers looking to connect to a network have limited or no ability to seek a connection from another provider, due to the location of their site being within a specific EDBs' geographic region. This has led to some instances, where members have been advised by EDBs to "take it or leave it" when discussing connection proposals. If the sector is to support the move to greater electrification, we need to see more effective discussions between the parties involved.

Cannot support reliance limits based on evidence presented

13. MEUG does not support the proposed introduction of a reliance limit methodology, that seeks to put restrictions on distributors' ability to amend methodologies to increase capital contributions.
14. From our reading of the consultation paper, we are not clear on the exact underlying problem that the Authority is trying to address - specifically what examples of inefficient increases in connection charges the Authority has identified and why an average across EDBs is an efficient solution. The proposed solution:
 - Does not seem targeted at putting downward pressure on connections prices, as the threshold relates to the percentage of a distributor's connection and system growth investment that is funded through connection charges, not an absolute value or rate.
 - Does not necessarily create consistency in the pricing approaches between New Zealand's 29 EDBs, setting an upper limit that shouldn't be exceeded, not a target value.
 - Overall, it is unclear how it will improve affordability or reliability (key considerations for consumers) or issues with monopoly access.
15. We recognise that many stakeholders, including MEUG, have raised concerns with connection prices, particularly the level of connection cost to be paid up front. It would be helpful to understand if stakeholders concerns relate to specific connection types or all connection types—i.e. does it just apply to large commercial and EV connections? It would also be useful to understand if concerns with connection pricing are nation-wide or relate to specific EDBs or regions. Finally, it would be beneficial to understand if customers have concerns with the level of payment required upfront and/ or the recovery of costs over time.

16. We encourage the Authority to take a principles-based approach and make sure the sector understands the exact problem being addressed, including the evidence of this problem. This would ensure any measures can be assessed for effectiveness and efficiency in resolving the actual problem. This would be a substantial change for some EDBs and its customers, so it is important to understand if there would be any unintended consequences.
17. MEUG also has concerns about how this reliance limit may impact the balance of connection costs paid by the new customers versus those costs covered by existing customers:
 - MEUG supports a benefit-based approach to charges, where the beneficiary of the connection assets pays for the full costs. This is the approach taken in the Transmission Pricing Methodology (TPM); yet this proposal seems at odds with that approach and risks socialising connection costs across all consumers on a network.
 - We query whether this proposal will see a greater proportion of expenditure allocated to EDBs' Regulated Asset Base (RAB), whereas connection charges are excluded from the RAB. If greater levels of expenditure are included in the RAB, this will lead to increased revenue paths for EDBs in future Commission price-quality path resets, and therefore greater costs to consumers in the long-term.
 - We also don't understand if the proposed reliance limit of 47% is the appropriate limit. This percentage reflects the current average, but there is no commentary on whether this is an appropriate level, reflecting good practice?
 - We question whether the reliance limit should be adjusted to account for regions that are experiencing high growth (i.e. Auckland), compared to other regions with much lower growth.
 - MEUG does not support existing customers having to possibly subsidise new connections, particularly if new customers exit the network early, leaving all other users to pick up the cost of connections assets.
 - MEUG consider that if new customers are not subjected to the full cost of the connection, there would be less incentive to look at investigation options to reduce or smooth capacity requirements, through alternative / innovative measures such as solar PV, thermal storage or batteries.
18. To help progress discussion of this proposal, we look forward to reviewing the submissions from other stakeholders and would welcome a workshop on this proposal following the cross-submission process. A workshop would enable the Authority to share further thinking behind the proposal, discuss evidence driving this intervention and allow stakeholders to flesh out any concerns. MEUG strongly supports actions to improve the distribution connection process and associated pricing, but we want to ensure that any measures introduced are effective and well-designed.

Recognise need for price-quality path reviews.

19. MEUG acknowledges the impact that the Authority's decisions will have on the price-quality paths recently announced by the Commerce Commission for the 16 regulated EDBs. We appreciate the issue being raised at this early stage, and the engagement already underway with Commerce Commission staff.
20. MEUG recognises that some EDBs may need to apply for a re-opener, and this process will be overseen by the Commission. We encourage the Authority to liaise with the Commission as final decisions are made, so the Commission can prepare for a potential uplift in re-opener applications. Re-openers applications require time and effort not only from the EDB and the Commission, but also impacted stakeholders (such as MEUG) who seek to understand and comment on the re-opener applications.

Welcome opportunity to discuss our comments further

21. We look forward to taking part in the cross-submission process and would welcome further discussions with the Authority and EDBs to understand the differing views on this consultation paper. If you have any questions regarding our submission,

Yours sincerely

A handwritten signature in black ink, appearing to read 'K Boyes', with a long horizontal flourish extending to the right.

Karen Boyes
Major Electricity Users' Group