

19 December 2024

Northern Energy Group submission to the Electricity Authority

Submission to the Electricity Authority's consultation paper on Distribution Connection Pricing Proposed Code Amendment.

Introduction

The Northern Energy Group (NEG) welcomes the opportunity to provide feedback to the Electricity Authority (the EA) on its consultation paper *Distribution Connection Pricing Proposed Code Amendment (the amendment)*. Our feedback has been structured into three main sections:

1. overview of NEG's management of connections currently
2. standardisation of the connections process
3. implications of standardised pricing for connections

The NEG believes that some of the proposed changes in the amendment will have negative unintended consequences for customers and network users across the country. As a group that puts communities at the heart of what we do, the NEG have discussed the implications of the proposed changes with a range of our customers through a combination of one-on-one interviews and focus groups. We spoke to a range of customers across four members of the NEG, and their voice is reflected throughout this submission.

While the degree of impact that the proposed changes will vary across the NEG, this submission reflects key concerns that will impact all members either tangibly or in principle. Note: a number of our member networks will also be submitting individually.

About the Northern Energy Group

The NEG formed in 2019 around a common belief that EDB consumer voices needed to be better represented in industry and government decision-making.

The NEG consists of Counties Energy, Electra, Northpower, The Lines Company, Top Energy, Waipā Networks, and Vector. All of our networks are entirely or majority owned by customer trusts.

The energy sector in Aotearoa is on the brink of significant change. Electrification means demand will double, and decarbonisation is crucial to positive climate action in Aotearoa.

Together, the NEG accounts for nearly 50% of New Zealand’s power connections (ICPs), and the majority of demand growth is forecasted to be on our networks. As a group, we are committed to leading a new energy future with the voices and interests of our communities at the centre.

Our goal as consumer-owned entities is to lift consumers up together – ensuring that everyone can benefit from New Zealand’s ongoing energy transition.

NEG members provide a trusted, local perspective. As a part of the community, we aim to complement, not substitute, local community and iwi/hapū voices. This submission embraces this approach, with the voice of a range of our customers intertwined with the concerns that we have as a group.

Current state of connections for NEG

The NEG’s perspective on the current connection pricing and process is four-fold:

- The vast majority of newcomers to the network are residential, and this group is effectively served by the status quo. Together, the NEG members account for 827,123 ICP’s across New Zealand, with an approximate distribution illustrated in Figure 1 below. These new and existing connections are managed without issue across the NEG members.
- Commercial connections, including housing developments, data centres, and EV charge-point connections, have specific demands on a network and the best people to price and negotiate these connection charges are the EDBs and the network newcomers.
- Connection pricing is not an issue that is actually affecting consumers all over the country. Discussions around shifting the process or pricing of connections have far greater impacts on high-growth parts of the country, and the conflation of all EDBs is not a realistic interpretation of the current state.
- We believe that the outcomes of these proposed changes will disadvantage the vast majority of the connections that we deal with (see Figure 1), to provide incentive to a much smaller proportion of our connection customers.

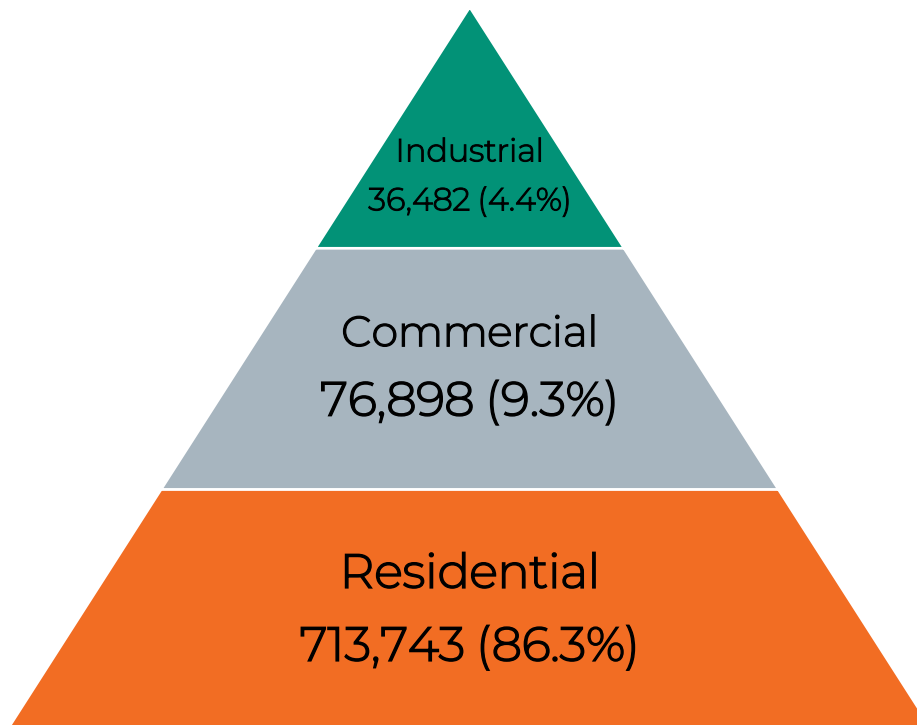


Figure 1: breakdown of NEG's connection types by # of ICPs (% make-up of all of NEG's ICPs)

We do not agree with the EA's position that EDBs are currently acting in a way that disadvantages network users. In fact, there is already a consistent and cost-effective approach to supporting newcomers to the network without disadvantaging existing network users, as suggested in the EA's problem definition in the amendment.

Standardisation of the connections process

The proposed changes that focus on standardising the connections process and even aspects of the pricing methodology across EDBs are something that the NEG largely supports. The current number of EDBs in New Zealand mean that there can be significant variation in the process and standards for new connections, and this is not in the best interests of communities and individual users. The NEG believe that is appropriate to standardise the connections process across EDBs, and work is already being done across the members of the NEG and the ENA more broadly to achieve this.

Speaking to customers across the NEG, there was largely support for the concept of standardisation of the connections process. Customers said that a standardised process could simplify cross-boundary work for businesses and builders, making it easier to manage connections. Customers also said that standardisation could reduce inconsistencies in approach that currently exist and could be leading to unequal outcomes across New Zealand. Generally, customers said that standardisation would support fairness and simplicity across regions.

Some customers did propose that any standardised process for connections should still allow for some level of variation and flexibility in order to meet all customer needs, particularly in rural or isolated areas. A few customers said that rural areas may face unique challenges that a “one-size-fits-all” approach may not address.

The NEG, and the customers that we spoke to, agree that the standardisation of the connections process is practical and will provide positive outcomes for users. We believe that ongoing engagement and cooperation between the EA and EDBs to establish the details of a standardised connection practice will help define best practice methods, while also allowing for the necessary flexibility to serve rural or high-need customers.

Standardisation of connections pricing

The NEG believes that standardised connection pricing may not work where the costs of materials, labour, or technology costs change and become more expensive than initially agreed or charged, and any new pricing structure should recognise this potential variability. The NEG agree that it is appropriate and fair that customers know the cost of connections ahead of time, and for some members of the NEG this is already the case.

We believe that there should be the flexibility within any standardised pricing process to update these costs where pricing inputs change and become more complex or expensive.

When discussing the issue of standardised vs variable pricing with some of our customers, we heard they are in favour of some level of standardisation, but that this should not come at the expense of new users paying their fair share of connection costs. Some customers said that any new users that will have a distinct impact on the existing network, such as a new large site that will require increased capacity, must pay the real cost of these upgrades. Customers said that this was the fairest way to allocate these costs, and the NEG believes that achieving this fairness in cost allocation will only be possible if connection charges can be flexible to meet the real costs of any network upgrades that take place as a result of a new connection.

The NEG believes that this position is not necessarily at odds with the simplification of connection pricing. We believe that increased transparency and communication of costs is important for our customers, but we do not believe that an inflexible pricing model is the appropriate mechanism for this.

High certainty is integral for any standardised approach to pricing and cost recovery to work. If a customer does not remain connected, or takes some time to connect following the initial infrastructure investment, then this cost will be borne by the balance of customers on the network. The NEG believes that high commercial and financial certainty is essential to justify the possibility of upfront and over time cost recovery.

The customers that we spoke to were clear that individuals or businesses that will profit from a new connection should be the ones that pay the entire cost. For high-certainty commercial loads, this will not be an issue, however we do not believe that other network users should provide the guarantee to uncertain commercial operators.

EV charge points

The NEG is concerned that the aspects of the proposed changes relating to EV charge points do not recognise the potential commercial uncertainty that may come as a result of the Government's commitment to 10,000 new EV chargers by 2030. We believe that a risk-based approach should be applied for the payment arrangements between Charge Point Operators (CPOs) and the EDB that is increasing capacity to facilitate installation.

We are concerned that the proposed approach to agreeing a pricing structure with CPOs will not account for potential market failure and ultimately result in stranded assets that then come at a cost to existing network users. While we appreciate that this may not be a regular outcome of EV charger installation, it is important the pricing structure is designed in a way that can provide protection to existing network users in the case of any market failure.

We asked some of our customers about what they think should happen in the case of stranded assets through CPOs defaulting in their EV charging repayments, and their responses were clear. Customers said that it is not the responsibility of existing network users – the majority of which are residential customers – to act as the guarantor for CPOs in the context of EV charger installation. These customers said that there were two options in order to avoid this possibility. Either the Government act as a guarantor for these CPOs, to recognise that this market is being driven by the Government policy, or CPOs should be required to pay the entirety of the costs and charges upfront to avoid stranded assets. As the CPOs will be profiting through the installation and ownership of these EV chargers, customers said that they should be willing to bear the initial connection costs as other commercial entities would. These customers thought that it was appropriate that CPOs are enabled to continue to install this important infrastructure, but it's important to remember that this is still a profit-seeking endeavour: *"CPOs should be supported for the development of these charge points, but at the same time it is a business, so the risk associated with these costs should be treated as a private risk"*.

The NEG believes that the proposed approach to charges relating to the installation of EV charge-points are not appropriate as they can create the conditions to enable stranded assets that would ultimately have to be paid for by the network and subsequently, customers. The NEG is not opposed to innovative approaches to charging for the installation of EV charge points, however we do not support changes that ensure communities bear the costs associated with EV charge point connections.

EDB ability to negotiate

The NEG is also concerned with the proposed changes creating an inability for EDBs to negotiate with high-value users to arrange a pricing structure that acts in the best interests of our communities.

Another consequence of standardisation of costs, the prescriptive nature of higher value connections pricing, means that the ability for EDBs to negotiate with commercial parties is significantly limited. The NEG believes that there is an assumption that EDBs are currently negotiating only with commercial and profit seeking interests in mind. For us, as community-owned network companies, negotiation allows us to act with community interests at the forefront of any decision-making and price structuring. Negotiation allows us to create investment and commercial certainty that ultimately benefits network users and avoids the prospect of any unnecessary cost-bearing across the networks. Particularly when negotiating with profit-seeking agents that are entering the network, we believe that redistribution of connection costs is not a sacrifice our customers should have to make.

After speaking to some of our customers about this issue, we are confident to say that these customers trust the NEG members to act in the community's best interests and avoid cost-bearing across the network. Our customers told us that negotiations should be proactive and reflect the best interests of local communities, balancing cost recovery with socio-economic benefits, and regional differences should be considered, particularly in rural areas where large sites could drive significant economic development.

The customers that we spoke to said that subsidy through the sharing of costs across the network is not the appropriate mechanism to encourage and incentivise the important development of these new large sites. One customer who was based in a regional area of NEG's market told us: *"I'm not sure if communities are ready to socialise the cost of large industrial investment"*.

Considering the perspectives of the customers that we spoke to, we believe that we are best placed to continue to negotiate on behalf of our stakeholders and our communities, and the proposed changes would take away this ability from EDBs, in an attempt to limit a perceived self-interest - a suggestion that the NEG strongly opposes.

Subdivision charges

The NEG has concerns that the proposed changes to connections pricing could also create a cap on charges associated with subdivisions that would not be fit for purpose and could lead to cost-bearing across the network. This is of particular concern for regions and networks that have significant development potential.

In communities where the opportunities for greenfield subdivisions are present, it is reasonable to suggest that the cost of connection for these developments may at times be greater than the posted capacity rates allowed for under the proposed amendment changes. In these instances, the difference between the charged cost and the actual cost will be borne by the network. Not only does this seem to create negative externalities from what would otherwise be residential and community growth, it is also at-odds with the pricing of all other types of horizontal infrastructure that developers of subdivisions must pay the entirety of, such as drainage or potable water.

When speaking to some of our customers about this possibility, they were clear in their opposition to the potential changes. Customers said that it is fair and reasonable for developers to cover all connections charges including those that come with the requirement for increased network capacity. Any situation that would leave EDBs unable to recover the full cost of connection was viewed as unfair, as this would ultimately be passed on to other network users. Customers agreed that transparency of cost breakdowns are important for all users, including developers of subdivisions, but transparency does not equate to any redistribution of costs.

Again, the NEG does not oppose transparency and consistency in the pricing of connections for subdivisions, however placing restrictions that have the potential to affect other network users does not seem to be an appropriate solution to the perceived problem.

Conclusion

The NEG does not believe that the proposed changes as stated in the amendment will achieve the desired outcomes for EDBs and customers alike. We believe that the proposed changes are heavy-handed and are tackling an issue that is perceived as much greater than that which currently exists.

Having spoken to a sample of our customers, we fear that the possible unintended consequences of some of the proposed changes will ultimately disadvantage customers more than any interpretation of the status quo.

The NEG *is not* opposed to broader conversations about changing the connections process. We believe that standardisation of the connections process, for example, is something that should happen and something that we are actively working towards as an industry.

While the NEG believes that the proposed standardised method of connections pricing is feasible for small connections and residential customers, these same customers could potentially bear the cost for large and complex connections due to the proposed simplification of the process.

In order to achieve equitable outcomes for our communities – a core function of the NEG – we are opposed to the possible outcomes of the extent of the proposed standardisation of connections pricing.

We believe that the proposed changes have been drafted under the pretence that the feedback received by the EA from a small sample of customers reflects the sentiment of all customers. This is not what we see or what we hear from our customers. We are proud to have customers that tell us: *“I trust my EDB to do this with the community’s best interests in mind”*.

As a group, we are keen to work collaboratively with customers and the Authority to make connections pricing more understandable, affordable, and flexible to the different needs that our network users have.