Distribution connection pricing proposed Code amendment

Northpower Submission to the Electricity Authority

Introduction

Northpower appreciates the opportunity to provide feedback to the Electricity Authority (**Authority**) on *Distribution connection pricing proposed Code amendment*.

Northpower is a trust-owned company, our electricity distribution business connects consumers to our electricity network in the Whangarei and Kaipara districts, operating and maintaining a network to more than 62,500 connected customers.

Executive Summary

Northpower supports the intent of the proposed changes, particularly where they aim to:

- Provide better certainty and transparency for access seekers (e.g., through a minimum scheme and published capacity rates).
- Mitigate first-mover disadvantage via a pioneer scheme.
- Ensure existing customers are better off with new connections through a fair share of network costs in reconciliation.

However, we have identified several potential issues regarding the practicality and workability of the proposals, which we outline below:

- Posted capacity rates: practicality of methodology and application
- Pioneer scheme: reasonableness of duration and threshold, as well as practical implementation issues
- Connection charge reconciliation: opportunities to simplify and improve consistency and practical implementation.
- Reliance limit: concerns about its efficiency as a measurement tool.

Posted capacity rates

We agree in principle with the concept of calculating the unit cost of adding capacity at each network tier. However, there are challenges with implementation.

The posted rates represent costs for diversified load, whereas connection applications are based on undiversified demand. This mismatch requires applying a diversity factor, which can vary significantly depending on customer type and network location. This may lead to inconsistencies in capacity costing for access seekers with similar demand.

We suggest the Authority work with the Distribution Connection Pricing Technical Working Group (DCPTG) to develop a simple, consistent, and easily applicable methodology for calculating capacity rates. Such guidelines would encourage uniformity across distributors.

Pioneer scheme

While we support the concept of a pioneer scheme, we believe several aspects require further consideration.

Scheme duration

We believe the proposed 10-year duration is unreasonable. It exceeds the standard accounting/tax record-keeping requirement of 7 years and is inconsistent with the 36-month duration for distributed generation under the "Repayment of Previously Funded Investment" provisions in Part 6.

We suggest aligning the pioneer scheme duration with the existing requirements for distributed generation (36 months) or, at a minimum, limiting it to 7 years.

De minimis threshold

We support the ENA's recommendation that EDBs should have the ability to set the de minimis threshold for the use of Pioneer schemes on their networks.

EDBs are in the best position to determine an appropriate balance between ensuring fairness for their customers and managing the administrative costs associated with Pioneer schemes. Ultimately, these costs will be borne by consumers, and giving EDBs the flexibility to set thresholds would allow them to tailor the approach to the specific needs of their networks and customer base.

We encourage the Authority to provide EDBs the flexibility to establish de minimis thresholds for Pioneer schemes, reflecting the unique characteristics of their networks and customer requirements.

Pioneer no longer existing

The proposal does not address scenarios where pioneers no longer exist (e.g., liquidation, death).

We suggest explicitly stating that no rebates will apply to pioneers that no longer exist.

Administrative costs

Significant costs are anticipated for distributors to establish systems and processes to administer the scheme.

Distributors should be allowed to deduct an administrative fee from rebates to recover these costs, ensuring cost-reflectiveness.

Connection charge reconciliation

The consultation paper defines NC (network cost) as the applicant's contribution toward existing network costs, such as operating expenditure, asset renewals, and transmission charges. However, these costs are effectively reflected in IR (incremental revenue) because line charges encompass these components.

We believe the connection charge reconciliation should be simplified to represent only incremental costs—specifically, network extension costs and capacity costs based on published rates.

Reliance limit

While we understand the intention of introducing reliance limits to safeguard against distributors increasing their dependence on up-front charges, we have concerns about its practical implications:

- Capital expenditure is inherently lumpy, with varying timing. This may result in reliance percentages being high in one year and low in another, even when distributors adhere to the connection pricing requirements.
- Approaching the reliance limit could encourage inefficient behaviour, such as accelerating capital expenditure or rejecting new connection requests to stay within the limit, which is not in the long-term interest of consumers.

We suggest the Authority reconsider the reliance limits framework to ensure it does not inadvertently incentivise inefficient outcomes.

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Northpower

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