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The Electricity Authority
c/o connecton.feedback@ea.govt.nz

Tēnā koutou,

Submission on Distribution connection pricing proposed Code amendment

Introduction

1. PowerNet Limited (PowerNet) appreciates the opportunity to make a submission to the Electricity Authority (the Authority) on the distribution connection pricing proposed Code amendment consultation paper.

2. PowerNet is an electricity management company with its head office based in Invercargill and is owned by The Power Company Limited (TPCL). PowerNet manages the non-exempt EDBs of Electricity Invercargill Limited (EIL), OtagoNet and Lakeland Network (LNL), the exempt EDB of TPCL and Ruakura EDB Limited Partnership (Tainui Group Holdings Limited), and the non-grid connected Stewart Island Electric Supply Authority (SIESA).

3. With an asset base and investments in excess of NZ$1 billion, the aggregated electricity distribution asset base managed by PowerNet is the fourth largest in New Zealand. TPCL operates in Southland and West Otago, OtagoNet in rural and coastal Otago region that surrounds Dunedin City, EIL operates in Invercargill and Bluff, Lakeland Network (LNL) in the Frankton, Cromwell and Wānaka regions, SIESA on Stewart Island, and Ruakura in the Waikato.

4. PowerNet has long-term management agreements in place with TPCL, OtagoNet, LNL, EIL, and Ruakura, with the benefit of integrated business management systems in place, and a core purpose and expertise in asset management capability.

5. PowerNet supports, in principle, the submission made by Electricity Networks Aotearoa (ENA) and have included in our own submission key issues that we wish to raise with the Authority. We support aspiration to reach net zero emissions by 2050 and 100 percent renewable energy generation, that is not cost prohibitive, by 2030. We acknowledge the important role distribution networks will play in supporting New Zealand's transition to an electrified nation and a low emissions economy.

6. This submission can be published in full on the Authority's website.

Key discussion points

7. We acknowledge that the Authority views different practices across the distribution sector as adding inefficiencies and complexity for those wanting to connect. As a distribution management company, PowerNet manages a number of distribution networks, and maintains a consistent approach across them. We support the intent of the Authority to find

consistency and ongoing efficiencies across the networks, while also ensuring networks maintain their individual pricing methodologies. We therefore support the ENA suggestion of principles-based regulation over a rules-based approach. This would allow for greater flexibility and innovation to meet the needs of customers and shareholders.

8. PowerNet is aware of the Authority's concerns around an increasing reliance on up-front connection charges. We note and support the comments made in the ENA submission that greater understanding of whether this is even a problem is determined before introducing rushed regulation. We currently utilise Capital Contributions to negotiate large-scale connections and, in many cases, they act as pre-payment for line charges. We do not see that this then results in inefficiency of pricing for our customers.

9. In several projects, our large-scale customers are seeking higher up-front Capital Contributions to minimise their on-going line charges (operational costs) over time. We have found this to be the case for producers of export goods, who wish to ensure their products are internationally competitive, and have been able to strike the right balance of capital investment (contributions) verses operating costs over the long term. As outlined below, we have worked with many individual customers with different individual needs in this regard and agreed arrangements that deliver for the customer. We would be interested to understand where the Authority sees an issue of significance to result in regulation.

10. It is our view that capital contribution outcomes should be varied. The networks we manage range across high density urban and low density rural. Where there are large decarbonisation projects in low density rural areas, the cost to connect is vastly different based on their geography and point of connection. Ensuring flexibility in the outcomes sought is important to us, and we note in particular that in DPP4, revenue from customers and costs will be greater than DPP3. As a result, the economic calculations and proportion of capital contributions to costs is likely to change.

11. Further to this point, PowerNet has been delivering substantial distribution and transmission upgrades across the Southern region to enable decarbonisation. There is in excess of 200 MW of new electricity demand is being enabled by PowerNet, either completed or underway, since 2021. The Southern region is leading the way in decarbonising industry, especially in relation to coal-based process heat for industry. New renewable electricity generation is also part of this mix.

Commercial and Residential agreements

12. Very different arrangements have been negotiated with large NZ entities to secure commercially acceptable agreements to enable the infrastructure provider and the customer to together manage their significant investments. Levels of capital contributions have been individually agreed, ensuring they meet the customer needs. We cannot stress enough, to have efficient outcomes, the need for the investing parties to have the freedom to agree arrangements acceptable to both and not have third party interference in these arrangements.

13. There is a real and significant risk of unintended consequences from regulatory overreach in this area. Mandating the terms of long-term commercial arrangements can impact balance sheets, existing banking covenants and jeopardise the viability of investments intended to enable New Zealand to meet its net-zero targets. It will be important that we can decline a connection on reasonable grounds. We raise the example of a large commercial customer

coming to a very small EDB and there is an obligation to connect. This raises some concerning implications.

14. In addition to this, mandating timeframes for commercial agreements to be reached can also lead to undesirable and unintended outcomes. We have significant experience and examples of where an iterative process (that takes time) to work through the optimal technical solution is the best outcome. Again, differing outcomes have been agreed in the Southern region, based on customer requirements, around areas such as security of supply, which impact business cases.

15. PowerNet will further engage with the Authority to share these valuable experiences and provide real world examples of how this flexibility has led to the best outcomes for both the infrastructure investor and customer.

16. In addition to large scale industrial connections and upgrades, we have extensive experience in delivering rapid residential connections, especially in the Queenstown Lakes region. The Lakeland Network is the fastest growing network region (in percentage increase terms) in New Zealand. PowerNet manages this network and partners with residential developers to delivered customer driven solutions, investing millions of dollars annually in electricity infrastructure, meeting the needs of developers and end customers.

17. In this area, PowerNet will also further engage with the Authority to provide our insights.

18. PowerNet and the networks we manage have a wide array of residential connections, commercial, industrial and rural. While we maintain a consistent methodology to our pricing, the pricing outcomes vary greatly across this range. Employing a one-size-fits-all outcome for connection pricing is neither efficient nor desirable. It is important to PowerNet that there is appropriate flexibility in any regulatory framework and pricing reform that recognises these variations and their significance to the overall outcome of connection pricing.

19. When we engage with the Authority further, we would like to better understand the problem definition. We do share a concern that this may be predominately driven by Charge Point Operators (CPOs) wanting to take a first mover advantage and commercial position in relation to electric vehicle charging locations and wanting to have commercially favourable connection terms, inconsistent with networks' cost reflective pricing methodologies. These methodologies are cost reflective and designed to be equitable to all customers wishing to connect to electricity distribution networks. The connection cost at the end of a long stringy line and next door to a substation will be substantially different. A bias to what CPOs want to meet their commercial need risks cross subsidising to all other current and potential network customers.

Resourcing

20. Reflected also in our submission to the Authority on the Network Connections Project, we have concerns around the not insignificant increase in resource and process that will be needed to meet the requirements of a new regulatory framework for Part 6 of the Code. We would seek to ensure that the Authority is aware of and acknowledges there is cost to this process and be mindful of the degree to which regulation is sought.

Engagement timing

21. As with the ENA submission on network connection, we have concern around the timing of this consultation. It is arguably poor practice to engage in significant regulatory change proposals throughout the months of December and January, and for meaningful pricing consultation November to December. Not only are EDB's likely to be poorly resourced over the holiday period, but many of the staff also required for this feedback are engaged in the following years pricing updates. We question that if the Authority is genuinely seeking meaningful and robust input and response from EDB's, why they have opted to close submissions and cross-submissions through a period that would be good practice to avoid.

Regulatory framework for pricing

22. We are confident that our current pricing methodology promotes the uptake of efficient network investment and encourages growth towards electrification. We are also aware of the Authority's desire to provide a regulatory framework around pricing methodology, rather than relying on principles or guidance. We accept that the required investment in the electricity system will be considerable and needs to move in a timelier manner than is currently taking place.

23. PowerNet has reviewed the package of fast-track measures proposed by the Authority and are largely supportive of the intent behind the changes. We also agree that full reform of the pricing methodologies across the sector will take some time, and support the staged approach being taken by the Authority. We would however note that the risks associated with this fast-track approach are sub-optimal regulation that can lead to poor decision making. This poses some risk in an industry innovating and developing in long-term strategic assets.

24. We see merit in ensuring that sector connection pricing is sitting within a range where new connections are not subsidised, nor deterred by high start-up costs and charges. We would also encourage the Authority to maintain a position of ensuring individual EDBs should determine their own connection pricing and determine appropriate ranges to set this within. With the exception of proposals around reliance limits, we are largely supportive of the overall intent of the Authority around pricing reform. We support the ENA submission and wider industry views.

25. We have provided more detail under a number of questions in the attachment and would welcome the opportunity to discuss any of our comments should the opportunity arise.

Contact for submission: Aaron Sinclair, Commercial Manager
Michelle Fowler-Stevenson, Regulatory and Risk Manager

Appendix A

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?	PowerNet supports the ENA submission. We note in particular that greater flexibility and innovation may come from a principles-based approach, rather than the proposed rules-based approach. We note also that the costs associated with administering and establishing proposed changes are estimated by the Authority to be outweighed by benefits. These costs, however, are not insignificant, and should have greater consideration by the Authority of their impact on an EDB.
Q2. Do you agree with the problem statement for connection pricing?	We support the ENA submission. PowerNet note that a balance is required between high and low connection costs to achieve efficient outcomes. If the connection costs are artificially low which encourages high connection growth, then network upgrades at the sub-transmission level could be required earlier than planned, putting more cost on existing customers.
Q3. Do you have any comments on the Authority's proposed pathway to full reform?	We support the ENA submission. The timeline appears rushed which could result in sub-optimal regulation. Also of real concern is the proposal in relation to the Commerce Commission DPP regime. The final determination for DPP4 has been set, and we have significant, proposed reform, which has the potential to impact the assumptions in the DPP4. For example, mandated changes by the Authority in this area could lead to significant IRIS penalties. The Authority needs to be more aligned to the DPP regime requirements and timeframes.
Q4. Do you consider the proposed connection enhancement cost requirements would improve connection pricing efficiency and deliver a net benefit?	PowerNet is seeing a demand for this type of pricing now from customers. Sometimes the least cost, technically acceptable solution, may not be in the best long-term interest of the customer or the network, resulting in inefficient outcomes long term. In general, we support the principle of customer choice.
Q5. Are there variations to the proposed connection enhancement cost requirements you consider would materially improve the proposed Code amendment?	We support the ENA submission. In addition, we would add "Sufficient time is required to allow EDBs *and the network*, to determine capacity rates that send appropriate pricing signals"

Q6. Do you consider the proposed network capacity costing requirements would improve connection pricing efficiency and deliver a net benefit?	Targeted network capacity costing requirements in areas of high congestion capacity area's and no or low-capacity costing requirements in high available capacity areas could promote better utilisation of the network and more efficient outcomes.
Q7. Are there variations to the proposed network capacity costing requirements you consider would materially improve the proposed Code amendment?	PowerNet supports the ENA submission.
Q8. Do you consider the pioneer scheme pricing methodology would improve connection pricing efficiency and deliver a net benefit?	PowerNet supports the proposal for a pioneer scheme. We already operate under a similar scheme and see value and benefit in this approach.
Q9. Are there variations to the proposed pioneer scheme pricing methodology you consider would materially improve the proposed Code amendment?	PowerNet sees an area of improvement in the ability for the EDB to retain an admin fee for the cost of operating the Pioneer scheme.
Q10. Do you consider the cost reconciliation methodology would improve connection pricing efficiency and deliver a net benefit?	The EDB should retain the right to assess the risk profile of each project and apply a connection revenue life factor based on this assessment. Consideration needs to be given to the elements that make up incremental revenue, Transpower and sub-transmission revenue should be deducted if the incremental costs only relate to the low voltage network. We support the transparency of a reconciliation methodology and consistency of approach and support the on demand only requirement.
Q11. Are there variations to the proposed cost reconciliation methodology you consider would materially improve the proposed Code amendment?	PowerNet supports the ENA submission.
Q12. Do you consider the reliance limits would improve connection pricing efficiency and deliver a net benefit?	Reliance limits would only be practical if an exemption regime is implemented. Customers of large decarbonisation projects are demanding higher connection charges to lower their on-going operational expenditure, this would put pressure on the EDB to keep within the reliance limit due to the high value of these projects and contributions. If EDBs were to fund more of these capital costs it would put more pressure on their funding facilities of debt resulting in inefficient outcomes and pushing them over their limits.

	Reliance limits could take away the ability for EDBs to negotiate with large customers on the mix of upfront and ongoing line charges due to reliance limit constraints if an EDB is near the annual limit.
Q13. Are there any variations to the proposed reliance limits you consider would materially improve the proposed Code amendment?	PowerNet supports the ENA submission.
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?	PowerNet supports the ENA submission.
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?	PowerNet supports the ENA submission.
Q16. Are there variations to the proposed dispute resolution arrangements you consider would materially improve the proposed Code amendment?	PowerNet supports the ENA submission.
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.	No 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?	We do not support a sinking lid approach to reliance limits for the reasons outlined in Q12.
Q19. Do you think any element of the fast-track package should be omitted,	PowerNet supports the ENA submission.

or should begin later than the rest of the 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
Q21. Do you agree pricing methodologies should apply to LCC contracts? If not, please explain your rationale.	PowerNet supports the ENA submission.
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.	PowerNet supports the ENA submission.
Q23. Do you have any comments on the impact of reliance limits on incentives to increase prevalence of asset vesting?	PowerNet supports the ENA submission.
Q24. Do you agree the proposed methodologies are compatible with contestable connection works? If not, please explain your rationale.	PowerNet supports the ENA submission.
Q25. Do you agree that fast-track methodologies should not apply to embedded networks? If not, please explain your rationale.	
Q26. Do you have any comments on the Authority's anticipated solution for longer-term reform?	PowerNet supports the ENA submission.
Q27. Are there other alternative means of achieving the objective you think the Authority should consider?	PowerNet supports the ENA submission.