keeping you connected.

20 December 2024

Electricity Authority
Level 7
AON Centre
1 Willis Street
Wellington 6011

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

'Network connections project – stage one' consultation; and 'Distribution connection pricing proposed Code amendment' consultation

The Lines Company (TLC) appreciates the opportunity to provide feedback on the Electricity Authority's (Authority) consultation papers. We provide one submission for both consultations.

Introduction

The Authority is seeking feedback on two consultation papers about connecting to electricity networks. These consultations propose rule changes that affect the:

1. ***application process*** for those wanting a new, or bigger, connection;
2. ***pricing structures*** that distributors (EDBs) use to charge for these connections.

Summary

We acknowledge this is a complex issue and that EDBs are key to ensuring that efficient, effective electrification will enable decarbonisation and economic growth for Aotearoa. TLC is supportive of the intent of the proposals but caution that the solutions the Authority is proposing could result in outcomes that do not provide the intended long-term benefit for all customers.

TLC agrees that standardising the connection process would be beneficial to customers and note EDBs are working to aligning their processes where possible.

However, TLC has serious concerns about the proposed standardisation of connection pricing. The Authority's proposed 'one size fits all', prescriptive approach will result in a high likelihood of cross-subsidisation between existing and new customers, burdening existing customers with costs for which they receive no real added benefit. In our view this is at odds with the 2019 distribution pricing principle that includes 'being subsidy free (equal to or greater than avoidable costs, and less than or equal to standalone costs)'.

The Authority’s proposals fail to account for the diverse and complex nature of connections and connecting network situations. Urban residential connections can be relatively straightforward for TLC given our current relatively low growth network, often resulting in consistent pricing outcomes across our network. However, commercial, industrial, subdivisions and rural connections are unique with each of these presenting a different commercial and technical risk profile. This requires a tailored approach to balance the new customer’s requirements alongside existing customers’ expectations and pricing, and our commercial and technical risk exposure. TLC’s view is that a fully regulated, generic pricing approach with no flexibility or commercial negotiation will have unintended consequences for our whole community, especially true for existing residential and smaller business customers.

Similarly to the differences across customer groups and regions within our network we note all EDBs have different underlying drivers, and therefore a prescriptive ‘one size fits all’ approach is not appropriate. TLC believes that a principle-based approach to connection pricing allowing EDBs flexibility and commercial negotiation would be a pragmatic approach to this issue.

We do not believe the current proposal aligns with the EA’s main statutory objective **‘To promote competition in, reliable supply by, and the efficient operation of, the electricity industry for the long-term benefit of consumers’** in that if implemented as proposed it is likely to see a high degree of cross subsidisation of new customer’s costs by existing customers, which in our view is not efficient.

In summary TLC recommends that:

- A principles-based rather than a regulated prescriptive approach to connection pricing should be adopted.
- The approach accommodates the differences within networks and across EDBs and therefore minimises the risk of cross-subsidisation between new and existing customers.
- A range of options to manage commercial risk for large connections are available. These could include capital contributions, shorter recovery of capital periods and diminishing bonds.
- The obligation to connect be removed from the proposed code amendments.

We have included more detail on our areas of concern below.

Standardisation of Connection Process

TLC agrees that standardising the connection process would be beneficial to customers and note EDBs are working to align their processes where possible. We see an effective and efficient connection process as key to electrification that enables decarbonisation and economic growth for Aotearoa.

Large Connections, Cross Subsidisation and Equitability

TLC is concerned with the proposed changes as they will create an inability for EDBs to negotiate with customers who request high value connections and limit our ability to manage both commercial and technical risks. These risks include:

- Stranded assets should a customer exit the network
- Investment in renewal or system growth too early

Requiring fixed expected revenue lives of thirty years for residential connections and fifteen years for other connections does not adequately account for the variability of risks associated with different customers. This limits commercial negotiation and could result in our existing customers absorbing costs associated with new connections with no additional benefit, therefore creating an equitability issue.

The primary mechanisms an EDB has for managing the risks associated with a new connection are:

- The duration over which the revenue is recovered
- Security that may be put in place to recover investment should the customer exit early
- Capital contributions made by the customer

Where other EDBs have implemented schemes that adopt the NPV neutral component of the Authority's proposal, they have employed various approaches to address future revenue risks, including a reduction in assumed revenue life in the connection pricing reconciliation or the use of diminishing bonds.

These approaches ensure that the future revenue risk of new connection parties is appropriately allocated to the connecting party and not borne by existing customers.

There is a high degree of commercial and technical complexity associated with large connections to a distribution network. The Authority’s proposal fails to account for the diverse and intricate nature of connections Low volume urban residential connections can be relatively straightforward for TLC, often resulting in consistent pricing outcomes across our network. However, commercial, industrial, subdivisions and rural connections are unique, and demand tailored approaches, including delivery timelines, that lead to pricing that reflects this complexity.

Geographic profiles, network configurations, and other factors mean a ‘one size fits all’ connection pricing model is not appropriate, efficient or equitable. Any regulation of connection pricing must consider this variability, allowing for adequate flexibility and commercial negotiation preventing unintended negative consequences on the whole community.

In our view, the Authority's proposed approach of engineering a generic price solution to a what are often complex, and bespoke connections will drive a high likelihood of cross subsidisation of new customers by existing customers, where exiting customers get no additional benefit. This is at odds with the 2019 distribution pricing principle that includes ‘being subsidy free (equal to or greater than avoidable costs, and less than or equal to standalone costs).

TLC recommends that the EA adopt a principles-based approach rather than the proposed prescriptive regulatory approach for large connections. This would allow a customer and an EDB to negotiate commercial terms for larger connections that appropriately manages risk between the parties and removing potential impacts on existing customers.

Obligation to Connect

While it is uncommon for any EDB to refuse connecting a customer, this would likely occur when the connection was wholly uneconomic. Enforcing a requirement to connect (as proposed) with no mechanism to provide suitable security would again see EDBs and therefore other connected customers bearing the cost should the customer exit the network.

TLC has an example of a large potential connection not coming to fruition due to financing constraints. Under the proposed model this could have resulted in TLC financing the required new substation for the additional load and this additional capacity being stranded after a year. The remaining customer base would have picked up the increase costs but received no increase in benefit. TLC is happy to share details on this confidentially with the Authority.

TLC recommends that the obligation to connect be excluded from the Network Connections project Code change, or it should be explicitly stated in the Code that connection pricing is at the discretion of EDBs. Should the obligation to connect remain as proposed, this must be supported by the ability to obtain a suitable payment security (such as a diminishing bond) to manage this risk.

One Size Fits All Approach

Geographic profiles, network configurations, and other factors imply that a ‘one size fits all’ connection pricing model is neither appropriate nor efficient. Any regulation of connection pricing must consider this variability, allowing for adequate flexibility and commercial negotiation preventing unintended negative consequences on the whole customer base. Aotearoa is experiencing rapid change and the current status quo could be significantly different tomorrow. A flexible solution is required in an ever-changing world.

In addition, customers' requirements on the network are different, emphasising the challenge of a 'one size fits all' approach. As noted above, different types of connections (e.g. low volume urban connections, industrial, commercial, subdivisions) all have different requirements and risk profiles.

We believe that the Authority's generic approach will result in inefficient outcomes, burdening our residential customers with potential costs associated with commercial and industrial users—costs they cannot bear.

TLC's view is that this could be managed with a more principles based approach to regulation and the flexibility to include a range of options for managing stranded asset risk and cross-subsidisation from existing customers to new as noted above.

Conclusion

In conclusion, TLC is supportive of standardising the connection process where possible.

TLC has serious concerns over standardising of connection pricing approach and the impact this could have on the whole community which includes:

- Large connections and potential cross subsidisation and equitability;
- Obligation to connect and
- One Size Fits All Approach.

TLC recommends that

- A principles-based rather than a regulatory prescriptive approach to connection pricing be adopted
- The approach accommodates the differences within networks and across EDBs and therefore minimises the risk of cross-subsidisation between new and existing customers.
- A range of options to manage commercial risk for large connections are available. These could include capital contributions, shorter recovery of capital periods and diminishing bonds.
- The obligation to connect be removed from the proposed code amendments

TLC is supportive of and is a party to submissions made by the Northern Energy Group and Electricity Networks Aotearoa.

For further information, please contact Craig Donaldson on [redacted]

Yours sincerely

[redacted]

Chief Executive