TRANSPOWER

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Electricity Authority
By email: connection.feedback@ea.govt.nz

20 December 2024

Consultation on Distribution connection pricing proposed Code amendment[1]

We welcome the opportunity to submit on the Electricity Authority's (EA) consultation in respect of the proposal *Distribution Connection Pricing,* published in October 2024.

Transpower have at times received inefficient requests to connect directly to the grid instead of to a distribution network, where the connection pricing was placing too much cost onto the applicant or developer who wanted to connect to the network. We broadly support connection pricing that balances developer and existing user benefits. However, we do not support introducing contribution caps arbitrarily as it will create other perverse incentives. Distributors face difference cost pressures depending on the areas in which they operate. Such caps could result in prospective new connections being discouraged to connect in certain areas or to specific distributors.

It does not appear that the Authority is applying its pricing principles consistently. In the Distribution Pricing (Practice Norte Second Edition, 2021) about cost reflective pricing it states:

"14. Setting prices to recover the economic cost of delivering electricity to a group of customers is the traditional definition of 'cost reflective'. That is, cost allocations should reflect the underlying drivers (causes) of cost and should recover the cost of sunk or already invested infrastructure, can include a price signal, and should be free of cross-subsidies. The price signalling element can also reflect the cost of providing new network capacity to customers, and, within the constraints set by the distributor's maximum allowable revenue, may at times be an even stronger signal (see paragraph 33 below). 15. The 2019 Distribution Pricing Practice Note's section 3.2 contains for more detailed guidance on considerations for allocating costs according to known cost drivers (The 2019 note is at Appendix B of this 2021 2nd Edition)"

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

The Authority should also consider the impacts of the proposal in conjunction with price-quality regulations for the next 5-year period as well as the cost of compliance for the obligations which are being proposed. The industry is also currently resource constrained and this can have the unintended consequence of slowing down other work. This is likely to impact smaller distributors even more and which could mean it will take them longer to implement the Code amendments.

Our responses to the Authority's consultation are detailed in Appendix A.

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Appendix A- Response to Questions

Submission form

Submitter	**Transpower**

Questions	**Grid Owner Feedback**
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?	No comment.
Q2. Do you agree with the problem statement for connection pricing?[2]	Yes, in general it would encourage connection to the networks without unduly placing additional upfront cost to consumers.
Q3. Do you have any comments on the Authority's proposed pathway to full reform?	No.
Q4. Do you consider the proposed connection enhancement cost requirements would improve connection pricing efficiency and deliver a net benefit?	Not necessarily, implementing this could prove challenging across the various distributors.
Q5. Are there variations to the proposed connection enhancement cost requirements you consider would materially improve the proposed Code amendment?	No.
Q6. Do you consider the proposed network capacity costing requirements would improve connection pricing efficiency and deliver a net benefit?	Unsure whether there would be a net benefit as various lines companies may have differing costs associated to connecting a customer.
Q7. Are there variations to the proposed network capacity costing requirements you consider would materially improve the proposed Code amendment?	No.
Q8. Do you consider the pioneer scheme pricing methodology would	Yes, although non-exempt EDBs are capped to a maximum allowable revenue under the price-

[2] Distribution connection pricing proposed Code amendment, point 5

improve connection pricing efficiency and deliver a net benefit?	quality regulation. To recover the maximin allowable revenue, and achieve net benefit for all customers, they will need a mechanism to recover the balance of the costs in the interim. Once, additional connections to a specific asset are connected, then those costs can be allocated to those additional connections to the new asset, to avoid first mover disadvantage.
Q9. Are there variations to the proposed pioneer scheme pricing methodology you consider would materially improve the proposed Code amendment?	The EA proposes that distributors have a scheme policy in place by 1 April 2026. This may not be achievable given that prices will already be set for the first year of the price path by the time a decision is made to implement it in the second year. Furthermore, each non-exempt distributors' allowances set by the Commission, may be affected by the connection prices set during the next 5-year period.
Q10. Do you consider the cost reconciliation methodology would improve connection pricing efficiency and deliver a net benefit?	No comment.
Q11. Are there variations to the proposed cost reconciliation methodology you consider would materially improve the proposed Code amendment?	No comment.
Q12. Do you consider the reliance limits would improve connection pricing efficiency and deliver a net benefit?	Unsure, ultimately the mix would recover the charges immediately or over the period of the connection.
Q13. Are there any variations to the proposed reliance limits you consider would materially improve the proposed Code amendment?	Table 7.2 includes several Price-Quality exempt distributors. Imposing reliance limits on them could pose financial challenges which they may raise in their submissions.
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?	Clause 7.112 to 7.115 refers to seeking exemptions under section 11 of the Act. If distributors are subject to constrained timeframes, then the Authority may find several exemption applications will be received from distributors who cannot comply in the prescribed timeframes.
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	No comment.

disputes about the application of pricing methodologies to connection charges and improve connection pricing efficiency and deliver a net benefit?	
Q16. Are there variations to the proposed dispute resolution arrangements you consider would materially improve the proposed Code amendment?	No comment.
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?	Careful consideration needs to be given to the financeability issue raised by distributors in Clause 7.99, when making the final decision. There is a potential that the Authority will receive several exemption applications which will create additional cost and administrative burden for distributors.
Q19. Do you think any element of the fast-track package should be omitted, or should begin later than the rest of the package?	No comment.
Q20. Are there other parameters you think the Authority should consider for the proposed connection pricing methodologies? If so, which ones and why?	None.
Q21. Do you agree pricing methodologies should apply to LCC contracts? If not, please explain your rationale.	Clause 7.125 (e) discusses the alternative options, and excludes LCCs from the application of pricing methodologies. The requirements of LCCs under the Commerce Commission already requires that distributors and connecting customers agree the price is reasonable. *IM Definition of large connection contract "(c) in respect of which the other person has agreed in writing that the terms and conditions of the contract, and of any variation of the contract, (including terms and conditions relating to charges for the supply of electricity distribution services) are reasonable".*
Q22. Do you agree the proposed requirements, other than reliance limits, can be applied satisfactorily to	No comment.

connections with vested assets? If not, please explain your rationale.	
Q23. Do you have any comments on the impact of reliance limits on incentives to increase prevalence of asset vesting?	No.
Q24. Do you agree the proposed methodologies are compatible with contestable connection works? If not, please explain your rationale.	No comment.
Q25. Do you agree that fast-track methodologies should not apply to embedded networks? If not, please explain your rationale.	We have no view on this.
Q26. Do you have any comments on the Authority's anticipated solution for longer-term reform?	No comment.
Q27. Are there other alternative means of achieving the objective you think the Authority should consider?	None at this stage