20 December 2024

Submissions
Electricity Authority
By e-mail: connection.feedback@ea.govt.nz

Waipā Networks Submission: Distribution Connection Pricing Consultation

Waipā Networks (Waipā) welcomes the opportunity to make a submission to the Authority on its consultation paper on "Distribution connection pricing proposed Code amendment". We also generally support and agree with the submission by the Electricity Networks Association (ENA).

Waipā is a consumer trust-owned Distributor supplying more than 29,000 connections in Cambridge, Te Awamutu and surrounding areas. Waipā is one of the oldest networks in New Zealand and has traditionally been an inexpensive network design and a low cost network. It has an 11kV backbone with two distinct networks being Cambridge and Te Awamutu.

The network has experienced significant growth in both residential subdivisions and large industrial customers in recent years and Waipā has had to invest in capacity ahead of this growth. As a result, we have commissioned a new GXP and substation in the Cambridge area (Hautapu GXP and Forrest Road Substation (FRSS)) which will increase capacity in that network materially.

One of Waipā's pricing principles is that "*Each customer pricing group should at least cover the costs that it directly causes.*"

This aligns with the Authority's Pricing Principle "*(a) Prices are to signal the economic costs of service provision, including by: (i) being subsidy free (equal to or greater than avoidable costs, and less than or equal to standalone costs);*"

When examining the detail of what the Authority is proposing we are concerned that the proposed amendments will lead to inequitable outcomes for our customers. This is considering the broader impact for Waipā customers, particularly through the shift of financial risk from new connections to existing customers.

Our responses are summarised in Appendix A. Of particular concern for Waipā is the reliance methodology proposed in the consultation as it has the impact of curtailing our capital contributions on new connections and spreading the cost and risk of recovery to existing customers.

Reliance Limit Methodology

Waipā Networks has significant concerns about the proposed reliance limits methodology. The reliance limit methodology does not support high-growth networks or changes in network design. The restrictions on capital contributions are expected to result in higher lines charges for existing customers, at least in the short term. We are also concerned that the reliance limits are based on historical industry averages. For a distributor like Waipā who is forecasting a significant lift in growth capex as per our published Asset Management Plan (AMP), basing such a limit on historical averages fails to factor this in.

Waipā has historically been an inexpensive network with a relatively simple 11kV backbone. In recent years there has been significant growth from subdivisions and large industrial customers, and this is forecast to continue into the future. Waipā has commissioned a new GXP and substation in Cambridge (Hautapu) to invest ahead of this growth which has lifted the annual system growth capex spend considerably.

We are also modelling the capacity requirements for the Te Awamutu area and considering what architecture is needed to support growth on this network. This has yet to be included in the Asset Management Plan (AMP).

The consultation document in Figure 10.3 illustrates, based on Waipā's 2024 AMP we would exceed the proposed 47% cap from 2027 onwards. Such a cap would see existing customers covering the shortfall. This is inconsistent with the principle of being subsidy free. Customer connection growth follows the system growth spend – i.e. as capacity is built then more customers can connect. It would therefore make sense to base the threshold on forecast spend rather than historical spend.

Our other concern with the reliance limit concept is that the Authority includes system growth spend in its calculations. Capital contributions for system growth are very low compared to customer connections. Where a large system growth project has no associated capital contributions this significantly reduces the reliance percentage for that period. Although this can work in a distributors' favour in terms of keeping below the proposed limit, it also means that the historic figures the Authority has used to propose limits are not a true reflection of the proportion of customer-funded new connections growth. We believe it aligns with the Authority's pricing principles to propose an individual reliance threshold for Waipā to accommodate the forecast growth.

Ultimately, we would recommend that the reliance limits are removed from the proposed changes, however if they were to proceed, we would recommend that limits were based on forecast. We would also request Waipā Networks' assessment be revisited and individual threshold be calculated to account for future growth forecast.

Any questions or queries regarding the submission can be directed to myself.

Yours sincerely

[redacted]

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Chief Financial Officer
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Appendix A Submission

Submitter	Waipā Networks Limited

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?	Waipā believes more context should be provided around the impacts of connection pricing on existing customers. For example, what are the implications for existing customers should a distributor no longer be able to charge 100% capital contribution for new connections? Interposed billing is the norm and, unlike the much less common conveyance-only arrangement, does not lend itself to targeted ongoing cost recovery for new connection in the absence of 100% capital contributions. It does not consider the subsidy free principle. Capital contributions are a key part of funding system growth which if not funded through capital contributions and connection fees would socialise the cost across all existing customers. The assumption that current settings have led to higher connection charges lacks evidence and needs further research - we would expect to see evidence from a range of residential, rural and commercial customers throughout different locations in New Zealand . The proposal assumes that variation in capital contribution approaches is not efficient but does not provide evidence of that.
Q2. Do you agree with the problem statement for connection pricing?	No. Waipā disagrees with the problem statement due to problematic assumptions and a lack of evidence. In particular, we disagree with the assumption that "Current settings have led to some connection price efficiencies, including an overall trend toward higher connection charges". Given the rising cost of materials, labour and compliance, if connection charges

	were *not* increasing surely that would likely be evidence of increasing inefficiency? The Authority needs to better research cause and effect to adequately define the problem. Waipā also disagrees with the statement that there is no regulatory incentive for the distributor to minimise the cost of the work. As a consumer trust owned business we work to ensure that our price and service levels are reasonable within expectations of our Trust and beneficiaries. If this was not the case, the Trust have the ability to provide feedback and if necessary, make changes to ensure that is the case. The upward trend in capital contributions is not necessarily a reflection of increase in connection prices but may be aligned to the trend of growth within the relevant network. Customer connections follow system growth capex which creates the capacity for those connections, so by default the spend is peaky and will not conform to an average. The assumption that it is price related is not evidenced. Waipā has not seen any evidence that capital contributions have led to deferral of connections on the network as we have experienced significant growth. Where there are significant costs, the terms of these have been negotiated individually to enable the connection and recovery of the costs. The majority of capital contributions relate to customer connections and not system growth works so the assumption that distributors are using capital contributions to fund system growth is not valid. This is detailed in the AMP and Information Disclosures for each distributor.
Q3. Do you have any comments on the Authority's proposed pathway to full reform?	Waipā believes the Authority should carry out more research and analysis around the broader implications of both the proposed fast-track measures and full reform to better articulate the problem it is trying to solve and be clear as to the unintended consequences that may arise from fast track reform. Waipā is also concerned about the fast track process - we believe that thorough consultation and a structured, evidence based approach should not be

	compromised in the interest of speed as this will lead to poor regulatory reform and unintended consequences for customers.
Q4. Do you consider the proposed connection enhancement cost requirements would improve connection pricing efficiency and deliver a net benefit?	No. Customers requiring network enhancements will no longer be paying for all those costs directly and this cost will transfer to existing customers. For example we have calculated an estimate of a 100 property residential subdivision with a 5 year uptake. Currently that would be an upfront contribution of $615k whereas under the new methodology the charge would be $46k. The balance of charges would be recovered through lines charges across all residential customers. The published rates are required to be set four years in advance and cannot be changed for the current and future year which may create a lag in recovery where the costs for the connection are more than the published rate due to costs of supply, inflation etc. These charges are applied to shared network elements and are charged regardless of whether the connection directly prompts or alters the timing of a capacity project. Focusing on least cost options along with an obligation to connect (as currently proposed in the Network Connections Project – Stage One document) potentially leads to network management issues in the future.
Q5. Are there variations to the proposed connection enhancement cost requirements you consider would materially improve the proposed Code amendment?	No. Waipā does not support the regulation of connection enhancement costs. These should be based on actual costs to enhance the network and not on "averages" which will not reflect the actual costs incurred as not all new connections are the same e.g. rural vs urban, large vs small subdivisions.
Q6. Do you consider the proposed network capacity costing requirements would	Waipā does not support the proposed approach. The proposal assumes that the connection is made immediately and continues to generate revenue for the entire period. For a commercial/industrial customer it assumes that there is no change to the customer or the

improve connection pricing efficiency and deliver a net benefit?	load profile over the period. For residential connections, a subdivision may not connect residential customers immediately and so no lines revenue will be received on those connections for a period.
Q7. Are there variations to the proposed network capacity costing requirements you consider would materially improve the proposed Code amendment?	Consideration needs to be given for diversity in load in the application of rates as this is not currently provided for in the proposal. There needs to be an allowance to carve out major industrial connections from the requirements as these will generate a different level of cost. There is also uncertainty as to how the exclusion of major industrial connections would impact the reliance limits.
Q8. Do you consider the pioneer scheme pricing methodology would improve connection pricing efficiency and deliver a net benefit?	Waipā already has a pioneer scheme in place but this is over a shorter time frame (five years). It was determined based on the principle of fairness, while considering practicalities and costs around administration. We therefore recommend that the period Is reduced from the proposed ten year time frame, to five years. We are not aware of any research or analysis (for example, by way of customer survey or interviews) indicating that a pioneer scheme influences a party to connect or otherwise. We note the Authority has not included any analysis to this effect in its paper. Although the proposed scheme differs from our current scheme in terms of timeframes and threshold, we believe pioneer schemes provide a fairer outcome compared to having no scheme at all as they remove the first mover disadvantage (where the first to connect pays for the enhancement and subsequent connectors get a connection for free).
Q9. Are there variations to the proposed pioneer scheme pricing methodology you consider would materially	Waipā believes further consideration should be given to the threshold limits that are included in the scheme. Administration of the schemes could be overly burdensome with payments over $1,000 required for a subsequent connection under a scheme. Also a review of the timeframe for which these schemes remain in place is recommended. A 10 year period to track and maintain the data would create additional administrative burden and cost.

improve the proposed Code amendment?	Guidance is also needed for cases without a current pioneer scheme but where a later connection would require payment. Should there be the ability to create a retrospective scheme? Additional guidance for administering a pioneer scheme when the original property changes ownership should be included.
Q10. Do you consider the cost reconciliation methodology would improve connection pricing efficiency and deliver a net benefit?	No. Waipā believe customers have full visibility already through the mandated publication of capital contribution policies. The new methodology is complex to calculate and to implement and has the effect of spreading revenue to be recovered via lines charges over a longer period and spreads the costs over all customers. It has the impact of reducing the contribution paid up front and transferring the risk of recovery from the connecting customer to existing customers. It also assumes that the connection is made immediately and continues to generate revenue for the entire period (which is not necessarily the case for a subdivision for example). For residential connections, a subdivision may not connect residential customers immediately and so no lines revenue will be received on those connections for a period. For commercial/industrial customers, revenue is not guaranteed as it assumes that there is no change to the customer or the load profile over the period. Commercial customers may not stay in business for the entire period, and this will then mean under recovery of costs. The approach taken for distributors in this proposal is also inconsistent with those applied by the Commerce Commission to Transpower's capital contributions where 100% up front capital contribution is required if there is connection to the grid.
Q11. Are there variations to the proposed cost reconciliation methodology you consider would materially	Waipā does not believe the Code should be amended to include a cost reconciliation methodology. The staged approach taken will lead to confusion for customers as some parameters will not be defined until the full reform stage.

improve the proposed Code amendment?	
Q12. Do you consider the reliance limits would improve connection pricing efficiency and deliver a net benefit?	No. As currently drafted they are based on historic averages which have no relationship to forecast customer connections and system growth forecasts. The Authority's analysis also ignores potential outlier years, where for example a large system growth project with no associated capital contributions affects averages. It also doesn't consider that networks with high growth will have system growth capex (with little capital contribution) prior to customers connecting to use the additional capacity so there is a lag. For example in FY25 Waipā has high system growth capex forecast with customer connection capex consistent with other years. As there is no capital contribution on the system growth capex the reliance percentage is 18%. While technically below the limit, if it were closer, it would have the impact of curtailing capital contributions from customer works for that year. This would create volatility in connection charges. The paper states that the purpose of reliance limits is to prevent distributors increasing capital contribution costs prior to full regulation. Aside from there being no evidence this would occur; forecasts are published in Asset Management Plans and any variation in actuals would need to be satisfactorily explained in the associated commentary. We believe the proposed reliance levels should be removed.
Q13. Are there any variations to the proposed reliance limits you consider would materially improve the proposed Code amendment?	Although we believe they should be removed, if introduced, reliance limits should be based on AMP forecasts rather than historic average. There also needs to be provision to apply for an individual threshold limit where the forecasts are indicating significant increase in customer connections and system growth.
Q14. Do you consider the exemption application process	Waipā may need to use the exemption process based on the final outcome of the proposed Code amendments and timeframes. This would include not only extensions of

(together with guidelines) can be used to achieve the right balance between improving connection pricing efficiency and managing transitional impacts on non-exempt distributors?	implementation timeframes but also the option to apply for an individual reliance threshold limit.
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?	No. Waipā believes that Distributor's existing Internal Complaints Processes and the Utilities Disputes scheme already adequately cater for disputes resolution. Providing an additional avenue via the Code is inefficient and given the different processes and timeframes likely just to add to administration and compliance costs with no net benefit. It also has the potential to create regulation by stealth with precedents set in resolving those disputes.
Q16. Are there variations to the proposed dispute resolution arrangements you consider would materially improve the proposed Code amendment?	We do not believe the Code should be amended to include disputes resolution process.

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?	As stated in Q12, Waipā does not support the concept of reliance limits and so would not support a sinking lid approach either.
Q19. Do you think any element of the fast-track package should be omitted, or should begin later than the rest of the package?	Waipa does not support the principle of fast-track regulation. We believe the Authority needs to carry out a more considered assessment of the impacts of the proposed changes, with regards to existing customers and the financial burden they will likely incur through transferring cost away from new connectors. We believe the reliance limit methodology should be omitted.
Q20. Are there other parameters you think the Authority should consider for the proposed connection pricing methodologies? If so, which ones and why?	No comment.
Q21. Do you agree pricing methodologies should apply to	No comment.

LCC contracts? If not, please explain your rationale.	
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.	No comment
Q23. Do you have any comments on the impact of reliance limits on incentives to increase prevalence of asset vesting?	No comment
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.	Waipā does not support the fast-track reform of methodologies. We note the paper states the Authority expects it "would consider connection pricing for embedded networks as part of any longer-term reform". Longer-term reform, as opposed to fast-tracked, should also be the case for distributors.

Q26. Do you have any comments on the Authority's anticipated solution for longer-term reform?	A robust problem definition, thorough customer and stakeholder consultation, and appropriate timeframe for review and feedback is required for effective long-term reform. The timelines proposed by the EA does not support effective and well-considered reform.
Q27. Are there other alternative means of achieving the objective you think the Authority should consider?	No comment.