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Electricity Authority
PO Box 10041
Wellington 6143

Via email: distribution.pricing@ea.govt.nz

Tēnā koutou

Consultation Paper – Distribution connection pricing proposed Code amendment

WEL Networks (WEL) appreciates the opportunity to provide feedback on the Electricity Authority's (the Authority) Consultation Paper – Distribution connection pricing proposed Code amendment.

WEL is New Zealand's sixth largest electricity distribution business (EDB) and is 100% owned by our community through our sole shareholder WEL Energy Trust. Our guiding purpose is to enable our communities to thrive, and we work to ensure that our customers have access to reliable, affordable, and environmentally sustainable energy.

WEL is supportive of the intent of the Consultation Paper. WEL believes that EDB's should be enabling growth and electrification by ensuring their connection pricing delivers fair and efficient customer outcomes. WEL currently uses a Net Present Value (NPV) Model to assess non-standard connections which considers the cost to connect, upstream allocators, and estimated costs and revenues over the life of the assets to derive a Capital Contribution that makes the connection an economic investment for WEL. The intent of our current capital contributions methodology is largely aligned with what the Authority are proposing. WEL, where appropriate, has responded to the Authority's questions as appended.

Should you require clarification on any part of this submission, please do not hesitate to contact me.

Ngā mihi nui

Michelle Allfrey
GM COMMERCIAL ENGAGEMENT

Submitter	WEL Networks

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?	WEL supports the intent of the consultation to ensure EDB's enable growth and electrification in a fair and efficient manner. WEL believes that new connections should have a standard methodology, that remains consistent over time, that considers the fair direct costs to connect that customer along with a longer-term view as to the additional costs to serve the customer offset by the anticipated revenues. This methodology will see fairness for new customers and reduce cross-subsidisation.
Q2. Do you agree with the problem statement for connection pricing?	WEL believes that connection pricing that fails to consider the cost to connect, longer term costs and revenues is inefficient for the customer connecting and potentially for existing customers if the new connection is uneconomic.
Q3. Do you have any comments on the Authority's proposed pathway to full reform?	WEL would like the Authority to consider and quantify the benefits gained from any fast-track decisions prior to full reform as the incremental benefits of full reform may not outweigh the costs.
Q4. Do you consider the proposed connection enhancement cost requirements would improve connection pricing efficiency and deliver a net benefit?	WEL supports the use of a minimum scheme to provide customer choice and efficiency of pricing. WEL supports the connecting customer paying for a fair allocation of the network costs. WEL supports the exclusion of "standard rate" from the minimum scheme to allow for efficiencies in processing the applications, and ensuring when time is spent assessing the minimum schemes, it is spent on larger applications.
Q5. Are there variations to the proposed connection enhancement cost requirements you consider would materially improve the proposed Code amendment?	WEL would like the Authority to be aware that whilst the connecting party accepted the minimum scheme (e.g. a developer) the next customer on that property may not and this would need to be considered as an upgraded connection which may not lead to an efficient process.
Q6. Do you consider the proposed network capacity costing requirements would improve connection pricing efficiency and deliver a net benefit?	WEL currently uses a similar network capacity costing methodology (albeit a different methodology of deriving the amounts) so do not consider this would add any additional benefits to our customers but does support the EA's proposal.
Q7. Are there variations to the proposed network capacity costing requirements you consider would materially improve the proposed Code amendment?	WEL would like the Authority to be aware that many applicants of larger connections (>110 KVA) grossly overestimate their actual capacity requirements and the ability for an EDB to apply a reasonable diversity factor would be appropriate. In many

	cases a diversity factor ranging from 50-60% is required, however this should impact the level of “banked capacity” under the Connection Process Consultation.
Q8. Do you consider the pioneer scheme pricing methodology would improve connection pricing efficiency and deliver a net benefit?	WEL supports the intent of avoiding first mover disadvantage. We have concerns as to the delivery of net benefits to consumers after considering the additional administration involved. WEL does however note that the Authority has tried to take this into account by applying minimum thresholds. WEL notes that we would seek to invest in systems to put a pioneer scheme in place to try to minimise the ongoing administration of a scheme.
Q9. Are there variations to the proposed pioneer scheme pricing methodology you consider would materially improve the proposed Code amendment?	WEL would like clarification on how ownership changes would be treated under this pioneer scheme.
Q10. Do you consider the cost reconciliation methodology would improve connection pricing efficiency and deliver a net benefit?	WEL believes that a good cost reconciliation methodology that is consistently used will improve connection pricing efficiency and deliver benefits to customers. However, WEL notes that non-residential customers rarely request a capacity that is near what they end up needing and thought needs to be given to what is considered “banked capacity” under the Connection process consultation.
Q11. Are there variations to the proposed cost reconciliation methodology you consider would materially improve the proposed Code amendment?	WEL believes that we should be able to treat Transmission costs as “banked capacity” like network capacity costing and pass it through to all connecting customers as they share the benefit of its utilisation not just to ‘large customers” or “notional customers”. By not allowing a cost pass-through consideration under full reform you are effectively creating a (on mass) first mover disadvantage.
Q12. Do you consider the reliance limits would improve connection pricing efficiency and deliver a net benefit?	WEL believes the use of an NPV formula to determine the connection charge is what will ultimately improve the pricing efficiency and not necessarily through having a specific reliance limit. WEL sees the reliance limits to be an *outcome* of the proposed NPV methodology, rather than an input to be determined.
Q13. Are there any variations to the proposed reliance limits you consider would materially improve the proposed Code amendment?	WEL asks the authority to consider a reliance limit that includes only spend relating to customer connections and excludes growth. Growth spend can be very lumpy in nature (such as the spend to add a new substation) and will distort the total spend and therefore the % each year. Growth spend can be related to incremental load increases (such as conversion from gas within the customers current fuse size limits) and not necessarily fully related to new connection or specific load increase requests. Failing this, we ask the authority to consider looking at the

	reliance limit over a multi-year timeframe (such as a 5-year DPP period) as opposed to a per annum basis. WEL notes that the reliance limits based on the proposed connection pricing formula will vary between distributors as it takes in to account the level of incremental revenue received from the connecting party so the distributor specific pricing for connection vs the upfront cost will determine the efficient reliance levels over time.
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?	Whilst the exemption process could be used there is no guarantee they will be granted which may mean EDB's have to continue to progress on enacting any regulatory changes to ensure timeframes, including potentially significant Board consultation on the impact and risks of the changes, can be met.
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?	Under generation connections EDB's can only charge the incremental cost to connect however dispute resolution on a load connection under the proposed methodology includes allowances for the capital cost to connect, upstream capacity allocators, estimated incremental revenues leading to far more complex discussions. WEL's preference is that a dispute resolution process is deferred if the fast-track connection pricing methodology is enacted to allow participants time to understand the new pricing.
Q16. Are there variations to the proposed dispute resolution arrangements you consider would materially improve the proposed Code amendment?	WEL would prefer these are deferred as noted under Q15
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.	WEL's preference (which will be re-iterated in our connection process response) will be to retain our right to directly contract with customers of connections where we are either requiring a reasonable capital outlay or includes dedicated assets such as a Transformer etc. These current contractual terms allow us to ensure that should the customers claim of capacity requirements (even after applying a diversity factor) not come to fruition we can re-model the Capital Contribution to gather our required regulatory returns to ensure we minimise any cross-subsidisation.
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 WEL noted in Q12, we believe the reliance limit is an outcome of the proposed methodology and until each EDB completes the calculations on the proposed methodologies they will not know where their economically efficient reliance limit will sit.

Q19. Do you think any element of the fast-track package should be omitted, or should begin later than the rest of the package?	Nothing other than noted within these responses.
Q20. Are there other parameters you think the Authority should consider for the proposed connection pricing methodologies? If so, which ones and why?	WEL does not have any further parameters for the Authority to consider.
Q21. Do you agree pricing methodologies should apply to LCC contracts? If not, please explain your rationale.	WEL does not have an opinion on this and would defer to the Electricity Networks Aotearoa (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.	WEL does not have an opinion on this and would defer to the ENA submission.
Q23. Do you have any comments on the impact of reliance limits on incentives to increase prevalence of asset vesting?	WEL does not have an opinion on this and would defer to the ENA submission.
Q24. Do you agree the proposed methodologies are compatible with contestable connection works? If not, please explain your rationale.	WEL does not have an opinion on this and would defer to the ENA submission.
Q25. Do you agree that fast-track methodologies should not apply to embedded networks? If not, please explain your rationale.	WEL notes that if an embedded network reaches a certain size under the Commerce Act Part 4 54C they are deemed to be an Electricity Lines Service and therefore regulated as per the Act. As there is a regulated threshold it is appropriate that embedded networks are not included under the fast-track to ensure efficiency of process to the actual size of the network.
Q26. Do you have any comments on the Authority's anticipated solution for longer-term reform?	WEL's preference for longer term reform is to move towards principles-based regulation as opposed to rules-based regulation which stifles innovation and becomes out of date quickly in an ever-changing environment.
Q27. Are there other alternative means of achieving the objective you think the Authority should consider?	Nothing other than a preference towards a principles-based regulation on connection pricing and process rather than the rules based which is being proposed under fast track.