

20 December 2024

Tim Sparks
Director, Network Pricing
Electricity Authority
Via email: connection.feedback@ea.govt.nz

Tēnā koe Tim,


Powerco's submission on Authority's Distribution Connection Pricing Consultation

Powerco Limited (**Powerco**) welcomes the opportunity to respond to the Electricity Authority's (**Authority**) consultation on distribution connection pricing reform. The Authority has previously signalled its intention to regulate connection pricing where it is a barrier to timely and efficient electrification as Aotearoa New Zealand, transitions to a low carbon economy.

Powerco is one of Aotearoa's largest gas and electricity distributors, supplying around 360,000 electricity and 114,000 gas connections to urban and rural homes and businesses across the North Island. Our energy networks provide essential services and will be core to New Zealand achieving a net-zero economy in 2050.

We agree with the Authority that there are opportunities to improve network connections, as current processes are creating barriers to connecting to networks and slowing down our progress towards a timely and efficient transition to a low carbon economy. We support regulatory interventions that assist the energy transition and protects our customers. Our key messages include:

- While we understand why the Authority has considered **price and non-price issues** separately, these *must* be considered **together as a package** to avoid duplication of interventions and limit the potential for any perverse outcomes.
- **Fewer interventions which deliver the same outcomes should be the Authority's objective**, especially at the fast-track stage, where the potential for unintended consequences is high due to the pace in which they are being rolled out. It is therefore important to carefully balance regulatory goals and tools with the practical realities of utility operations.
- When regulatory interventions are not **proportionate**, they can drive unnecessary complexity, administrative and compliance costs, into processes which ultimately come at a cost to consumers, the very people regulation is trying to protect. **Proposed interventions require a clear quantified cost-benefit analysis to ensure they are targeted to areas where there are clear net benefits to be achieved.**

We are committed to supporting the successful implementation of these regulations and working collaboratively to ensure they deliver value for customers. If you have any questions on this submission, please contact Emma Wilson 

Yours sincerely



Emma Wilson
Head of Regulation and Markets
POWERCO



Powerco submission on Distribution Connection Pricing consultation

Electricity Authority

20 December 2024

Contents

1	Executive summary	4
2	Quantifying benefits of connection pricing for different sized connections will ensure regulation is proportionate	8
3	Transaction costs are material for smaller connections therefore regulation needs to be proportionate	10
4	Setting connection charges at the lower end of the efficient range is better than setting them too high	13
5	Electrification growth incentives would be stronger with a specific regulatory mechanism for funding connections	15
	Appendix A. response to consultation questions	18

1 Executive summary

The Authority has evidenced genuine issues with EDB connection pricing and Powerco supports the intent

1. Powerco acknowledges the Electricity Authority (**Authority**)'s proposed Code amendments on distribution connection pricing. We recognise the amount of work that has gone into producing this consultation and to align its proposals with the Commerce Commission (**Commission**)'s regime for price-quality regulation of electricity distribution businesses (**EDBs**). We welcome the reform as the transition to a low-carbon economy is of vital importance to us as a nation, because timely electrification is a key lever to making this transition cheaper for customers in the long-run as we grow to zero.¹
2. The Authority has previously signalled its intention to regulate connection pricing where it is a barrier to timely and efficient electrification and has identified issues with distribution connection pricing which are barriers to this objective. Powerco supports regulation where it protects customers and supports a timely and efficient energy transition, so long as it is workable and doesn't result in any unintended consequences that may come at a cost to customers over the longer-term. Our key messages are set out in the following box.

Powerco has specific recommendations about how the Authority can meet its intent with tweaks to improve the workability of its connection pricing reforms, these include:

- **Quantifying and testing cost and benefits** of pricing (and non-price barrier) reforms by connection size, to ensure regulatory interventions are targeted and deliver net benefits without adding complexity and administration burden to the regime, a cost which is ultimately borne by customers.
- Setting **connection charges at the lower end of the efficient range** is better than setting them too high in a **period of growth**. Customers will get the wider benefits of timely electrification as well as lower costs over time by sharing the costs of the network across more people
- Given the state of knowledge on the connection pricing problem is limited, we **support disclosing** the extent EDBs connection prices expect customers to contribute **more than incremental cost** of connecting and serving the customer (**common costs**). But **disagree with the proposed measured reliance** limit and analysis as it's a **poor proxy** for whether the efficiency and/or equity of connection prices have changed.
- Ensure all **regulation is proportionate** and targeted to areas where it's net beneficial for different sizes of connection. Due to high transaction costs for small customers, we recommend that the following reforms only apply to the very **largest** customers (over 1MVA):
 - **Pioneer scheme**
 - **Network capacity costing requirements**
 - **Reconciliation methodology**
 - **Flexible minimum scheme.**
- EDBs are disincentivised to spend money on connections so the Authority should direct the Commission to establish a **mechanism to specifically address the incentive to connect**. For example, a non-fungible use-it-or-lose-it mechanism similar to Transpower or a connection capex fund, similar to Chorus, to support connection uptake for non-exempt EDBs.

¹ www.powerco.co.nz/-/media/project/powerco/powerco-documents/industry-insights/grow-to-zero-white-paper---updated-version.pdf

Benefits of connection pricing reform are wider than efficient network investment

3. The problem definition underpinning the reform is wider than just efficient network investment, it's about delivering timely electrification at the lowest costs to customers. While the Authority's analysis discusses this in its paper, its cost/benefit analysis is purely qualitative.
4. Quantifying the national economic benefits of removing barriers to timely electrification by connection type will enable the Authority to identify which regulatory option is an efficient and proportionate response to the barriers it has identified. This is critical to ensuring there are no unintended consequences as a result of these reforms which will ultimately come at a cost to customers in terms of both slower processes (due to heavy administration burden) and also higher costs driven into the service they receive. It's best to limit reforms to large customers only if this quantification cannot be undertaken.
5. The Authority's Code Amendment Principles require that the costs and benefits of change are summarised. Third party reports² have quantified the benefits of electrification to consumers and are resources that the Authority can build on to quantify the benefits of connection pricing reform. This, coupled with appropriate assessment of the costs would ensure measures are targeted to those which truly benefit customers.

Setting connection charges at the lower end of the efficient range, is better than setting them too high

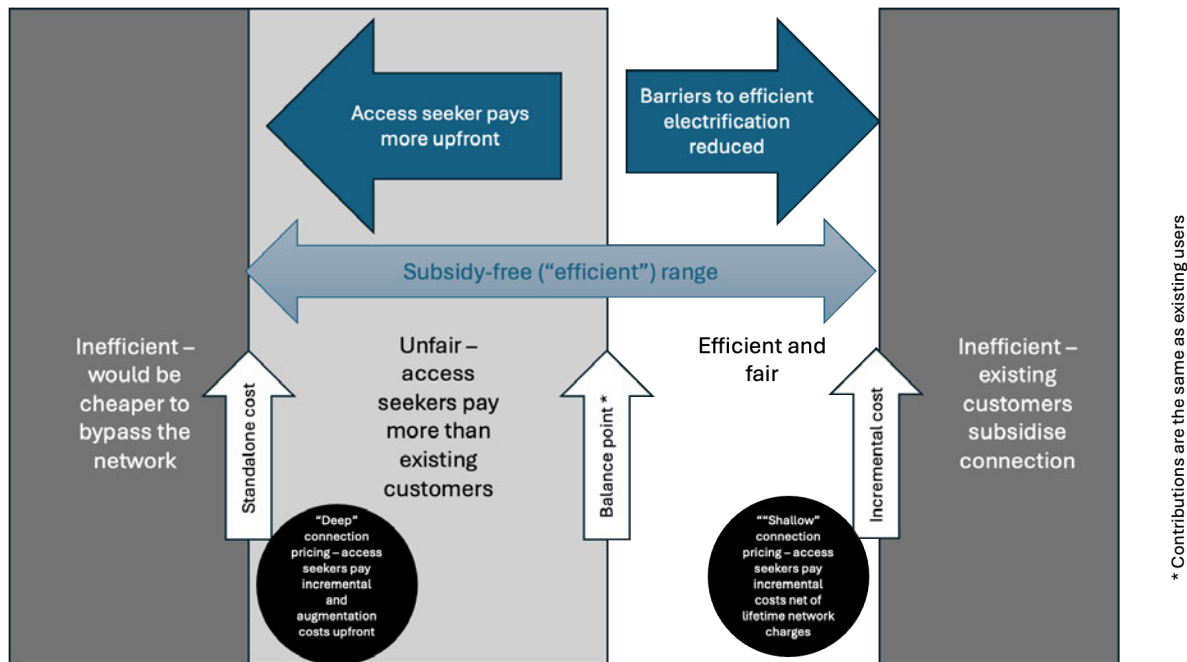
6. We support the Authority's intent to ensure connection prices are efficient and equitable. Because EDBs are monopoly providers in their areas, it's important they maintain open access networks, this ensures all customers can connect and have the same access rights to available network capacity resulting in lower costs to customers over time as infrastructure costs are shared, leading to more affordable services.
7. We want customers to connect to the network, and the purpose of customer contributions is to ensure that the cost of connecting new customers doesn't *unfairly* affect existing customers. While the Authority wants connection pricing to be efficient, the efficient range of connection pricing is wide, which means the decision of what price to set for a new connection must be informed by the wider decarbonisation and electrification benefits which are external to network pricing.
8. As noted by both the Authority³ and CEPA⁴ the disbenefits of pricing outside the efficient range is asymmetric because setting customer contributions too high disincentivises efficient electrification and risks the public benefits that go with it, whereas even setting them at zero can be economically beneficial as it removes barriers to connection in a period of growth.
9. The broader economic benefits of timely electrification and the asymmetric benefits of low customer contribution, points to regulation that encourages EDBs to price connections at the shallow (lower) end of the efficient range, this is illustrated in the figure below.

²Aotearoa NZ study by Sapere: <https://www.ena.org.nz/resources/electrification-of-nzs-energy-needs/document/1231> and Rewiring Aotearoa: Electric Homes - Rewiring Aotearoa - March 2024.pdf

³ *Network connections project: stage one amendments - Consultation paper*, Electricity Authority, October 2024.

⁴ *Regulation of distribution connection charges in New Zealand*, CEPA, October 2024

Figure 1. Fairness within the efficient range



10. In addition to the above, we do not think the proposed reliance measure provides a reliable indicator of the efficiency and equity of connection prices across time and across EDBs. This is because various factors may cause the “neutral point” price to change, and because this metric ignores vested assets, distorting the analysis.

11. Given the lack of knowledge in relation to the connection pricing problem, a better short-term measure to prevent a worsening in connection prices would be too:⁵

- Require existing methods not to materially change, expect where necessary to – i.e. refer directly to the EDBs published methods for setting connection prices.
- Build an understanding of connection pricing and benchmark EDBs, by collecting the necessary information on connection rates to allow it to determine whether the observed levels of contribution to network (common) costs have a material effect on connection rates. As this provides a more accurate indicator of how the efficiency and equity are changing over time.

Regulatory intervention needs to be proportionate and target to areas where it’s net beneficial

12. The Authority doesn’t consistently distinguish between small and large customers in its consultation, and we are concerned that some of the interventions proposed are not proportionate to the harm they are trying to fix.

13. A number of the Authority’s proposals make sense for large customers, but for high volume, low capacity/load customers, such as residential, these proposals will drive significant complexity, administrative burden and cost into the transactions, which will ultimately come at a cost to the customer. As we suggest in our submission on the Authority’s non-price barriers consultation, the threshold for “large customers” should be 1 MVA.

⁵ This is discussed in more detail in our expert report, Incenta, *Electricity Authority’s consultation of price and non-price aspects of customer connection – report for Powerco and Unison*, December 2024, pg 14-15.

14. Transaction and search costs are proportionately much higher for smaller customers. Therefore, to reduce potential heavy administration costs associated with progressing high volume small connection applications, we propose:

- **That standard capacity rates for smaller connections are based on the average group of connections with similar costs** – The Authority’s analysis of standard capacity rates and efficient price ranges point to the benefit of simple and standard prices for smaller connections.
- **Applying reconciliation methodology to standard (averaged) connection prices**, as opposed to for each individual connection – would further limit the administrative burden of compliance. Powerco is currently exploring options to standardise connection charges for small, similar jobs for exactly this reason.
- **Agree flexible minimum scheme is only for larger access seekers** – hosting capacity is dynamic, and the terms should be for a fixed number of years that relates to forecast network augmentation needs.
- **Threshold for the pioneer scheme should apply to the customer contribution towards the connection, not the gross cost of the connection** – to ensure the cost and complexity of administering the scheme is proportionate to the problem it’s addressing.

There is risk EDBs are disincentivised to spend money on connections

15. The Authority’s assessment of price and non-price barriers to distribution connections and the benefit of removing them, supports regulation. In its discussion of reducing reliance levels, the Authority suggests that EDBs could apply for an exemption based on the adequacy of their revenue allowances with the Commission.
16. We don’t think there needs to be an exemption for this. As the Authority notes, the Commission reviewed financeability as part of its DPP4 reset and concluded that it is not an obstacle to investment. EDBs should have enough capital to accommodate the lower levels of customer contribution that the Authority proposes.
17. While the Commission’s analysis suggests that financeability is not a barrier to EDB investment, the DPP as a “low-cost regulatory mechanism” is deliberately designed to be fungible. EDBs enjoy the discretion to direct expenditure within their expenditure allowances without further scrutiny or approval. EDBs can prioritise other types of capex over connection work, forcing EDBs to make trade-offs with prioritising connections over other types of expenditure e.g. resilience. This moves against the wider national economic benefits that go with electrification, which depend on timely and efficient connections to the network.
18. We suggest that the Authority work with the Commission to establish a mechanism to specifically address connections to remove the disincentive on EDBs to spend money on connections. For example, a non-fungible use-it-or-lose-it mechanism like Transpower or a ring-fenced connection capex allowance, like Chorus, to support connection uptake for non-exempt EDBs during a period of growth.
19. This submission details our observations about the Authority’s proposed reforms and our answers to the consultation questions are set out in appendix A below.

2 Quantifying benefits of connection pricing for different sized connections will ensure regulation is proportionate

Summary of our positions:

- The problem definition is broader than the efficiency of network connection costs, it's also about equity and decarbonisation.
- Regulatory intervention needs to be tested against quantified cost and benefits to confirm they are proportionate to the harm they are trying to address. If this quantification cannot be undertaken, reforms should be limited to large customers to ensure the Authority aligns with its Consultation Charter.
- Because transaction and administration costs are material for smaller connections, average connection charges for groups of smaller connections with similar costs are more efficient in aggregate than individual connection costs due to the high transaction and administration costs.

20. We agree with the importance of timely electrification as part of Aotearoa New Zealand's transition to a low-carbon economy. However, neither the Authority nor CEPA's supporting analysis quantify the benefits of timely electrification. This is fundamental to ensuring the Authority's pricing Code amendments align with Principle 3 of the Authority's Consultation Charter. In the absence of quantified cost benefit analysis for regulations, there is a risk of adverse unintended consequences where the cost of implementing the regulations are not proportionate to their benefits.

21. In order to effectivity quantify the cost and benefits of intervention, we believe the Authority can use reports such as the Sapere and Rewiring studies cited below to quantify the economy-wide benefits of electrification that their work on distribution connections is targeting and segment that quantification across different connection sizes. Without this piece of analysis, the Authority cannot give confidence to the sector that the benefits outweigh the costs of regulation – if there is any doubt, reforms should be limited to the largest customers.

22. It's clear there are benefits to be achieved, as the annual carbon budget report presented at COP29 makes the stark case that the global carbon budget to limit warming to 1.5C will be used up in six years.⁶ This imperative is also reflected in the Authority's needs case which goes beyond efficiency of network connections:⁷

We want regulations that encourage more investment in important infrastructure – like new housing developments, manufacturers and solar farms – and help larger energy users switch from fossil fuels to an electric alternative.

23. This means that the problem definition is broader than the efficiency of network connection costs, it's also about equity and decarbonisation, while the Authority identifies economy-wide benefits...⁸

Electrification unlocks significant benefits to consumers and the wider economy. Rapid and widespread electrification of transport, process heat, space and water heating, and urban housing development will lead to a significant increase in electricity demand and support a low-emissions future.

⁶ [Global carbon budget will be used up in six years - Newsroom](#)

⁷ Electricity Authority, *Distribution connection pricing proposed Code amendment consultation paper*, 25 October 2024, at 4.7

⁸ Electricity Authority, *Distribution connection pricing proposed Code amendment consultation paper*, 25 October 2024, at 4.10

25. Third party reports, including recent New Zealand studies by Sapere⁹ and Rewiring Aotearoa,¹⁰ have quantified the benefits of electrification to residential customers and are resources that the Authority can build on to quantify the benefits of connection pricing reform.
26. Sapere’s 2022 study for the ENA Total Household Energy Costs NZ,¹¹ which also draws on and models household energy costs and concludes that *from 2026, all electric households can expect the total annual electricity cost, including capital costs, to be lower than the combined petrol, gas and electricity bills (including the relevant capital costs) they would pay otherwise.*
27. Sapere’s analysis also draws on work from Rewiring America and Australia. Rewiring Aotearoa localised this work in 2024 as *Electric Homes*¹² which concludes that:

the average Aotearoa New Zealand home could save over \$1000 a year electrifying, and over \$4,000 a year if they can do so with low interest finance.

28. Both reports point to the benefits of decarbonisation through electrification being the lower lifetime costs of electrical “machines” over those powered by carbon-emitting fuels. Rewiring America’s analysis generalises this approach to the entire US economy (including industrial and commercial machines).¹³

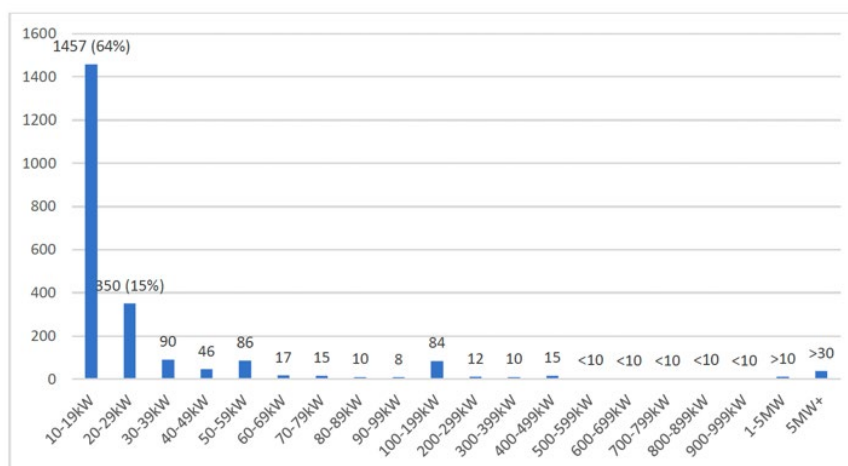
Regulation should be tested against quantified benefits for different sized connections

29. In its consultation of non-price barriers to efficient connection,¹⁴ the Authority limits its proposal to prescribe DG application processes to medium and large applications noting that

(l)ess complex applications could be processed more readily, with larger, more complex applications receiving the level of attention they require.

30. This should allow EDBs to be more efficient and reduce costs to consumers by reflecting that fact that ~80% DG applications are under 30kW (as illustrated by the figure below) and the costs of mandating a costly connection process for them would not outweigh its benefits.

Figure 2. The distribution of DG > 10kW applications by size (mid-2019 to mis-202)



⁹ <https://www.ena.org.nz/resources/electrification-of-nzs-energy-needs/document/1231>

¹⁰ [Electric Homes - Rewiring Aotearoa - March 2024.pdf](#)

¹¹ <https://www.ena.org.nz/resources/electrification-of-nzs-energy-needs/document/1231>

¹² [Electric Homes - Rewiring Aotearoa - March 2024.pdf](#)

¹³ [One billion machines | Rewiring America](#)

¹⁴ *Network connections project: stage one amendments - Consultation paper*, Electricity Authority, October 2024 at 5.52

31. The same point applies to connection pricing reform, and we encourage the Authority to develop its own cost and benefit calculations for different sized connection access seekers to ensure reforms outweigh the costs of the proposed regulations. This is critical given the pace the Authority is rolling out these reforms (which we support), however, without an adequate assessment of the proposed reforms, the Authority needs to give confidence to the sector that reforms are proportionate and do not result in any unintended consequences.
32. Building on the Sapere and Rewiring studies could accelerate the process of calculating benefits for different sized connections.

3 Transaction costs are material for smaller connections therefore regulation needs to be proportionate

Summary of our positions:

- It is likely that costly regulatory obligations will not outweigh the benefits for smaller connections. To limit the administrative burden of compliance, we recommend standard capacity rates for smaller connections should be based on the average of a group of connections with similar costs and reconciliation methodology should be applied to standard (averaged) connection prices, as opposed to for each individual connection.
- We agree flexible minimum scheme is only for larger access seekers and terms should be fixed for a number of years that relates to forecast network augmentation.
- The threshold for the pioneer scheme should apply to the total customer contribution towards the connection, not the gross cost of the connection

33. The Authority identifies transaction costs as a problem with current connection pricing.¹⁵ Consistent with our assessment of the problem definition, regulations should be proportionate to the harm or market failure that they are addressing. It is likely that costly regulatory obligations will not outweigh their benefits for smaller connections.
34. We believe transaction costs for smaller connections could be reduce and/or limited by the following changes and clarification discussed in the following.

Average standard prices

35. Requiring EDBs to publish standard average prices for similar cost connections, would ensure transaction costs for smaller connections would be reduced.¹⁶ This would still be an efficient outcome while materially reducing the cost of preparing individual costs for most connections (high volume, small connections). Preparing and reconciling individual connection costs should be reserved for the largest connections only, to avoid costly administration burden.
36. Powerco is currently exploring options to standardise connection charges for small, similar jobs for exactly this reason. We believe this will deliver better outcomes for customers.
37. While cross-subsidisation may seem like an issue, it is only desirable to avoid cross-subsidisation between different *groups* of customers, as noted by CEPA.¹⁷ This is because doing so could overly deter connection for some groups of customers, while not providing the correct price signal for others. The result of this is that

¹⁵ Electricity Authority, *Distribution connection pricing proposed Code amendment*, October 2024 at 4.8

¹⁶ At a similar service quality

¹⁷ CEPA, *Regulation of distribution connection charges in New Zealand NZEA*, 14 October 2024 pg 25

groups of customers with a relatively similar cost of connection could have standard (averaged) connection charges.

38. Expanding on this further, the Authority explains that the balance point depends on a range of network and consumer group-specific factors,¹⁸ including historical contribution policies, average incremental costs, network age, the residual revenue allocations used in tariff setting and relates to a consumer group average. Individual consumers within a consumer group would vary in how much they contribute to network costs because there are variations in connection assets and annual charges, among other factors. This suggests that consumer groups can typically be categorised as residential and small commercial, and large commercial/industrial customers.
39. In the context of connection charges however, defining customer groups in terms of technical connection characteristics (number of phases, capacity, distance from existing services etc) would allow EDBs to identify groups with a similar cost of connection that could then be standardised and therefore result in more efficient connections due to them being simpler and faster to processes with low administrative costs.
40. Importantly, the Authority concludes that the efficient range for connection charges defined by the balance and neutral points in terms of “consumers groups” is a narrower range,¹⁹ compared to individual connections which is typically wider. Efficient charges for technically similar connections can equally be set in terms of group averages.
41. In addition to defining the balance point as a customer group average the consultation paper proposes a similar requirement to Australian pricing methodologies²⁰ *where costs relating to the capacity of the shared network upstream of a connection are assessed and allocated using rates ... (which) reflect the average cost of adding capacity to the network at each of five network tiers.*
42. The corollary of this analysis of average costs is that transaction costs for smaller connections could be reduced by requiring EDBs to publish standard average prices for similar cost connections.²¹ This would be efficient but would also materially reduce the cost of preparing individual costs for most connection requests.

Flexible minimum scheme

43. We agree with the intent of the requirement to offer flexible minimum schemes for larger access seekers, however, consistent with the above, this should be reserved for the larger customers.
44. As flexible connection pricing is a function of available network capacity at a point in time, the incentive is to avoid the need for network augmentation by agreeing terms with the access seeker not to exceed the hosting capacity of the network when congested in return for a lower price.
45. The terms that an access seeker accepts for a minimum flexible scheme relate to the hosting capacity of the network at the time of the connection request and because hosting capacity is dynamic – it is a function of the injection and offtake of other customers on the network and increases when the EDB augments capacity. It is difficult to see how these terms could be grandfathered equitably or efficiently.
46. In 2021 we ran a tendering process for network support to the Coromandel Region.²² Several flexibility providers offered us a range of non-network solution options with different costs and capabilities. Based on the costs and benefits of these options relative to a traditional network solution (reconducting the Kopu-

¹⁸ Electricity Authority, *Distribution connection pricing proposed Code amendment*, October 2024 at 7.68, footnote 55

¹⁹ Electricity Authority, *Distribution connection pricing proposed Code amendment*, October 2024 at 7.63

²⁰ Electricity Authority, *Distribution connection pricing proposed Code amendment*, October 2024 at 7.68, 7.18-7.19

²¹ At a similar service quality

²² [Network](http://www.powerco.co.nz/-/media/project/powerco/powerco-documents/community-partnerships/network-support-options.pdf) support options for the Coromandel region, www.powerco.co.nz/-/media/project/powerco/powerco-documents/community-partnerships/network-support-options.pdf

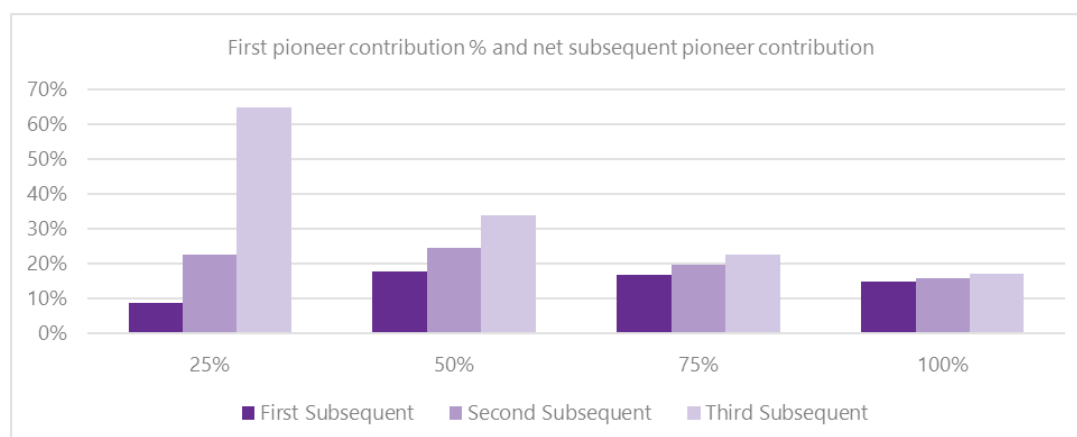
Tairua overhead line) and us investing in diesel generation at Whitianga, we awarded a contract to solarZero in December 2022²³ to provide 1MW of network support in the north Coromandel during peak consumption times.

47. Powerco’s contract with solarZero²⁴ has a fixed duration with extension rights that relate to the time horizon within the AMP envisages the need for a traditional network solution. We believe a similar principle should apply to the term for a minimum flexible scheme – a fixed number of years that relates to forecast network augmentation needs or augmentation and the establishment of a pioneer scheme by another access seeker.

Pioneer scheme

48. We agree with the intent and problem definition underpinning the pioneer scheme, which is to address the problems of the first mover disadvantage. However, consistent to the above, the cost of administering the scheme should be proportionate to the problem that it’s addressing.
49. Ideally the number of participants in the scheme will be limited to those connections with material customer contributions that are likely to be shared, in order to minimise the costs and complexity of administering it. Incenta’s report highlights this point and also suggests that the Authority has likely overstated the potential benefits of these schemes, based on the experience in Australia.²⁵ The thresholds proposed by the Authority only achieve this if the thresholds apply to the customer contribution towards the connection, not the gross cost of the connection.
50. The cost of administering the scheme should be proportionate to the problem that it’s addressing. Limiting it to connections where customers contribute more than \$30,000 has this effect. For clarity, the Code amendment should define “connection works cost” as “customer contribution towards connection works” to avoid the perverse result that the first subsequent pioneer pays proportionately less towards the connection than other applicants.
51. If it is the Authority’s intention that the entry threshold is the total cost of the works (rather than the pioneer’s contribution towards it), the mechanism proposed has the perverse outcome that the third subsequent pioneer pays more than the first two for the same connection. The histogram below shows resulting net contribution of subsequent pioneers at differing contribution percentages of the first pioneer. The 100% contribution category would be equivalent to defining the “cost” as the contribution value of the first pioneer.

Figure 3. Entry threshold definition could have adverse consequences



²³ www.powerco.co.nz/news/media/solarzero-to-supply-coromandel-network-support-to-powerco-using-virtual-power-plant-technology

²⁴ Now in liquidation [SolarZero in liquidation | Energy News](#)

²⁵ Incenta, *Electricity Authority’s consultation of price and non-price aspects of customer connection – report for Powerco and Unison*, December 2024, pg 13-15

4 Setting connection charges at the lower end of the efficient range is better than setting them too high

Summary of our positions:

- Open access to networks implies that access seekers share network capacity with existing connections, and connection charges are necessary to ensure access seekers don't unfairly burden existing connections with new costs
- Setting connection charges too high is less efficient than setting them too low, particularly in a period of growth therefore on an open access network, connection charges should tend to the shallow end of the efficient range, particularly for smaller connections.
- Given the lack of knowledge on the connection pricing problem, we support disclosing the extent EDBs' connection prices expect customers to contribute more than the incremental cost of connecting and serving the customer (common costs). But disagree with the proposed measured reliance limit and analysis as it's a poor proxy for whether the efficiency and/or equity of connection prices have changed.

52. EDBs in New Zealand offer open access to their networks. This means access seekers are free to connect on equal terms and share available network capacity. Unlike some access regimes in other jurisdictions, connected parties do not reserve network capacity to the exclusion of others.
53. EDBs anticipate future capacity needs and augment their networks to meet forecast demand for injection and offtake. All connected parties benefit from this and so wider network augmentation costs to meet network growth are socialised proportionately just like the sunk costs of the existing network. Cost reflective distribution pricing ensures that the proportionate allocation of sunk and augmentation costs is efficient.

Connection charges are necessary to ensure access seekers don't unfairly burden existing connections with new costs but should tend to the shallow end of the efficient range, particularly for smaller connections.

54. When access seekers connect to an existing network, the EDB incurs both the direct costs of the connection assets that are built to attach them to the rest of the network and the indirect costs of augmenting the rest of the network to host the new connection.
55. The access seeker will pay line charges, like existing customers but if these line charges won't be enough to recover the direct and indirect costs of the new connection over its life then existing customers cross-subsidise the new connections. It's possible that this cross-subsidy could be efficient however, the primary reason for connection charges is to ensure that new connections don't unfairly load costs onto existing customers. The Authority notes that this involves newcomers avoiding costs or underpaying for costs that are covered by existing users, which may be unpopular and unsustainable.²⁶
56. While fairness, popularity and sustainability aren't statutory objectives for the Authority, they are important considerations in network pricing, particularly in a time of growth.

²⁶ Electricity Authority, *Distribution connection pricing proposed Code amendment*, October 2024 at 7.64

Setting connection charges too high is less efficient than setting them too low, particularly in a period of growth

57. We agree with the Authority that it's important that connection charges are efficient. Just like sunk cost network pricing, there is a wide range of efficient connection prices, and the efficient range is likely to be different for each individual EDB. The Authority discusses this in its consideration of connection charge reconciliation pricing methodologies. Both the Authority and CEPA's supporting analysis consider the disbenefits of pricing outside the efficient range, concluding that the inefficiencies are asymmetric.
58. CEPA concludes that the consequence of setting customer contributions (connection charges) too high disincentivises efficient electrification and risks the public benefits that go with it.²⁷ The Authority echoes this in observing that even setting contributions to zero can be economically beneficial.²⁸
59. Intuitively this is particularly relevant in a growing or new market because when building a network for the first time there are no existing customers so there's no risk of cross-subsidising new connections. As we decarbonise through electrification, and therefore in a growth phase, we're anticipating a 50-100%²⁹ increase in electricity demand over the next 25 years and orders of magnitude increases in the volumes of generation embedded on distribution networks.
60. The efficiency disbenefits are low if networks invest more to support electrification in the event that connection charges are too low, relative to the potential disbenefits if connection charges are too high. In a growing market, the connections and augmentation to support them will inevitably happen in aggregate. Setting connection charges too low may mean network costs to existing customers are slightly too high but customers will get the wider benefits of timely electrification discussed in the problem definition section as well as lower costs over time as they share the costs of network across more people. At a national economic level, this is still efficient over the long term.
61. We note that when rebuilding the Christchurch network after the earthquakes, Orion had low levels of customer contributions for exactly this reason.
62. Given the very wide range of efficient costs for connection pricing, the Authority and CEPA's analysis helpfully point to the importance of setting costs for smaller connections towards the shallow end of the efficient range – effectively each individual connection is just contributing towards network growth which is planned augmentation capex.
63. The timing of augmentation capex is unavoidable and uncertain. While predictable in aggregate, the decision about the optimal timing and location of augmentation capex is partly a function of customer behaviour – both using more electricity and investing in new appliances on existing and new connections. As a result, EDBs should recover these augmentation costs related to smaller new connections through posted-distribution prices which means connection charges should be shallow as a result.
64. This rationale is consistent with the Authority's proposals for pioneer schemes which should only apply to large connections. In these cases, it is easier to attribute specific augmentation costs to the connection application, some of which may be recovered through a customer contribution but rebated if subsequent access seekers connect below the same augmented assets.

²⁷ CEPA, *Regulation of distribution connection charges in New Zealand NZEA*, 14 October 2024 pg 20-21

²⁸ Electricity Authority, *Distribution connection pricing proposed Code amendment*, October 2024 pg 82

²⁹ See, for example the Climate Change Commission's projections in <https://www.climatecommission.govt.nz/public/Inaia-tonu-nei-a-low-emissions-future-for-Aotearoa/Modelling-files/Electricity-market-modelling-datasets-2021-final-advice.xlsx> and BCG's scenarios in *The Future is Electric*

Reliance limit

65. It appears that there is limited knowledge about the scale of the connection problem in New Zealand and the Authority's proposal to disclose network (common) cost recovery that is implicit in connection prices is a great first step to building up knowledge and understanding. This will provide a more accurate indicator of how the efficiency and equity are changing over time.
66. Incenta explores why³⁰ an EDB's "reliance" on capital contributions may be a poor proxy for whether (and to what extent) connection charges have moved relative to the "neutral point" and therefore affect efficiency and/or equity. There are various reasons why the level of capital contributions as a proportion of capital expenditure can change materially, even where there has not been a change to the connection pricing method. Incenta also proposes alternative methods the Authority could use to prevent any further reduction in efficiency or equality in relation to connection charges:
- Require existing methods not to materially change, except where necessary to – i.e. refer directly to the EDBs published methods for setting connection prices.
 - Build an understanding of connection pricing and benchmark EDBs, by collecting the necessary information on connection rates to allow it to determine whether the observed levels of contribution to network (common) costs have a material effect on connection rates. As this provides a more accurate indicator of how the efficiency and equity are changing over time.

5 Electrification growth incentives would be stronger with a specific regulatory mechanism for funding connections

Summary of our positions:

- Part 4 IRIS incentives do not deter efficient connections however, EDBs are having to make trade-offs between connection and other types of expenditure (e.g. resilience) to stay within allowances.
- EDB incentives for electrification growth would be stronger with a specific regulatory mechanism for funding connections like we have seen in other areas (Transpower, and Fibre for example). We encourage the Authority to direct the Commission to treat connection expenditure differently during a period of growth.

67. As mentioned above, we agree with the Authority that high connection charges deter efficient and timely electrification. Our experience has been that connection costs can be a multiple of the on-site electrification costs, all of which require upfront capital from access seekers.
68. EDBs are in the business of long-lived infrastructure asset ownership and while efficient pricing is important, it is counterintuitive that end-customers should have to source capital up front to pay for electrical connection and service augmentation rather than paying for the service over time. The Authority's analysis suggests that one of the reasons for EDBs requiring high levels of customer contributions is the incentive created by the Commission's price-quality regulation.³¹

For non-exempt distributors, increasing connection charges reduces net capital expenditure, which generates an incentive payoff. Because all regulated capex can be substituted, distributors can also increase connection charges to offset cost overruns in any part of their capex programme. At the

³⁰ Incenta, *Electricity Authority's consultation of price and non-price aspects of customer connection – report for Powerco and Unison*, December 2024, pg 15-16.

³¹ Electricity Authority, *Distribution connection pricing proposed Code amendment*, October 2024 at para 5.3 i

margin, this amounts to the same outcome, which is increasing connection charges improves incentive outturn.

69. Similarly, CEPA's supporting analysis³² suggests under the price path incentives (as modified by the IRIS mechanism) EDBs have an incentive to reduce their net connection capex ex post. While this is true within a 5 year regulatory/IRIS period, connection assets have a much longer economic life: EDBs should still be incentivised to invest in connections even when subject to IRIS.
70. Efficient capex that exceeds a non-exempt EDB's capex allowance over a regulatory period is subject to a retention factor which compensates customers for the EDB's share capex overspend over the following regulatory period through the IRIS mechanism. After this period, the return on the depreciated asset is the regulated WACC. Over the life of the asset, it is value accretive for the non-exempt EDB to make efficient connections above its regulated capex allowance.
71. The Commission makes this observation itself stating that although IRIS incentives are symmetrical between capex and opex within a 5 year period, the value accretion of capex subject to a retention factor means that if the supplier's actual cost of capital is below the allowed WACC, there will be lower incentives to control capex costs relative to opex.³³
72. As mentioned in the consultation paper,³⁴ the Commission applied a financeability check to their draft DPP4 determination and conclude that EDBs do not face financeability constraints as a result of the price-quality regulation in Part 4, but rather they require that:³⁵

Prudent businesses undertaking effective capital planning will manage their finances to ensure that over the course of investment cycles there is sufficient capital headroom to meet expenditure needs at any given point in time, while maintaining appropriate credit metrics. Maintaining capital headroom is likely to be particularly important for trust owned EDBs that prefer to maintain trust ownership.

73. The fact that several of the EDBs with high levels of customer contributions are exempt from price-quality regulation suggests that the constraint is not incentives created by Part 4 but may be other causes e.g. access to capital.³⁶
74. As the Authority notes, because capex allowances are fungible, non-exempt EDBs make decisions about how to spend their capex and how to manage any necessary overspend. While value accretive, any returns on connection capex that exceed the regulatory allowance are delayed until the end of the IRIS period and under-recover the regulated WACC in the long-term.
75. Connection growth has been predictable since the commencement of Part 4 - Powerco's connection capex has generally been within regulatory allowances. However, as New Zealand accelerates initiatives to decarbonise through electrification, we expect to see both an increase in the number of connection and enhancement requests and less predictability in the timing of those requests causing some EDBs to make trade-offs between types of expenditure if they want to stay within allowances.
76. We note that the Commission has made explicit provisions for this type of uncertain expenditure such as the use-it-or-lose-it fund in Transpower's price path, or specific funding such as that provided for Chorus' connection capex to incentivise connections to their networks as they transition through a period of growth.

³² CEPA, *Regulation of distribution connection charges in New Zealand NZEA*, 14 October pg 5

³³ *IRIS equivalence staff discussion paper*, Commerce Commission, 22 November 2022 at para 10

³⁴ Electricity Authority, *Distribution connection pricing proposed Code amendment*, October 2024 at 4.16

³⁵ *DPP4 reset – Financeability of electricity distribution services in the default price-quality path - Issues paper*, Commerce Commission, 22 February 2022. 1.11

³⁶ Whether actual or perceived to maintain expenditure within cashflows

77. The Commission considered flexibility mechanisms to accommodate the changing operating environment and emerging uncertainty facing EDBs such as such as use-it-or lose-it allowances, contingent funding and quantity wash-up mechanisms as part of its decision on DPP4. But determined not to make further refinements to the flexibility mechanisms³⁷ noting

In setting capex limits we have been mindful of the availability of reopeners and CPPs, and the implications of increased use of these mechanisms.

78. We acknowledge the proactive work that the Authority initiated with the Commission to reconsider an EDB's price-quality path if requested by the Authority. In addition to accommodating specific reopener applications from non-exempt EDBs above the reliance limit, the Authority should also suggest a reopener specifically for a use-it-or-lose-it mechanism or connection capex fund for all non-exempt EDBs that is not fungible with other capex to accommodate an uncertain profile of connection expenditure and incentivise connections to the network.

³⁷ *Default price-quality paths for electricity distribution businesses from 1 April 2025 – Draft decision - Reasons paper*, Commerce Commission, 29 May 2024. 2.71

Appendix A. response to consultation questions

79. We address the Authority's specific questions below. Our answers reflect the high-level conclusions from the discussion above:

- that the costs of regulation must be quantified to be proportionate to the benefits they deliver,
- that shallower connection charges are efficient for smaller connections,
- that standard connection charges for groups of similar connections are efficient and
- that connection pricing should be consistent with sunk cost pricing.

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? and Q2. Do you agree with the problem statement for connection pricing?

80. The Authority has provided evidence of wide variation between connection pricing across EDBs and examples of connection charges which are both above and below the efficient range.

81. We note the comments from access seekers quoted in the Authority's *Distribution Pricing Reform: Next steps paper*³⁸ and particularly their suggestion that connection pricing in New Zealand is a barrier to timely electrification.

82. Powerco is committed to contributing to Aotearoa New Zealand's net zero 2050 targets. Decarbonisation through electrification is a key strategy for achieving this.

83. We believe that our national emissions budgets are ambitious and feasible, however we need to be pursuing an emissions agenda which provides strong economic growth and co-benefits for economic wellbeing. We can grow the economy while meeting net zero 2050 target.³⁹

84. The Authority should consider the wider economic benefits of electrification in its problem definition. The case for connection pricing reform is wider than the efficiency of network connection costs, it is about maximising the benefits of electrifying the economy to access seekers.

85. We suggest several resources to assist the Authority in quantifying these benefits in section 3 above.

Q3. Do you have any comments on the Authority's proposed pathway to full reform?

86. While each element of the proposed reforms has a logic in isolation, together the full pathway is a substantial change for the sector. The *Code Amendment Principles* in section 4 of the Authority's *Consultation Charter*⁴⁰ include:

Principle 3 – Preference for small-scale 'trial and error' options: The Authority will prefer options that are initially small-scale, and flexible, scalable and relatively easily reversible with relatively low value transfers associated with doing so. The Authority will monitor the implemented option and reject, refine or expand that solution in accordance with the results from the monitoring.

87. Principle 3 is to be used *where analysis demonstrates a clear benefit to a Code amendment proposal, but there is no clear best option in terms of a solution*. This is the case with the proposed connection pricing Code Amendment – in the absence of quantified cost benefit analysis for regulations, there is a risk of adverse unintended consequences where regulations are not proportionate to benefits.

³⁸ *Distribution Pricing Reform: Next steps*, Electricity Authority, May 2024. pp.19-20

³⁹ <https://www.powerco.co.nz/news/industry-insights/grow-to-zero>

⁴⁰ https://www.ea.govt.nz/documents/482/Consultation_Charter_2024.pdf

88. The pathway to full reform should follow Principle 3: initially small-scale and focused on the largest connections where the benefits of reform are greatest. This will enable the Authority to monitor the implemented option and refine or expand that solution to smaller connections in accordance with the results from the monitoring

Q4. Do you consider the proposed connection enhancement cost requirements would improve connection pricing efficiency and deliver a net benefit?

89. We broadly agree with the principle that when customers apply for a connection, they should be able to evaluate how much it would cost and if they could reduce that cost by agreeing to a flexible service.

90. In our comments on the problem definition in section 19 above we have identified the importance of quantifying the benefits of connection pricing reform to different sizes of connection to inform the evaluation of regulatory interventions. Requiring individual costings for firm and flexible connections comes at a cost. For the largest connection requests, the benefits of complex bespoke pricing may outweigh the costs.

91. As the Authority notes, connection pricing is just a specific form of distribution pricing. Powerco, like all EDBs, has different pricing approaches for different tiers of customers: posted regional prices for residential and small commercial customers up to individual asset-based prices for the very largest loads and distributed generators. The same principles should apply to connection pricing.

Q5. Are there variations to the proposed connection enhancement cost requirements you consider would materially improve the proposed Code amendment?

92. Regulating a requirement on EDBs to price a minimum scheme for all access seekers is reasonable if the costs of meeting the regulation are proportionate to the benefits that would result from it, even if access seekers pay for the work in developing scheme costs.

Proportionality

93. A proportionate requirement to design and cost minimum connections and enhancements should be consistent with sunk cost pricing: minimum scheme pricing would be a posted average for groups of smaller access seekers with similar costs but asset-based for the largest applicants.

94. We agree with the opt-out provisions⁴¹ which would be relevant where the costs of developing minimum scheme costings outweigh their benefits and would only be relevant to large access seekers.

95. As we note in section 5 above, the implications of New Zealand's open access regime for distribution are that efficient connection pricing will tend to the shallower end of the efficient range.

96. We also note in section 4 that standardising connection charges to the average for groups of similar-cost connections is both efficient and minimises transaction costs which is particularly relevant for smaller connection requests.

97. The implication of these two conclusions is that minimum scheme costs will be shallow and standard for groups of smaller, similar cost connections.

Flexible Minimum Scheme

98. We agree with the intent of the requirement to offer flexible minimum schemes for larger access seekers. Flexible connection pricing is a function of available network capacity at a point in time. The incentive is to

⁴¹ Electricity Authority, *Distribution connection pricing proposed Code amendment*, October 2024 at 7.10

avoid the need for network augmentation by agreeing terms with the access seeker not to exceed the hosting capacity of the network when congested in return for a lower price.

99. Hosting capacity is dynamic – it is a function of the injection and offtake of other customers on the network and increases when the EDB augments capacity.
100. The terms that an access seeker accepts for a minimum flexible scheme relate to the hosting capacity of the network at the time of the connection request. Therefore, terms should include a fixed number of years that relates to forecast network augmentation needs or augmentation and the establishment of a pioneer scheme by another access seeker.

Q6. Do you consider the proposed network capacity costing requirements would improve connection pricing efficiency and deliver a net benefit?

101. The Authority's proposal for network capacity costing is consistent with the standardisation of connection pricing across the sector.
102. Following our discussion in section 4, standard connection charges are efficient for smaller connections. These will be consistent with published network capacity costs but, following our discussion in section 5, shallower for mass-market connections.
103. Currently EDB sunk cost prices are regional and tiered by connection type, becoming more granular as they become more cost reflective. We note the Authority's proposal at 7.30 (a) that *a distributor may adopt a zero rate for one or more network tier if they do not foresee any need to increase capacity at that tier within their network planning horizon. Zero rates may apply network-wide, or for particular network costing zones.*
104. This is consistent with the evolution of cost-reflective sunk cost pricing and should be introduced at same pace.

Q7. Are there variations to the proposed network capacity costing requirements you consider would materially improve the proposed Code amendment?

105. The implications of our answer to Q6 are that network capacity costing requirements:
 - Should only apply to bespoke connection pricing for the very largest customers
 - Be set at the same regional granularity as sunk cost pricing and.
 - Become more granular at the same pace as sunk cost pricing.

Q8. Do you consider the pioneer scheme pricing methodology would improve connection pricing efficiency and deliver a net benefit?

106. As with Q6, our feedback on the pioneer scheme methodology reflects our high-level observations that the costs of regulation must be quantified to be proportionate to the benefits they deliver, shallower connection charges are efficient for smaller connections, standard connection charges for groups of similar connections are efficient and that connection pricing should be consistent with sunk cost pricing.
107. The implication of these observations for the pioneer scheme is that it should only apply to bespoke connection pricing for the very largest customers. As noted by Incenta⁴² the Authority is likely to have overstated the potential benefits of the pioneer scheme, given the experience in Australia. They also highlight that the significant cost to operate these schemes due to the *ad hoc* nature of the projects means

⁴² Incenta, *Electricity Authority's consultation of price and non-price aspects of customer connection – report for Powerco and Unison*, December 2024, at 7c.

that the administration burden is likely to involve largely manual processes, and the benefits are unlikely to exceed the costs.

Q9. Are there variations to the proposed pioneer scheme pricing methodology you consider would materially improve the proposed Code amendment?

Drafting clarity

108. We note the five key parameters on which the pioneer scheme has been calibrated:

- 10 year duration
- 20 year depreciation life
- \$30k entry threshold
- \$10k entry threshold for contributions and
- \$1k minimum contribution

109. The cost of administering the scheme should be proportionate to the problem that it's addressing. Limiting it to connections where customers contribute more than \$30,000 has this effect. For clarity, the Code amendment should define "connection works cost" as "customer contribution towards connection works" to avoid the perverse result that the first subsequent pioneer pays proportionately less towards the connection than other applicants. This is discussed above in section 4.

110. The definition of "connection works cost" in the Code Amendment should be consistent with the Australian regime where "cost" is the contribution for the purpose of subsequent contributions, so the Code amendment should be clarified to read:

connection works cost means *the first pioneer scheme contribution towards the cost of connection works*. Similarly the duration of the scheme should be 7 years to be consistent with in the Australian regime.

Entry threshold

111. We support the design intent of the pioneer scheme: to address the problems of first mover disadvantage but note the costs of administering the scheme and the complexity of communicating how it works to access seekers.

112. Ideally the number of participants in the scheme would be limited to those connections that are likely to be shared in order to minimise the costs and complexity of administering the scheme.

113. The \$30k entry threshold will attract opportunistic schemes from access seekers whose connections are unlikely or incapable of being shared. As noted in section 4 above, to avoid the inefficient cost of these schemes, the definition of "pioneering connection works" entry threshold should be clarified to read

*it is feasible in the reasonable opinion of the **distributor** that other parties may seek to **connect** to all or part of, or make use of, the **connection works** at a later date*

114. Access seekers can use a circuit breaker such as a dispute resolution process if they disagree with the EDB's opinion that other parties could make use of the connection works at a later date, but the modification would eliminate vexatious claims.

Q10. Do you consider the cost reconciliation methodology would improve connection pricing efficiency and deliver a net benefit?

115. Powerco calculates fees for larger connections using a similar methodology to that proposed by the Authority. However, to ensure that this does not drive unnecessary administrative cost into the process, for

smaller customers we recommend that this only required to be calculated on average for groups of customers, and not required to be calculated for each individual customer.

116. Limiting the requirement to 'on request' will still require us to calculate it in the event customers ask for it. Therefore, if required across all customer sizes on an individual basis it is unlikely to deliver a net benefit outcome.

Q11. Are there variations to the proposed cost reconciliation methodology you consider would materially improve the proposed Code amendment?

117. Cost reconciliation methodology should be applied to standard (averaged) connection prices, as opposed to for each individual connection.
118. Consistent with our broader observations in sections 4 and 5, that shallow and standard connection charges are efficient for smaller connections, the Authority's analysis supports a proposed connection charge reconciliation pricing methodology and suggests that EDBs should transition to shallow and standard connection charges for groups of similar connections. Applying the cost reconciliation methodology to standard fees would further limit the administrative burden of compliance.

Q12. Do you consider the reliance limits would improve connection pricing efficiency and deliver a net benefit?

119. Powerco is unlikely to be affected by the application of the reliance limits methodology.
120. We agree with the Authority's problem definition⁴³ and we agree with the framework the Authority has applied to assess the merits of different connection prices, in particular the concepts of the "neutral" price and "balance point" are a useful way of thinking about how changes to the connection pricing method may affect efficiency and equity.
121. However, we do not think that changes in the proportion of connections and system growth capital expenditure that is funded via capital contributions provides a reliable indicator of the efficiency and equity of connection prices across time and across EDBs. This is elaborated on in Q13 below.

Q13. Are there any variations to the proposed reliance limits you consider would materially improve the proposed Code amendment?

122. A number of factors may cause the "neutral" point to change over time and across EDBs and because the reliance limit metric ignores vested assets that many EDBs require, distorts the analysis. There is material risk that the Authority's "reliance" indicator will diagnose a reduction in efficiency and equity when these have not changed, or fail to diagnose a reduction in efficiency and/or equity that has actually occurred.
123. We encourage the Authority to consider Incenta's alternative methods:⁴⁴
- Require EDBs to not change their capital contribution policies in a way that leads to material increase in connection prices – this can be implemented immediately without transition or administration costs.

⁴³ Electricity Authority, *Distribution connection pricing proposed Code amendment*, October 2024 at 4.13

⁴⁴ Incenta, *Electricity Authority's consultation of price and non-price aspects of customer connection – report for Powerco and Unison*, December 2024, pg 15-16.

- A longer-term solution is to require the aggregate contribution to network costs not to increase materially and a requirement to benchmark the network contribution over time and across EDBs – this could be expressed in terms of \$/connected customer, or as a percentage of the RAB.
- Collect necessary information on connection rates to allow it to determine whether the observed levels of contribution to network (common) costs have material effect on connection rates. This will inform the Authority's future work in this space.

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?

124. We agree that an exemption application process provides an avenue to avoid Code Breaches that are out of the control of an EDB such as a very large connection to a small EDB's network with a higher contribution than the reliance limit.
125. We note the work the Authority has done to align its connection pricing reforms with the new uncertainty mechanisms, particularly reopeners, proposed by the Commerce Commission. Ideally it is this link, rather than the exemption application process which should accommodate exceptional circumstances to avoid the drawbacks mentioned in the Consultation⁴⁵ (less efficient connection pricing continuing, slower progress towards nationwide consistency and perverse incentives for access seekers to delay applications anticipating more favourable pricing).

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?

126. It is inevitable that regulatory tightening will lead to more disputes. The backstop of a codified disputes resolution process has worked for distributed generation access seekers under Part 6 and a proportionate circuit breaker mechanism might be expected to work equally well for load connections, noting the risk of vexatious applications for pioneer schemes in our answer to Q9.

Q16. Are there variations to the proposed dispute resolution arrangements you consider would materially improve the proposed Code amendment? and 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.

127. We note the option for an alternative contractual term approach proposed by the Authority.⁴⁶ In principle a contractual mechanism for dispute resolution would be lower cost and more flexible than relying on Code.
128. The Authority states⁴⁷ that an alternative contractual approach would not change the substance of the proposals so it is unlikely to reduce the number of disputes which depend on the detail of the proposals themselves rather than the dispute resolution mechanism proposed. We also point to Incenta's suggestions that:

⁴⁵ Electricity Authority, *Distribution connection pricing proposed Code amendment*, October 2024 at 7.1115

⁴⁶ Electricity Authority, *Distribution connection pricing proposed Code amendment*, October 2024 at 7.127-7.135

⁴⁷ Electricity Authority, *Distribution connection pricing proposed Code amendment*, October 2024 at 7.128

- The proposal to allow an independent party to determine connection prices appears inconsistent with the Authority’s proposal to rely principally upon disclosure in relation to the extent of network (common) cost that is included in connection prices.
- The guidance rulings panel (should a dispute occur) is incomplete, but also includes guidance that is irrelevant (i.e. the “reliance limit”, which is not intended to apply at the level of individual connections).

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?

129. We note above that electrification growth incentives would be stronger with if the Authority worked with the Commission to establish a specific regulatory mechanism for funding connections. Without it, these changes will likely increase the number of reopener applications, the Commission’s process for reviewing reopeners is intended to be quick and predictable – evidenced by the speed with which they have approved reopener applications for EDBs on DPPs this year.
130. We recommend the Authority benchmark the network contribution over time and across EDBs expressed in terms of \$/connected customer, or as a percentage of the RAB in order to correctly “diagnose” a change in efficiency and equity. Refer to our response in Q13 and Q14 above for more information.

Q19. Do you think any element of the fast-track package should be omitted, or should begin later than the rest of the package?

131. We have suggested that the Authority focuses on fewer more effective measures in the fast-track stage. To do this, we encourage the Authority to quantify reform costs and benefits by connection type and design regulations whose costs are proportionate to those benefits. Prioritising the reform programme in this way will avoid adverse unintended consequences.

Q20. Are there other parameters you think the Authority should consider for the proposed connection pricing methodologies? If so, which ones and why?

132. In our answer to Q3 above we note the relevance of the Authority’s Code Amendment Principle 3 to the longer-term reform of connection pricing and the importance of fast tracked regulations being small-scale and focused on the largest connections where the benefits of reform are greatest. This will enable the Authority to monitor the implemented option and refine or expand that solution to smaller connections in accordance with the results from the monitoring.

Q21. Do you agree pricing methodologies should apply to LCC contracts? If not, please explain your rationale.

133. LCCs are *an alternative optional mechanism to a reopener for large new customer-initiated and funded connections that meet certain criteria. LCCs can address connection forecast uncertainty in situations where the EDB and connecting party agree in writing that the terms and conditions of the contract between them are reasonable and can apply where a large new connection project has not been provided for in DPP/PPP allowances and meets the required thresholds.*⁴⁸
134. The regulatory intent behind LCCs is precisely to avoid regulation where both parties agree. We do not anticipate many instances where EDBs will enter into them but where they do there should be no need to constrain how they chose to – parties can agree regulated terms if they can’t agree bilaterally.

⁴⁸ Commerce Commission, *Default price-quality paths for electricity distribution businesses from 1 April 2025 – Draft decision Reasons paper*, May 2024. 1.13

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.

135. Vested assets are essentially connections with a 100% customer contribution. Powerco has agreed terms to take on vested assets in this way before – mechanically calculating prices for them is no different from any other connection assets.

Q23. Do you have any comments on the impact of reliance limits on incentives to increase prevalence of asset vesting?

136. In our answer to Q14, we note the importance of the exemption application process to deal with situations outside an EDB's control – vesting a large asset would effectively skew contributions away from the reliance limit.

Q24. Do you agree the proposed methodologies are compatible with contestable connection works? If not, please explain your rationale.

137. The Authority raises questions⁴⁹ about contestability and the benefits of access seekers using 3rd parties to complete connection work.
138. Powerco's current model is to encourage access seekers to tender their connection work to "Powerco Approved Contractors", consistent with this 'contestable connection works' model. Currently, Powerco has approximately 30 contractors that are approved to carry out customer-initiated works on our network. Customers contact one or more contractors from Powerco's list of approved contractors. Those contractors prepare a design for the work and submit them to Powerco for approval, then issue a quote to the customer for the work. If the customer accepts one of the quotes, the contractor that issued that quote will schedule and carry out the work. The customer pays the contractor for the work, less a contribution from Powerco, and Powerco owns the resulting network assets.
139. Our experience with the current model is that contractors factor the cost of unsuccessful bids into the prices that they quote. After a series of customer complaints about connection timeframes and complexity, as well as concerns about design quality, we reviewed our model.
140. At the end of September, we announced that for the first time in more than a decade, we are going to tender Powerco's Electricity Field Services Agreements.⁵⁰ As part of retendering these agreements, we are asking applicants to propose terms for customer-initiated connection and enhancement work as we move to a new model. Customers will engage Powerco to design and build customer-initiated works. Powerco will in turn issue the work to contractors and pay the contractor for its work. Powerco will own the resulting assets.
141. We expect to see lower like-for-like prices for access seekers by leveraging our bargaining power to secure competitive pricing for our customers through the tender process (rather than that bargaining power being diluted by being devolved to each customer negotiating individually on a project-by-project basis, as occurs currently).
142. We have also found that where customers can seek multiple quotes, there are often duplication and inefficiencies in the commercial process, and inconsistencies between what each contractor offers which often causes confusion for customers. Our emerging thinking is that, rather than considering each customer-initiated work request in isolation, it is more efficient for us to consider each job in the context of

⁴⁹ Electricity Authority, *Distribution connection pricing proposed Code amendment*, October 2024 pg 68-69

⁵⁰ <https://www.powerco.co.nz/news/media/powerco-electricity-contracts-going-to-tender>

the best approach for the network (all customers) and other work planned in the area, both customer and network driven.

143. We don't anticipate that the Authority's proposals would create barriers to contestability but note the merits of group bidding over customer-initiated tendering.

Q25. Do you agree that fast-track methodologies should not apply to embedded networks? If not, please explain your rationale.

144. Yes

Q26. Do you have any comments on the Authority's anticipated solution for longer-term reform?

145. In our answer to Q3 above we note the relevance of the Authority's Code Amendment Principle 3 to the longer-term reform of connection pricing and the importance of fast tracked regulations being small-scale and focused on the largest connections where the benefits of reform are greatest. This will enable the Authority to monitor the implemented option and refine or expand that solution to smaller connections in accordance with the results from the monitoring.

Q27. Are there other alternative means of achieving the objective you think the Authority should consider?

146. We have suggested that the Authority quantifies reform benefits by connection type and designs regulations whose costs are proportionate to those benefits. Prioritising the reform programme in this way will avoid adverse unintended consequences.

