23 January 2025

Submissions
Electricity Authority
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Via email: connection.feedback@ea.govt.nz

Cross submission – Distribution Connection Pricing Consultation

Buller Electricity Limited (BEL) appreciates the opportunity to provide this cross submission on the Electricity Authority's (Authority) proposed framework for charges for new load connections.

BEL's initial submission concluded that the Authority's proposed connection pricing framework is complicated. This view has been confirmed by numerous submissions – both from distributors and load customers.

Sapere (for Drive Electric) went so far as to say: "After carefully going through the Authority's distribution connection pricing proposal we are not clear on exactly what the Authority is proposing".[1] "The wording is so confusing that we have had to change our view on what the proposal intends and what the code amendment states many times." "Clarity and transparency has been negatively affected overall by confusing, and apparently contradictory, wording within the proposal and from the proposal to the proposed code amendments."[2] ENA requests a second round of consultation and Network Tasman encourages the Authority to "consider a second round of consultation if it is evident that its proposals have not been fully understood".[3]

BEL supports submissions for the Authority to:

- be clear about the problem definition[4]
- reconsider its approach which is imposing a legal obligation on EDBs to supply new connections[5]
- undertake a comprehensive quantitative cost benefit analysis[6]

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[1] Page ii Drive Electric submission
[2] Page 17 Drive Electric submission
[3] Page 2 Network Tasman and Network Tasman Trust submission
[4] Including Aurora, Electra, ENA, Entrust, Horizon Networks, NEG, Network Waitaki, PowerNet, Vector, Waipa Networks, Wellington Electricity, Westpower. EECA notes "it could be useful for the paper to present evidence that observed variability in charges is inefficient, to support the problem statement" response to Q2 in their submission.
[5] Including Counties Energy Trust, Electra Trust, ENA, Horizon Networks, PowerNet, Scanpower Community Trust, The Lines Company, Trust Horizon, Waipa Networks Trust, West Coast Electric Power Trust, Westpower.
[6] Including Aurora, Counties Energy Trust, EECA, Vector, Waipa Networks, Wellington Electricity, WEL Networks, Westpower. Counties Energy Trust state "The Authority has claimed that its proposals "would lower power costs for all consumers over time" but this should be backed up with quantified evidence if it is to have any weight" (pg 3 of their submission). Meridian query of the proposals will achieve the desired benefits. Orion notes "very little empirical evidence of problems leading to inefficiency is provided" (Q2 of their submission).

- consider up-front connection charges independently from any use of system charges[7]
- work with the Commerce Commission to remove any disincentives (arising from Part 4 regulation IRIS mechanism) that are impacting the level of capital contributions made by distributors, and whether there is a solution that avoids all or some of the Authority's proposed interventions[8]
- undertake a workshop with distribution and load connection stakeholders to rework the proposals[9]
- be open to adopting a more principles-based approach by issuing guidance for connection pricing and monitor progress towards this guidance best practice (a least regrets approach that is an established process for all other distribution charges)[10]
- improve the pioneer scheme proposal (including analysing in more detail the likely costs (from discussions with distributors) versus benefits of implementing a pioneer scheme) before regulating for this[11]
- comprehensively review the proposed 'reliance limit' because:[12]
    - it does not promote economic efficiency, has no economic basis and results in cross-subsidisation[13]
    - each distributor has different circumstances impacting the 'reliance ratio', for example vesting assets, system growth trends etc[14]

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[7] See Horizon Networks submission pg 6; Powerco and Unison submission pg 7-8; Vector submission paras 103-110 and Axiom report

[8] Including Aurora, Contact Energy, Counties Energy Trust, ENA, Powerco & Unison, Vector. Contact Energy focus on solving the regulatory inconsistency when it is more economic for an EDB to invest in a lumpy asset size greater than that wanted by the consumer in response to Q6 page 3-4 of their submission. Aurora "encourage[s] the Authority to work with the Commission to remove consumer connection capex from the IRIS mechanism permanently, or at the very least provide an exemption during the DPP4 transition period" in response to q14, pg 15-16 of their submission.

[9] Including Electra, MEUG (in particular the reliance limit proposal), Network Tasman, West Coast Trust. Drive Electric (Sapere) request the Authority rewrite the proposal to be clearer on the fast-track proposals, edit the Code amendments to be unambiguous and reissue the consultation – pg 5 of their submission

[10] Including Aurora, Counties Energy Trust, Electra, ENA, Horizon Networks, Network Waitaki, PowerNet, Unison & Centralines, Wellington Electricity, WEL Networks.

[11] See Aurora, Electra, ENA, Horizon Networks, Network Waitaki, Orion, Powerco & Unison, PowerNet, Transpower, Vector, Waipa Networks, Waitaki Power Trust, Wellington Electricity, WEL Networks, Westpower. Note that Drive Electric supports this scheme only in principle "but that it is considered unworkable in the short term until connection enhancement costs are limited to only network extensions and consumer selected enhancements" pg 10 of their submission. BP does not support a pioneer scheme pg 3 of their submission. ChargeNet highlights the impact of access seekers with a growing load profile in response to Q8 in their submission. Northpower suggests improvements pg 2-3 in their submission.

[12] See Powerco & Unison's submission sections 2.2.2 and 2.2.5. Contact Energy's response to Q12 is a clear articulation of the issue the Authority is likely trying to address. MEUG details why it does not support the reliance limit in paras 13-18 of their submission.

[13] Including Aurora, Counties Energy, Counties Energy Trust, Horizon Networks, The Lines Company, Northpower, Vector, Waitaki Power Trust, Wellington Electricity, Westpower. Fonterra also submit that there should be no cross subsidisation – "connection cost requested by businesses on the medium to high voltage (MV, HV) networks is paid for by the parties requesting the change"

[14] See ENA submission; ETNZ submission pg 3-4; Horizon Networks pg 11 of their submission; Network Waitaki response to Q23 in their submission; The Lines Company submission; Transpower submission; Waipa Networks response Q12 in their submission; Wellington Electricity response Q12 in their submission; WEL Networks response Q13 in their submission

- the proposed limit of 47% is arbitrary[15]
- it imposes risks on existing customers that they have no control over and could disadvantage small businesses and domestic consumers to the benefit of larger new connection customers, contrary to the Authority's statutory objective[16]
- the proposed cap effectively requires a component of the investment to enable new connections to be socialised as part of the distributor's cost recovery – this appears to be the opposite to the Authority's distribution pricing principles subsidy-free test and the Authority's intent that existing customers do not subsidise new connections[17]
- regulating a limit on upfront contributions may diminish choice[18]. CentrePort suggests there is an 'opt out' of the reliance limit by mutual agreement[19].
- the difference in cost of capital for different organisations will impact the appetite for paying more upfront cost[20]
- the approach is not consistent with the principle of cost reflective pricing or beneficiary/user pays – as required by the Authority for all other distribution charges[21]
- could result in a funding shortfall (and additional costs if a distributor has to apply to the Commerce Commission for a reopener)[22]
- maybe beyond the Authority's legal mandate as it caps connection revenue[23]

Capacity rights

BEL's initial submission raised several questions about the issue of capacity rights. Other submitters have also commented on implications from the proposals to the allocation and use of network capacity, including:

- The consultation paper refers to capacity rights and the tariff structure based on capacity implying ownership and the exclusive right to use that capacity. Ownership comes with the perception of something that is tradeable. This is dangerous territory[24]

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[15] See Counties Energy response to Q20 in their submission, Electra Trust pg 3 of their submission; Horizon Networks response to Q19 of their submission; Vector; Wellington Electricity; Westpower response to Q13 in their submission

[16] Counties Energy Trust pg 3-5 of their submission; ENA submission; Entrust pg 1 & 4 of their submission; Network Waitaki response to Q12 and Q13 in their submission; The Lines Company submission; Vector paras 111-124 in their submission, Waipa Networks; Waitaki Power Trust response to Q12 & Q19 in their submission; Westpower response to Q12 in their submission

[17] See Aurora response to Q2 of their submission; Counties Energy pg 4 of their submission; Counties Energy Trust pgs 2 & 5 of their submission; Waipa Networks; Business Energy Council notes "The Authority's proposal to prevent lines companies from further raising their connection prices will come at a cost to existing customers" para 26 of their submission.

[18] See PowerNet submission. Business Energy Council supports "regulation providing a backstop against the abuse of monopoly if EDBs and access seekers cannot agree terms" (para 30 of their submission)

[19] CentrePort response to Q13

[20] See ChargeNet and Contact Energy responses to Q1

[21] See Counties Energy pg 5 of their submission; Electra pg 3 of their submission; Horizon Networks pg 11 of their submission

[22] See Business Energy Council para 30 of their submission; Counties Energy; Vector; Transpower

[23] See Horizon Networks pg 11 of their submission; Vector

[24] Electra pg 3; ETNZ pg 5; Horizon pg 3; Wellington Electricity response to Q6

- Connecting parties often request higher capacity than they need. How should this 'banked' capacity be treated? [25]
- With capacity rights the Authority is creating the unintended consequence of reducing network optimisation with consequential increasing costs for all customers[26]

Concluding remarks

Network capacity is in relative terms 'cheap' when existing capacity is available until a point is reached when no further capacity is available, and network investment is required. The key complexity with connection pricing is deciding on how the cost of network investment can be most reasonably & fairly recovered. What is clearly lacking is a general understanding of the different approaches which are employed and an overall framework which explains their differences and provides some transparency about the cost recovery decisions which have been made.

There should naturally be some disincentive for access seekers (through higher connection pricing) to connect to parts of the network that do not have significant capacity available. Access seekers that create the need for a significant upstream network upgrade, or are the first users of the additional capacity created, can be thought of as being similar to the pioneers of network extensions (but with respect to the network upgrade rather than the network extension). In general terms the further upstream an upgrade is:

- the more likely the additional capacity created will be used by multiple access seekers now and in the future
- the greater the additional capacity created and the cost of the upgrade is likely to be
- the less reasonable it is for the latest access seeker to fully fund the upgrade – for all but the largest access seekers
- the less the incremental cost of adding additional capacity at the time of an upgrade

How network investment can be managed (location, timing and size of capacity upgrades), and the cost recovery approach employed, to create the 'best' long term outcome will in many cases be dependent on a Distributors judgement & foresight about how the future use and requirements of the network. The challenge here is to design and implement a simple connection pricing methodology which provides access seekers with transparent information about connection charges for network capacity. In order to satisfy these requirements any methodology will need to be based on assumptions and therefore be approximate.

BEL agrees with Wellington Electricity: "given the likely impact on EDB administration costs of many of the proposals, the issues with the problem statement, and the practical difficulties of implementation and administration we strongly recommend that the EA defer the implementation until a more complete evaluation and design has been undertaken". [27]

BEL would appreciate the opportunity to be involved in further consideration of connection charges. Our strongly preferred approach is for the Authority to work with stakeholders to develop best practice guidelines regarding connection charges and monitor uptake of these guidelines, particularly by distributors experiencing high growth in new connection applications.

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[25] WEL Networks response to Q10 & Q11 in their submission; Network Tasman pg 2-3
[26] Waipa Networks Trust pg 3
[27] Wellington Electricity response to Q14
https://www.ea.govt.nz/documents/6273/Wellington_Electricity_-_DCP_submission_2024_Redacted.pdf

This approach can be more targeted and therefore realise economic efficiencies compared to the current approach which is to regulate (and impose costs on) all distributors even when some, like BEL, are processing very few new connections of significant size.

BEL is in the same position as a number of other smaller EDBs and we agree with EA Networks that "*While we understand the driver to provide a consistent approach for customers who engage across New Zealand, we feel the Authority should take into consideration the different characteristics, scale, customer base, and capability of EDBs. This impacts the cost to benefit ratio, given some may be required to implement processes well beyond what is required for (as example) a small number of DG applications a year or a small number of EV charging station applications a year*". "*EA Networks suggests that rather than regulating within this space, providing guidance on industry best practice will enable EDBs across New Zealand to best meet customer needs that is contextualised to the nature and the area that the network company operates.*"[28]

Buller Electricity Limited

[28] EA Networks submission page 1