

24 January 2025

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Sent via email: connection.feedback@ea.govt.nz

Dear Tim

Distribution connection pricing

1. This is a cross-submission from the Major Electricity Users' Group (MEUG) on the Electricity Authority's (Authority) consultation paper *Distribution connection pricing proposed Code amendment*¹ published on 25 October 2024.
2. MEUG members have been consulted on the approach to this cross-submission. This cross-submission does not contain any confidential information and can be published on the Authority's website unaltered. Members may lodge separate cross-submissions.

Summary of MEUG's points

3. There is a high degree of interest in the electricity distribution connection process and pricing, as evidenced by the large number of submissions and expert reports provided on these two consultation papers. MEUG is encouraged that all submitters are aligned with the intent of the Authority's work – to ensure an efficient and cost-effective connection process for customers, that can meet the expected demand growth across the country. The divergence in views appears to be centred around:
 - The scale of the problem and what customers or customer segments are driving the need for improvements / changes to the connection pricing.
 - The regulatory approach taken by the Authority, with customers endorsing the use of Code changes, while many EDBs preferring the use of principles-based interventions.
 - The timing for introducing the changes, which needs to balance the call from consumers for improvements against the impact on distributor resourcing.
4. MEUG strongly supports a "causer pays" approach to distribution connection pricing, ensuring that there are no cross-subsidies between access seekers and existing customers. We consider that if the access seekers (causers) face the true cost of an upgrade or new

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

connection, this can also drive the development of alternatives, and possibly lower-cost options (i.e. battery storage, demand side response).

5. MEUG supports the Authority proceeding with some of the proposals put forward in this consultation paper. However, we recommend the Authority halt implementation of the reliance limit pending more thorough consultation with EDBs and consumers to improve the evidence base for the problem definition, the groups of customers that are affected, the potential impacts on existing customers and the intervention logic of any proposed change. Further attention also needs to be given to analysing and benchmarking the actual costs of connections, identifying outliers and the reasons for them, and ensuring customers are paying a fair price for their connections, reflecting the underlying costs and general market conditions.
6. Given the large number of submissions received, MEUG has reviewed all submissions but not had the ability to interrogate all points raised, particularly information provided through expert reports. MEUG would welcome the opportunity for a workshop with EDBs and other interested stakeholders on the key issues and points of difference raised through this consultation process. A workshop could also enable submitters to review and question the findings raised through the expert reports. We expand on these points below.

Ensure regulatory interventions well targeted

7. From MEUG's review of submissions, there is clear support for the Authority's objectives but disagreement about the strength of the case for intervention:
 - Consumers such as BP have provided evidence of the variations that they have experienced for similar works across different EDBs, providing useful evidence to inform the Authority's decisions.
 - In contrast, EDBs have questioned whether it is only certain types of customers who are facing issues with connections, given that many customer connections are undertaken each year with no issues. There seems to be a view among some that greater attention may need to be given to EV charge point operators, given the scale and location of the connections.
 - EDBs question whether variations between regions and increases in connection pricing are a definite sign of inefficiency.
 - There is also debate about the actual level of competition that EDBs face, with many EDBs not seeing themselves as monopolies when it comes to new connections. MEUG reiterates our view from our primary submission – there is a clear imbalance of power between an EDB (a monopoly) and customers.
8. Many submitters are calling for greater problem definition and improved cost benefit analysis (CBA) before the Authority proceeds with any of the proposals. There is also support for the Authority evaluating the package as a whole (across the two consultation packages), to understand the full impact and benefits of the proposals.
9. MEUG has some sympathy for these views and would encourage the Authority to publish an updated problem definition and CBA as part of its decision paper, to ensure the case for intervention is made clear. An updated CBA should also look more deeply at the risks and benefits of the proposals on new customers **and** networks' existing customers. MEUG would welcome further evidence and reassurance that any changes are in the long-term interests of **all** consumers.

Differing views on urgency of this work and level of intervention

10. There is also disagreement about the urgency and timing for this package of work and the type of intervention pursued. From many customers perspectives, including MEUG, action in this area has been a long time coming. The Authority was previously perceived as being slow to act, relying on a principles-based approach and leaving the sector to drive improvements, with mixed effect. Improvements are needed in a timelier manner, given the number of projects already being developed across the country, and the Prime Minister's focus on a growing economy.²
11. In contrast, most EDBs, ENA and Energy Trusts of New Zealand (ETNZ) are concerned with the rushed pace of this work and impact it will have on EDBs resources. Many submitters outlined how this consultation process was undertaken at a less-than-optimal time – at a time of year where EDBs are busy with regulatory / pricing activities, and across the Christmas / Holiday period when there are limited staff to input and review the material. EDBs also want to see a principles-based approach first or a phased transition, particularly given varying views on the scale of the problem.
12. It has been helpful to understand parties' views on how this workstream interacts with the broader regulatory environment for EDBs. Vector has raised concerns about the interaction of this work with the Part 4 / Commerce Commission regime for regulated EDBs and some parties believe that the Authority has gone beyond its mandate. From MEUG's perspective, it is important that:
 - There continues to be clear regulatory rules that stop assets that were paid for by capital contribution from entering the Regulatory Asset Base.
 - The treatment of vested assets is clarified.
 - The Authority's package for full reform seeks to align with upcoming regulatory periods, to avoid unnecessary levels of price-quality path re-openers.
13. It would be helpful to get direct feedback from the Commerce Commission on the interaction of this work with Part 4 and the regulatory framework for EDBs.

Remove reliance limit from first phase of proposed changes

14. From our review of the submissions, MEUG considers that there is not a lot of support for introduction of a reliance limit, and if so, setting the reliance limit at 47%. Many other submitters discuss the lack of evidence supporting this proposal, that the limit of 47% seems arbitrary, the number of unintended consequences possible from this intervention and question how this would assist consumers.
15. MEUG recommends that implementation of the reliance limit is halted until greater evidence and intervention logic can be established. This is a clear example where the use of a targeted workshop between the Authority, EDBs and consumers would help clarify understanding of the underlying problems, assess the costs, benefits and risks of intervention, and identify the most effective and efficient changes in the interests of both new and existing customers..

² [State of the Nation 2025](#), Rt Hon Christopher Luxon speech, 23 January 2025

Need to address the actual cost of connections

16. What is still missing from the Authority's package of work is clear analysis of the actual costs of connections paid by customers, the drivers of variations between connection charges and the credibility of the explanations for the variations. All consumers need to understand if they are paying a fair price for their connection that reflects underlying costs and general market conditions. There will naturally be variations in cost based on customer type, location of the connection, technical requirements for the connecting customer. However, MEUG believes that it is critical that the regulator has oversight of actual costs, looking for any outliers and understanding the distribution of costs.
17. While the Commerce Commission is not able to benchmark EDBs, we consider that the Authority is well placed to do this work. It can request information from market participants through section 46 requests, holds considerable information on EDBs through existing work streams and has a market monitoring function.

Finding a path forward for improving connection pricing

18. MEUG is supportive of progress being made on electricity distribution connections – both the pricing approach and the process for connecting customers. There is a clear need for greater transparency and standardisation (of at least terminology and high-level processes), to support the demand growth forecast across many of New Zealand's distribution networks. It is critical that the Authority upholds the "causer pays" approach and avoids any measures that would see cross-subsidisation between new access seekers and existing customers.
19. We encourage the Authority to identify the most viable, least regrets package of proposals to introduce in the coming year, before proceeding with the proposed changes (which may limit the potential for wider reform). From MEUG's perspective, we want to see this include the following measures:
 - Introduction of the least-cost scheme.
 - Use of pioneer schemes. We recommend that the Authority work with EDBs / ENA to ensure admin costs are kept as low as possible, and the timeframe for the pioneer capacity scheme should be set via agreement of the parties involved.
 - Upgrade contributions (if any) to be based on published rates and applied as network capacity headroom consumed
 - Breakdown of connection charges.
20. We encourage the Authority to start socialising its roadmap to full reform and make use of the Electricity Authority Advisory Group (EAAG) and existing sector working groups to get input and consensus on a way forward.

Welcome opportunity to discuss our comments further

21. If you have any questions regarding our cross-submission, please contact MEUG on 027 472 7798 or via email at karen@meug.co.nz.

Yours sincerely

Major Electricity Users' Group