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Submissions
Electricity Authority
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DISTRIBUTION CONNECTION PRICING CONSULTATION

Network Waitaki welcomes the opportunity to cross-submit on the "*Distribution Connection Pricing*" consultation.

No part of our cross-submission is confidential.

Having reviewed the submissions received by the Electricity Authority (Authority) on the consultation paper, our views expressed in our submission on 20 December 2024 remain unchanged.

Like other Electricity Distributors (EDBs), we are very concerned about the complex nature of the proposal and the cost impact on our existing consumers (both the fast-track and full reform stages) with no obvious benefit and to solve a problem that is not clearly defined and not supported by any empirical evidence. We agree with Westpower that regulations should be right-sized, fit for purpose with the focus on simplification rather than complexity.

Our cross-submission consists of some general high-level observations, and comments on the Reliance limit, Pioneer Scheme and Connection Charge Reconciliation methodology in particular.

1 General observations

Network Waitaki believes the case for the proposed regulatory change lack sufficient evidence to support what has been proposed which would introduce significant cost and complexity to operate. We request the Authority to take time to consider the proposed feedback rather than fast-tracking changes that submitters raised significant concerns with. Taking the time now to address these concerns will result in a superior outcome for the industry.

1.1 **Case for costly, heavy-handed intervention has not been made**. Overall, the 60 submissions underscore our contention that the argument by the Authority for the proposed costly, heavy-handed rules-based intervention has not been made.

1.1.1 Seventeen out of the sixty submissions are generally supportive of the Authority proposals as per the consultation paper.

1.1.1.1 The 17 generally supportive submissions consisted mostly of retailers and other energy entities, including generators and charge point operators who predictably generally consider the expected outcome

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of transparency, standardisation and consistency across EDBs as positive.

1.1.1.2 We agree that there is a need for some standardisation of terminology.

1.1.1.3 We disagree that for the sake of standardisation and consistency these proposals be implemented. The proposals will add complex processes and increase costs for existing consumers while also transferring the risk of recovery of connection cost away from connection applicants to existing consumers.

1.1.2 Like other EDBs we support efficient connection pricing but **favour a principles-based approach** that allows for innovation and flexibility. Concerns on the Authority rules-based proposal include:

1.1.2.1 Theoretical problem definition with no robust empirical evidence as a basis to mandate extensive connection pricing rules.

1.1.2.2 Lack of consideration for the interests of existing customers:

1.1.2.2.1 Transferring commercial risk from new to existing customers – as a result of the duration over which revenue will be recovered under the cost reconciliation methodology (in full reform) and lack of security should customer exit early.

1.1.2.2.2 All elements (including the pioneer scheme, capacity costing, incremental cost reconciliation methodology) of the proposals will require additional cost, and resources to implement – all of this will be paid for by consumers.

1.1.2.3 Different regulatory treatment of Transpower[1] vs EDBs

1.1.2.4 Unusually rushed approach with no consideration of unintended consequences.

1.1.3 Sapere, on behalf of Drive Electric, recommends a rewrite, stating the paper lacks ambition and pricing is confusing. They conclude that nothing changes regarding connection pricing in the fast-track proposal.

1.1.4 Houston Kemp[2], on behalf of Vector and Orion found that although the Authority used the connection pricing arrangements in Australia as inspiration it did not understand it well and that the way the framework is applied in Australia is different than what is portrayed by the Authority.

1.2 We agree with the majority of submissions who are imploring the Authority to “slow down”, to consider the real drivers of the problem[3] rather than rushing into changes without considering the unintended consequences of which the biggest one is higher cost to consumers. If “Charge Point Operators” are the concern to rather consider targeted regulation to facilitate investment.

1.2.1 We agree with Unison and Centralines and other EDBs that more evidence, specialist industry input and economic analysis is required to protect

[1] Vector submission, p. 19 and Waipa submission, p. 7

[2] Vector submission. Section six of the Houston Kemp report (P. 103 of the Vector submission)

[3] The problem appears to be support of Government’s goal of deploying 10 thousand EV charges by 2030.

consumers and industry from expensive and inefficient consequences of this fast-track proposal.

1.2.1.1 We agree with ETNZ and other EDB Trusts that:

1.2.1.1.1 This consultation is a poor regulatory process,

1.2.1.1.2 The Authority should slow down with this proposal,

1.2.1.1.3 It is overly complex,

1.2.1.1.4 The cost of compliance will be excessive and

1.2.1.1.5 Existing customer will have to pay the cost and will eventually be taking on the risk of stranded assets.

1.3 **Problem definition is not based on evidence**. We agree with the significant number of submissions that expressed concern about the theoretical nature of the consultation with no accompanying evidence, case studies of parties' disadvantaged, quantification to support the problem and the assumed lack of efficiency in connection pricing.

1.4 **In contrast with the theoretical nature of the Authority's consultation is the experience with the UK regulator** Ofgem's consultation process[4] that contains **clear empirical evidence** supporting the problem they identified. This is an example of good regulator practice where a problem was defined through gathering of robust evidence to support regulatory decisions.

1.5 We share concerns with other parties (ETNZ and other EDB Trusts) that the poor problem definition may be driven by *a small number of connecting parties resulting in increased risk and charges to existing consumers*.

1.5.1 The Business Energy Council (BEC, p. 6) expressed concern that the proposal may not be sufficient to support government's goal of deploying 10,000 EV chargers.

1.5.2 If this goal is the driver for the proposed heavy-hand approach to connection charges and it is not sufficient and CPOs do not pay the true cost of connection who will then be the losers, but existing consumers?

1.6 We are concerned about the comments made in the Vector submission by Houston Kemp[5] that there is **diversity in the connection charges regime in National Electricity Market (NEM) in Australia**. They indicate that this differs from how it is represented by the Authority in the consultation and reflected in the proposal, e.g. significant diversity exist in connection pricing in the National

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[4] Vector submission (p. 54) (P. 12 of Axiom Economics report in Vector submission, *Economic review of problem definition) (www.ea.govt.nz/projects/all/distribution-connection-pricing-reform/consultation/distribution-connection-pricing-proposed-code-amendment/)*

[5] Vector submission (p. 103) (P. 30 of HoustonKemp report in Vector submission, *Review of the Electricity Authority's proposed distribution pricing Code amendment*) *(www.ea.govt.nz/projects/all/distribution-connection-pricing-reform/consultation/distribution-connection-pricing-proposed-code-amendment/)*

Electricity Market (NEM) in Australia as opposed to “moderate consistency” implied by the Authority.

1.6.1 Our understanding from the consultation was that the proposals were inspired by Australian practice and we assumed that these proposed practices must be what is applied consistently across Australian Electricity Distributors.

1.6.2 This underscores the point that differences in connection charge approaches across electricity distribution businesses do not automatically equate to inefficiency.

1.7 We agree that **inconsistency in connection charges across EDBs do not necessarily mean connection charges are inefficient**. As per Axiom Economics (p. 64 of the Vector submission) the Authority has provided no evidence that new connections were abandoned due *to ‘excessively high’ divergences in approaches across EDBs*.

2 Reliance limit

2.1 We agree with EDBs, consumer trusts and others (including MEUG, Transpower, and Fonterra) that the reliance limit should be removed.

2.2 We agree with EDBs that the Reliance limit is not good regulatory practice in that there is:

2.2.1 No direct link between historic averages and connection forecasts and system growth forecasts,

2.2.2 A difference in timing of receiving capital contributions vs incurring actual capex,

2.2.3 Outlier years that are ignored, and

2.2.4 Contributions relating to vested assets that are not included.

2.3 To not exceed the arbitrary limit an EDB will need to consider inefficient practices with existing customers having to bear the brunt of any additional cost that needs to be incurred, e.g. increasing the RAB with existing consumers having to pay increased line charges while lowering connection charges for new access seekers.

2.4 We agree with Axiom Economics[6] analysis that the reliance limit serves absolutely no purpose and that the thresholds are arbitrary and not based on economic theory. Even using a four-year historical average will not produce an efficient benchmark of the overall level of capital contributions.

3 Pioneer scheme

3.1 We support Wellington Electricity’s recommendation to **not proceed with the Pioneer Scheme** as it will require an unnecessary administrative and costly burden, but rather require EDBs to have a mechanism in place to address first

[6] Vector submission (P. 61) (P. 19 of Axiom Economics report in Vector submission)

mover disadvantage. Many EDBs have schemes in place to address first-mover disadvantage.

3.2 We agree with the majority of EDBs that the proposal is overly complex and will be costly to administer for little or no extra benefit to consumers. We support Northpower's concerns that the proposed duration is unreasonable and concerns on threshold and practical implementation issues.

3.3 We agree with Horizon that there will be significant administrative overhead cost to identify, publish and administer all pioneer schemes on the network and keeping this information up to date.

3.4 Incenta[7] confirms our concern that pioneer schemes will result in a costly exercise with little benefit. Incenta indicated in footnote 17 that their information from South *Australian Power Networks' experience (with approximately 900,000 ICPs) with pioneer schemes were that the number of pioneer rebates annually has averaged at approximately 13 over the 6 years spanning 2018 to 2024. Pro rated to the New Zealand context, this is equivalent to approximately 30 pioneer rebates annually across all of New Zealand.*

3.5 We support Incenta's view on p. 13 that the Authority may have overstated the potential benefits of a pioneer scheme.

3.6 The practical implementation of a Pioneer scheme is not clear and this is obvious in most of the EDB submissions:

3.6.1 Cost to monitor, execute and enforce over a ten-year period with a proposed minimum amount of payment of $1,000.

3.6.2 What happens when there is a change in property ownership?

3.6.3 An area is not a pioneer scheme but then is later identified as one – can it be done retrospectively?

3.6.4 What if the connecting party makes a partial payment and the rest through time – how is that then allocated to a second connector.

3.6.5 Duration of ten years is excessive – as per the Incenta report in Australia the duration is 7 years.

3.6.6 Agree with Incenta that the calculation is complex – at least use a simplified calculation as is done in Australia of straightforward depreciation without inflation indexing.

4 Connection charge reconciliation pricing methodology

4.1 We agree with Counties Energy that **this methodology be removed or at least deferred until all parameters are known**.

4.2 We object to this methodology becoming a default pricing mechanism for connections as there is considerable risk for existing customers as pointed out by Houston Kemp and Axiom Economics reports in the Vector submission.

4.3 We are concerned and agree with Axion Economics, p. 45 in the Vector submission that should this methodology becomes the pricing mechanism in the

[7] Powerco and Unison submission, footnote 17 (of Incenta Economic Consulting report).

"Full Reform" stage that it is important to consider the distinction between revenue earned upfront and revenue earned subsequently, i.e. that revenue earned subsequently is not guaranteed.

4.4 Also, that it is neither efficient nor equitable for 'stranding' costs to be spread across customers who have not caused them to be incurred. This is also a concern expressed by the Authority in the Distribution Pricing Practice Note[8]. Unlike other industries, as pointed out by Axiom Economics on p. 58 of the Vector submission an EDB cannot charge exit fees because customers disconnect mostly because of their businesses failing.

4.5 EV charging sites are a high-risk connection. Axiom Economics point out on p. 59 of the Vector submission that EV charging stations often lease a new site for a period of about two years to 'test the waters'.

4.6 Houston Kemp in the Vector submission states that pricing of connection services materially below their incremental costs has significant disadvantages for economic efficiency – substantial transfer of risk from connection applicants to existing users of the distribution network.

4.7 This is similar to unsecured capital funding – essentially debt is provided by existing customers of the distribution network. As Houston Kemp states on p. 93 of the Vector submission, this pricing mechanism will be commercially very attractive, with potential inefficient decision-making by connection applicants.

4.8 We would agree that should this become a pricing mechanism that some form of prepayment or financial guarantee be allowed as is done by the Australian Energy Regulator (Houston Kemp, p. 106 of Vector submission).

5 Summary

5.1 We would like to reiterate the following points from our submission of 20 December 2024:

5.1.1 As a consumer trust owned business, we work to ensure connection costs are fair and reasonable as the feedback loop is strong and immediate if price and/or service levels are out of alignment. Our consumers have a direct means to express their views on Network Waitaki's performance through feedback to the business directly, via our Trustees (as representatives of our consumers) and ultimately through trust elections where performance is judged on whether Trustees are re-elected and whether polarising issues come to light.

5.1.2 As a matter of principle Network Waitaki already applies several of the measures in the proposed amendment, albeit in a different way - the proposed

[8] Distribution Pricing Practice Note. Edition 2.1, 2022. On p. 13. the Authority expressed the following concern about potential cross-subsidisation in capital contribution policies: "*Without a single overarching goal of contribution policies – such as to recover the proportion of costs directly related to the beneficiary - there is the scope for significant cross-subsidisation and inefficient investment.*"

Code amendments and requirements are complex, costly to implement and administratively burdensome.

5.1.3 The cost associated with implementing these new complex requirements will be passed on to our consumers who are heavily burdened already in the current high-cost environment – this is a real concern for us.

5.1.4 Connection pricing differing among EDBs is not surprising and forms part of each company's overall strategy to achieve the objectives as set out by shareholders and management and forms a key part of the overall pricing strategies for an EDB.

5.1.5 We do not agree that variation in practices contribute to a range of problems, rather it reflects the uniqueness of companies due to a range of factors, including location, customer base, ownership, strategy, objectives, characteristics and network configuration. We do however agree that a standardisation of terminology is helpful.

5.1.6 We implore the Authority not to resort to a heavy-handed form of regulation which requires a significant resource base to manage it, at significant cost and probable unintended consequences such as equitable treatment of customers, with no obvious benefit to consumers.

We thank the Authority for providing us with an opportunity to cross submit as part of the consultation process. We would like to assure the Authority that Network Waitaki recognises, supports, and takes very seriously efficiency of connection pricing.

We look forward to engaging with the Authority on any further discussions or information that might be helpful. If you have any follow-up questions regarding our cross-submission, please contact our Regulatory Manager, Cornél van Basten on 03 433 0065 or via email at cornelb@networkwaitaki.co.nz.

Sincerely

Chief Executive Officer
Network Waitaki Ltd