



## Submission on Distribution connection pricing proposed Code amendment

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## 1 Submission and contact details

Consultation	Submission on Distribution connection pricing proposed Code amendment
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## 2 Confidential information

There is no confidential information provided in this submission. This submission can be publicly disclosed.

## 3 Introduction

Wellington Electricity Lines Limited (**WELL**) welcomes the opportunity to provide a submission on the Electricity Authority's (**EA**) consultation '*Distribution connection pricing proposed Code amendment*' (**the paper**).

We support the intent of the paper, specifically, to improve access to distribution networks as the electrification of New Zealand continues. While we agree that a certain level of regulation could improve access, we disagree with the extent to which the EA proposes in the paper.

The problem definition presented by the EA appears to presume that a trend toward higher connection charges translates to a connection pricing inefficiency. This might be the case in some instances but without sufficient analysis, it would be wrong to draw the conclusion of inefficiency as a general principle. The test for inefficiency is not whether the connection charges are increasing but rather whether the charges reflect the marginal long run costs for connection. Therefore, we would strongly recommend the EA consider undertaking additional analysis before drawing these conclusions.

Regarding the specific areas of the proposal set out in the paper, we recommend that:

- Reliance limits are excluded from regulation. The reliance limits appear to be arbitrary rather than based on sound economic principles. As such it is likely to lead to unintended outcomes over time and may need reversing in the future;
- Pioneer schemes are excluded from regulation. We believe that pioneer schemes can be used at the discretion of an EDB. If implemented as the EA proposes, pioneer schemes could create a significant administrative burden for EDBs that is likely to outweigh the benefit;
- If full reform does eventuate, it should be aligned with the DPP5 reset to avoid re-opening the price path twice within DPP4 for price-quality regulated EDBs. This also allows time to review and adjust the fast-track proposals before committing to full reform; and
- We generally support the approach of capacity-based charging for network contributions. However, whether the changes proposed by the EA might result in a net benefit is unclear and therefore we recommend that the EA considers taking an appropriate time to consider the actual impact of the network costing proposal. We suggest the network capacity costing should be removed from the fast-track proposal and considered within the full package process.

We support:

- The minimum scheme, noting that it should be clear that a minimum scheme would still need to meet minimum technical standards, including a security standard that is appropriate for the size and type of connection being sought.

We also support the ENA submission. Given the range of issues with the proposal we would strongly recommend that the EA delays implementation until after it has reconsidered the problem statement and has more thoroughly assessed the net benefits and the practicality of the proposals. As noted by the ENA, we would recommend applying pricing principles rather than the proposed rules-based approach.

Our responses to the consultation questions are set out below.

## 4 Consultation Questions

Questions	Comments
<p>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?</p>	<p>We agree with the factual content setting out the current situation and context for connection pricing. We also support the intent of the EA work programme – to improve access to distribution networks as electrification continues in New Zealand.</p> <p>However, the paper appears to link an increase in connection charges with inefficient connection pricing. We disagree with this presumption. Our own experience is that significant increases have been driven by increasing costs, and the growth in the type and size of connections sought by customers. As such, the basis for the view of inefficiency presented in the paper has not been substantiated.</p> <p>The presumption of inefficiency is then used in the paper as a basis for many of the proposed changes. We consider that the EA needs to provide detailed analysis supporting its proposed changes if this is to be relied upon for regulation, and a demonstration of how the proposed changes meet the requirements of the Act.</p>
<p>Q2. Do you agree with the problem statement for connection pricing?</p>	<p>As we state above, the logic in the problem statement does not hold. High or increasing connection costs do not automatically mean that the costs are inefficient. We note there seems very little evidence presented to support the problem definition, nor is there any evidence regarding the magnitude of transaction costs imposed, the degree of subsidies and windfall gains made, nor the value or cost of the inefficiencies referred to. In our view for the proposals to be implemented a clear benefit should exist, particularly in light of the increase in administration costs that would be driven by the proposals. These are additional costs that will be borne by consumers and as such significantly more rigor needs to be applied to the determination of net benefit.</p> <p>While we agree that some standardisation of structures would be beneficial for customers with national operations, the proposals, such as capping the reliance levels, will not limit instances of wealth transfers. In our view the incidence of arbitrary caps on reliance levels are</p>

	<p>highly likely to increase the incidence of cross subsidies between existing and new customers. If the incremental cost of a new customer is high, then enabling a customer to make choices in the face of such costs is the appropriate outcome.</p> <p>We disagree that Electricity Distribution Businesses (EDBs) have weak incentives to ensure connections costs are efficient in terms of design and construction. Customers have options in terms of construction partners and therefore there is a natural discipline on connection costs.</p> <p>In addition, there are minimum technical standards that must be maintained to ensure continued operation of a network, and to ensure that a new connection does not adversely impact on existing customers. Distributors are also subject to price quality regulation, under Part 4 of the Commerce Act, along with consequential penalties if standards are not achieved. Therefore, the proposals for connection must not hamper the achievement of the expected standards (for example as a result of the minimum scheme proposal) without reconsideration of those standards. The paper does not appear to address these considerations.</p> <p>In summary, while we support the intent of the paper and there is some scope to improve efficiency, we disagree with the sentiment that there is “considerable” scope for improvement. As noted, the paper does not set out the extent of costs being imposed and as such benefits of the proposal have not been demonstrated. However, it is clear the proposals will add costs to consumers and impact on the price-quality regime regulated under Part 4.</p>
<p>Q3. Do you have any comments on the Authority’s proposed pathway to full reform?</p>	<p>We agree with taking a principle-based approach to connection pricing which results in cost reflective pricing to new connections, enabling both efficiency and continuation of open access.</p> <p>With the specification of “minimum schemes”, the EDB must be able to specify minimum technical and network standards to both keep the network operational and meet the quality requirements set under Part 4 of the Commerce Act.</p> <p>Given the issues with the problem definition, we consider the reasons for the fast track appear to be unsupported. We strongly suggest that the EA takes a more principle-</p>

	<p>based approach. We also suggest that the EA should align the timing of any full reform package to the DPP5 reset rather than re-opening the price path twice within DPP4.</p>
<p>Q4. Do you consider the proposed connection enhancement cost requirements would improve connection pricing efficiency and deliver a net benefit?</p>	<p>We note that there is already competition for construction of connections, right up to the actual interface with an EDBs network. As such, we consider that the minimum scheme and the enhancement cost requirements will have at the most a small impact on choices made by customers seeking a new connection.</p> <p>We also note that a minimum scheme would still need to meet minimum technical and security standards (so that existing customers will not be impacted by a new customers desire to connect), which will be dependent on the size and type of connection being considered, along with any impact on EDB quality standards being accounted for.</p> <p>At the end of the day, we consider that provided a customer seeking a new connection faces the incremental costs of its connection, then it is likely to result in efficient decision making by the prospective customer and existing customers will not be imposed with inefficient cross-subsidies.</p>
<p>Q5. Are there variations to the proposed connection enhancement cost requirements you consider would materially improve the proposed Code amendment?</p>	<p>For ensuring continuity of supply to existing customers, it is important that EDBs should be provided flexibility to decline non-firm/flexible connections that will impact on the supply of others.</p> <p>In addition, a connection that is requested by a customer which will likely impact an EDBs quality targets under Part 4 needs to be excluded from the regulatory quality path to avoid the EDB being penalized, simply as a result of being required by these regulations to accept a customer's request for a lower level of security that doesn't comply with a network's security policies. Alternatively, if a customer chooses to have a lower standard of connection, then this would need to be recognized by the Commerce Commission when establishing an EDB's quality targets.</p>
<p>Q6. Do you consider the proposed network capacity costing requirements would improve connection pricing efficiency and deliver a net benefit?</p>	<p>We generally support the approach of capacity-based charging for network contributions. However, whether the changes proposed by the EA might result in a net benefit is unclear given that no analysis of net benefit has been presented. It is also unclear how the proposed</p>

	<p>requirement to publish rates would interact with existing tariff structures.</p> <p>We note that existing tariffs provide revenue to cover system upgrade costs, and that different tariff structures apply depending on the type and size of connection.</p> <p>It is also not clear how the proposals will remove the “position-in-queue” dynamics. In our view it is also worth making it clear that a tariff structure based on capacity does not imply the exclusive right by a customer to use that capacity. From our experience customers are quick to jump to this conclusion and so it is important to ensure that the presentation of network capacity does not imply any form of capacity right.</p> <p>Regarding these issues we recommend that the EA considers taking an appropriate time to consider the actual impact of the network costing proposal. We therefore suggest the network capacity costing should be removed from the fast-track proposal and considered within the full package process.</p>
<p>Q7. Are there variations to the proposed network capacity costing requirements you consider would materially improve the proposed Code amendment?</p>	<p>In addition to the practical issues and the question on interaction with existing tariff structures noted in our response to question 6, our view is that the costing by network tier and costing zone would be difficult and costly to determine and administer, particularly with a highly meshed network such as we have in Wellington. Within this context appropriate determination and administration of any zero rate tier would also be difficult.</p> <p>We disagree that the proposal provides the benefits set out by the EA. We consider that the predictability is already provided by the publication of current tariff structures, consistency is already provided between new customers seeking connection to the WELL network, and risk allocation is also clear.</p> <p>Accordingly, in our view it is unclear what the benefit of the proposal would be given the additional administration costs it would impose on EDBs.</p>
<p>Q8. Do you consider the pioneer scheme pricing methodology would improve connection pricing efficiency and deliver a net benefit?</p>	<p>We disagree. We believe the administrative burden of running these schemes would outweigh the benefit in most instances.</p> <p>Pioneer schemes can run into issues/complexities with a change in ownership – both of the EDB or of the original</p>

	<p>customer. For example, it is common for a developer to incorporate a company specifically for the purpose of commissioning a subdivision and then the company is wound up upon completion to limit future liability. There are complexities around where subsequent pioneer scheme rebates go in such cases.</p>
<p>Q9. Are there variations to the proposed pioneer scheme pricing methodology you consider would materially improve the proposed Code amendment?</p>	<p>Pioneer schemes should be excluded from regulation. Pioneer schemes should only be used in specific circumstances at the discretion of the EDB.</p> <p>While pioneer schemes have theoretical appeal, in reality they can quickly become complex and are costly to administer, particularly over a longer time period. These additional costs which would be borne by the existing customer base for which there is no clear benefit. The alternative would be to require the full costs of administering pioneer scheme to be borne by the new customer, in which case they would then have the option of opting in or out of the scheme, and inefficiency of cross subsidization with existing customers would be removed.</p>
<p>Q10. Do you consider the cost reconciliation methodology would improve connection pricing efficiency and deliver a net benefit?</p>	<p>We agree with the intent to create transparency, however, as it is currently proposed in the paper it could result in existing consumers subsidising the payment of new connections.</p> <p>We agree with the EA statements that prices below the neutral point and above the bypass point are inefficient. The balance point, however, reflects an equity consideration rather than an efficient pricing consideration and therefore should not be considered as part of regulation.</p>
<p>Q11. Are there variations to the proposed cost reconciliation methodology you consider would materially improve the proposed Code amendment?</p>	<p>We suggest the EA only establishes regulation to ensure costs sit between the incremental and standalone cost points.</p> <p>The EA should also consider more flexibility in revenue life, to reflect risk profile of the connection. Standard residential and commercial revenue lives will not suffice.</p>
<p>Q12. Do you consider the reliance limits would improve connection pricing efficiency and deliver a net benefit?</p>	<p>We do not support the inclusion of a reliance limit. In our view the reliance limit is highly likely to distort efficiency of connection pricing. The economic basis for the imposition of a reliance limit is unclear. The imposition of</p>



	<p>a reliance limit does not in our view ensure or improve the efficiency of connection pricing.</p> <p>The value of the reliance limit is entirely dependent on the nature of the work being undertaken in any one year. The incidence of future connection costs are independent of historical work as they depend on the connection activity at the time. For example, a year with a low level of growth-driven network expenditure might result in a high reliance percentage, simply due to the phasing of network related works. For WELL, we note that this results in a large degree of variation in its 'reliance level' when we look at the historical and forecast numbers. As such, the selection of the reliance limit percentages appear to be arbitrary and, in our view, will likely to lead to poor and unintended regulatory outcomes over time and need reversing in the future.</p> <p>Our question is, in requiring EDBs to stay within the reliance limit in years with a low level of network growth expenditure is the EA proposing that EDBs should delay connection requests in order to remain within the arbitrary percentage limit?</p> <p>As we noted previously, the assumption made in the proposal appears to be that increasing connection changes equates to inefficiency. In our view increasing connection costs do not automatically correlate to inefficiency.</p>
<p>Q13. Are there any variations to the proposed reliance limits you consider would materially improve the proposed Code amendment?</p>	<p>We do not support the reliance limits being implemented. We consider that the proposed amendments would be improved by not including the reliance limits in the amendments.</p>
<p>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?</p>	<p>We support the use of an exemption process on an individual basis.</p> <p>However, 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. In our view there is a high risk that many of the fast-track proposals will have to be amended or removed if they are implemented as proposed.</p>

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?

Given the stage of development of the changes proposed, we consider it is premature to determine the specifics of what dispute resolution should be considered.

While we note that Schedule 6.3 (the default dispute resolution process) is an existing schedule in the Code, we do not see it as a suitable mechanism for disputes between distributors and load applicants for the following reasons:

- 1) Only disputes between distributors and applicants who are participants can be raised under the default dispute resolution process, meaning that most load applicants would be ineligible to utilise this process;
- 2) Rules and procedures for dealing with disputes are not provided. This could result in significant efforts being undertaken in relation to a dispute which may not be warranted; and
- 3) Disputes must be treated as if the notified dispute is notification of an alleged breach of the Code. This would potentially place an unnecessary administrative burden on both parties to satisfy the regulatory requirements of the EA or Rulings Panel.

As mentioned in the consultation paper, Utilities Disputes Limited (UDL) already operates the Energy Complaints Scheme, which is the industry's approved dispute resolution scheme under the Electricity Industry Act 2010.

However, this scheme may not be appropriate in resolving disputes about the application of pricing methodologies to connection charges, as UDL is unable to accept a complaint for consideration "if it is about the price a Provider chooses to set for their goods or services." (General Rules paragraph 15(a))<sup>1</sup>.

As such, we reiterate that the EA should consider this matter further prior to making any changes.

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<sup>1</sup> H [REDACTED]  
Disputes-1-April-2019.pdf

<p>Q16. Are there variations to the proposed dispute resolution arrangements you consider would materially improve the proposed Code amendment?</p>	<p>Given the stage of development of the changes proposed, we consider it is premature to provide any further feedback at this stage.</p> <p>It needs to be clear in the Code that until full reform is implemented, connection pricing remains at the discretion of the EDB.</p>
<p>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.</p>	<p>Given the stage of development of the changes proposed, the imposition of terms should be delayed until the consequences are assessed and understood.</p> <p>At this stage, it is our view that the existing distributor agreement (DDA) should take precedence as the overarching contractual agreement for load consumers. This is because we have an interposed arrangement with traders who hold relationships with customers.</p> <p>We also note that the DDA includes dispute resolution provisions for disputes between a distributor and trader.</p> <p>However, should the EA choose to apply terms for distributors and load applicants, we consider that contractual terms would be preferable due to the reasons outlined in paragraph 5.249 of the <i>Network connections project – stage one amendments</i> paper.</p> <p>Notwithstanding the above, we have provided feedback on the EA’s proposed regulated and prescribed terms in our separate submission on <i>Network connections project – stage one amendments</i>.</p>
<p>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?</p>	<p>We do not agree with the imposition of the reliance limits. Imposition of additional mechanisms around the implementation of the reliance limits are highly likely to create even further distortion to efficient outcomes.</p>
<p>Q19. Do you think any element of the fast-track package should be omitted, or should begin later than the rest of the package?</p>	<p>Reliance limits and pioneer schemes to be removed from regulation. The implementation of network capacity costing also requires careful consideration and therefore should be removed from the fast-track package.</p>
<p>Q20. Are there other parameters you think the Authority should consider for the proposed</p>	<p>WELL does not have any additional parameters for the EA to consider.</p>

connection pricing methodologies? If so, which ones and why?	
Q21. Do you agree pricing methodologies should apply to LCC contracts? If not, please explain your rationale.	We consider that LCCs should be flexible to reflect the specific circumstances, including the scale and complexity. This allows meaningful engagement by both parties. We therefore disagree and consider that the pricing methodologies should not be imposed on LCC contracts.
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.	No comment.
Q23. Do you have any comments on the impact of reliance limits on incentives to increase prevalence of asset vesting?	We do not agree with the imposition of reliance limits as discussed previously.
Q24. Do you agree the proposed methodologies are compatible with contestable connection works? If not, please explain your rationale.	In our view connection works are, to a large extent, already contestable, and contestability is not dependent on the proposed methodologies. In many cases the proposed changes will simply add cost to customers with little or no additional benefit.
Q25. Do you agree that fast-track methodologies should not apply to embedded networks? If not, please explain your rationale.	No comment.
Q26. Do you have any comments on the Authority's anticipated solution for longer-term reform?	The timelines for full reform proposed are too short. In our view a rushed decision making could lead to poor regulatory decisions, impacting consumers and imposing costs that are unnecessary for customers.  We propose the EA provides more analysis and support to justify the problem statement before the reform is implemented.
Q27. Are there other alternative means of achieving the objective you think the Authority should consider?	Alternatives have been provided throughout this submission to certain proposals made by the EA.

## 5 Closing

WELL appreciates the opportunity to provide a submission on the Electricity Authority's consultation paper '*Distribution connection pricing proposed Code amendment*'. If you have further questions regarding any aspect of our submission please contact Peter Anderson, Commercial and Regulatory Analyst, at [REDACTED]