ENA submission on distribution connection pricing proposed Code amendment consultation paper

Submission to the Electricity Authority

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1 Introduction

Electricity Networks Aotearoa (ENA) welcomes the opportunity to make a submission to the Authority on its consultation paper on "*distribution connection pricing proposed Code amendment*".

ENA is the industry membership body that represents the 29 electricity distribution businesses (EDBs) that take power from the national grid and deliver it to homes and businesses (our members are listed in Appendix A).

EDBs employ 10,000 people, deliver energy to more than two million homes and businesses, and have spent or invested $8 billion in the last five years. ENA harnesses members' collective expertise to promote safe, reliable, and affordable power for our members' customers.

2 Executive summary

ENA supports the intent of the Electricity Authority (Authority), to ensure there are no barriers in the way as we electrify Aotearoa. We need to power more things — like our homes, cars and businesses — with electricity generated from renewable energy sources like solar, wind, hydro and geothermal. This will include many new connections to our electricity networks.

ENA supports the Authority in providing clarity on efficient connection pricing

Efficient and cost-reflective distribution connection pricing is an important aspect of the electricity transition. Lines companies do — and will continue to — play a critical role in helping Aotearoa to achieve net carbon zero by 2050. ENA supports the Authority in clarifying how EDBs can ensure connection pricing is structured to allow efficient outcomes for all customers.

ENA agrees that pricing below incremental cost and above standalone cost is inefficient. We also support increased transparency, using standardised language to demonstrate to connecting parties how EDBs' pricing decisions represent efficient prices that are in the long-term interests of consumers.

Outcomes in the long-term best interest of consumers are required

There are, however, many aspects of the Authority's proposals that are inconsistent with good regulatory principles, and there are implications that will create outcomes that are not in the long-term best interest of consumers.

In summary, ENA recommends:

- The Authority, implements principles-based regulation to allow EDBs to flex and innovate to resolve this complex problem in the best interest of consumers in an ever-evolving landscape.
- Well before requiring EDBs to implement change, the Authority is clear on where problems exist and what the appropriate solutions are including the use of worked examples.
- More analysis is conducted to ensure implications are well understood, and appropriate regulation can be implemented in an orderly manner.
- A more balanced approach to regulation is provided. The proposals are heavily focused on restricting the value of capital contributions, with limited focus on the implications of undercharging.
- The Authority better manages expectations by clearly defining the problem definition, acknowledging that variances in pricing outcomes do not necessarily reflect an issue. They may reflect appropriately determined efficient pricing outcomes.

ENA also has concerns with how the Authority proposes to assess connection pricing decisions through the connection pricing reconciliation.

Concern with rushed decision-making

Rushed decision-making will have unintended consequences that affect the already finely balanced cost-benefit analysis. It can result in poor decisions and unfavourable consumer outcomes. These decisions will have a generational impact, as they affect long-life assets and even longer connection relationships. Poor connection pricing decisions will be further compounded by the current Authority proposal to require some connection pricing decisions (such as network capacity rates) to remain in place for at least a two-year notice period.

ENA has concerns with the consultation timelines, the lack of clarity in what is proposed, and the implementation timeframes. While we acknowledge and appreciate the Authority providing additional time for this submission, we note the submission process has still been difficult due to uncertainty about how the proposed changes are to be applied. This is likely to be evident from the diverse responses from EDBs on the proposals.

Feedback on specific proposals

The ENA is aware of the Authority's stated objective to apply a rules-based approach rather than a principles-based one, and its need for urgency to address perceived economic inefficiency. Accordingly, our submission includes feedback on the practical implementation of the rules-based approach outlined in the Authority's consultation documents.

A summary of key concerns is set out in Table 1 below, with further details set out in Section 4.

Table 1: Summary of ENA feedback on Authority proposals

AUTHORITY PROPOSAL	SUMMARY OF KEY ENA VIEWS	RECOMMENDATIONS
Connection charge reconciliation pricing methodology	- The intention to create transparency is generally supported. - There is a need to ensure it doesn't become default regulation through the dispute resolution process. - As currently proposed, it could result in existing consumers unfairly helping to pay for new connections or connecting parties not paying their fair share.	- Reconciliation should include future costs, including a fair contribution to shared future costs, alongside future incremental revenue. - The Code should be clear that pricing decisions are still at the EDB's discretion. - The life of the revenue stream is flexible to allow for durations that reflect the risk profile of specific new connections. - The Authority should work with the Commission to understand the implications of the combined regulation on price-quality regulated EDBs.
Network capacity costing requirements	- Support the intent to share costs and avoid last-mover disadvantage. - Support standardisation, with a carve-out for large or unusual connections. - Concern regarding how it interacts with reliance limits. - The option to opt out at zero is not a viable alternative, as it will lead to inefficient pricing.	- Include the ability to carve out based on size, such as connections to the HV network. - Commerce Commission (Commission) should clarify that it meets the capital contribution definition.

AUTHORITY PROPOSAL	SUMMARY OF KEY ENA VIEWS	RECOMMENDATIONS
Reliance limits methodology	- Support the use of economic principles as guardrails, not the use of reliance limits. - Significant concern that the proposed limits are not based on appropriate supporting data or principles. - Creation of perverse incentives. - Unknown consequences, as not all EDBs have had sufficient time to understand the implications for their businesses.	- Remove the requirement or, at the least, provide an exemption process. - Address the implications of different treatment of vested assets and infrastructure development contribution (IDC).
Connection enhancement cost requirements	- Generally supported, including support for mutual opt-out.	- EDBs are provided with the ability to exclude flexibility options where they are not in the long-term best interests of consumers.
Pioneer scheme pricing methodology	- Support the intent to avoid first mover disadvantage. - Administrative burden and questions around cost-benefit analysis.	- Various refinements are proposed to allow EDBs to right-size the instrument for their situation. - Schemes are only required to remain in place for seven years.
Exemptions	- Support the option to defer implementation during transition.	- It may be more efficient to defer implementation if it is likely many EDBs will require exemptions. - The Authority confirms it will initiate the section 54V process.
Dispute resolution	- Support the intent and principles, including leveraging current dispute processes. - Concern that the disputes process may lead to enforcement of reconciliation. - Administrative burden if the disputes process is needed to educate customers on efficient pricing principles.	- The Code is clear that pricing is still at the EDB's discretion.
Full reform	- Support the intent of implementing economic principles into connection pricing. - Support a phased approach. - Support further consultation before implementing a full reform solution. - The ability to learn from phase 1 decisions is limited.	- Full reform is not required to be reflected in connection prices until the start of DPP5.

3 Context, principles and objectives

This section sets out the ENA's views on the context of the proposed regulatory change, including economic and good regulatory principles. It also outlines our concerns about the implementation timing and why the ENA believes there is a real risk that the change could create outcomes inconsistent with the Authority's objectives and the long-term best interests of consumers.

3.1 Context

Diverse and complex current state

ENA acknowledges that connection pricing is complex and that varying outcomes in connection pricing, along with the current inconsistency of approaches across the EDBs, can create confusion for potential connecting parties.

However, each EDB, in its own way, is trying to achieve what it believes is a fair and cost-reflective outcome for its consumers. There are many ways to approach this problem, and therefore many different solutions have evolved.

Connections and connecting network situations are often diverse and complex. While urban residential connections, for example, can be relatively straightforward and can lead to consistent connection pricing outcomes across networks, many commercial, industrial, and rural connections are unique and will require outcomes that may be consistent in approach but result in varying pricing outcomes.

Geographic profiles, network configurations, and many other factors mean that a 'one size fits all' connection pricing outcome is unlikely to be appropriate or efficient. Any attempt to regulate connection pricing needs to consider this variability, allow for sufficient flexibility, and ensure there are no perverse implications.

Of specific concern is the Authority's reference in the consultation paper to variations in connection pricing outcomes as evidence of a problem. The Authority needs to be clear on what outcomes are problematic, including supporting evidence that the outcomes are not efficient and why.

No evidence existing connection pricing approaches are causing consumer harm through inefficient pricing

ENA agrees that "connection pricing is a fundamental component of network access."[1] We also agree with the characterisation of the current state as set forth by the Authority:

> *"In some networks, connection charges are very low, so newcomers wanting to connect to a distribution network, like a large manufacturer, are effectively being subsidised by existing users on that network. Elsewhere, connection charges can be very high, which can be a barrier to newcomers and inefficiently dampen connection demand."*[2]

We note that the Authority asserts this inconsistency "is likely slowing down electrification and adding unnecessary costs that can flow through to consumers" [emphasis added].[3] However, nowhere in the consultation paper is evidence provided that the inconsistency in pricing outcomes is inefficient or that any of the varied prices are inefficient.

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[1] Electricity Authority, Distribution connection pricing proposed Code amendment, page 2
[2] Electricity Authority, Distribution connection pricing proposed Code amendment, page 2
[3] Electricity Authority, Distribution connection pricing proposed Code amendment, page 2

Increasing reliance on capital contributions may not be evidence of a problem

The data presented by the Authority shows an increasing reliance on capital contributions by EDBs over time. The Authority then uses this as evidence to support the need for the work being undertaken. However, the Authority has failed to ascertain the driver of the increase or whether the increased reliance is a signal that prices are inefficient.

The increase in capital contributions may relate to different pricing approaches, different accounting and disclosure treatments, or even a move by EDBs towards more efficient or fairer connection pricing.

The ENA recommends that the Authority better understand the problem before introducing rushed regulation.

3.1.1 Objectives of the proposed regulation

We understand that the Authority expects its proposed amendments to connection pricing to:

> *"make access to distribution networks more complete, consistent, streamlined and robust. These improvements aim to facilitate the timely and efficient investment in electrification of businesses, transport and industrial processes, which over time, benefits all New Zealanders.*
>
> *We expect having more efficient, more streamlined connections will flow through to a range of benefits to the electricity system, such as opening the door to more flexibility, more regional resilience, more innovation and strengthened security of supply."*[4]

The Authority also states that:

> *"one clear impact is greater consistency (between distributors) and greater use of pricing features that promote efficient investment, including by improving predictability, consistency and incentives for applicants. This should reduce barriers to new connections, helping to reduce the cost of electrification, housing development and business growth."*[5]

The ENA has also considered the Authority's statutory objectives, being:

> *" to promote competition in, reliable supply by, and the efficient operation of, the electricity industry for the long-term benefit of consumers.*
>
> *" The additional objective of the Authority is to protect the interests of domestic consumers and small business consumers in relation to the supply of electricity to those consumers"*[6]

ENA supports flexibility and innovation through the application of principles-based regulation

ENA agrees with the Authority that flexibility is key to the design of efficient connection pricing methodologies. However, as currently designed, there are limitations in the Authority's proposals that have the potential to undermine current flexibility and result in unintended consequences.

ENA recommends that the Authority apply pricing principles rather than the proposed rules-based approach. Principles-based regulation allows for greater flexibility and empowers EDBs to flex and innovate in the ever-changing electricity environment to create solutions that meet customer needs.

The Authority has not provided sufficient evidence to demonstrate that rules are more appropriate for connection pricing, while a principles-based approach has effectively been applied to line charge pricing.

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[4] Electricity Authority, Distribution connection pricing proposed Code amendment, page 2

[5] Electricity Authority, Distribution connection pricing proposed Code amendment, page 2

[6] Electricity Industry Act 2010 (Act), section 15.

Predictability and consistency

We agree with the Authority that some of its proposals for the following fast-track measures will provide increased predictability and consistency, namely:

- Network capacity costing requirements
- Pioneer schemes
- Connection enhancement cost requirements

It should, however, be made clear that the predictability and consistency will only be in the approach applied. Consistency in connection pricing outcomes may decrease as EDBs apply the above proposals and connection pricing reflects economically efficient and fair pricing. Specific circumstances of customers and where they want to connect to the network should result in different pricing outcomes. The Authority should carefully manage expectations regarding this.

The application of the reliance limits proposal has the potential to create unintended variability in approach and outcomes, which is one of the reasons ENA does not support the use of the proposed reliance limits.

Regional resilience and security of supply

We do not understand how the Authority's proposals are designed to increase regional resilience or security of supply. Further clarification is required.

Efficient operation

One of the main aspects of the Authority's objectives is the efficient operation of the electricity industry for the long-term benefit of consumers.

ENA acknowledges and supports the Authority in investigating connection pricing to ascertain whether increased efficiency can be recognised for the long-term benefit of consumers.

The implementation of the Authority's proposals will, however, be costly for EDBs and consumers, with the impact of both ultimately being borne by consumers. The cost of implementation and administration will not be insignificant. ENA is especially concerned with the resources required to implement the proposals. There is a very short window for the implementation of the fast-track initiatives, which will require EDBs to pivot resources away from other important initiatives.

ENA recommends that the Authority carefully consider what is being asked of EDBs and ensure that any changes are supported by clear evidence that a problem exists and have clear and supportable benefits for the long-term interest of consumers.

Protecting the interest of domestic and small consumers

The Act sets out an additional objective of the Authority '*to protect the interest of domestic consumers and small business consumers in relation to the supply of electricity to those consumers*.'

ENA is concerned that the proposed regulatory changes are too focused on the interests of connecting parties at the expense of domestic and small consumers. This includes, but is not limited to, the use of reliance limits to reduce capital contributions and options for EDBs to zero-rate network capacity fees, which encourage the limitation of capital contributions. However, there are no proposals in the fast-track initiative to protect the interests of existing consumers and the potential that they will subsidise the connections of new connecting parties or connecting parties don't pay their fair share of costs.

3.1.2 Responses to the Authority's specific consultation questions

Questions	ENA Comments
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?	ENA recommends: - Greater flexibility and innovation in pricing decisions should be provided for by applying a principles-based approach. - The Authority should be clearer on what the problem is and what efficient pricing looks like, using examples. - It should be made clear that the target is for predictability and consistency in pricing approach. Consistency in pricing outcomes is not the objective, as they are unlikely to be efficient. - The cost of establishing and administering the proposed changes is not insignificant and should receive greater consideration. - The interests of domestic consumers and small business consumers must receive equal consideration. - Further work is required to determine what fair connection pricing is, including demonstrating through worked examples the impact on the new connecting party as well as existing customers.
Q2. Do you agree with the problem statement for connection pricing?	- There is a lack of evidence that increased reliance ratios reflect increased charges or that any actual increase in charges reflects inefficient pricing. - Inappropriate reference to variability in outcomes as reflecting inefficient pricing. Efficient pricing will result in variable pricing outcomes. - ENA, however, still supports well-considered regulation of connection pricing.
Q27. Are there other alternative means of achieving the objective you think the Authority should consider?	- Principles-based regulation, which has been effective in reforming distribution line charges, would allow for greater flexibility and innovation in an ever-changing electricity environment. - Alternatives to several of the proposals are outlined throughout this submission, including a summary set out in Table 1.

3.2 Principles to support the change

This section sets out ENA's views on the principles that support the proposed regulatory change to distribution connection pricing.

Assessment of connection pricing is complicated, and there are many valid approaches to ascertaining appropriate connection pricing outcomes. We look forward to ongoing engagement with the Authority on what constitutes efficient and fair connection pricing. We encourage the Authority to slow down and consider the various approaches to determining efficient pricing and take time to consider how efficient pricing is best assessed and presented to interested parties.

We also support gradual, continuous improvements in pricing outcomes. Fluctuating pricing outcomes over time will provide mixed pricing signals, which is not consistent with good pricing practices.

Frontier Economics (Frontier) has provided economic advice to ENA to support the views on economic principles that underscore this submission. The Frontier report is provided as evidence for this submission.

The intent of the Authority's proposal is supported

ENA supports the intent of the Authority to ensure connection pricing is efficient and cost-reflective. We agree with the Authority that "efficient pricing is one of the keys to unlocking more network connections. It also promotes competition and lowers consumer prices over the long term."[7] It is also true that, with appropriate connection pricing, the more connections there are on a network, the more the fixed costs are spread across this wider customer base, lowering the costs for all.

Economically efficient pricing

ENA agrees with the Authority that pricing below incremental cost and above standalone costs is inefficient. The Frontier report supports this position noting that '*A subsidy arises if a customer pays either less than the incremental cost or more than the stand-alone cost of their connection*.'[8]

The Frontier report further explains the above point with the following:

> *'Connection prices above the bypass point, which is the stand-alone cost of supply, would distort efficient outcomes. In this case it would encourage potential connections to seek alternative, but higher cost, supply options.*
>
> *Prices below the neutral point (which are the net incremental costs, and so are incremental costs minus incremental revenues) are inefficient given they would imply a cross-subsidy exists. That is, existing customers would need to make up the difference between the connection charge and the incremental cost of the connection.'*[9]

The application of a balance point is not supported by economic principles

The Authority, in its consultation paper, refers to a balance point in which they state, '*connection charges above the balance point can be inefficient as they allocate connection applicants a higher lifetime cost than existing users from the same consumer group*.'

ENA believes the reference to the balance point should, at best, be a reference to fairness. The balance point does not have any association with economic efficiency.

ENA does not support the use of the Authority's balance point theory and instead believes EDBs should be left to determine what outcome, within a range, is fair for their new and existing customers.

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[7] Electricity Authority, Distribution connection pricing proposed Code amendment, page 3
[8] Frontier Economics, Efficient pricing of distribution network connections, 18 December 2024, page 13
[9] Frontier Economics, Efficient pricing of distribution network connections, 18 December 2024, page 16

Accordingly, the Authority should only establish regulation that ensures costs are between the incremental and standalone cost points. Any refinement of these boundaries needs to be well considered, and we recommend the Authority proceed with care if considering such regulation, as any error in judgment or application will create unfairness over time.

Connection pricing should be fair

The Frontier report outlines how the most economically efficient outcome is connection pricing at incremental cost, being the Authority's defined neutral point. However, consistent with Frontier's view, pricing at incremental cost would not be fair, as new connecting parties would not contribute to shared costs.[10] New connections contributing to shared costs is how existing customers benefit from the new connections.

Accordingly, the question is where, between the incremental cost and the standalone cost, connection pricing is fair. ENA does not support the application of the balance point as the determinant of the cap for what is deemed economically efficient or fair.

The approach to assessing the efficiency of connection pricing is fundamental

Any assessment of efficiency and fairness will rely heavily on the assessment approach. Throughout this submission, we outline where we have concerns with the Authority's proposed approach.

Matters of greatest concern are:

- *Connection pricing reconciliation does not adequately account for new connecting parties' costs*, including future incremental costs and a fair contribution to shared costs.
- *Accounting for revenue risk* – ENA recommends that EDBs be allowed to adjust the connection pricing reconciliation to account for revenue risk.
- *Reliance limit* – This will have a negative impact by potentially creating inefficient pricing outcomes or fluctuating pricing outcomes that are not in the long-term best interest of consumers.

Interests of existing customers are not represented

In assessing fairness, consideration will be required of existing customers' interests alongside the interests of connecting customers. Existing customers' interests are unlikely to be well represented in the development of the regulation or individual connection processes.

The requirement to give additional consideration to customers who have difficulty representing their interests is not new. One of the Authority's objectives is to protect the interests of small electricity consumers.[11]

It appears the Authority may have lost sight of this role with its focus on reducing the value of capital contributions, which harms existing customers (mainly consisting of smaller electricity consumers).

It is important that the Authority balances its approach or at least allows EDBs to balance their approach to managing the interests of small electricity consumers.

[10] Frontier Economics, Efficient pricing of distribution network connections, 18 December 2024, page 18
[11] Electricity Industry Act 2010. Section 15.

3.3 Implementation and timeframes

Time is needed to understand the impact of the Authority's proposals

We understand that the Authority is under pressure to deliver, and we also understand that there were criticisms in the past, such as those around the TPM, about how long some changes have taken to implement.

However, there is a trade-off to be made between accuracy and effectiveness versus speed. In the case of these connection pricing proposals, we encourage the Authority to ensure sufficient time to adequately consider this complex problem.

Our members are accustomed to regulation. However, regulations must be implemented in a manner that is practical, workable, and delivers real benefits to consumers and the industry.

We thank the Authority for acknowledging that the proposed changes will "take time" and that "we need to allow enough time to get it right."[12] Even these fast-track proposals will take time to 'get right' and implement.

Impacts and workability of proposals

The time and resources required to understand and implement the new regulatory requirements are constrained, which could lead to adverse outcomes.

EDBs must do a 'practice implementation' of the requirements to understand implications based on draft requirements – all within a constrained consultation phase. Steps include:

- Estimate of network capacity rates, likely minimise scheme and reconciliation processes outcomes
- Estimate the impact on capital contributions
- Estimate the impact on new connection demand
- Forecast the impact on total EDB costs, revenues, and cashflows, including DPP4 revenue and IRIS incentive implications.

Once the requirements are finalised, implementation across the business will include:

- Establish network capacity rates that are sufficiently accurate and defendable against connection parties' individual interests as they are subject to challenge
- Establish pioneer scheme pricing methodology processes and procedures
- Establish connection charge reconciliation pricing methodology processes and procedures
- Determine reliance limit implications and adjust the above outcomes accordingly
- Consider DPP implications and if needed apply for a DPP4 reopener and potentially an exemption. Noting that a DPP reopener also has its own process, which will require engagement with the Commission and stakeholders.

Cost to implement (establishment and ongoing maintenance) was not provided for under current or recently determined DPP4 allowances. Therefore, EDBs will either need to sacrifice other potentially critical work or undertake the work at the shareholders' cost. Noting that rising input costs and

[12] Electricity Authority, Distribution connection pricing proposed Code amendment, page 4

demands on EDB operations during the current DPP period mean EDB costs are already under significant pressure.

Implementing a complex new pricing regime under constrained timelines will increase the potential for pricing that is inconsistent with the long-term best interests of consumers. This could occur due to a lack of understanding or error. The Authority's proposed requirements for network capacity rates to remain in place unless a two-year notice is given means any pricing not in the long-term interest of consumers will impact consumer outcomes and EDB cashflows for an extended period.

Any forecast error in the impacts on EDB costs, revenues and cashflows will be borne by shareholders (net of IRIS). Connection forecasting is challenging at the best of times, and EDBs have engaged on this matter with the Commission during the DPP reset process. This connection pricing reform brings another level of complexity to the forecast process that EDBs will be required to accommodate.

Recent experience

Considering the impractical implementation deadlines arising from the recent Default Distributor Agreement (DDA) amendments,[13] we request that the Authority discuss the timelines and transitional arrangements of any changes with affected parties prior to gazetting Code changes.

Such changes will take time and resources to implement, and it is good regulatory practice to identify and address "practical design, resourcing and timing issues required for effective implementation and operation"[14] of proposed changes. The government also states that "before a substantive regulatory change is formally made, the government expects regulatory agencies to:

- allow regulated parties a reasonable time to get familiar with new requirements before the change comes into force (unless this would compromise the outcome sought)
- test key operational processes required to implement the change."[15]

Moreover, the recent DDA amendments also highlighted the importance of good Code wording and understanding the consequences of proposed changes. The DDA amendments were poorly written and resulted in what our lawyers referred to as "poorly conceived" transitional provisions and "manifestly impractical" outcomes. The fact that external lawyers were needed to understand the DDA decision and how to implement it is an example of where 'good regulatory practice' has not occurred.

Technical consultation

For this connection pricing consultation, we request that, given the range of views the consultation is likely to generate, as well as the nature of the technical issues being identified, the Authority consult again with a 'version 2' before codifying any changes. We note that the Authority already refers to the release of technical drafting before any final decision is made, where a contractual alternative has been pursued.[16] We fully support this layered/staged approach to consultation.

ENA members find the Commission's technical consultations an effective and efficient means of rule development, and we encourage the Authority to work with the Commission and adapt the approach to its own aims.

[13] Electricity Authority, Changes to the DDA templates and Part 12A clauses - Decision paper.pdf
[14] New Zealand Government, Government Expectations for Good Regulatory Practice, page 6
[15] New Zealand Government, Government Expectations for Good Regulatory Practice, page 4
[16] Electricity Authority, Distribution connection pricing proposed Code amendment, page 6

We also think such a consultation will benefit the Authority by giving them another opportunity to understand the practicalities and implementation difficulties of the changes they propose. Due to the constraints in the consultation timeframes and the requested level of policy refinement, ENA has not completed a detailed legal review of the Code changes to assess whether the Code amendments apply as intended and consistently with the consultation paper. We expect the opportunity to do this as part of a technical consultation process once the policy decisions have been confirmed.

Timing of future engagement

We also request that, for a technical consultation and for future consultations around pricing, including the 'full reform' consultation indicated in this paper, the Authority avoid November and December. These are the busiest months for pricing teams at EDBs, as they are busy working through the following year's pricing updates.

EDBs and their relevant teams need time to meaningfully engage with these consultations, given the material impact they are likely to have on their businesses and customers.

Alignment with DPP4 decision

The timing of the engagement on connection pricing would have been better suited to align with the Commission's pricing decision. Any change in connection pricing has a flow-on effect to what EDBs charge their customers through line charges. Being able to consider both charging aspects would have been more appropriately done at the same time.

We acknowledge that Part 4 regulation includes the ability to reconsider the recently established price paths; however, it would have been more efficient to consider the implications of both decisions at the same time.

Authority must support the transition

We understand that the Authority is under pressure to deliver quickly. However, such an approach will inevitably come with implementation and workability consequences. The Authority must understand this and make allowances for it. If the Authority intends to deliver this initiative consistent with the proposed schedule, it will need to remain available and flexible for future changes to address any unintended consequences.

3.3.1 Responses to the Authority's specific consultation questions

Questions	ENA Comments
Q19. Do you think any element of the fast-track package should be omitted or should begin later than the rest of the package?	Consideration needs to be given to the time and resources required to implement the proposed fast-track package. The current amount of work required to implement it will be challenging and costly for most EDBs, which may lead to poorly considered outcomes that are not in the long-term best interest of consumers. ENA recommends the Authority consider deferring some of the fast-track measures, especially where the problem definition or unintended consequences are not sufficiently understood. We recommend the deferral include: - Connection charge reconciliation pricing methodology

Questions	ENA Comments
	- Network capacity costing requirements ENA strongly recommends that reliance limits be excluded from connection pricing regulation.

4 The Authority's proposals

This section works through each of the Authority's proposals including fast-track reforms and the pathway to full reform, outlining where ENA supports the proposal and where we have concerns.

4.1 Connection charge reconciliation pricing methodology

4.1.1 Principles and intent

The Authority proposes to require EDBs to prepare a reconciliation that shows the incremental cost, incremental revenue, and 'network cost' components of a quoted connection charge, using a standardised methodology.[17] The reconciliation is to be available on request to potential connecting parties and the Authority.[18]

The Authority has not clearly articulated the problem this proposed new obligation is intended to address; however, the consultation paper does infer that there is a need for connections to be charged at the net incremental cost.[19]

ENA supports the Authority's intent with respect to increasing transparency and consistency of connection pricing methodologies across the sector.

However, there are practical considerations, set out below, that require addressing before implementation. Given the extent of the implications and challenges in establishing workable solutions, ENA recommends the connection charge reconciliation pricing methodology be deferred until there is a sufficient understanding of the problem that is to be resolved, and any potential unintended consequences are addressed.

4.1.2 Practical considerations for pricing methodology

The cost to deliver connection service is not adequately accounted for in the reconciliation

The proposed connection reconciliation methodology includes future revenues but does not appropriately provide for the future cost of delivering those connection services.

There is a reference in the incremental revenue calculation (clause 6B.13(c)(d)) that specifies that only 90% of discounted revenues are included in the connection charge calculation to adjust for incremental operational expenditure costs. However, this does not account for the cost of owning and replacing network assets.

The Authority sets out in the consultation paper that the calculation strikes a balance between accuracy and complexity and between flexibility and prescription. While we agree that complexity is reduced, it does not adequately allow for the new connection customer to contribute to cost recovery. It does not provide for the new customer to share in the cost of the shared assets that provide the service they are paying for, namely the cost to finance and replace assets.

The Frontier report notes that:

> *"Pricing at the neutral point ensures that:*
>
> *A) New customers incur the full net incremental cost of their connection, and*

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[17] Electricity Authority, Distribution connection pricing proposed Code amendment, paragraph 7.69
[18] Electricity Authority, Distribution connection pricing proposed Code amendment, paragraph 7.71
[19] Electricity Authority, Distribution connection pricing proposed Code amendment, paragraph 7.60

B) Once connected, new customers make precisely the same contribution to cost recovery as all other existing customers when paying ongoing distribution use of system charges."

The Authority's proposal to include future incremental revenue in the connection charge calculation means new revenue from a connecting party is allocated to the incremental cost to connect and therefore is not available to contribute to shared cost recovery.

No new incremental revenue for price-regulated EDBs

The connection charge reconciliation pricing methodology assumes there is new incremental revenue that an EDB benefits from when a new customer connects. When in fact, many new revenues charged by a price-regulated EDB are required to be deducted from future revenues so total revenues do not increase. The process of returning new incremental revenue is managed through the wash-up process. Examples of where new connections do not create new incremental revenues include:

- *New connections with vested assets or new connections with high capital contributions*. When an EDB receives vested assets or assets with high capital contributions, there is no or limited increase in revenue received from the new connecting party due to there being no or limited increase in the RAB.
- *Price-regulated EDBs exceeding forecast expenditure on new connections and system growth.* There is an assumed increase within price-quality path revenue for new connection and system growth capex, which can be assumed to represent new incremental revenue as it is received during the regulatory period. However, once a price-regulated EDB exceeds the level of consumer connections and growth capex (net of capital contributions) allowed for in a price path, there is no new incremental revenue.

Accordingly, price-regulated EDB shareholders incur two financial consequences for any consumer connection and growth expenditure that exceeds their allowances:

- Cost of allowance overspending (net of IRIS impacts)
- Inability to earn additional revenues during the regulatory period

ENA strongly recommends the Authority and Commission work to better understand the consequences of the combined regulation on EDBs.

Negative connection charges will incentivise uneconomic connections

The Authority outlines in its consultation paper at paragraph 7.160 that:

> "*connection works that include vested assets are more likely to result in a negative connection charge – ie, where the incremental revenue exceeds the incremental cost and contribution to network costs. To support contestability in such cases, distributors should make a payment to the applicant (or their contractor).*"

ENA does not support this policy as it can create a perverse incentive where developers create assets that are paid for by future customers who take on the obligation of future connection revenues.

A policy of requiring negative connection charges is also not supported by Frontier, which outlines in its report that the Australian Energy Regulator (AER) has chosen not to provide for negative connection charges, noting that not having negative connection charges is unlikely to result in costs above the standalone cost.

Stranded assets and revenue risk

Requiring fixed expected revenue lives of 30 years for residential connections and 15 years for other connections does not consider the variability of risks associated with different customers.

ENA recommends the reconciliation allows an EDB to provide for a shorter assumed revenue life where there is potential for the revenue life to be shorter than the currently proposed fixed expected revenue lives.

Members who have already implemented similar schemes to the Authority's proposal have used various approaches to address future revenue risks, including a reduction in assumed revenue life in the connection pricing reconciliation or the use of diminishing bonds.

The approaches ensure the future revenue risk of new connection parties is appropriately allocated to the connecting party and not borne by existing customers.

Dispute resolution

With the requirement for the reconciliation to be provided to customers on request, we are concerned that this reconciliation will become a 'full reform by stealth' if disputes are raised.

It should be made clear in the Code that connection pricing is still at the discretion of the EDB.

Interdependency with an obligation to connect

Whilst it is rare for an EDB to refuse to connect an applicant, under the status quo, EDBs can increase upfront connection costs or require a bond from those customers deemed to represent a higher risk profile for asset stranding.

With the Authority's companion Network Connections project introducing an obligation to connect, there is a transfer of power in a negotiation to the connection applicant. This could result in existing customers wearing the costs if a connecting party is unable to support their forecast revenue stream over the life of the asset.

ENA recommends the obligation to connect is excluded from the Network Connections project Code change[20] or it is made clear in the Code that connection pricing is at the discretion of EDBs.

4.1.3 Responses to the Authority's specific consultation questions

Questions	ENA Comments
Q10. Do you consider the cost reconciliation methodology would improve connection pricing efficiency and deliver a net benefit?	ENA supports the application of a reconciliation methodology. However, the reconciliation methodology as currently proposed is not in the long-term best interest of consumers. A poorly considered reconciliation methodology will do more harm than good. Accordingly, ENA recommends deferral of the reconciliation methodology until it is better understood.
Q11. Are there variations to the proposed cost reconciliation methodology you consider would materially improve the proposed Code amendment?	ENA believes the reconciliation process should be: - Based on appropriate regulatory principles - Either include future incremental costs alongside future incremental revenue, and or exclude both

[20] ENA notes the Authority must introduce provisions that enable EDBs to decline to offer load connections when reasonable to do in its submission on the Network connection project

4.2 Network capacity costing requirements

4.2.1 Principles and intent

ENA supports the Authority's intent concerning making "charges more transparent, predictable and consistent"[21] across the sector. We also support the intent to share costs across connecting parties and to avoid the last-mover disadvantage.

4.2.2 Practical considerations for setting posted capacity rates

Time and resources required to calculate, implement, and administer

The speed at which the Authority is requiring EDBs to determine network capacity rates has a high potential to create connection price signalling that is inconsistent with desired outcomes. Setting prices at an efficient level that provides appropriate pricing signals will take time to assess and get right.

The ENA recommends the Authority consider providing EDBs sufficient time to assess and determine appropriate network capacity rates.

Opt-out is not a viable solution

The Authority's current proposal includes the ability for an EDB to opt out of determining network capacity charges and has identified this as justification for not deferring its implementation. ENA does not consider the opt-out option to be viable. Implementation of the opt-out option would reduce charges to below-efficient pricing levels and potentially create a situation where an EDB would exceed its DPP4 expenditure allowance.

Network capacity rates to remain in place for at least 2 years

Network capacity rates are required to remain in place with a notice period of two years before a change can be made. This puts extra pressure on ensuring capacity rates are an accurate reflection of network capacity costs, as any inaccuracies will create inefficient pricing, which can lead to inefficient consumer connection decisions.

Diversity in load demand

In theory, it is logical to calculate the unit cost of adding capacity at each network tier.

However, these are effectively rates for diversified load, whereas the demand in a connection application is undiversified. Therefore a diversity factor will be required. Diversity factors can vary depending on customer types and connection location on the network, potentially creating inconsistent capacity costing even for access seekers with the same demand.

We suggest the Authority work with the DCPTG (Distribution Connection Pricing Technical Working Group) on developing a simple, easy-to-apply, and consistent methodology to establish those rates. These could be in the form of guidelines encouraging a consistent calculation methodology across distributors.

[21] Electricity Authority, Distribution connection pricing proposed Code amendment, page 4

Surplus capacity risk

By charging connecting parties on a consumption basis, rather than on a construction basis, an EDB may find itself in a situation where significant investment is required to accommodate a new connection, but in an area where it is highly unlikely the remaining capacity will ever be utilised. An example might be that the new connection is the 'last mover' that triggers the need for a new transformer, even though it will only use a fraction of its total capacity. Under the Authority's proposals, the cost of this upgrade would be socialised amongst existing customers, which is an inefficient outcome.

Capacity-based costing may no longer meet the definition of capital contribution

ENA recommends the Authority confirm with the Commission that capacity-based charges will meet the definition of capital contributions.[22]

Any change in what can be included in capital contributions will impact price-regulated EDBs' revenue and expenditure allowances, which have financial implications.

4.2.3 Responses to the Authority's specific consultation questions

Questions	ENA Comments
Q6. Do you consider the proposed network capacity costing requirements would improve connection pricing efficiency and deliver a net benefit?	ENA supports the concept of network capacity costing requirements to improve connecting pricing efficiency.
Q7. Are there variations to the proposed network capacity costing requirements you consider would materially improve the proposed Code amendment?	ENA notes: - Sufficient time is required to allow EDBs to determine capacity rates that send appropriate pricing signals. - Zero rates are not a valid opt-out option, as they will lead to inefficient pricing. - Diversity in load should also be considered in the application of capacity rates. - There is a surplus capacity risk

4.3 Reliance limits methodology

4.3.1 Principles and intent

ENA supports the Authority's goal of mitigating the risk of EDBs inefficiently increasing connection charges to manage the cost pressures on their network. However, the Authority has neither justified why higher capital contributions are, or would become, 'inefficient', nor accounted for flaws in the

[22] Commerce Commission, *Electricity Distribution Services Input Methodologies (IM Review 2023) Amendment Determination 2023,* 13 December 2023, clause 1.1.4(2).

data upon which the reliance limits have been set. We therefore do not support the Authority's reliance limits at a principles level or in terms of the methodology proposed.

The proposed reliance limit is not based on appropriate principles or base data

The reliance limits proposed are based on historical capital contribution levels. There is no support or justification that these reflect efficient connection pricing levels. An EDB may in fact have been receiving past capital contributions at a level that is not efficient, or changes in circumstances may dictate that capital contribution levels should increase over time to remain efficient.

The proposed reliance limit also excludes the impact of vested assets and charges to connecting parties that are not classified as capital contributions.

Support avoiding significant increases in the short-term

Whilst we do not think that the proposed reliance limits are the correct tool to achieve this aim, we do support the intent to not allow increases in capital contributions that are economically inefficient while full reform is still being considered.

Recommend reliance limits are excluded, or the ability for exemptions is provided

ENA recommends the reliance limit is excluded from the fast-track process, or an exemption process is provided where higher capital contributions are allowed, if it is demonstrated that the underlying pricing is fair.

ENA does not support reliance limits being a part of the full reform package. Full reform must be based on and driven through economic principles.

4.3.2 Practical considerations for setting reliance limits

Whilst we understand the need for a safeguard against distributors increasing their reliance on up-front charges, we don't believe the reliance limit (how much of a distributor's connection and system growth investment is funded through capital contributions) is an appropriate means of providing an efficient connection pricing outcome.

The proposed process will create perverse incentives

With the proposed reliance limit excluding vested assets, there is a perverse incentive to continue using or move to the use of vested assets to remain within the limits.

Connection and growth capex is 'lumpy'

The proposal for a fixed reliance limit over time assumes that capital contributions would remain consistent. However, the outcome of efficient connection pricing will result in different connection pricing outcomes across new connecting parties. There will also be different levels of total company capital contributions between years where large-capacity investments are undertaken.

Accordingly, the reliance on a single year as a base assumption and the assumption that every EDB will remain under the average every year is not conducive to efficient economic pricing. EDBs may need to set connection pricing below efficient levels to allow for any fluctuations in the mix of connecting parties or to accommodate years where there is limited investment in capacity.

May encourage inefficient behaviours as limits are reached

In addition, as distributors approach closer to their reliance limit, it can encourage behaviour that is not consistent with efficient connecting pricing.

4.3.3 Responses to the Authority's specific consultation questions

Questions	ENA Comments
Q12. Do you consider the reliance limits would improve connection pricing efficiency and deliver a net benefit?	No. Reliance limits are a one-sided tool to arbitrarily cap prices. If an EDB is capped by reliance limits from charging efficient levels of capital contributions, existing customers will bear the burden of that cost.
Q13. Are there any variations to the proposed reliance limits you consider would materially improve the proposed Code amendment?	ENA strongly recommends the proposed reliance limits be excluded from the regulation due to them not being based on appropriate regulatory principles and likely to create unintended consequences that are not in the long-term best interest of consumers. If the Authority continues to require reliance limits, an exemption process must be included.
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?	We do not support the use of reliance limits as they do not align with economic principles and may instead drive inefficient pricing outcomes.
Q23. Do you have any comments on the impact of reliance limits on incentives to increase the prevalence of asset vesting?	Excluding vested assets from reliance limits will create perverse incentives, with EDBs incentivised to continue to use vested assets or move to the use of vested assets. The challenges required to include vested assets in reliance limits further support ENA's view that reliance limits should not be included in the regulations.

4.4 Connection enhancement cost requirements

4.4.1 Principles and intent

ENA supports the Authority's intent with this 'minimum scheme' requirement. Offering a "least-cost technically acceptable solution for connecting the applicant to the network"[23] seems a reasonable and fair option to provide better certainty and transparency to access seekers.

Minimum scheme in accordance with network connection standards

The Authority's proposal refers to technically acceptable solutions. ENA notes this should be a reference to the EDB's network connection standards and equipment procurement policies. An EDB

[23] Electricity Authority, Distribution connection pricing proposed Code amendment, page 4

may determine it is cost-effective and hence in the long-term interests of consumers to only stock certain sizes of transformers. The connecting party should not, therefore, be able to request a different size of transformer, as this will have cost consequences beyond just procurement (maintenance, replacement, what is done when it faults, etc.).

An opt-out option is supported

Some customers, particularly those wanting large, bespoke connections or enhanced reliability, will not want a 'minimum scheme' and therefore we support the Authority's proposal to include a mutual opt-out to this amendment. This will avoid unnecessary assessments and rework for scopes that are not going to proceed.

4.4.2 Practical considerations for flexibility and non-firm connections

Concern with implications of flexible connection options

One concern that many members have is how the application of a 'flexible' connection would work in practice. EDBs are supportive of flexible connections where practical; however, would this requirement apply to all customers?

Is there a risk that residential customers would seek a flexible connection without fully understanding the consequences of what they're signing up for? And how would this be managed when the original customer moves on and the connection is taken over by a new party? They may not realise they've inherited a 'flexible' connection and then be required to pay unforeseen upgrade costs.

ENA recommends EDBs be provided with the ability to exclude flexibility options where it is unlikely to be in the long-term best interest of consumers.

4.4.3 Responses to the Authority's specific consultation questions

Questions	ENA Comments
Q4. Do you consider the proposed connection enhancement cost requirements would improve connection pricing efficiency and deliver a net benefit?	ENA supports the use of minimum scheme requirements to improve connecting pricing efficiency.
Q5. Are there variations to the proposed connection enhancement cost requirements you consider would materially improve the proposed Code amendment?	ENA recommends that EDBs be provided with the ability to exclude flexibility options where they are not in the long-term best interest of consumers.

4.5 Pioneer scheme pricing methodology

4.5.1 Principles and intent

ENA supports the Authority's intent to "mitigate first-mover disadvantage"[24] by implementing a pioneer or refund scheme. As noted by the Authority, many EDBs already offer similar schemes, so whilst the exact terms of these schemes may need to change, the impact is not as great as for some of the other proposed amendments.

4.5.2 Practical considerations for pioneer schemes

Duration

The scheme's ten-year duration is too long. The accounting and tax record-keeping requirement is seven years, which is also the duration of most overseas schemes. We recommend that the Authority amend the final decision to allow EDBs to determine the appropriate term for the schemes, which could include a minimum of seven years if deemed necessary.

De minimis threshold

ENA recommends EDBs should be provided the ability to set the de minimis threshold for the use of pioneer schemes on the network. EDBs are best placed to determine the right balance between fairness for their customers and the administrative costs that will ultimately be borne by consumers.

Pioneers that no longer exist

The proposal is unclear on the treatment of pioneers who no longer exist (for example, liquidated, deceased, etc.). We suggest clearly stating that no rebate will apply to these pioneers.

Connecting party is often not the ongoing customer

The connecting party is often not the ongoing customer, including when developers establish the initial connection and then the ongoing relationship is with the eventual homeowners. The Authority will need to be clear on how it expects EDBs to manage these relationships.

Limit the scope of qualifying connections

Given the administrative costs associated with a pioneer scheme, we also recommend that the scope of qualifying connections be limited. While the de minimis limit may achieve a similar outcome, we recommend that provision be provided to exclude standard urban residential connections as well. The volume of such connections, and the likely low benefit to consumers, diminishes the value of the scheme for these customers.

Treatment of vested assets

Including vested assets within the scope of the scheme has some practical workability implications:

- EDBs will be reliant on customers and their contractors to provide accurate cost assessments. This may be particularly challenging since customers will be incentivised to inflate the costs to generate a higher pioneer payout.
- It may be difficult to allocate the right level of cost to the EDB. For example, on a new development, a significant portion of the cost may be associated with civils (including

[24] Electricity Authority, Distribution connection pricing proposed Code amendment, page 4

trenching and ducts) that are shared between multiple services. How should the costs be attributed to ensure an appropriate base value for the pioneer scheme?

Administrative costs

There will be material costs expected to establish new systems and processes to administer this scheme. Distributors should be allowed to deduct an administration fee from the rebate to recover such costs, making them cost-reflective.

Time to implement

Establishing the scheme agreements and implementing the systems and processes to manage the scheme takes time. Some EDBs are concerned that the schemes will not be up and running by the 1 April 2026 date indicated by the Authority.

4.5.3 Responses to the Authority's specific consultation questions

Questions	ENA Comments
Q8. Do you consider the pioneer scheme pricing methodology would improve connection pricing efficiency and deliver a net benefit?	ENA supports the intent to avoid the first-mover disadvantage. Some ENA members who have previously applied pioneer schemes have questioned the ability of these schemes to deliver net benefits due to the high administrative burden. Accordingly, measures to reduce administrative burden should be considered, such as thresholds.
Q9. Are there variations to the proposed pioneer scheme pricing methodology you consider would materially improve the proposed Code amendment?	- Schemes are only required to remain in place for 7 years. - Allow EDBs to determine a de minimis threshold appropriate for their situation. - Clarification on how changes in connection ownership are treated.

4.6 Exemptions

4.6.1 Principles and intent

A move away from upfront charging and towards recovering costs through ongoing line charges could have significant impacts for some EDBs. For those subject to price-quality regulation under Part 4 of the Commerce Act, the ability to apply for a reopener will be essential to 'keep them whole' through the DPP4 period.

Proposals may impact many EDBs

As the Authority recognises, the impacts will vary across EDBs due to the differences in the current approaches applied. However, we feel the Authority may have underestimated the impact on some EDBs with statements such as "we expect this impact to be relatively small."[25]

ENA has not focused on specific levels of impact for individual EDBs due to the time constraints of the consultation process and the uncertainty of the final regulatory outcome. We support our members in their submissions outlining specific impacts to them. We encourage the Authority to consider these diverse views accordingly and not underestimate the likely impacts.

Where there are impacts across a large number of EDBs, it will be more efficient to defer regulation rather than rely on an exemption process.

4.6.2 Practical limitations for proposed amendments

Greater certainty would increase confidence

Whilst we are grateful to the Authority for acknowledging the potential impacts of these proposals, EDBs would feel more confident in their application if the Authority could be more explicit and certain in its language. If the Authority proceeds with these fast-track reforms, it must:

- Update the Exemption Guidelines to outline how applications for exemptions would be considered in these specific circumstances.
- Confirm that the Authority will notify the Commission under section 54V and ask them to reopen the price path.

4.6.3 Responses to the Authority's specific consultation questions

Questions	ENA Comments
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?	ENA supports the use of appropriately structured exemption processes to relieve short-term administrative burdens in individual cases. However, it will not be appropriate where the short administrative burden is across many of the regulated businesses. In such cases, the Authority should instead consider slowing down the process.

4.7 Dispute resolution

4.7.1 Principles and intent

While ENA understands the Authority's desire to have procedures in place to manage conflicts and resolve deadlocks in connection negotiations, we do not feel that the time is right or the mechanisms are sufficiently practical as they are currently presented.

[25] Electricity Authority, Distribution connection pricing proposed Code amendment, pages 6-7

4.7.2 Practical limitations for proposed amendments

The Authority has limited scope to intervene

ENA questions whether explicitly introducing dispute resolution mechanisms is premature and comes from a position of assuming that EDBs do not already negotiate in 'good faith', coupled with the fact that the Authority's Part 6 dispute resolution requirements "cannot be imposed on connection applicants who are not participants"[26].

Contractual alternative appears unlikely to operate as intended

Whilst we understand the Authority's intent with proposing a contractual terms alternative, until the connection is agreed upon between the parties, there is no contract between the parties, and therefore, again the dispute resolution requirements would have limited benefit.

Risk of premature enforcement of full reform principles

If the Rulings Panel determines disputes with reference to the new reconciliation requirement, there is a risk that the reconciliation becomes an enforced methodology without sufficient due process. It should be made clear in the Code that EDBs retain discretion in the prices they charge.

Dispute resolution process could become an inefficient administration burden

The introduction of a dispute resolution process too early in the evolution of the regulation risks creating inefficiency in the industry that is ultimately borne by consumers. The administrative requirements of engaging with complaints that may not agree with an EDBs decision on fair and efficient pricing signals will distract EDBs from other important initiatives.

Higher levels of disagreement are likely where the Authority has failed to correctly identify and support where the problem with connection pricing exists. If the Authority does proceed with a dispute resolution process, we strongly encourage the Authority to clearly define the problem the regulation is looking to resolve, where actual problems exist (with reference to worked examples), and how perceptions of inefficient pricing outcomes should be remedied.

4.7.3 Responses to the Authority's specific consultation questions

Questions	ENA Comments
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?	It needs to be made clear that under the fast-track measures, connection pricing remains at the EDBs' discretion. Otherwise, the connection pricing reconciliation will become regulation enforceable by the dispute resolution process. ENA recommends the dispute resolution process be deferred, as a process introduced too early in the development of the regulation will effectively become a process for educating access seekers on good economic principles for connection pricing.

[26] Electricity Authority, Distribution connection pricing proposed Code amendment, page 5

Questions	ENA Comments
Q16. Are there variations to the proposed dispute resolution arrangements you consider would materially improve the proposed Code amendment?	It should be made clear that under the fast-track measures, connection pricing remains at the EDBs' discretion.

4.8 Full reform

4.8.1 Principles and intent

ENA supports the intent of the Authority's direction of travel towards reform that will ensure consistency in methodology between EDBs, which will deliver efficiency for the long-term benefit of consumers.

> *"If we proceed to implement full reform, all connection pricing will be at an efficient level – sitting within a range where new connections are neither subsidised, nor deterred by excessively high charges. Within this range, existing customers are made better off as each new connection spreads fixed costs and reduces the average charge per customer."*[27]

Full reform regulation will need to be based on appropriate regulatory and economic principles. ENA supports the application of prices that are subsidy-free – prices that are neither below incremental cost nor above stand-alone cost. If the Authority wishes to further refine what an appropriate level of pricing is, consideration should be given to economic efficiency as well as fairness, while not only addressing the needs of new connecting parties but also balancing the interests of typically unrepresented existing customers.

Timing for full reform

ENA acknowledges that the fast-track measures identified in this consultation are a stepping stone towards full reform. We thank the Authority for highlighting that "the timing and pace of moving from fast-track to full reform will depend on sector progress, the Authority's future priorities and feedback we receive from stakeholders."[28]

To that end, we encourage the Authority to ensure the timelines are realistic, and pace is not prioritised over effectiveness. Refer to section 3.3 on Implementation and timeframes for more information.

Learn from fast-track changes

As part of the considerations ahead of full reform measures, we encourage the Authority to learn from the fast-track measures.

The Authority should also consider the impact that clarification of the economic principles has had on EDB pricing behaviour.

[27] Electricity Authority, Distribution connection pricing proposed Code amendment, page 6
[28] Electricity Authority, Distribution connection pricing proposed Code amendment, page 4

Principles-based regulation will allow flex and innovation

We encourage the Authority to consider the application of principles-based regulation over rules-based regulation to allow flexibility and innovation with pricing in the ever-changing electricity environment.

4.8.2 Responses to the Authority's specific consultation questions

Questions	ENA Comments
Q3. Do you have any comments on the Authority's proposed pathway to full reform?	ENA supports the Authority: - Being clear on the problem definition before implementing the fast-track or full reform. - Learning from fast-track initiatives prior to progressing to full reform. - Consulting again before full reform. - Aligning the effective date of the full reform with the DPP5 process.
Q26. Do you have any comments on the Authority's anticipated solution for longer-term reform?	We have several observations about the Authority's anticipated solution for longer-term reform: - Principles-based regulation over rules-based regulation. - Further reform requires the Authority to be clearer and evidence-based in its problem statement. - Timelines for full reform are too fast. - Principles for reform need to be refined.

4.9 Other considerations

4.9.1 Responses to the Authority's other specific consultation questions

Questions	ENA Comments
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.	Until the connection is agreed between the parties, there is no contract between the parties.
Q20. Are there other parameters you think the Authority should consider for the proposed connection pricing methodologies? If so, which ones and why?	ENA does not have any further parameters for the Authority to consider.

Questions	ENA Comments
Q21. Do you agree pricing methodologies should apply to LCC contracts? If not, please explain your rationale.	ENA disagrees. LCC contracts are generally with parties that have the expertise and bargaining power to negotiate appropriate pricing terms.
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.	ENA has concerns with the application of the proposals to vested assets including: - How to determine the value of vested assets. - Payment to developers for connections, especially with the currently proposed approach to assessing the appropriate level of capital contributions (vested asset payments in the case of vested assets).
Q24. Do you agree the proposed methodologies are compatible with contestable connection works? If not, please explain your rationale.	ENA does not believe the currently proposed methodologies will impact the degree to which access seekers engage with construction parties. However, this position may change once further refinements/classifications are provided on how vested assets are treated.
Q25. Do you agree that fast-track methodologies should not apply to embedded networks? If not, please explain your rationale.	ENA does not have a view on application to embedded networks.

Appendix A: ENA Members

Electricity Networks Aotearoa makes this submission along with the support of its members, listed below:

- Alpine Energy
- Aurora Energy
- Buller Electricity
- Centralines
- Counties Energy
- Electra
- EA Networks
- Firstlight Network
- Horizon Networks
- Mainpower
- Marlborough Lines
- Nelson Electricity
- Network Tasman
- Network Waitaki
- Northpower
- Orion New Zealand
- Powerco
- PowerNet (which manages The Power Company, Electricity Invercargill, OtagoNet and Lakeland Network)
- Scanpower
- Top Energy
- The Lines Company
- Unison Networks
- Vector
- Waipa Networks
- WEL Networks
- Wellington Electricity
- Westpower