

Distribution Pricing - New Large Connections



New connection pricing – the situation

- Network companies
 - Are not obliged to connect new connections (include upgrades in capacity of existing connections)
 - Can set line charges at any level (as long as portfolio revenue limits are not breached)
 - Can require capital contributions for local and upstream assets not covered by line charges (that can be excluded from regulated revenue)
 - Have no obligation to provide transparency into how charges are calculated or what charges cover
- This can result in
 - Connection terms offered to end users that have
 - Ongoing line charges significantly greater than other similar end users
 - Capital contributions in excess of the cost of assets dedicated to their connection
 - End users forced to sign contracts because delay will result in liquidated damages claims
- This opaqueness is bad for the industry and broader economy because
 - Resentment against the broader electricity industry with industry viewing this opaque structure as miss-use of monopoly position
 - Increased construction risk, higher construction costs and lower returns (relative to competitors) reduces incentives for investment, reducing economic growth and jobs.



Problem and solution

- End user problems are
 - New connections don't have access to the same terms as other similar users
 - The scope of what standard pricing includes is not clear
 - Delays can be used to force end users to sign contracts
- Network problems are
 - Inability to change standard charges to reflect costs (?)
 - Insufficient return on investment (?)
 - Mis-understanding by end users of connection and capacity issues
- Proposal to address Problems
 - Equal access for new connections to standard pricing as per similar connections
 - Clearly define scope of standard pricing. Standard pricing should
 - Include the costs associated with all up stream
 - Clearly define the boundary between network and dedicated assets
 - Dedicated assets not covered by standard pricing should be identified and competitively bid
 - In the event of a dispute the network company should be obligated to provide a connection with standard scope and pricing while the dispute is resolved
 - Disputes should be subject to binding arbitration

