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Subject: Further reform – cross-submission

1. This is Vector's cross submission on the Electricity Authority's (the Authority) issues paper "Further reform of distribution connection pricing".¹
2. No part of this cross-submission is confidential; it can be shared publicly.
3. We are happy to discuss any part of this cross submission with the Authority if required. We can also make available the experts we engaged to produce the expert report that accompanied our original submission.
4. Vector's cross-submission summarises and responds to key issues and themes raised in submissions (including Vector's submission and other stakeholders' submissions) and reiterates and refines our requests of the Authority.
5. This cross-submission should be read with Vector's original submission and HoustonKemp's expert report.

A. Overall themes from the submissions

6. There is broad cross-sector agreement that connection pricing should be more transparent, predictable and easier for applicants to understand. Submitters from across the sector support clearer quote information, common terminology, better customer-facing processes and more practical guidance.
7. That agreement does not establish a case for every intervention proposed by the Authority. The submissions show a clear distinction between support for transparency and process reform, on the one hand, and support for mandatory allocation formulae, caps, bands or broad risk-transfer obligations, on the other.

¹ Electricity Authority, Further reform of distribution connection pricing,
https://www.ea.govt.nz/documents/10488/Further_Reform_of_Distribution_Connection_Pricing_-_Issues_Paper.pdf

8. A substantial group of distributors and ENA support reform that improves transparency, process clarity and customer confidence, but caution that the Authority has not yet demonstrated a material, systemic problem that justifies broad allocation controls. This is not just a Vector position. It is a recurring theme across distributor submissions.
9. Vector considers the Authority should assess each reform against the economic framework developed by HoustonKemp: prices should reflect efficient costs; risks should be managed by the party best placed to do so; intervention should address the cause of a demonstrated problem; regulation should be proportionate; and pricing approaches should support customer confidence through stability and predictability.
10. The principal disagreements across submissions relate to mandatory allocation formulae, caps or bands; broad construction-risk and equivalence obligations; generic limits for large connections; and restrictions on proportionate financial security. These measures may lower an applicant's upfront payment, but they do not remove cost. They can transfer financing and non-recovery risk to existing customers and weaken competition for connection works.
11. Vector recommends targeted reform first: clearer quote information, common terminology, consistent high-level processes, practical guidance, contestability (where appropriate), worked examples, evidence gathering and DPP5 coordination. Prescriptive allocation controls should proceed only where the Authority demonstrates a material problem and a quantified net long-term consumer benefit.

B. Distributor submissions strongly support an evidence-led and proportionate approach

12. ENA, Aurora, Powerco, Horizon, Unison/Centralines, Wellington Electricity, Orion and WEL each support aspects of further reform, but they consistently caution against moving from customer concerns to broad, prescriptive allocation controls before the Authority has defined the problem, quantified the harm and tested the likely costs and benefits.

*"Before designing further connection-pricing interventions, the Authority should clearly identify the problem it is seeking to address, the evidence that the problem is material, and the consumer harm or inefficient behaviour arising from it."*²

*"Powerco's position is also unchanged in that we support intervention where it follows evidence of a problem, a quantified view of the harm, and a proportionate response."*³

13. Those submissions make several common points. Variation between distributors is not itself evidence of inefficiency. High connection charges may reflect genuine input costs, network circumstances, design choices, consenting, civil works, traffic management or customer-

² ENA, p 1, Overall observations.

³ Powerco, p 3, para 2.

specific requirements. The Authority should therefore distinguish high charge from inefficient pricing, and pricing methodology issues from connection-process, procurement, service or technical-standard issues.

*"A connection can be expensive and still be cost-reflective."*⁴

*"Variation between distributors is not, by itself, evidence of inefficiency."*⁵

14. The distributor submissions also stress that the recent fast-track reforms have only just begun to operate. Charge reconciliation, enhancement cost allocation, pioneer schemes, capacity costing and balance point requirements should generate the evidence needed to assess whether further intervention is necessary. The Authority should use that evidence before locking in enduring allocation controls.

*"Three fast-track requirements only took effect on 1 April 2026, a further capacity-costing requirement takes effect on 1 April 2027, and the balance point intervention commenced in August 2026."*⁶

*"Pause and give the fast-track measures time to embed, and allow the evidence to be collected, before progressing reform where neither the evidence nor the clarity of the problem, is there yet."*⁷

15. Vector agrees. The Authority should not treat the existence of some access-seeker dissatisfaction as sufficient evidence that connection prices are inefficient or that lower upfront recovery will improve long-term consumer outcomes. The right question is whether the current framework is materially deterring efficient connections, why that is occurring, and which regulatory tool would address the cause at least cost.

C. Areas of common ground

Transparency, predictability and customer-facing processes

16. There is strong support among non-distributor submitters for clearer and more predictable connection pricing.

*"Mercury supports reform that improves consistency, transparency and predictability in connection pricing."*⁸

*"We therefore support any EA work that increases transparency in billing, estimates, quotations, and project scoping."*⁹

⁴ ENA, p 2, Distinguish high costs from inefficient pricing

⁵ Unison/Centralines, p 2, Executive Summary and Overall Position

⁶ ENA, p 2

⁷ Powerco, p 1, Further reform of distribution connection pricing based on clear evidence

⁸ Mercury p 1, Introduction

⁹ Utilities Disputes p 5, para 16

"We support the Authority's overall objective of making connection pricing methodologies more transparent, consistent and efficient, while ensuring connection pricing better reflects underlying costs." ¹⁰

17. Vector agrees. Properly designed itemisation should identify the main cost drivers, included scope, material assumptions, excluded risks and contestable work. This allows applicants to test design choices and compare alternatives without turning transparency into price control.
18. Greater transparency can improve customer choice and the conditions for competition. Consideration of proportionality is important though. The expected benefit should exceed the implementation and ongoing regulatory burden.
19. Vector therefore supports common cost categories and definitions, transparent quote assumptions, clear variation mechanisms and reconciliation of quoted and actual costs for material projects where the benefits outweigh the costs. These measures should build on existing reconciliation and disclosure requirements rather than duplicate them.

Contestability and customer choice

20. Several non-distributor submitters support workable customer choice in connection delivery.

"The IEGA supports contestability for connection works – that is, "the ability for access seekers to have a choice of suppliers for connection design, equipment supply or construction". ¹¹

"Where safety and network integrity can be maintained, contestability can: improve efficiency; reduce costs; increase innovation; improve delivery timeframes; provide customers with greater choice." ¹²

21. This supports Vector's view that where appropriate contestability should be considered as part of reform. Competition can help discipline cost, timeliness and service quality and may address some concerns around construction-risk and equivalence obligations more directly than prescriptive price controls.
22. Contestability must also be competitively neutral. If a distributor is required to recover part of a connection's efficient cost through future regulated lines charges while an independent provider must recover its cost from the project, distributor delivery may appear cheaper without being more efficient. HoustonKemp identified this as a direct risk to competition for connection services.
23. Vector supports transparent boundaries between contestable and non-contestable work, proportionate contractor approval processes, access to relevant technical information and equivalent treatment of applicant-delivered or vested assets. However, safety, asset quality and network standards must remain protected.

¹⁰ Fletcher Residential p 1, Introduction

¹¹ Independent Electricity Generators Association, p 3, Q26.

¹² Fletcher Residential, p 5, Contestability

Capacity costing and flexible connections

24. There is support for making material shared-network capacity costs visible, while recognising the need for sound assumptions and flexible arrangements.

“Connection and tariff options should recognise those characteristics rather than assuming that nameplate capacity translates directly into coincident peak demand.”¹³

“Customers should be able to agree staged or flexible capacity arrangements, with both upfront charges and ongoing tariffs reflecting the capacity actually required and any flexible operation by the customer.”¹⁴

25. Vector agrees that scarce upstream capacity has an economic cost. Making it visible helps applicants make efficient choices about location, connection size, timing, firmness and flexibility. HoustonKemp similarly supports capacity costing in principle because it can improve cost reflectivity and standardisation.
26. But qualification is important. Existing capacity is not free: existing customers are paying for it through regulated network charges. The Authority’s capacity-costing rules require a calculation of the cost of the capacity consumed by an applicant. That calculation should reflect the capacity required by the connection and the relevant allocation methodology. It should not turn on whether the network is currently congested. Congestion is signalled through the demand-charge component of ongoing usage charges and should have no bearing on the efficient cost of connecting an applicant.
27. Vector supports flexible connections where these arrangements reduce efficient connection costs or defer the need for additional network investment. However, staged or flexible capacity arrangements should not be treated as a reason to under-recover the incremental cost of connection. As Vector explained in its submission, an applicant should pay the efficient incremental cost of connecting, including both the direct connection works and an appropriate contribution to shared network capacity used by the connection.
28. HoustonKemp’s report reinforces that connection pricing should preserve cost-reflective signals and avoid shifting applicant-specific costs or risks to existing customers. Upfront charges and ongoing tariffs can therefore recognise the capacity actually required and any enforceable flexibility provided by the customer, but only where those arrangements genuinely reduce the cost imposed on the network.

Network development and first-mover effects

29. There is broad agreement that clearer principles are needed to distinguish an individual connection cost from investment benefiting future connections or the wider network.

¹³ Meridian, p 2, Pricing approaches should reflect practical nuances

¹⁴ Meridian, p 2, Pricing approaches should reflect practical nuances

“Developers should fund the infrastructure their development requires but should not fund infrastructure that serves future growth or existing customers.”¹⁵

“We support developing clear demarcation principles between connection-incremental costs and network development costs, and clear rules for selecting and designing funding mechanisms.”¹⁶

30. Vector’s view is applicants should pay the incremental cost of their connection. That incremental cost includes both the direct costs incurred to physically connect the applicant and an appropriate contribution to shared network costs where the connection uses existing or additional shared capacity. Existing customers should not be left to fund costs that are properly attributable to a new or upgraded connection. Vector agrees that those costs need to distinguish those costs from wider network development that benefits a broader class of current or future customers.

Proportionality, evidence and review

31. Support for reform is accompanied by calls for proportionality and review, including from non-distributor submitters.

“We also encourage the Authority to apply proportionality and de minimis thresholds so that reform is targeted at connections and distributors where the evidence of harm is strongest.”¹⁷

“Some of the requirements are highly technical and could be beyond the level of detail expected by the offtake connecting party. Are imposing costs on distributors to prepare information that is not useful for / demanded by connecting parties in the long-term interests of all consumers?”¹⁸

32. Vector agrees. The Authority should distinguish inefficient pricing from genuinely high input costs; pricing methodology from connection-process problems; customer-driven scope changes from distributor-controlled overruns; and isolated dissatisfaction from efficient connections actually being deterred.
33. The Authority should use information generated by recent reforms, define a baseline and success measures, test requirements against real connection scenarios and conduct a post-implementation review before extending prescription.

¹⁵ Property Council New Zealand, p 5, s 5.1

¹⁶ Lodestone Energy, p 5, Q12

¹⁷ Lodestone Energy, p 2, Q3.

¹⁸ Independent Electricity Generators Association, p 4, Q27

D. Areas where views differ

Mandatory caps, bands and below-cost upfront recovery

34. ERGANZ, the Property Council and some other access-seeker submissions favour caps, bands or other controls intended to reduce the proportion of incremental cost recovered upfront.

"Recovering close to the full incremental cost through connection charges is a different matter and is not efficient." ¹⁹

"An allocation cap would more fairly spread the cost of financing new connection assets and help to incentivise distributors to minimise costs, rather than passing them through in full." ²⁰

35. Vector disagrees that these statements establish an efficiency basis for mandatory limits. A preference for lower upfront payment is understandable, but a lower payment does not remove the connection cost. It transfers financing and recovery risk to the distributor and ultimately to its wider customer base.
36. HoustonKemp explains that a distributor's lower average cost of capital does not establish that it is efficient for the distributor to assume project-specific risk. The relevant issue is the risk of the investment and who is best placed to manage it. Transferring project risk may distort investment if the applicant does not face a risk-adjusted cost.
37. Mandatory caps or narrow bands may also weaken signals about connection size, location and timing; expose existing customers where demand does not materialise; increase the need for security or termination payments; create financeability pressures; and disadvantage independent connection providers.

DPP5, IRIS and financeability

38. A strong theme across distributor submissions is that allocation reform cannot be separated from DPP5, IRIS, capital contribution forecasts, financeability and incentives to connect customers promptly. Aurora, Powerco, Unison/Centralines, Wellington Electricity and ENA all emphasise that reducing upfront recovery changes the amount of net connection expenditure distributors must finance and recover through future regulated revenues.

"DPP5, capital contributions and IRIS must be considered together." ²¹

"Reducing capital contributions increases the expenditure distributors must finance and potentially recover through future prices." ²²

¹⁹ ERGANZ, p 2, Executive summary

²⁰ Property Council New Zealand, p 5, s 5.4.

²¹ Aurora, p 4, section 1.2.3

²² Unison/Centralines, p 4, DPP5 alignment is fundamental

39. Vector agrees. If the Authority requires distributors to recover more connection cost through future lines charges, the Commerce Commission's DPP5 settings must recognise the resulting expenditure, revenue, cash-flow and incentive effects. Otherwise, the reform may create a mismatch: distributors would face obligations to facilitate more connection investment without a regulatory funding pathway that supports efficient delivery.

"A distributor that cannot finance the investment will attempt to recover more up front." ²³

"If the Authority changes connection pricing rules outside the DPP process, distributors may be required to recover less through upfront contributions without having corresponding regulated allowances in place to fund the shared network capacity needed for growth." ²⁴

40. The Authority should therefore coordinate any material funding change with the Commerce Commission before finalising enduring Code amendments. That work should address gross and net connection capex, capital contributions, incremental revenue, financeability, IRIS treatment, utilisation risk, stranding risk and adjustment mechanisms for demand growth outside distributor control.

A mandatory standard allocation formula

41. ERGANZ, Meridian and Property Council support a standard allocation formula to improve consistency and make allocation settings explicit.

"In Meridian's view, the standard connection methodology and standard allocation formula options are central to the issues in the paper and distribution pricing more generally and should therefore be of highest priority." ²⁵

"We support Option B1 (standard process) and Option B2 (standard allocation formula) as the foundation for an enduring framework." ²⁶

42. Vector supports a standard high-level process, but not an untested formula that prescribes the funding split. HoustonKemp identifies that a fixed allowance can reduce charges to zero for some applicants. Once the charge reaches zero, the applicant no longer faces a marginal connection-price signal to reduce cost, while part of the incremental cost and business risk is placed on existing customers.
43. Standardisation should focus on process, terminology, information and calculation principles. It should not require identical outcomes where costs, constraints, growth expectations, applicant risk and delivery models differ. If the Authority's concern is intergenerational equity, tariff-based alternatives should be considered rather than suppressing the connection price itself.

²³ Powerco, p 5, para 18

²⁴ Wellington Electricity, p 5, Alignment with DPP Determinations

²⁵ Meridian, p 2, Centrality of allocation

²⁶ Property Council New Zealand, p 5, s 5.2.

Construction-risk allocation

44. Property Council and ERGANZ support stronger restrictions on passing through costs above an accepted quote.

"Developers cannot influence contractor selection, procurement or construction management once a quote is accepted, yet bear full exposure to cost variation." ²⁷

45. Vector accepts the underlying concern but opposes a blanket restriction. Risk should follow control: a distributor should be accountable for controllable procurement or estimation failures; an applicant should remain responsible for applicant-driven scope changes; and genuinely unforeseeable events require an agreed commercial treatment.
46. HoustonKemp notes that restricting recovery to the quoted amount does not correct an inefficient investment decision; it redistributes the financial outcome to other customers. A rigid rule may also encourage larger contingencies in initial quotes. A more proportionate approach is itemised quotes, clear quote status, defined variation categories and monitoring of systematic quote-to-outturn variance.

Equivalence and assurance obligations

47. Some submitters support requirements intended to ensure equivalent contractor treatment and independent assurance of material costing inputs.

"We support A2 (construction risk allocation) and A3 (equivalence obligation) to encourage more proactive commercial management of contractors undertaking capital works." ²⁸

48. Vector does not agree that contractors must charge the same price for distributor-led works and connection-applicant works in all circumstances. Different prices do not, without more, show discrimination or inefficient pricing. Legitimate differences can arise because distributor programmes may involve greater scale, repeat work, longer-term work pipelines, different risk allocation, different delivery timing, different procurement terms, or different warranty and performance obligations. Equally, applicant-led works may involve bespoke design, tighter timing, site-specific constraints or higher mobilisation costs. The relevant test should be whether any difference is objectively justified, transparent and not the result of discriminatory treatment or the exercise of market power. A mandatory price-equality rule would risk overriding efficient procurement differences and could increase total connection and network costs.

²⁷ Property Council New Zealand, p 4, s 4.4.

²⁸ Lodestone Energy, p 3, Q6

49. If the Authority identifies a material procurement concern, a better approach to reform would be require competitive procurement and the provision of evidence that contracts have not been structured to shift distributor initiated works costs into connection works.
50. Assurance should only be required for material or high-risk inputs and where benefits outweigh costs. It is our view that many confidence benefits may be achieved more cheaply through transparency.

Financial security

51. Several access seekers support limits and standardisation because security instruments increase the effective cost of connecting.

"Security is not free. A bond, guarantee or prepayment costs the applicant capital and increases the effective connection cost." ²⁹

"We support the Authority's recognition that large, high-cost connections are the category where stranding risk is most material." ³⁰

52. Vector considers that security should be proportionate, transparent and linked to genuine risk. It does not support generic restrictions before the Authority has evidence of material harm. The case for security becomes more significant where a larger proportion of connection cost is deferred into future lines charges.
53. Relevant considerations for security include unrecovered exposure, applicant / consumer creditworthiness, demand and project uncertainty, asset reuse or salvage value and the scale of exposure. Security mitigates but may not eliminate the risk transfer created by below-cost upfront recovery.

Real estate developments & secondary networks

54. Developer-side submissions supported stronger mechanisms to address first-mover disadvantage in real estate developments, but distributor-side submissions expressed caution against mandatory inclusion in pioneer schemes until the Authority resolves practical questions about rebate ownership, pass-through, timing, and implementation.
55. Vector supports an approach where the Authority gives real estate developments specific consideration in its reform, but mandatory inclusion in pioneer schemes does not proceed unless a workable mechanism is demonstrated and the costs of that do not out way the benefits.
56. Several submissions support further work on secondary networks, but they also show that the issue is broader than connection pricing. Utilities Disputes identifies concerns about

²⁹ ERGANZ, p 13, Q23

³⁰ Lodestone Energy, p 7, Q23.

consumer protections, billing, complaints and customer understanding. ERGANZ and Orion point to retail-access issues. Property Council supports evidence-based consideration for pocket networks and major infrastructure sites. ENA favours proportionate information gathering and materiality thresholds.

“Utilities Disputes has for some years highlighted the issue of secondary networks and lack of consumer protection in what is a largely ignored and under-researched area.”³¹

“Consumers on customer networks have no ICP recorded in the registry and therefore no choice of retailer.”³²

57. Vector agrees that comparable access risks should receive comparable protection, but regulation should be targeted to scale, access activity and evidence of harm. The Authority should begin with information gathering on secondary network size, access activity, pricing transparency, complaints, retail choice and pass-through of parent-network charges before deciding whether connection-pricing obligations should apply.

“The Authority should begin with basic, proportionate information requirements to understand the scale, nature and connection activity of secondary networks.”³³

“Some of our members develop through pocket networks and major infrastructure sites, for example, subdivision-scale secondary networks. Developers connecting to these networks should receive equivalent protections to those connecting to a primary network, regardless of the ownership structure chosen for the reticulation.”³⁴

58. Any future reform should be proportionate and should not automatically capture private property networks where electricity access is incidental to a wider tenancy or property arrangement. The objective should be comparable protection for customers facing comparable risks, not identical regulation for every network structure.

E. Vector’s recommendations

59. Having considered the submissions, Vector recommends that the Authority adopt a staged reform package.
 - a. Immediate no-regrets reforms: clearer quote information, common terminology, transparent assumptions, consistent high-level process steps, practical guidance and worked examples.
 - b. Evidence-building reforms: use charge reconciliations, capacity-costing information, complaint data, quote-to-outturn variance and real-project testing to identify whether problems are systemic, material and caused by pricing methodology rather than process, procurement or technical-standard issues.

³¹ Utilities Disputes, p 2, Issue 1

³² ERGANZ, p 12, Q20

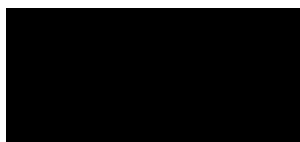
³³ ENA, p 19, Q22

³⁴ Property Council, p 7, section 7.2

- c. Contestability reforms: progress transparent boundaries between contestable and non-contestable work, proportionate contractor approval, non-discrimination, access to technical information and competitively neutral treatment of applicant-delivered or vested assets.
- d. Network development reforms: develop principles and worked examples for distinguishing individual connection costs from wider network development, while retaining flexible tools such as staged investment, targeted contributions, localised recovery mechanisms, pioneer-style arrangements and financial security.
- e. DPP5 coordination: work with the Commerce Commission before finalising any material funding change, including the treatment of capital contributions, net connection capex, incremental revenue, IRIS, financeability, utilisation risk and stranding risk.
- f. Prescriptive allocation controls: defer mandatory allocation formulae, caps, narrow bands and generic limits for large connections unless a material problem and quantified net benefit are demonstrated.
- g. Risk and security: replace broad construction-risk and equivalence obligations with targeted rules, transparent risk allocation, and preserve proportionate financial security for demonstrable non-recovery and stranding risk.
- h. Real estate developments and secondary networks: take an evidence-led and proportionate approach, recognising the practical complexities of developer rebate allocation, customer pass-through, retail access and different network structures.
- i. Review and governance: use practical workshops, real-project testing, baseline measures and post-implementation review before finalising enduring Code amendments.

Yours sincerely

For and On Behalf of Vector Limited



Richard Sharp

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