

FURTHER REFORM OF DISTRIBUTION CONNECTION PRICING

Submission on the Electricity Authority Issues Paper

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1 INTRODUCTION

1.1 PRELIMINARY

1. Aurora Energy Limited (Aurora Energy) welcomes the opportunity to submit on the Electricity Authority (the Authority) *Further reform of distribution connection pricing* Issues Paper.
2. Aurora Energy supports connection pricing arrangements that are transparent, predictable and promote efficient investment by both distributors and connection applicants. We also recognise the benefit of greater consistency in terminology and processes where this can reduce costs for customers.
3. However, further reform needs to recognise the significant differences between Electricity Distribution Businesses (EDBs), including their operating models, growth profiles, capital structures, and customer bases. These differences can affect which approaches deliver the most efficient outcomes for customers. A uniform regulatory approach may therefore not always be in customers' best interests.
4. The Issues Paper contains a broad range of potential reforms. In our view, the Authority should prioritise those areas where there is clear evidence of a material problem and where the benefits of further intervention can reasonably be expected to exceed the implementation and ongoing costs.
5. Section 1.2 summarises the key aspects of our feedback.

1.2 KEY ASPECTS OF OUR FEEDBACK

1.2.1 COMPETITION EXISTS IN PARTS OF THE DISTRIBUTION MARKET

6. Aurora Energy considers that the Issues Paper presents the absence of competitive pressure too broadly. While electricity distribution networks generally have natural monopoly characteristics, the Authority itself recognises that distributors do not have exclusive rights to defined geographic areas and that competition between network providers can arise in some circumstances.
7. Any further reform should therefore retain sufficient flexibility to recognise differences in actual market conditions across EDBs and connection areas.

1.2.2 LIMITED REGULATORY OVERSIGHT SHOULD NOT BE EQUATED WITH LIMITED INCENTIVES

8. Aurora Energy considers that aspects of the Authority's problem definition do not adequately recognise the different circumstances faced by EDBs.
9. In particular, the Issues Paper states that distributors have historically had "little incentive to ensure connection pricing is efficient". Aurora Energy considers this statement too broad. Limited regulatory prescription does not mean that EDBs lacked incentives to support efficient connection outcomes. EDBs have commercial and customer incentives to ensure connections expenditure is efficient (IRIS penalties apply when total allowances are exceeded), avoid uneconomic or stranded investment, manage capital expenditure and protect existing customers from the costs of inefficient connections.
10. Contractor-led connection models provide a practical example of how market incentives can support efficient outcomes. Where customers can select and directly engage approved contractors, competition between providers can improve choice, cost and service outcomes. The EDB continues to set the necessary technical and network standards.
11. Efficient connection growth can also increase network utilisation and spread shared network costs across a larger customer base. This can provide EDBs with an incentive to facilitate connections that are expected to add value without imposing additional costs on existing customers.
12. We therefore consider that limited historical regulatory oversight should not be treated as evidence that EDBs lacked incentives to price connections efficiently. This distinction is important when assessing whether further regulatory intervention is necessary.

1.2.3 DPP5, CAPITAL CONTRIBUTIONS AND IRIS MUST BE CONSIDERED TOGETHER

13. Aurora Energy agrees that any connection pricing reform that materially changes how connection investment is funded should be settled in time to inform DPP5 revenue paths. The Authority recognises that some options could alter the assumptions that flow into revenue paths applying from April 2030.
14. Some of the allocation options could materially change this funding balance. For example, Option B5 could require some EDBs to reduce the amount recovered from connection applicants and recover a greater share of connection-related costs through lines charges. The Authority acknowledges that this could affect DPP5 regulatory allowances, capital management and expenditure management.
15. Aurora Energy has previously raised concerns about the application of Incremental Rolling Incentive Scheme (IRIS) to consumer connection capex. Unlike expenditure initiated by an EDB, expenditure on new and upgraded connections is substantially driven by customer demand. Applying IRIS to this expenditure may create an incentive for EDBs to limit the amount they fund through capital contributions, even where the underlying connection activity is legitimate and efficient. This may work against the Authority's objective of supporting efficient connection growth, particularly where further connection pricing reform would require EDBs to fund a greater share of connection investment.
16. In addition to this broader IRIS concern, where a mandatory connection pricing requirement increases the amount of net capex funded by an EDB, its treatment under DPP5 and IRIS should be addressed before that requirement takes effect. An EDB should not face an unintended adverse incentive outcome solely because it responds to customer-driven connection demand or because a regulatory change alters the funding balance between connection applicants and the EDB.
17. Aurora Energy considers that consumer connection capex should be excluded from the IRIS framework for DPP5. The Authority should therefore work with the Commerce Commission (the Commission) to ensure that DPP5 expenditure allowances and incentive settings appropriately reflect any material funding change arising from new connection pricing requirements. These settings should be aligned before the Authority introduces requirements that increase the amount of connection investment funded by EDBs.
18. Any allocation cap, allocation band or equivalent requirement that could materially change the funding balance between connection applicants and EDBs should not take effect until the treatment of the resulting expenditure under DPP5 and IRIS has been resolved.

1.2.4 FURTHER PRESCRIPTION SHOULD BE SUPPORTED BY A ROBUST COST-BENEFIT ANALYSIS

19. Before progressing any materially more prescriptive connection pricing requirements, the Authority should undertake a detailed cost-benefit analysis. This should assess the expected benefits of each intervention against its implementation and ongoing costs for EDBs and connection applicants.
20. Paragraph 6.14 acknowledges that regulatory changes can create cost and uncertainty where EDBs must modify enterprise systems or rework business or customer processes. Further requirements may also require changes to pricing models, internal controls, customer communications and assurance arrangements. These costs should not be treated as incidental.
21. This is particularly relevant to Options B1 and B2. The Issues Paper acknowledges that EDBs may need to rework their methodologies to implement a standard process or allocation approach. While greater consistency may provide benefits, the Authority should establish that those benefits justify the implementation and ongoing costs. Consistency alone is not sufficient justification for standardisation where different approaches can reflect legitimate differences in network characteristics, operating models and cost-recovery arrangements.
22. This is also consistent with the Authority's own proposed prioritisation framework. Paragraph 2.26(c) recognises that "some options may not yield benefits that would outweigh the costs at this time". This should be a central test when determining whether more prescriptive requirements should proceed, particularly where the same outcomes could be achieved through a less costly or less restrictive approach.

1.2.5 THE NEUTRAL POINT SHOULD BE THE PRIMARY REGULATORY SAFEGUARD

23. Aurora Energy supports the principle that new and upgraded connections should not be subsidised by existing customers. Option B3 appropriately reflects this principle by requiring revenue from new offtake connections and upgrades to be likely to at least cover incremental cost.
24. The neutral point provides a clear reference point for determining whether a connection is subsidy-free. At the neutral point, the combined expected contribution from the up-front connection charge and incremental lines revenue equals the connection's incremental cost. Above the neutral point, the connection also contributes towards shared network costs.
25. Aurora Energy therefore supports Option B3 as the primary enduring safeguard against inefficiently low connection pricing. We are less convinced that the Authority has established the case for additional enduring restrictions through Options B4, B5 or B6, or for prescribing allocation settings under Option B2, once the subsidy-free requirement is satisfied.
26. Aurora Energy recognises the Authority's concern that an EDB could increase the share of shared network costs recovered from new connections while those connections continue to face the same ongoing lines charges as similar existing customers. However, this does not mean every contribution above the neutral point is inefficient, or that a particular allocation outcome should be prescribed.
27. The key question for enduring reform is whether there is evidence that material shifts in shared cost recovery are occurring or are likely to occur in a manner that could materially deter efficient connection activity. If so, the Authority should demonstrate that further regulatory restrictions are necessary and proportionate to the identified problem.
28. Any enduring constraint above the neutral point should therefore be supported by clear evidence of a material shared-cost allocation problem and be proportionate to that problem.

1.2.6 MANDATORY CAPACITY COSTING SHOULD REFLECT DIFFERENT NETWORK AND FUNDING CIRCUMSTANCES

29. Under the current fast-track arrangements, EDBs may choose whether to include shared network capacity costs in their connection pricing. Option A1 would remove this discretion by requiring network capacity costs to be included in incremental cost estimates.
30. Mandatory capacity costing should not apply uniformly to all EDBs or all connections without regard to materiality, network circumstances and existing cost-recovery arrangements. The Authority itself recognises that Option A1 could be limited to connections above a specified size or cost threshold and that the capacity cost may be zero where the network has excess capacity.
31. There is also an intergenerational equity question in determining how the costs of long-lived shared capacity should be attributed across customer cohorts. Not all shared network capacity investment is caused by new connections. Capacity may also be required because existing customers are using more electricity or because of wider network growth. The Authority should distinguish between these drivers so that new connection applicants are not allocated costs they did not cause.
32. The Authority should therefore demonstrate that making capacity costing mandatory would produce materially better efficiency outcomes than retaining the current discretion. This should include consideration of the impact on connection decisions, different drivers of network growth and intergenerational equity.
33. EDBs should retain discretion to exclude shared network capacity costs from incremental cost estimates where those costs are appropriately treated as organic growth or wider network development and recovered through lines charges. Alternatively, any mandatory requirement should include appropriate materiality thresholds and flexibility to reflect different network and funding circumstances.

1.2.7 REGULATION SHOULD RECOGNISE DIFFERENT CONNECTION DELIVERY MODELS

34. EDBs operate different connection delivery models. Under some contractor-led models, customers select and engage approved contractors to design and construct connection works in accordance with the EDB's network standards. This can provide customer choice while retaining appropriate safety, quality and network integration requirements.

35. Requirements designed for EDBs that directly procure, manage and price connection works may not be appropriate where customers engage contractors directly.
36. This is particularly relevant to Options A2 and A3. In contractor-led models, an EDB may have limited control over contractor pricing or changes to quoted costs. The Authority also acknowledges that Option A3 may not be compatible with all operating models and may not be necessary where connection equipment or works are sufficiently contestable.
37. Further requirements should therefore be outcome-focused and sufficiently flexible to accommodate different operating models. The Authority should provide appropriate carve-outs or alternative compliance pathways where an EDB can demonstrate that its existing model already achieves the regulatory objective through effective contestability and customer choice.

1.2.8 PRUDENT DISCOUNTS

38. Large connections can face different competitive conditions and a greater risk of uneconomic bypass than standard connections. Connection pricing rules should retain sufficient flexibility to reflect these circumstances.
39. Aurora Energy supports Option B9 because prudent discounts provide necessary flexibility where applying the usual network cost contribution could deter an otherwise efficient connection.

1.2.9 THE EXISTING REAL ESTATE DEVELOPMENT CARVE-OUT SHOULD BE RETAINED

40. Aurora Energy does not consider that a case has yet been established for extending mandatory pioneer scheme requirements to real estate developments. The Authority only recently decided not to require EDBs to include these developments, recognising the practical difficulties associated with identifying and maintaining rebate entitlements where developers sell completed lots or units and may have no enduring relationship with the development. The Issues Paper acknowledges that these practical difficulties remain.
41. In particular, the developer that funded the initial infrastructure may no longer exist or have an ongoing relationship with the development when a future rebate becomes payable. Alternatively, allocating payments to owners within the development would require a workable allocation rule.
42. The current arrangements already allow an EDB to include real estate developments in its pioneer scheme where it considers this would appropriately address first-mover disadvantage. Given that flexibility, and the recent introduction of the new pioneer scheme requirements, the Authority should first establish that the existing carve-out is creating a material first-mover problem before introducing further mandatory requirements. EDBs should therefore retain discretion to apply pioneer schemes to real estate developments where appropriate.

2 APPENDIX A: CONSULTATION QUESTION RESPONSES

Questions	Aurora Energy response
Q1. Do you agree with the background and context summary above? Why, why not?	Aurora Energy considers the background too broad in two respects: it overstates the absence of competitive pressure and the extent to which EDBs historically lacked incentives for efficient connection pricing. Limited regulatory oversight should not be treated as evidence that EDBs lacked incentives to support efficient connection outcomes.
Q2. Is there additional background, evidence or context relevant to the issues covered in this paper?	Yes. The Authority should recognise that EDBs have different connection delivery models and that changes to connection funding can interact with DPP5 and IRIS settings.
Q3. How should the Authority prioritise across possible options identified in this paper?	Prioritisation should be based on clear evidence of a material problem, DPP5 linkages and dependencies, and a robust assessment of costs and benefits. Options that materially change the funding balance between connection applicants and EDBs should not proceed until the DPP5 and IRIS implications are addressed.
Q4. Which options should have the highest or lowest priority, and why?	Aurora Energy considers Option B3 should be a priority as the primary enduring subsidy-free safeguard and supports retaining Option B9. More prescriptive options such as B1, B2, B4, B5, B6 and mandatory A1 should not be progressed without clear evidence, robust cost-benefit analysis and appropriate flexibility. Options A2 and A3 should also recognise different connection delivery models.
Q5. Do you consider costing methodologies should be a priority for further reform, and do you have any evidence or analysis to support your view?	Only where there is clear evidence of a material problem. Further prescription should recognise different EDB operating models and should not proceed unless the expected benefits materially exceed implementation and ongoing costs.
Q6. What are your views on the merits of the identified costing methodology options?	Aurora Energy does not support mandatory capacity costing across all EDBs and connections. Any requirements should include materiality thresholds and flexibility for contractor-led arrangements.
Q7. Are there any other costing methodology options you think the Authority should consider?	The Authority should consider materiality thresholds, carve-outs or alternative compliance pathways for different delivery models, and continued discretion to exclude shared network capacity from incremental cost estimates where it is appropriately treated as wider network development.
Q8. Do you consider allocation methodologies should be a priority for further reform, and do you have any evidence or analysis to support your view?	The neutral point under Option B3 should be the primary enduring allocation safeguard. Further prescription above the neutral point should only proceed where there is clear evidence of a material problem and the benefits of intervention outweigh the costs and loss of flexibility.
Q9. How well do the identified allocation methodology options meet the allocation objectives discussed in this paper?	Option B3 directly addresses subsidy-free pricing and Option B9 preserves useful flexibility for large connections. The other options could reduce flexibility, increase implementation costs or change the funding balance between connection applicants and EDBs.
Q10. Are there any other allocation methodology options you think the Authority should consider?	The neutral point should be the primary enduring constraint. Any further intervention above the neutral point should be targeted at clear evidence of a material problem rather than imposed through a sector-wide formula, cap or band. The Authority should also allow a prudent discount methodology to apply across a defined geographic area or class of connections where comparable competitive or bypass conditions consistently apply.

Questions	Aurora Energy response
Q11. Are you aware of any issues relating to network development funding? Please provide examples, evidence or analysis where possible.	No comment at this time.
Q12. What options, if any, should the Authority consider for promoting efficient pricing for network development?	EDBs should retain flexibility to treat shared network capacity as wider network development where appropriate and recover those costs through lines charges. Any mandatory approach should include materiality thresholds and recognise different network circumstances and intergenerational equity.
Q13. Are you aware of any issues relating to network modification charges? Please provide examples, evidence or analysis where possible.	No comment at this time.
Q14. What options, if any, should the Authority consider for promoting efficient pricing for network modifications?	No comment at this time.
Q15. Are you aware of any issues relating to connection downgrade or disconnection charges? Please provide examples, evidence or analysis where possible.	No comment at this time.
Q16. What options, if any, should the Authority consider for promoting efficient pricing for connection downgrades or disconnections?	No comment at this time.
Q17. Are you aware of any issues relating to continuance pricing? Please provide examples, evidence or analysis where possible.	No comment at this time.
Q18. Should continuance pricing methodologies be a priority for further reform? Please provide reasons for your view.	No comment at this time.
Q19. What options, if any, should the Authority consider for promoting efficient continuance pricing?	No comment at this time.
Q20. Are you aware of any issues relating to secondary network access? Please provide examples, evidence or analysis where possible.	No comment at this time.
Q21. Should secondary network access be a priority for further reform? Please provide reasons for your view.	No comment at this time.
Q22. What options or approach, if any, should the Authority consider for addressing secondary network access issues?	No comment at this time.
Q23. Are you aware of any issues relating to financial security requirements? Please provide examples, evidence or analysis where possible.	No comment at this time.
Q24. Should financial security requirements be a priority for further reform? Please provide reasons for your view.	No comment at this time.
Q25. What options or approach, if any, should the Authority consider for financial security requirements?	No comment at this time.

Questions	Aurora Energy response
Q26. Do you have views on any other measures the Authority should put in place to address connection pricing methodology issues, including contestability, in-kind contributions, large connections and real estate developments?	Requirements should recognise contractor-led delivery models and retain flexibility for large connections, including prudent discounts where normal contributions could deter an efficient connection. The current real estate development carve-out from mandatory pioneer schemes should be retained.
Q27. What measures, if any, should the Authority consider to ensure connection pricing methodology requirements are effective in practice?	Requirements should be outcome-focused, proportionate and supported by clear guidance. Any assurance or compliance measure should be subject to a robust cost-benefit analysis and should recognise different EDB operating models.
Q28. How should the Authority monitor, review or update connection pricing methodology requirements to ensure they remain fit for purpose over time?	The Authority should monitor actual outcomes and implementation costs, allow recent reforms sufficient time to operate, and only introduce further prescription where evidence shows a material problem and the expected benefits outweigh the costs.