

## Further reform of distribution [offtake] connection pricing – issues paper

**Organisation** Independent Electricity Generators Association (IEGA)

| Question                                                                                                                                          | Comment                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
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| Q1. Do you agree with the background and context summary above? Why, why not?                                                                     | <p>The IEGA agrees that connection of distributed generation is increasing delivery of electricity within distribution networks (displacing electricity delivered by transmission grid connected generators from GXPs). Demand is also increasing. As distributors plan their network capacity to meet growing demand we agree there is greater opportunity to optimise offtake and injection to minimise the investment required to support future demand (instead of increasing network capacity to deliver electricity from GXPs to meet increased demand).</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| Q4. Which options should have the highest or lowest priority, and why?                                                                            | <p>Noting this entire paper and proposed reform relates to connection pricing for <b>OFFTAKE</b> customers.</p> <p>Note that there have been codified requirements for connection charges for Injection connections since 2007, as well as a formal dispute process if there are issues relating to these charges. Since 2007 there has been one dispute which the Authority issued a determination on.</p> <p>Paragraph 3.8 describes “anecdotal evidence” of types or reasons for inefficient pricing. It is not clear if the Authority has collected anecdotal evidence regarding connection of generation – in particular standalone generation facilities that will be on individual price plans.</p> <p>While the Authority states that “<i>All of these issues [listed in para 3.8] are as relevant for injection connections as for offtake connections, and many of the possible options for addressing these issues could apply to any type of connection</i>” the IEGA submits the Authority must be able to demonstrate that the benefits exceed the costs of any change to regulatory settings for injection connection charges. A blanket assumption that what is good for offtake connections is good for injection connections is not robust.</p> <p>Distributed generation displaces electricity from transmission grid connected generation delivered by distributors to their ICPs. A generation access seeker should be indifferent to connecting to the transmission grid or a distribution network.</p> |
| 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? | <p>The IEGA does not have a view on priorities as the Authority’s focus is on offtake connections.</p> <p>Our responses to Q6 below address where the Authority has suggested the costing methodology could be applied to offtake and injection connections.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |

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| <p>Q6. What are your views on the merits of the identified costing methodology options?</p> | <p><i>A1. Mandatory capacity costing: Require distributors to include network capacity in their incremental cost estimates</i></p> <p>The Authority notes “there may be practical differences in how capacity costing would apply to injection”. The IEGA agrees there are practical differences between offtake and injection capacity costing. We expect this topic to be assessed robustly when the Authority reprioritises its review of distributed generation connection pricing.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|                                                                                             | <p><i>A2. Construction risk allocation: Restrict ability for distributors to pass through increases relative to quoted costs</i></p> <p>For standalone generation connections, subject to Part 6.4 of the Code, this issue is likely to be addressed in a contract or negotiations between the DG owner and the distributor (as well as the level of security of the connection (n or n-1)).</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|                                                                                             | <p><i>A3. Equivalence obligation: Require distributors to take steps to ensure connection and regulatory works (including equipment) are priced consistently</i></p> <p>Does “priced consistently” mean across individual but similar offtake connections? Distributors might have a standard connection price for a class/category of offtake connections as well as this group forming a customer group for ongoing lines charges – so this ‘equivalence’ will be transparent. An equivalence obligation provides confidence to access seekers only if the prices are transparent/published. Otherwise, how will one offtake connecting party know that the prices they see are not the same as another offtake connecting party?</p> <p>For standalone generation injection connections, the DG owner is likely to have intimate knowledge of the costs of connection assets. Further, connection is likely to be more bespoke than, say, connecting EV charges.</p> |
|                                                                                             | <p><i>A4. Cost transparency: Set standards for itemising extension costs, and any other bespoke (ie, not rate-based) input costs</i></p> <p>Cost transparency may already happen for large offtake connections with individual pricing.</p> <p>Instead of regulating to ensure transparency of particular cost items, the IEGA suggests it might be more useful if distributors were required to provide information about costs if an offtake access seeker requests this information.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|                                                                                             | <p><i>A5. Costing requirements: Set requirements for how costs are quantified – eg, when and how margins or financing charges may be applied, when avoided costs should be netted off, and when costs should be adjusted for incidental benefits</i></p> <p>We expect this topic to be assessed robustly for injection connections when the Authority reprioritises its review of distributed generation connection pricing.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|                                                                                             | <p><i>A6. Input assurance: Strengthen assurance of:</i></p> <ul style="list-style-type: none"> <li>• posted network capacity rates, and (where used) posted network extension rates or posted connection charges</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |

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|                                                                                                                                                                                                                                                                          | <ul style="list-style-type: none"> <li>• <i>capacity assumptions for network capacity costing – ie, how connection capacity is converted to after-diversity demand assumptions for upper network tiers</i></li> <li>• <i>minimum scheme and minimum flexi scheme design, costing and (for flexi schemes) availability</i></li> </ul> <p>The Authority states “<i>Could be applied to injection connections if injection pricing principles were further reformed to include more prescriptive capacity costing requirements</i>”.</p> <p>We expect this topic to be assessed robustly when the Authority reprioritises its review of distributed generation connection pricing.</p> <p><i>A7. In-kind contribution costing: Require distributors to collect information from contractors on vested asset costs</i></p> <p>It's unclear why distributors would not already have the information on vested asset costs. Is the Authority requiring this information for its own use?</p> |
| <p>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?</p>                                                                                                              | <p>The consultation paper makes it clear the allocation methodologies are being considered for OFFTAKE connections only. For option ‘B.5 Allocation cap’ we agree with the Authority that in general applying this approach for injection connections “<i>would be a more significant departure from current practices</i>”.</p> <p>However, in some cases (and for the reasons listed) distributors and a standalone distributed generator (on individual prices) can and have agreed that the distributor will build and fund the connection asset and charge an annual fee for the return on and of the capital invested.</p> <p>Our understanding is that this revenue is outside / in addition to the allowable line services revenue regulated by the Commerce Commission.</p> <p>Query whether distributors’ debt funding of offtake (or injection) connection assets limits the ability of distributors to invest in the shared network for the benefit of all consumers.</p>  |
| <p>Q9. How well do the identified allocation methodology options meet the allocation objectives discussed in this paper?</p>                                                                                                                                             | <p>The IEGA agrees with the allocation objectives. We are not in a position to comment on whether the options identified meet these objectives for offtake connections.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <p>Q11. Are you aware of any issues relating to network development funding? Please provide examples, evidence or analysis where possible.</p>                                                                                                                           | <p>The IEGA appreciates how the Authority has outlined its views on what ‘network development’ activities are. We suggest this network development activity is the core of distributors’ network planning and investment focus.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| <p>Q26. Do you have views on any other measures the Authority should put in place to address connection pricing methodology issues (including Appendix D issues relating to contestability, in-kind contributions, large connections, and real estate developments)?</p> | <p>The IEGA supports contestability for connection works – that is, “<i>the ability for access seekers to have a choice of suppliers for connection design, equipment supply or construction</i>”. Many distributors have a panel of ‘preferred service providers’. If assigning work to a member of the panel is delaying design and construction of a new connection asset, we suggest this would be a perverse outcome given the growth in offtake and injection connections that is underway and forecast. We also suggest the</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                 |

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|                                                                                                                                                      | <p>size and complexity of the connection should influence whether the distributor should stipulate who can do the work.</p> <p>We also support the flexibility for DG owners to elect, in discussion with the distributor, who will own, and be responsible for ongoing maintenance of, the connection asset.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| Q27. What measures, if any, should the Authority consider to ensure connection pricing methodology requirements are effective in practice?           | <p>This question relates to how the Authority might monitor distributors' implementation of the offtake connection pricing Code and Guidance ("<i>effective in practice</i>").</p> <p>The IEGA suggests the Authority should also be explicit about how / when the Authority will review the effectiveness of the Code and Guidance on offtake connection pricing in achieving the stated objectives for this reform – for example a Post Implementation Review. This would answer the questions 'are connection prices for offtake more efficient' and 'do access seekers have confidence in the costs that they are being charged'.</p> <p>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?</p> |
| Q28. How should the Authority monitor, review or update connection pricing methodology requirements to ensure they remain fit for purpose over time? | <p>As discussed in response to Q27, the Authority should commit to regularly assessing whether the various Code requirements are fit for purpose and achieving the objectives of making the intervention. This is not about how distributors implement the Code but about whether the Code itself is effective / well designed / fit for purpose and improving offtake connection outcomes for the long-term benefit of consumers. Taking into account scale, an offtake or injection access seeker should be indifferent between connecting to the transmission grid or a distribution network.</p>                                                                                                                                                                                                                                                                                                                                            |