



Further reform of distribution connection pricing Issues paper

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1 Submission and contact details

Consultation	Further reform of distribution connection pricing Issues paper
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2 Executive Summary

Wellington Electricity welcomes the opportunity to respond to the Electricity Authority's *Further Reform of Distribution Connection Pricing Issues Paper*. Connection growth through new connections and upgrades to existing connections will be a critical enabler of New Zealand's economic growth, housing development, transport electrification, industrial decarbonisation and wider energy transition. Connection pricing arrangements need to provide the right balance between efficient price signals, affordability for connecting parties, and protection for existing consumers.

Wellington Electricity supports the Authority's objectives of improving transparency, and efficiency in connection pricing, and preventing inefficient barriers to connections. We agree that connection pricing should help connecting parties make informed decisions about the location, timing, size and design of their connection, while existing consumers do not subsidise costs that are attributable to new or upgraded connections. Further reform should consider the diversity of distributor circumstances and avoid broad, prescriptive solutions to issues that may not exist across all networks.

The current connection pricing reforms appear to have been developed as a relatively reactive response to concerns that a small number of distributors may have been setting inefficiently high upfront connection charges, rather than through a fully integrated assessment of how connection pricing interacts with network investment, flexibility, financeability, and electrification objectives.

This means the connection pricing framework cannot be assessed only as a narrow cost-allocation exercise. It must also support timely network investment, and long-term affordability. The enduring framework should therefore aim for a practical balance point that reflects cost causation, network benefits, customer affordability and system efficiency.

2.1 Existing Fast Track Pricing Reforms

The current fast-track pricing forms also illustrate why the next stage of reform needs more consideration. While the fast-track requirements have helped create a basis for greater

transparency and consistency, the current forms risk becoming a compliance exercise rather than a meaningful assessment of whether a distributor's connection pricing approach is efficient, equitable, and suitable for its network circumstances. The forms require distributors to present standardised information, but they do not, on their own, capture the full context behind connection costs, including urban delivery constraints, traffic management, customer-specific design choices, flexibility options, downstream operability risks, or whether reinforcement benefits the connecting customer or a wider group of current and future consumers.

The Authority has described the fast-track measures as an initial step to improve transparency and consistency and to lay a foundation for further reform, which reinforces that they should not be treated as the final or complete regulatory answer. Further reform should build on the fast-track approach by moving beyond standardised templates and ensuring the framework properly tests pricing methodologies, recognises network-specific circumstances, and avoids embedding rushed assumptions into long-term rules.

2.2 The importance of retaining cost-causation principles

Wellington Electricity supports connection pricing that is grounded in cost causation. Connecting customers should make an appropriate contribution to the costs they create, particularly where those costs relate to assets that primarily benefit their connection. This approach protects existing consumers from subsidising new connections where they do not receive a corresponding benefit. It also provides connecting parties with efficient signals about the cost of their connection choices, including size, location and technical design.

The Issues Paper raises questions about whether connection charges reflect underlying costs and whether further reform is required to ensure costing methodologies are efficient and transparent. WELL supports greater transparency and consistency in costing methodologies, but does not agree with a general presumption that connection costs are inefficiently high or disconnected from efficient cost.

The Authority should therefore distinguish between high costs that are inefficient and high costs that reflect genuine underlying delivery costs. Reform should target inefficient methodologies, poor transparency and inconsistent practices, rather than assuming that high connection charges are inherently unreasonable.

For WELL, connection costs reflect the real cost of connecting customers in a dense, urban environment. These costs can include design, civil works, undergrounding, transformer or switchgear equipment, traffic management, contractor mobilisation, land access, permitting, and commissioning. WELL operates an outsourced delivery model and tenders large new connections to reflect market prices. This means connection works are exposed to competitive market pricing.

WELL agrees there are opportunities to reduce costs and improve the customer experience. The connection process can be complex, and there may be benefits from clearer information, improved process timeframes, better standardisation of application

requirements, and greater transparency of how connection charges are calculated. The Network Connections Project (stage one) regulation will help achieve many of these connection issues and WELL are currently building a system to manage these requirements.

2.3 Allocation methodologies should preserve network-specific flexibility

WELL supports the Authority's focus on allocation methodologies, because the way costs are split between upfront connection charges and ongoing tariff recovery has significant consequences for access seekers, existing consumers and distributor financeability. The Authority's Issues Paper says that lower upfront charges do not make costs disappear; they change who pays, when they pay, and how financing costs are borne.

In WELL's view, allocation methodologies should preserve the ability for distributors to account for their network circumstances. Urban networks face different cost drivers from rural networks. High-growth networks face different issues from mature networks. Networks with concentrated industrial load growth face different challenges from those where growth is primarily driven by EV uptake and household electrification.

WELL has previously opposed prescriptive pricing regulation because future growth profiles differ significantly between networks. On the Wellington network, future growth is expected to come largely from existing connections, meaning wider reinforcement is generally a shared network growth cost. On other networks, future growth may be driven more heavily by new developments or major new connections, in which case a different balance between upfront contributions and tariff recovery may be efficient.

The Authority should therefore avoid a one-size-fits-all allocation methodology. Instead, it should strengthen the principles that sit around distributor methodologies. Distributors should be required to demonstrate that their methodologies are consistent with cost causation, subsidy-free pricing, efficient network development and transparency. But they should retain discretion to apply those principles in a way that reflects their demand growth, network topology, customer mix, capacity constraints and investment profile.

2.4 The boundary between connection assets and network development is critical

One of the most important questions in the Issues Paper is where the boundary should sit between connection-specific costs and broader network development costs. This boundary matters because it determines whether costs are paid upfront by the connecting customer or recovered over time from the wider customer base.

WELL considers that broader network development costs should be recovered through tariffs where the investment supports existing customers, future customers, resilience or general electrification-driven growth. This approach is consistent with WELL's position on anticipatory investment, and why WELL has supported pricing reform along-side DPP determinations and the Commerce Commission. This is to reduce the potential for bill shocks, if pricing reforms result in a change of tariff revenue allocation.

2.5 Alignment with DPP Determinations

WELL has often advocated that the risk of investing “too early” is now lower than it has been historically, because electrification is central to New Zealand’s emissions reduction pathway and will be driven by transport electrification, process heat conversion, distributed energy resources, housing growth and broader fuel switching. The split between upfront connection charges and tariff-funded network development directly affects distributor expenditure forecasts, price path allowances, cashflows and financeability. 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.

WELL appreciate that the Authority has recognised these issues and confirmed that any major connection pricing methodology changes should be confirmed in time for DPP5 forecasting and decisions, with DPP5 applying from April 2030 and distributor planning occurring before then. Reform should be sequenced so that connection pricing rules, investment forecasts and revenue allowances are considered together. A further point the Authority should consider is the need for a coordinated consumer communications campaign if the reforms result in material changes to the balance between upfront connection charges and ongoing tariff recovery in DPP5.

2.6 Flexibility services should be integrated into connection pricing reform

Connection pricing reform should be developed alongside the emerging role of flexibility services to show the impact flexible connections would have on constrained periods. This is especially important for large new loads such as EV chargers, process heat, batteries, hot water heating transition from gas to electricity, and other consumer energy resources. WELL has previously highlighted that low voltage networks were not designed to accommodate simultaneous operation of large new devices, and that distributors currently have limited visibility of where those devices are connecting or how they operate. The transition of 65,000 domestic gas connections to electricity would also require a managed demand response plan to ensure congestion constraints are kept to a minimal impact and spread network investment costs and timing. Without visibility and coordination, the rapid uptake of these technologies or transitions could create power quality, capacity and reliability issues.

An enduring connection pricing framework should recognise that the efficient cost of connecting a customer may depend on whether the customer can provide demand flexibility. A flexible demand connection aligned with network congestion price signals may impose lower peak capacity costs than an inflexible connection capacity. Similarly, dynamic connection agreements or operating envelopes, managed charging, interruptible load, storage coordination or participation in flexibility markets may reduce or defer reinforcement.

The Authority should consider how connection pricing methodologies can value these differences without creating undue complexity. For example, a customer that agrees to a flexible connection arrangement may be able to connect earlier or at lower cost if it avoids

triggering immediate reinforcement. However, this requires appropriate operational tools, data access, enforceable connection terms and regulatory funding.

2.7 Regulatory settings, affordability, and efficient price signals to support financeability

WELL has previously raised concerns that the current regulatory model was designed for a business-as-usual operating environment with relatively stable demand growth, and is not well suited to the scale and pace of electrification-related investment now required. WELL has also noted that networks may need substantial new debt and equity to fund the investment required for the energy transition. If connection pricing reforms reduce upfront capital contributions without ensuring that equivalent costs can be recovered efficiently through regulated revenue, distributors may face increased cashflow and financeability challenges.

WELL emphasize that cost-reflective pricing should remain distinct from social welfare or redistribution mechanisms. When affordability objectives are embedded directly into pricing structures, the result can be opaque cross-subsidies and unintended consequences. The Authority should be cautious about lowering upfront charges solely in the name of affordability if doing so shifts costs to existing customers who may not benefit. Where government wishes to support particular policy objectives, such as public EV charging, housing development, regional development or decarbonisation of industry, explicit funding may be more transparent than embedding those objectives within distribution connection pricing.

3 Consultation Questions

Questions	Comments
Q1. Do you agree with the background and context summary above? Why, why not?	WELL agree with most of the background and context described except the economic framework's characterisation of the competitive pressures faced by suppliers to EDBs. The consultation appears to understate the extent EDB suppliers are exposed to market competition and the discipline imposed through competitive procurement processes. WELL negotiates with suppliers or for larger contracts, runs a complete tender process. The Wellington Electricity Field Services Agreement (FSA) attracted 3 suppliers, creating strong competitive that provided WELL with multiple credible delivery alternatives. Bidders competed across a range of dimensions, including price, service quality, innovation, health and safety performance, and customer outcomes. WELL also operate under unit rates with our contractors, that are the same between customer and regulatory works. This ensures there is no equivalence bias.
Q2. Is there additional background, evidence or context relevant to the issues covered in this paper?	A key contextual issue that is missing is that many new connections are no longer simple incremental extensions to existing networks. Connection requests are increasingly involving large new loads, higher levels of distributed generation, batteries, EV charging infrastructure, industrial electrification and property developments that can materially change customer requirements. While the paper implies that connection pricing is the main barrier for access seekers wanting to connect to a network, other factors that need to be considered when analysing the need for reform.
Q3. How should the Authority prioritise across possible options identified in this paper?	The Authority should prioritise allocation methodology reform ahead of further costing methodology reform because the most significant efficiency and equity issues now arise from how connection costs are recovered and shared

	between new and existing customers, rather than from how those costs are estimated. The Authority should also allow the fast-track connection pricing regulations to fully imbed themselves, and provide the industry with calculable evidence that further reform is necessary.
Q4. Which options should have the highest or lowest priority, and why?	
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?	It has been recognised by the Authority and the Commerce Commission that cost is only one factor that affects connecting parties. The issues paper notes that recent fast-track reforms have already established a stronger foundation for costing methodologies through enhancement cost allocation, capacity costing, charge reconciliation and pioneer schemes. Until the Authority has sufficient reasoning based off these regulatory changes, there is risk that further reform will only increase the compliance requirements on EDBs, which would ultimately lead to longer wait times for customers to connect.
Q6. What are your views on the merits of the identified costing methodology options?	WELL see merit in methodologies A4, and tentatively A6. Further comments are provided in Appendix A.
Q7. Are there any other costing methodology options you think the Authority should consider?	The Authority should consider transparency of price signals from EDB's being reflected by Retailers to their customers to lower congestion and defer network investment as an opportunity to lower customer costs. This should be regularly and transparently reported.
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?	Allocation settings should be prioritised over costing methodologies because allocation settings determine whether connections are subsidised, whether new customers are required to make disproportionate contributions to shared costs, and whether connection charges create barriers to electrification and economic growth. They also have a stronger linkage to DPP5 revenue path settings and require earlier policy

	certainty. In contrast, many costing methodology issues appear to be refinements that can continue to evolve over time without materially affecting the overall balance of cost recovery. Focusing on allocation methodologies would provide a durable framework for efficient, and equitable cost recovery.
Q9. How well do the identified allocation methodology options meet the allocation objectives discussed in this paper?	WELL believe that the allocation methodologies meet three of the five objectives discussed. (A) connections are not subsidised (B) connection charges are cost-reflective (E) the task of financing distribution assets is allocated efficiently Objectives (C) and (D) are not appropriate criteria for assessing allocation methodologies because they are influenced by a broad range of factors beyond cost allocation decisions. Distributor investment incentives and access seeker investment decisions are shaped by market conditions, demand expectations, and broader commercial considerations. As a result, it is difficult to isolate and measure the extent to which an allocation methodology contributes to these outcomes. (C) distributors are incentivised to optimise investment and (D) access seeker investment is not deterred by excessive cost or risk.
Q10. Are there any other allocation methodology options you think the Authority should consider?	
Q11. Are you aware of any issues relating to network development funding? Please provide examples, evidence or analysis where possible.	
Q12. What options, if any, should the Authority consider for promoting efficient pricing for network development?	
Q13. Are you aware of any issues relating to network modification charges? Please provide examples,	WELL has experienced situations where customers have requested significant network modifications only a few years after the original

evidence or analysis where possible.	assets were installed. In one example, a customer requested the installation of a network asset, with WELL contributing towards the initial investment based on the customer's requirements at the time. However, only a few years later, the customer requested that the asset be relocated. While the relocation costs were fully funded by the customer, the costs associated with the original installation remained sunk and continue to be recovered across the wider customer base. This highlights the risk that customer-driven investment decisions can change over time, leaving existing consumers to bear the cost of redundant or underutilised assets from which they receive little or no ongoing benefit.
Q14. What options, if any, should the Authority consider for promoting efficient pricing for network modifications?	
Q15. Are you aware of any issues relating to connection downgrade or disconnection charges? Please provide examples, evidence or analysis where possible.	WELL have experienced issues with downgrade requests that would lead to existing customers covering the cost of an asset requested by an access seeker. This has happened only years after installation. Often, these situations happen when a customer is not fully aware of their electricity requirements in future, or in economic downturns. This could be because a thorough options analysis is not completed by the customers consultant who developed the solution. Given the changing landscape of CER and electricity usage, it is imperative that customers are provided with a range of options that allow them to flex their connection. Equally, the
Q16. What options, if any, should the Authority consider for promoting efficient pricing for connection downgrades or disconnections?	
Q17. Are you aware of any issues relating to continuance pricing? Please provide examples, evidence or analysis where possible.	
Q18. Should continuance pricing methodologies be a priority for	

further reform? Please provide reasons for your view.	
Q19. What options, if any, should the Authority consider for promoting efficient continuance pricing?	
Q20. Are you aware of any issues relating to secondary network access? Please provide examples, evidence or analysis where possible.	
Q21. Should secondary network access be a priority for further reform? Please provide reasons for your view.	WELL supports the Authority considering whether the same principles of transparency, efficiency and cost causation should apply consistently where connection charges are levied by parties other than traditional distributors.
Q22. What options or approach, if any, should the Authority consider for addressing secondary network access issues?	
Q23. Are you aware of any issues relating to financial security requirements? Please provide examples, evidence or analysis where possible.	Financial security arrangements are a standard commercial mechanism used to manage exposure to credit and counterparty risk. EDBs are best placed to determine when financial security is required and the appropriate level of security, as they have direct visibility of the risks associated with individual customers and connections. We are not aware of any evidence that the current arrangements are resulting in widespread issues, inefficient outcomes, or barriers to competition that would justify regulatory intervention. In the absence of a clearly identified problem, introducing regulation risks imposing unnecessary compliance and administrative costs on both EDBs and customers, without delivering commensurate benefits.
Q24. Should financial security requirements be a priority for further reform? Please provide reasons for your view.	No.
Q25. What options or approach, if any, should the Authority consider for financial security requirements?	N/A.
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)?	Any contestable works framework must ensure that assets transferred to the network meet appropriate technical standards and do not impose hidden future costs on existing consumers.

Q27. What measures, if any, should the Authority consider to ensure connection pricing methodology requirements are effective in practice?	As discussed above, the Authority needs to show clear evidence from the data collection of the fast-track reforms, that outlines the need for further reform in a quantifiable manner that best benefits the majority of access seekers rather than only a handful.
Q28. How should the Authority monitor, review or update connection pricing methodology requirements to ensure they remain fit for purpose over time?	

4 View of potential reform options

ID	Option	Description	WELL view point
A1	Mandatory capacity costing	Require distributors to include network capacity in their incremental cost estimates.	Disagree – a rigid requirement could overstate efficient connection costs and discourage managed load, dynamic operating envelopes, interruptible capacity, or other flexibility solutions.
A2	Construction risk allocation	Restrict ability for distributors to pass through increases relative to quoted costs.	Disagree - higher financial risk from contractor and market volatility would lead to large buffers and contingencies.
A3	Equivalence obligation	Require distributors to take steps to ensure connection and regulatory works (including equipment) are priced consistently.	Disagree – increased audit and compliance costs will impact EDBs ability to serve existing consumers. WE* have same unit rates for network or customer works.
A4	Cost transparency	Set standards for itemising extension costs, and any other bespoke (i.e., not rate-based) input costs.	Tentatively agree – WELL have had a situation where a customer was able to provide traffic management services, which meant WE* was able to remove this from the connection price.
A5	Costing requirements	Set requirements for how costs are quantified, e.g., 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.	Disagree
A6	Input assurance	Set requirements relating to: (a) posted network capacity rates, and (where used) posted network extension rates or posted connection charges; (b) capacity assumptions for network capacity	Agree that this is possible but WELL are tentative that input insurance may have value for customers – but only a minority. Similar circumstances to

		costing, including how connection capacity is converted to after-diversity demand assumptions for upper network tiers; and (c) minimum scheme and minimum flexi scheme design, costing and (for flexi schemes) availability.	reconciliation charge calculations, and after 5 months there have been no customers across any EDB who has requested their recon. This is because many customers are not experienced to understand the calculations and are just wanting to get connected fast.
A7	In-kind contribution costing	Require distributors to collect information from contractors on vested asset costs.	Indifferent

Table 3.2: Allocation Methodology Options

ID	Option	Description	We* view point
B1	Standard process	Require distributors to structure offtake connection pricing methodologies with a consistent costing and allocation process structure.	Agree
B2	Standard allocation formula	Require distributors to adopt a standard approach to allocation settings for offtake connections. Applies to connections assigned to consumer groups only (not large connections with individual pricing).	Agree
B3	Allocation floor (neutral point)	Require distributors to ensure revenue from new offtake connections and connection offtake upgrades is likely to at least cover incremental cost (i.e., $NC \geq 0$). Replaces the first limb of the balance point principle.	Agree
B4	Change limit (balance point)	Set a limit on the year-on-year increase in the portion of shared costs allocated to new offtake connections. Replaces the second limb of the balance point principle.	Agree
B5	Allocation cap	Set an upper limit on the portion of incremental cost that may be recovered through offtake connection charges.	Disagree
B6	Allocation band	Set a band for allocation settings and require all distributors to shift into the band over time.	Disagree – WELL do not think it is a justified benefit for consistency among EDBs, for the majority of consumers on our network.
B7	Negative charges	Negative charges.	Agree – but complex changes in RAB would be required.

B8	Network cost contribution (large connections)	Network cost contribution requirements for large connections.	Uncertain
B9	Prudent discount policy requirements (large connections)	Prudent discount policy requirements for large connections.	Agree