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Electricity Authority | Te Mana Hiko



By email to:
distribution.pricing@ea.govt.nz

Tēnā koutou,

RESPONSE TO FURTHER REFORM - CROSS SUBMISSION

Unison Networks Limited (Unison) and Centralines Limited (Centralines) are consumer-owned electricity distribution businesses serving communities in Hawke's Bay, Taupō, Rotorua, and Central Hawke's Bay. We appreciate the opportunity to cross submit on the Authority's issues paper of distribution connection pricing.

As consumer-owned entities, we operate in the best interests of the communities we serve. Guided by our vision, and values, we strive to deliver economic benefits to both our customers and community shareholders, while championing a sustainable energy future. We are committed to maintaining the right balance between keeping electricity affordable and making strategic investments that secure the long-term reliability and resilience of our network. In all aspects of our operations, we place strong emphasis on meeting industry compliance requirements, ensuring we uphold all relevant standards. This approach not only supports New Zealand's transition to new energy solutions but also enables our communities to access cleaner, smarter, and more flexible energy options, now and for generations to come.

Executive summary

The submissions show broad support for practical improvements to transparency, predictability and customer understanding. They also identify useful areas for further work, including capacity costing, flexible connections, reusable assets, financial security, and the treatment of generation, storage and hybrid connections.

However, the submissions do not demonstrate a sufficient evidential basis, or industry consensus, for a single nationally prescribed costing or cost-allocation methodology. Differences between distributors do not, by themselves, establish inefficient or unfair practice. They may reflect legitimate differences in network circumstances, investment requirements, customer profiles and risk exposure.

The central policy issue is not simply the level of the upfront connection charge. It is how financing, utilisation, credit and stranding risks are allocated between the connecting party, future users and existing consumers when cost recovery is shifted from upfront contributions to future line charges.

Our cross-submission therefore supports near-term reforms that improve information and consistency of process, while preserving scope for risk-reflective and bespoke outcomes. More prescriptive intervention should follow only where the Authority has identified a material problem, tested the distributional and DPP5 consequences, and demonstrated net long-term benefits to consumers.

We recommend that the Authority:

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- progress common transparency, disclosure and quote-information requirements;
- use information emerging from recent reforms to establish the scale, causes and impacts of identified problems before prescribing methodologies;
- develop common principles and worked examples for capacity costing, flexibility, reusable assets and financial security;
- retain scope for risk-reflective and bespoke arrangements, particularly for large and complex connections; and
- complete an explicit DPP5 and risk-allocation assessment before materially changing connection-cost recovery.

1. Areas of emerging consensus

1.1 Transparency and predictability

A consistent theme across the submissions is the value of clearer information about connection charges. ENA, ERGANZ, Fletcher Residential, Lodestone and other submitters support improved visibility of cost components, key assumptions, exclusions, quote status and the circumstances in which a quoted price may change.

We support this direction. Common cost categories, standard terminology and minimum quote-information requirements would improve customer understanding and comparability, regardless of the eventual costing or allocation methodology. These are proportionate, practical reforms that the Authority can progress in the near term.

Greater transparency should not be mistaken for methodological uniformity. Comparable information can expose the reasons for different outcomes and help distinguish legitimate network-specific variation from inconsistent practice.

1.2 Emerging connection types

Submissions also indicate growing support for more coherent treatment of distributed generation, battery energy storage systems, hybrid connections and flexible access arrangements. We agree that the underlying economic principles should be consistent across connection types, including the treatment of incremental cost, capacity use, future revenue and risk.

Consistency of principle does not require identical charging arrangements. Different connection types can impose different operational requirements, utilisation profiles and risks. The framework should recognise those differences rather than force all connections into a single standard model.

2. Propositions that refine the debate

2.1 Connection growth and benefits to existing consumers

We agree with ERGANZ that efficient connection growth and increased network utilisation could benefit existing consumers by spreading fixed costs across a larger customer base.

That benefit however should not be presumed. The outcome depends on the relationship between incremental revenue and incremental cost, the potential for asset reuse, and the financing, utilisation and stranding risks created by the investment. Growth can produce net benefits in some circumstances and net costs in others.

The Authority should therefore assess the conditions under which benefits are expected to arise and who bears the downside if those expectations are not realised. Reducing an upfront contribution does not remove the underlying cost. It changes the timing and allocation of recovery.

2.2 Cost reflectivity and cost allocation

We support ERGANZ's distinction between the structure of a connection charge and the allocation of cost recovery.

A cost-reflective connection charge should signal the incremental costs attributable to the applicant's connection. A separate decision is how much of those costs should be recovered upfront and how much should be recovered through future line charges. The latter decision determines who carries financing, utilisation, credit and stranding risk.

This distinction should be explicit in the Authority's next phase of work. Debate framed only around whether upfront charges are "high" risks obscuring the transfer of cost and risk to existing consumers.

2.3 Capacity costing

We agree with submitters that requested or nameplate capacity should not be assumed to represent the level of demand a connection will impose on the wider network. Any capacity-costing approach should account for factors such as diversity, coincidence, existing network headroom, and operationally credible flexibility arrangements, as these influence the extent to which additional network capacity is required.

However, these inputs are highly dependent on network conditions and engineering judgement. A single national assumption could overstate costs in some circumstances and understate them in others. The better next step is to develop common principles, disclosure requirements and worked examples, then test whether material and unexplained differences remain.

3. Financial security, flexibility and complex connections

3.1 Financial security

We support the view expressed by several submitters that financial-security arrangements should be transparent, proportionate and responsive to changing risk over time. Security requirements should recognise the potential for asset reuse, be calibrated to the distributor's unrecovered exposure, and reduce as that exposure declines.

However, reducing upfront recovery does not eliminate underlying risk. It changes the allocation of that risk. Where investment is bespoke, future utilisation is uncertain, or unrecovered exposure is material, financing, utilisation and stranding risks may otherwise be transferred to existing consumers. Financial security can therefore play an important role in ensuring risk remains appropriately aligned with those creating it.

The proportionality of any security requirement must also be considered in the context of the individual distributor. An exposure that may be manageable for a large distributor can have materially different consequences for a smaller distributor and its consumers. A national framework should therefore avoid if nominally similar projects create equivalent levels of risk across all networks.

3.2 Flexible connections

We support the broad recognition that flexible demand, managed charging, flexible export and non-firm access can avoid or defer conventional reinforcement and reduce connection costs.

A cost reduction is justified only where the flexibility is operationally credible and can be relied upon in network planning and operation. Any framework should therefore set clear expectations for access rights, measurement, control, performance obligations and the consequences of non-delivery. Without those features, flexibility may reduce the applicant's charge while leaving the distributor and existing consumers exposed to the underlying capacity risk.

3.3 Large and complex connections

We agree with submissions that large industrial, electrification, generation, storage and hybrid projects may require greater flexibility than standardised rules allow. Such connections can have unique utilisation profiles, staging, financing structures and risk characteristics.

Common principles and transparent decision-making are desirable. However, the framework should preserve the ability of distributors and applicants to negotiate bespoke arrangements where those arrangements allocate costs and risks more efficiently and are clearly explained.

4. Network development and contestability

The concerns raised by Fletcher Residential and other development-sector submitters reinforce the need for clearer principles distinguishing applicant-specific assets, reusable assets and wider network development undertaken for broader system benefit.

The treatment of reusable assets, first-mover disadvantage, anticipatory investment, pioneer arrangements and future beneficiaries should be developed as an integrated framework. Addressing these matters through isolated pricing rules risks creating inconsistent incentives and transferring costs without a coherent view of who benefits and who bears risk.

We also support customer choice and efficient competition. However, connection-pricing reform should not be used to create a parallel contestability regime while the Commerce Commission and Energy Competition Task Force are considering related matters. Pricing, procurement, competition, safety and network integrity raise distinct issues and may require different regulatory responses.

5. Regulatory sequencing and DPP5

Several submissions reinforce the importance of coordinating connection-pricing reform with broader regulatory developments. Material changes to cost allocation can affect capital contributions, expenditure forecasts, financeability, incremental revenue assumptions and risk allocation under DPP5.

The Authority should assess those interactions before introducing enduring changes that materially reduce upfront recovery. The relevant question is not only whether lower upfront charges facilitate connection, but also how the resulting revenue and risk profile is treated under the price-quality path and who bears any shortfall if expected utilisation does not eventuate.

The DPP5 timetable should inform sequencing, but it should not become a reason to adopt prescriptive arrangements before sufficient evidence and practical experience are available. Interim transparency measures and principled guidance can progress while the Authority develops that evidence base.

6. Recommendations

Having considered the published submissions, Unison and Centralines recommend that the Authority:

- progress common transparency, disclosure and quote-information requirements;
- use emerging information from recent reforms to define the scale, causes and consumer impacts of identified issues;
- separate the assessment of cost-reflective pricing signals from decisions about financing and risk allocation;
- develop principles, disclosure requirements and worked examples for capacity costing, flexibility, reusable assets and financial security before adopting prescriptive methodologies;
- preserve risk-reflective and bespoke arrangements for large and complex connections;
- coordinate any contestability reform with broader competition and market-development work; and
- undertake an explicit DPP5, financeability and risk-allocation assessment before materially reducing upfront recovery requirements.

7. Conclusion

The submissions identify meaningful areas of agreement on transparency, predictability, flexibility and customer understanding. They also sharpen the issues that require further work, particularly capacity costing, financial security, reusable assets and emerging connection types.

They do not, however, establish a sufficient basis for a single national costing or allocation methodology. The unresolved policy choice remains how costs, financing obligations and associated risks should be allocated between connecting parties, future users and existing consumers.

The next phase of reform should therefore prioritise evidence, transparency and coherent risk-allocation principles. More interventionist approaches should proceed only where the Authority demonstrates a material problem, evaluates the transfer of risk, and establishes that the proposed framework is likely to deliver net long-term benefits to consumers.

We look forward to continuing to engage with the Authority and would welcome the opportunity to discuss this cross-submission.

Ngā mihi nui,

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