

Connection pricing

Q19. Do you agree with the assessment of the current situation and context for connection pricing?

What if any other significant factors should the Authority be considering?

Comment

Access seekers are facing connection problems beyond electricity across gas, 3-waters, roading and telecommunications networks. The nature of the problem is very similar across the networks, but is complicated by lack of consistent government policy and regulation across the networks.

The consequence of connection problems is that the cost of new housing is higher than it should be. A new house will cost up to \$50,000 more than it should if there are multi-network connection problems. This is a material cost to new home buyers.

The problem is probably greater in areas with older networks that are experiencing intensification than it is in greenfield developments. For example:

- In Auckland the west appears to have a poorly developed electricity network – this may be because the west is not part of the AECT (Entrust) voting constituency.
- However, the west is extensively targeted for intensification under the Unitary Plan
- Vector has not undertaken anticipatory works, even when the cost of works would be very low as a result of contemporaneous works being undertaken.
- For example, despite the extensive road upgrade and electricity undergrounding at the Te Atatu/Flanshaw/Edmonton/Lyndhurst roads junction over 3-4 year period starting in 2015 and knowing the consequences of the Unitary Plan and the parlous state of the electricity network in that area Vector did use the upgrade/undergrounding new cable or even ducting.

It is usually smaller developers who are working in these older network intensification areas. They are less able to deal with these problems than the large group housing greenfield developers.

Q20. Do you agree with the problem statement for connection pricing?

Comment

We observe at least four practical problems across all networks:

1. Failure by the monopoly network service provider to plan their capital works programme to lower costs – for example laying anticipatory ducting when road upgrades are occurring (the planning problem).
2. Failure to efficiently plan or execute works required for a particular connection – for example multiple managed road closures for one connection (the efficient works problem).
3. The first mover disadvantage being imposed a particular connection, which we see as being particularly egregious and creating flow-on productive efficiency problems (the FMD problem)
4. Works contracts imposed on clients that are illegal under the Fair Trading Act because of their one-sidedness (the illegal contract problem).

These problems manifest themselves in the economic problems that the Authority has described in paragraph 7.18.

There is no direct reference in the Issues Paper to the cost of gaming that can occur as developers in a particular area seek to avoid the first mover disadvantage being imposed on them.

Monopoly network service providers also seem to be willing to play games around information provision and the planned future use of the works (for example denying that the works have an anticipatory benefit) when presenting their proposals. For example:

1. Works costings including margins
2. Works project plans and schedules
3. Civil works standards
4. Excess capacity of the works
5. Commercial relationship with third party contractors

This unwillingness to be open suggests that the monopoly network service provider is exploiting its monopoly position.

Because of the small size of most developers, their financing arrangements (cost of capital), their need to maintain a commercial relationship with the monopoly network service provider and the opaqueness of what can be reasonably expected (and in what timeframe) from making a complaint to either the Commerce Commission or the Electricity Authority the monopoly network service providers can exploit their monopoly position.

Q21. Do you agree with the Authority's preferred pricing approach for connection charges?

Comment

Yes

Q22. Do you have any thoughts on the complementary measures mentioned above and to what extent work on these issues could lead to more efficient outcomes for access seekers?

Comment

Our experience is that the monopoly network service providers “make up” reasons for the provision of connection not being competitive. For example, views about safety and network integrity requiring the monopoly network service provider having to do the work are inconsistent with what occurs in greenfield developments.

There is regulatory failure occurring here. The regulators appear to be letting the monopoly service providers extend their monopoly using regulation or the absence of responsive regulatory intervention.

This is very unsatisfactory and appears to be a performance issue at the regulators.

Q23. Are there other options you think the Authority should consider for connection pricing?

Comment

I am puzzled by paragraph 7.30 of the Issues Paper not being consistent with paragraph 7.28(b). The Electricity Authority should explain the inconsistency.

The best option is to:

1. set standards for connections and allow the access seeker to undertake the works - this would solve the efficient works problem and the illegal contracts problem (described above);
2. create ownership and/or enforceable obligations for the benefit of the access seeker to recognise their contribution to anticipatory works – this would deal with the FMD and planning problems;
3. Commerce Commission to announce that it is taking an aggressive approach to enforcement of sections 46I and 26B of the Fair Trading Act (unfair contracts in standard form trade contracts) in respect to network connections and invite access seekers to complain - addressing the illegal contract problem;
4. require the monopoly network service provider to submit and publish a plan to the local consenting authority in respect of large works (like for example the Te Atatu/Flanshaw/Edmonton/Lyndhurst roads junction) that identifies the opportunity for low-cost anticipatory works like contemporaneous ducting for approval by the consenting authority (this would deal with the planning problem) and
5. in Auckland for Vector to publish a geographic equity analysis of its works undergrounding works that are subsidised by AECT (see [here](#))

Q24. Which if any of the above options do you consider would best support distribution pricing reform in the area of connection pricing?

Comment

Absolutely. My option outlined above is clearly the best option.