16 January 2026

Electricity Authority
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By E- Mail: connection.feedback@ea.govt.nz

Re: Submission on Reducing barriers for new connections: up-front charges and distributor obligations

Counties Energy Limited (**CEL**) welcomes the opportunity to comment on the Electricity Authority's (**EA's**) consultation on "Reducing barriers for new connections: up-front charges and distributor obligations".

In its paper, we understand the EA is proposing additional changes to the Electricity Industry Participation Code 2010 (**the Code**), alongside its final decisions on the fast-track aspects of its connection pricing reform in July 2025[1] to address two outstanding issues:

- Excessive up-front costs deterring business growth, new infrastructure, housing development and electrification in general; and
- Regulatory arrangements unclear around distributors' rights to refuse to provide or maintain connections, creating inconsistency or uncertainty for those wanting to connect.

In response to this, the EA proposes to establish:

- A targeted intervention framework, that involves identifying where there are excessively high up-front charges, engaging with those distributors to understand key drivers, and (if warranted) directing those distributors to reduce their connection charges; and
- A requirement on distributors to offer and maintain connections, including a set of access standards that will govern network access.

While we are supportive of the overall direction, we discuss our key concerns with the proposed changes below.

[1] https://www.ea.govt.nz/projects/all/distribution-connection-pricing-reform/consultation/distribution-connection-pricing-proposed-code-amendment/

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We support the EA's focus on connection pricing methodologies, instead of reliance on upfront charges

As discussed in our previous submission, we did not support a 'blanket' restriction on the level of upfront revenues that EDBs can recover through connection charges, as envisaged in the EA's previous proposal.[2] This is because it was unclear what problem this was looking to address. If the problem was of high connection prices, or an over-reliance on connection charges, then we consider the most effective tool to address this is through the Commerce Commission's (**ComCom's**) Part 4 regulatory framework, which already sets a maximum level of distribution revenues that distributors are allowed to recover from its customers.[3]

The EA's current proposal appears more focused on encouraging efficient connection pricing methodologies or policies by distributors, a change which we endorse. This is because it aligns more closely with the EA's intended problem definition, the direction of distribution pricing reform, and enables the EA to focus its regulatory efforts at the pricing policy and methodology level, rather than on distributor's individual connection quotes.

A more flexible approach is preferred, but unclear how a 'balance point' principle would apply in practice

A more flexible solution that allows the EA to take a case-by-case approach will help to reduce the overall costs of regulatory intervention. However, our key concern is that it is unclear how the 'balance point' principle would be applied in practice. This is because it is challenging to determine whether a new connection is cross-subsidising existing connections from upfront charges alone (ie the 'balance point' principle).

This is primarily due to the uncertain nature of distribution line revenues relative to connection prices. There is significant variation in line revenues for individual customers, with some paying significantly more than others, depending on connection life and load use. For example, under CEL's current pricing structure, a supermarket would fall into same consumer load group as a warehouse. However, the latter would use much less energy and pay less in line revenues to the distributor over its connection life. This is driven by circa 50% of CEL's total line revenues recovered from variable charges, relative to fixed. Furthermore, the tenure (as well as load use) is typically not fully known at the time of a new connection, and oftentimes, what typically occurs differs from a distributor's initial expectations.

In contrast, connection prices largely fixed and certain revenues, payable upfront to a distributor when a customer accepts a connection quote and is liable for payment. The amount charged can

[2] https://www.ea.govt.nz/documents/6228/Counties_Energy_-_DCP_Submissions_2024.pdf

[3] This could be introduced in the form of a connection capex allowance – as with Chorus under ComCom's Part 4 of the Commerce Act

be targeted to cover the appropriate level of upfront cost, effort incurred and risk borne by a distributor to carry out the required works to complete a new connection.

In practice, distributors consider the balance of both upfront charges, ongoing line revenues and its own business' risk exposure[4] and ability to recover its costs in determining the connection prices to apply. This takes account of an applicant's expected use of the network (or load profile), credit risk, connection activity, and business risk (eg risk of disconnecting early). It can include both quantitative (eg assumed connection life) and qualitative factors (eg any future upgrades planned by the customer).

From its proposed Code amendments, it is unclear how the EA intends to assess a distributors' 'balance point' pricing to decide if a distributor's connection pricing methodology is 'inefficient' and whether intervention is warranted. If, for instance, a connection quote is set below its incremental cost (ie due to forecast incremental revenues being less than incremental cost), this creates a risk of under-recovery of a distributor's incremental costs to connect that new customer. The risk materialises if, say, the customer disconnects before its assumed connection life or uses less load than was originally envisaged. Any unrecovered costs would be unfairly passed onto existing customers as a result.

As another example, CEL has significant growth in pockets of our network, which we have invested in and prepared for. Some of this cost is recovered through connection charges paid for by developers as they connect and network capacity is consumed, with the residual balance recovered at a broader level from distribution lines charges. Under the EA's 'balance point' pricing approach, it is not immediately clear how to 'efficiently' allocate shared network costs between new connections and existing connections, if the new connection investment also includes works that benefit adjacent network areas, such as through improved resilience or redundancy due to connection of an additional circuit/alternative point of supply.

If regulatory powers are too broad, or regulatory settings are not prescriptive enough, this can create uncertainty for distributors and connection applicants alike, which adversely impacts on the confidence to invest. A notable example of this is the Distribution Generation (**DG**) Pricing Principles under Part 6 of the Code, which the EA itself has identified that the generalised nature of the incremental cost threshold has resulted in different interpretations and inconsistent applications of the intended rules over time.[5] We consider further detail about how the 'balance point' principle will be applied, either as a more prescriptive Code amendment or by providing supporting principles, would greatly benefit the sector.

[4] A distributor's business risk is influenced by its own capital structure (and access to capital) to finance and invest in assets in its network. For example, consumer-owned distributors will have restricted access to equity capital unlike their privately-owned peers.

[5] The Electricity Authority. Distribution Generation Pricing Principles – Issues paper, 12 February 2025. p 10, para 2.11. https://www.ea.govt.nz/documents/6485/DGPPS_-_Consultation_paper_web_version.pdf

We consider that discriminatory pricing may not always be inefficient

The EA's paper argues for consistent allocation of shared network costs over time (i.e. non-discriminatory or 'balance point' pricing), where similar connection types are treated the same and new connections make a similar contribution to older connections.[6] With this, it proposes that 'balance point' pricing is an efficient upper bound for distributors as it "supports the ability for access seekers to plan and invest in preparatory efforts that lead to connection growth".[7]

However, in our view, discriminatory pricing may not always be inefficient. If discriminatory pricing is exercised to increase total welfare, then it is arguably better for the collective. Conversely, if discriminatory pricing is exercised to extract maximum value from the consumer (ie a reduction in consumer surplus), with no requisite increase in total welfare (ie only a similar increase in producer surplus), then this is simply a wealth transfer from the consumer to the distributor, and therefore inefficient. This is discussed extensively in economic literature, where "the key concern in examining the welfare consequences of differential pricing is whether or not such pricing increases or decreases total output".[8]

For example, it is arguably more efficient for a distributor set a higher contribution to shared network costs[9] for certain customers (eg those willing and able to take on the financing task), if it enables the distributor to release more of its own debt capital to finance other necessary parts of its business (eg for renewals, maintenance expenditure). While still a cross-subsidy, doing so enables the distributor to reduce its overall costs for network users than would otherwise be possible if connection prices were restricted at or below the 'balance point' level.

An explicit obligation to offer provides greater clarity to the sector, but unintended consequences need to be carefully assessed

We support the EA's decision to consider the obligation to connect alongside connection pricing reform. This enables a more complete view of how network access can be improved through both price and non-price means which we consider should be viewed together. To give effect to this, we understand the EA's preferred direction is to:[10]

- Create an explicit obligation on distributors to provide connection offers;

[6] The Electricity Authority, Reducing barriers for new connections: up-front charges and distributor obligations – Consultation paper. 17 November 2025. para 7.1-7.4. p 39. https://www.ea.govt.nz/documents/8620/Reducing_barriers_for_new_connections_-_Consultation_paper.pdf.
[7] Ibid. para 4.23, p 16.
[8] Varian, H. R. Chapter 10 – Price Discrimination. Handbook of Industrial Organization, Vol. 1. 1989. https://doi.org/10.1016/S1573-448X(89)01013-7
[9] In the EA's proposed Code amendments, 'shared network costs' refers to the "balance of costs of a distribution network that are not incremental to a single connection, including the cost of …other shared business and network assets and operating expenses (including the balance of network capacity costs)".
[10] Ibid. para 11.1. p 64.

- Specify a suite of five access standards distributors must publish (including a continuance of supply policy);
- Guide the content of the access standards through some mix of principles, requirements, and mandatory considerations; and
- Prohibit decommissioning a connection, other than in accordance with a distributor's continuance of supply policy.

We consider that a more explicit requirement on distributors to make connection offers is appropriate and provides clarity to the sector. However, we note that the key aspect of this is the requirement to make connection offers, but not necessarily to connect. This is because new connection requests are often negotiated by mutual agreement between a distributor and connection applicant. For example, if it is not possible to connect to a proposed location on the network, both parties will typically consider other alternatives, including a different location, reduced capacity requirement, or a flexible connection.

Given the inherent risks that a strict obligation on distributors could impose, any Code requirement will need to be flexible enough for parties to consider alternative options where an initial connection request is not financially feasible, technically viable (eg in accordance with a distributor's distribution code), or uneconomic for the distributor to maintain the connection (eg it unduly places additional cost or risk on other connections). If not, with the proposed connection pricing restrictions in place, this could have the adverse unintended consequence that hinder a distributors' ability to recover its costs and adversely impact on its ability to invest.

The proposed network access standards appear to be a useful starting point to cover this risk, which provides a level of transparency to the parties involved. As with the 'Streamlining Connections Programme', we consider the principles, requirements and/or mandatory considerations are best placed for the industry to lead and co-design. This could be facilitated through the Electricity Networks Aotearoa (**ENA**), the Electricity Engineers' Association (**EEA**), or a combination of both.

We understand the EA is intending to publish a further consultation on proposed Code amendments for the obligation to connect next year. We look forward to engaging with the relevant teams as it develops this work further.

Yours sincerely,

Marcus Sin
Senior Regulatory Manager

Annex – Response to questions

Questions	CEL comments
Background and context	
Q1. Do you agree with the assessment of the current situation and context for connection pricing described in section 4? Why, why not? What, if any, other significant factors should the Authority be considering?	CEL agrees and acknowledges there are differences in connection pricing methodologies across the sector, which could be improved. However, we consider that the premise that distribution connection charges are impacting on the economic access to a distribution network is incorrectly looking at distribution connection charges in isolation. For example, distribution connection costs are normally only circa 1-2% of the value of the section sale price. We therefore consider that the EA's problem definition could be further refined. Moreover, the proposed Code amendment would benefit from a more prescriptive explanation of how 'balance point' pricing is to be applied, which would provide greater clarity to the sector. Notwithstanding this however, we caution against embedding in a final connection pricing methodology now before full reform sets in.
PART A – Connection charges	
Q2. Do you agree with the rationale for considering interim restraint on connection charges described in section 5? Why, why not?	We agree in principle that there may be a case for an interim measure before connection pricing 'full reform'. However, as discussed above, the costs and risks of implementing this relative to its benefits is still unclear. This is largely due to the ambiguity of how the proposed regulations would be applied in practice. We also consider that discriminatory connection pricing may not be inefficient in all cases, as discussed above. Further clarity on how the EA intends to assess and regulate distributors using the 'balance point' principle would greatly benefit the sector.
Q3. Have you observed or experienced signs of connection stress where connection charging arrangements caused	As noted in our previous submission[11], CEL has not observed many cases where connection charging arrangements has caused problems for applicants seeking access to distribution networks. We also consider the EA's analysis of connection stress is incomplete as it has not

[11] Counties Energy, Re: Cross-Submission on the distribution connection pricing proposed code amended. 24 January 2025. pp 1-2.
https://www.ea.govt.nz/documents/6391/Counties_Energy_Cross_Submission_24_January_2025_Redacted.pdf

problems when seeking to connect to the network (eg. projects delayed or deterred as a result of price-related barriers)? If so, please describe.	shown empirically that high upfront charges have materially impacted the connection uptake (or electrification efforts) across individual distribution networks. Connection stress is instead likely to be very diverse across New Zealand, as most distributors face very different challenges on their respective networks. For instance, we observe: • Rural connections face significant connection costs because of the amount of dedicated infrastructure that is often required to connect a rural property. This could include running overhead lines along a road, a dedicated fuse and a dedicated transformer. The connection cost is then likely a large percentage of the cost of subdividing land for sale. • There are only a limited number of industries where electricity is a major input cost to the business, such as grid scale battery providers, public dedicated EV chargers, hydrogen plants and data centres. These connection requests are common with CEL however with other EDBs, there are only few or none of these industries seeking to connect, except for a limited number of EV chargers.
Q4. Do you agree with the Authority's evaluation of the options? Why, why not? Do you have any feedback on the expected impact if the status quo remains?	Yes – of the options assessed, we consider that targeted intervention is the most practical and cost-effective way towards addressing the EA's intended problem definition. However, as discussed above, there is ambiguity in how the problem has been defined as well as how the proposed regulatory interventions are intended to be applied in practice, given the generalised nature of the 'balance point' principle. We consider further clarity on this, and in the proposed Code amendment, would greatly benefit the sector.
Q5. Do you have any comments on the proposed Code amendment and approach to implementation?	See our comments above.

Q6. Are there any other alternative means of achieving the objective you think the Authority should consider? If so, please describe.	No CEL comment.
PART B – Distributor supply obligations	
Q7. Do you have any comments on the Authority's rationale for clarifying distributor obligations to connect and supply?	We agree in principle that a clearer requirement on distributors to make connection offers to customers would benefit for the sector. We also consider that an obligation to make an offer, but not necessarily to connect, is appropriate. This is because any new connection request should be negotiated between distributor and connection applicant by mutual agreement. This means that any mandatory principles proposed for network access standards should be flexible enough to allow for the consideration of alternative options where an initial connection request may not be: • Financially feasible; • Technically viable (eg in accordance with a distributor's distribution code); or • Uneconomic for the distributor to maintain the connection (eg it places undue cost or significant financial risk on other customers).
Q8. Do you have any comment on the Authority's preferred direction for clarifying distributors' supply obligations?	See our comments above.