15 DECEMBER 2025: SUBMISSION TO ELECTRICITY AUTHORITY REGARDING DISTRIBUTION CONNECTION PRICING

New connection rules must not harm existing customers

Entrust is concerned the Electricity Authority's proposed new connection rules will create winners and losers with wealth transfers benefiting new connection customers at the expense of Kiwi households and small businesses. The concerns we raised with the earlier proposals largely still remain.

The Authority claims the changes will "rein in excessive connection charges" without providing evidence there are excessive charges which need reining in.

We don't feel that the Authority has addressed the concerns Entrust and others have raised about the potential harm to households and small businesses. The Authority is now saying consumer protection isn't the primary purpose of its proposals, but it shouldn't matter what the primary purpose is. The price increases the Authority has indicated would be caused by its proposals for Auckland consumers would harm energy affordability, particularly for low-income households and vulnerable consumers.

Summary of Entrust's submission

- Entrust considers that the consultation lacks a clear economic framework for assessing whether connection charges are excessive or inefficient.

- The case for intervention has not been adequately demonstrated. The Authority relies on flawed comparisons between capital contributions and total growth capital expenditure, and efficiency arguments that could be applied to any connection charges above zero.

- The proposed connection pricing rules would allocate costs based on an under-defined and arbitrary "balance point" that has no basis in economics.

- The Authority's proposals are inconsistent with its approach to capital contributions for transmission pricing. The benefit-based charges would violate the "balance point" and would be deemed "undue pricing discrimination" that results in inefficiencies and barriers to new connections.

- The Commerce Commission has cautioned that new connections should "pay their way" so they "do not impose costs on the existing consumer base".[1] The Commission considers that the fully funded approach to capital contributions protects consumers, whereas the Authority considers it to be a problem.

- Vector has provided strong justification for its connection (capital contributions) policy and how this has kept prices down. The Authority has not explained why it objects to Vector's policy only that it doesn't like the outcome.

- Entrust surveyed Auckland household consumers this year and the overwhelming result is that they don't want to pay more to support or subsidise industry.

[1] Commerce Commission, Gas DPP4 reset 2026 Default price-quality paths for gas pipeline businesses from 1 October 2026 Draft decision - reasons paper, 27 November 2025.

Entrust's submission

Entrust welcomes that, following submissions in response to the previous consultation, the Authority has undertaken further work and revised its (distribution) connection proposals. There was widespread concern amongst stakeholders, including Entrust, that the Authority's proposals could mean existing customers would have to contribute to the upfront costs of new connections and would be exposed to asset stranding risk if new connection businesses shut down before paying their full incremental costs.

Despite the changes, Entrust does not support the Authority's (distribution) connection proposals in their current form.

We do not consider that the Authority has demonstrated there is a problem with current pricing practices or that intervention is justified. The Authority has not established evidence of "excessive" connection charges or what it considers would be "excessive charges".

The proposed Code drafting could leave considerable uncertainty about what pricing practices would be acceptable and there is a material risk of unintended consequences, including that some efficient pricing practices could violate the "balance point" requirements and trigger the investigation phase.

Entrust considers that it could be helpful for the Authority to clarify how its proposals would ensure existing consumers won't be exposed to asset stranding risk from failed new connection businesses and end up subsiding new connections.[2]

If distributors are prohibited from 100% fully funded capital contributions, the shortfall will have to be capitalised into the Regulatory Asset Base (RAB). This shifts bespoke connection costs onto all consumers, violating cost-causation principles. The paper does not address the equity or efficiency impacts of cost socialisation.

Entrust is worried that the proposals could have the twin negative effects of exposing households and other consumers to increased network investment risk and higher distribution charges.

Sound network reform should benefit everyone

Entrust considers that if distribution pricing genuinely encourages efficient new connections, then it will benefit all consumers, including by reducing the amount of shared costs existing customers have to pay. We agree with the Authority that if "fixed costs are spread across more network users" it "would lower power costs for all consumers".[3]

More connections equal more customers which should equal wider spread of shared costs and lower distribution charges.

If distribution pricing reform is designed to ensure all consumers will benefit it should not require the Commerce Commission to re-open some distributor price-paths and increase prices to enable electricity distributors to fully recover their costs. As we said in our

[2] As we noted last year, this is because instead of requiring the new connection customer to fund all the cost of connecting to the network upfront, the Authority is relying on the new customer contributing to these costs over time. A problem this creates is that households and other consumers will have to bear this cost if the new customer closes before the cost of the asset is repaid.

The consultation doesn't mention this risk, even though it is a major adverse consequence of the Authority's proposals that it has been made aware of.

[3] https://www.ea.govt.nz/news/press-release/feedback-welcomed-on-faster-simpler-electricity-connections/

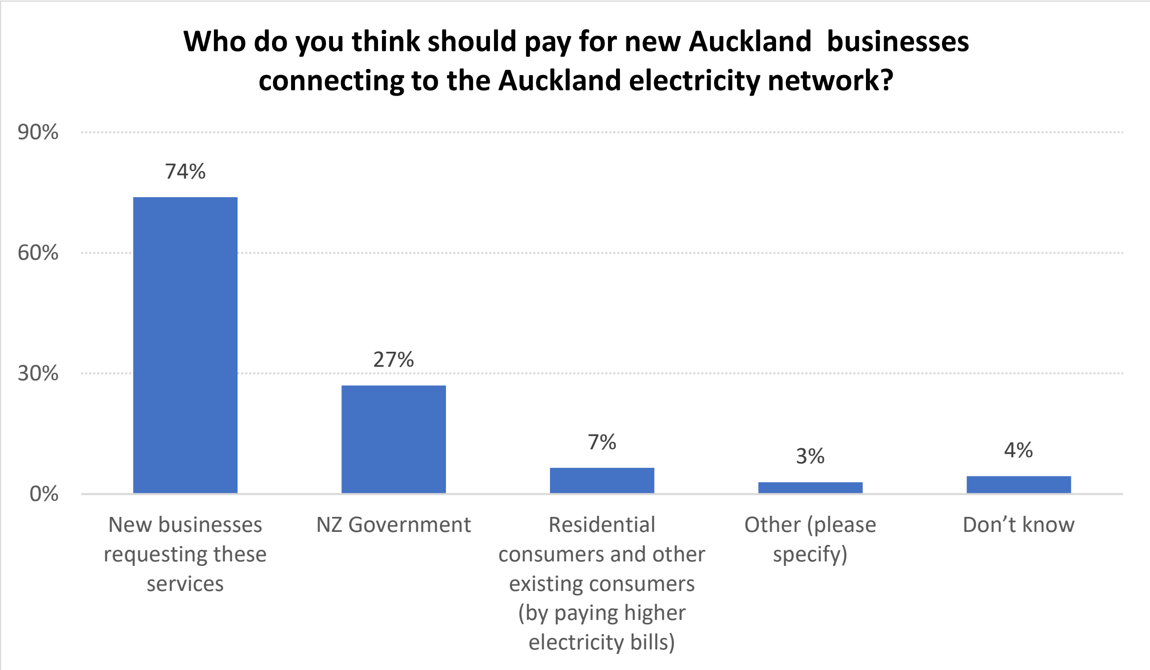
submission last year, if price increases are needed because of the Authority's proposals this should be seen as a red flag.[4]

Entrust has commissioned a representative consumer survey

Entrust commissioned Insights HQ[5] to survey Auckland residential consumers about electricity issues to help improve awareness of consumer views and concerns.[6]

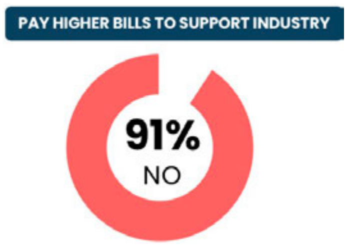
We asked Auckland consumers what they thought about who should pay for new business connections and funding for large industry. The message was clear. Residential consumers don't want to fund big business.

There is strong support for user-pays and opposition to subsidising industrial users via residential bills. Three quarters support a user-pays model for business connections, and a quarter think the government should pay.



The survey asked whether residential consumers would support paying higher electricity bills, if it means large industrial consumers and other businesses could pay lower bills.

91% do not support paying higher electricity bills to help businesses. Of this group, over half think large industrial consumers and businesses should pay the full cost, versus a third who think the government should subsidise it.

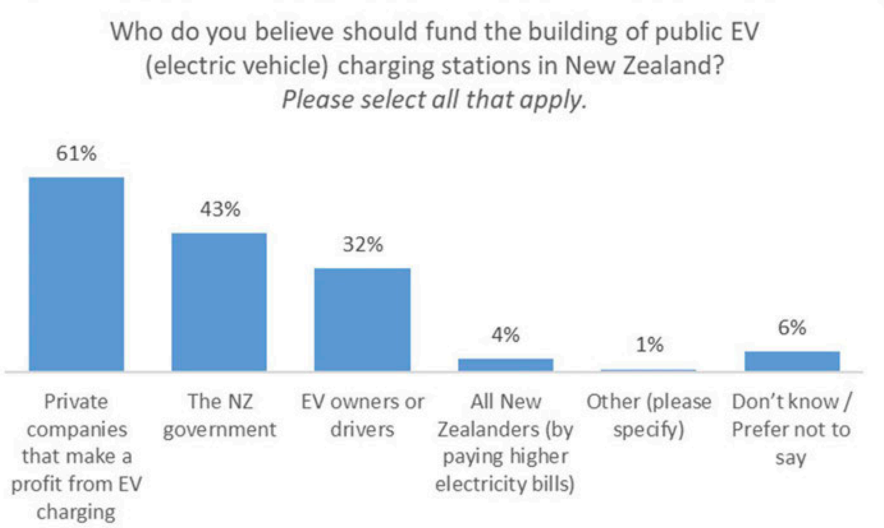


[4] https://www.entrustnz.co.nz/media/porfi2sc/entrust-submission-re-distribution-pricing-_18-december-2024.pdf
[5] https://insightshq.co.nz
[6] Insights HQ undertook an online survey among a representative sample of 1019 Aucklanders from within the Vector catchment area matched and weighted to census based on age and gender. The margin of error on a sample of 1000 is +/- 3%. Where the survey was split into two streams of 500 respondents each, the margin of error is +/-4%. Unless otherwise specified the results below are based on a sample of 500 consumers.

The survey was conducted from the 16th October to 2nd November 2025.

The anecdotal feedback we got included that "Residential shouldn't subsidise commercial users" and "Where a large business requires dedicated infrastructure then that should be their cost. Otherwise the network is cross subsidised against all users."

Our survey results are similar to Vector customer research into who should pay for electric vehicle (EV) charging stations.[7] Vector found that only 4% of New Zealanders aged 18+ believe New Zealanders should fund the building of public EV charging stations by paying higher electricity bills. 92% of New Zealanders aged 18+ consider a combination of private companies making a profit from EV charging, the NZ government and/or EV owners/drivers should fund these.



There are good reasons for 100% fully funded capital contributions

Vector has provided strong justification for its connection (capital contributions) policy and how this has kept prices down for consumers. The Authority has not explained why it objects to Vector's policy only that it doesn't like the outcome.

100% upfront capital contributions policy is the safest way to ensure existing customers don't end up paying new connections costs.

Entrust does not consider it would be efficient or desirable for existing consumers to be exposed to network investment and asset stranding risk because of new connections. Unless existing consumers are compensated for the additional risk through lower prices, they would end up subsidising the new business ventures. Entrust considers that new connection customers are best placed to take on the risk of network enhancements they need.

This would be particularly harmful for consumers that happen to be on networks where there is high growth such as the Vector Auckland network. It may not be as material an issue for networks with stagnant or declining growth.

The approach Vector has adopted is consistent with the precedent set by the "growth pays for growth" approach the Government is taking to reform of the Development

[7] Vector, Submission on the Electricity Authority's distribution connection pricing: proposed code amendment, December 2024.

The Vector consumer research was based on 1,000 respondents, with the sample representative of the NZ population.

Levies System.[8] There is a clear emphasis on ensuring councils can adequately recover the growth-related costs of infrastructure through development contributions and making sure costs do not fall on ratepayers.

Commerce Commission gas price reset commentary provides relevant precedent

The Authority should also consider the Commerce Commission's (Commission) commentary in relation to the 2026 gas price reset. The Commission has emphasised that "We expect GPBs to increasingly focus on ensuring new connections pay their way and do not impose costs on the existing consumer base."[9]

The Commission has cautioned that "New customers can provide a benefit to all pipeline users as shared costs are spread across a larger customer base. However, <u>the benefit provided by new customers can turn on the amount of upfront contribution they pay when connecting</u>. Currently, Powerco and GasNet have very low upfront capital contributions, with Firstgas Distribution showing an increasing trend" [emphasis added].

The Commission didn't raise these concerns in relation to Vector "as it has moved to a full capital contributions policy where connecting parties pay all capital costs of their connection up-front". The Commission has been clear the fully funded approach to capital contributions has the benefit of protecting existing consumers.

Likewise, given the commentary in submissions to the Authority, we consider it noteworthy Rewiring Aotearoa has said that "New customers should be charged upfront for the full cost of their connection."[10] Fonterra similarly commented "All new customer connections should be priced to recover the full capital and future disconnection cost up-front, so that existing are not required to underwrite either today's or tomorrow's costs of connecting customers."[11]

Evidence of a problem appears to be weak

The Authority has said it is going to "rein in excessively high connection costs" and excessive charges is "a known problem in some parts of the country".

The Authority has not provided a definition or explained what it means by "excessive charges" and has instead clarified that "there is not a bright line test to determine when up-front charges are 'excessive'". We think the lack of a clear definition makes it difficult to conclude there is a problem with excessive charges that justifies regulatory intervention.

The Authority has not provided any evidence connection pricing violates cost-reflective pricing principles, or that connection pricing is not between incremental and stand-alone cost (the standard economic "bright line tests" for efficient price floors and ceilings).

The Authority has instead established "evidence that up-front connection charges have materially increased for subset of distributors". The Authority has detailed that some electricity distribution businesses (EDBs) have rebalanced their distribution pricing.

The Authority has been encouraging EDBs to adopt more cost-reflective pricing so tariff rebalancing should be expected. One approach to applying the Authority's distribution

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[8] https://www.dia.govt.nz/diawebsite.nsf/Files/Local-Government-2025/$file/Development-levies-consultation-document-26-Nov-2025.pdf
[9] Commerce Commission, Gas DPP4 reset 2026 Default price-quality paths for gas pipeline businesses from 1 October 2026 Draft decision - reasons paper, 27 November 2025.
[10] Rewiring Aotearoa, Submission on Gas DPP4 Issues paper, 24 July 2025.
[11] Fonterra, Submission on Gas DPP4 Issues paper, 24 July 2025.

pricing principles would be to follow transmission pricing precedent for capital contributions and fully funding new connections.

The Authority also relies on a comparison of capital contributions relative to total growth capital expenditure and that the ratio for Vector is growing and is forecast to grow to above 100%. The Authority appears to imply this indicates excessive capital contributions but does not explain why. All this establishes is that if capital contributions are 100% fully funded it can mean that in certain scenarios and at certain times capital contributions may exceed total growth capital expenditure.

The Authority states that there are "signs that excessive connection charges are deterring some connection activity" but this is based on limited anecdotes from bp NZ and Rewiring Aotearoa who don't back up their claims with evidence.

Entrust considers that the Authority has not adequately meet its code amendment principles, including that it has not provided a clear case for regulation. The Authority has left itself prone to repeat of the earlier criticisms that it provided very little evidence to support its problem definition. MEUG, for example, commented that "we are not clear on the exact underlying problem the Authority is trying to address – specifically what examples of inefficient increases in connection charges the Authority has identified …"[12]

The "neutral point" is not neutral and is not subsidy-free

The Authority says that efficiency concerns could support setting connection charges no higher than the "neutral point". The Authority should be cautious about arguments in support of prices below a level that would allow EDBs to recover their economic costs.

We are particularly concerned as the "neutral point" is not neutral for existing customers and would not provide surety EDBs could recover their incremental connection costs. This is because the "neutral point" is based on future charges that may not eventuate if the connection customer does not stay in business.

Entrust and other submitters previously pointed out that the "neutral point" is not genuinely neutral and is not subsidy-free.

The "balance point" is novel and has no basis in economics

The Authority's discussion of the merits of pricing at the "neutral point" also suggests "pricing above the balance point (ie, increasing connections charges over time)" is discriminatory and could defer connection activity. The Authority does not make clear why it defines "undue price discrimination" as departing from a particular arbitrary point it has labelled the "balance point".

The Authority claims "Increasing connection charges above the balance point produces a windfall gain because sunk costs are allocated away from existing users". We think this is more of an equity argument than an efficiency argument and found it difficult to make sense of. By way of corollary, the Authority has argued the merits of pricing new connections below the "balance point" without raising that it could result in windfall gains to new connections because shared costs are allocated away from new connections.

The "balance point" is an invention of the Authority's making and has no basis in economics. There is no a priori reason to assume a price above or below the balance point will be any less efficient than the price at the balance point.

[12] MEUG, Distribution connection pricing, 20 December 2024.

The proposed Code drafting won't necessarily prevent subsidies

We welcome the Authority's prior clarification it is "not proposing to subsidise business network connections at the household consumers' expense" and the proposed Code drafting defines the "balance point" to include that "new connections are not subsidised by existing connections". There have been widespread concerns amongst stakeholders, including Entrust, that existing customers could be exposed to the cost of new connections and the risk new connection businesses could shut down before paying their full incremental costs of connection.

Entrust is concerned though that, despite the Authority's intent, the Code drafting won't necessarily prevent the proposed distribution (connection) pricing regulation from resulting in subsidies and existing connections paying more.

A problem is that neither the "neutral point" nor the "balance point" ensures "upfront and ongoing revenue from a new connection covers the incremental cost of the connection". The consultation doesn't mention the risk that connection costs won't be fully recovered from new connection customers, even though it is a major adverse consequence raised by submitters in response to the earlier consultation.[13]

In response to queries, the Authority has suggested "Connection assets can serve subsequent customers, with continued cost recovery for distributors". This fails to recognise that some connection assets may be bespoke or provide capacity etc not necessarily required by other consumers.

The Authority has also suggested it "would consider outcomes at consumer group average level rather than identifying whether any single connection is subsidised" and "The focus … is on … whether a distributor's policy settings tend to subsidise connections." We do not think the Authority's intention is reflected in the proposed Code drafting which requires, at an individual customer level, "new connections are not subsidised by existing connections".

The application of "connection charge balance point principle" could be problematic

Entrust is concerned that the proposals could result in substantial regulatory uncertainty and application of the "balance point principle" could be problematic. Entrust anticipates there would be a number of substantive problems for electricity distributors trying to comply with the "connection charge balance point principle" in an economically meaningful and robust way that would also satisfy the Authority.

The draft Code amendments are vague, ill-defined and open to considerable scope for differences in interpretation.

Meridian's previous concern that the proposals "caused considerable confusion" and were liable to be subject to "different interpretations by distributors and connection applicants"[14] also applies to the latest proposals.

A problem is that the draft Code requires that "new connections are not subsidised by existing connections" but only talks about "Contributions to shared network costs from new connections" and is silent on the treatment of the actual incremental or avoidable costs[15] of connection. In the consultation paper the "balance point" is defined as the

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[13] Stakeholder views on this point are captured well by Axiom Economics letter to Vector, 11 January 2025.
[14] Meridian, Network connection pricing, 20 December 2024.
[15] The Authority has used both concepts in different settings. It is requiring that EDBs prepare connection charge reconciliations including details of incremental cost so it can be inferred that the Authority intends an incremental cost model is adopted but this is not required by the proposed Code amendment.

"neutral point" plus equal contributions to shared costs but this is not reflected in the Code drafting. This is liable to create scope for differing interpretations of how subsidy-free should be interpreted and what costs new connections should pay either upfront or over-time.

If the intention is to ensure prices are subsidy-free but also to avoid excessive charges, then it could be useful to define incremental cost as the pricing floor and and stand-alone cost as ceiling in the Code, and to make sure the "balance point" is always somewhere in between those points.

Another problem is that the "balance point" is based on equal contributions to shared costs, but the draft Code amendment does not define what is meant by "similar" e.g. is this intended to be an absolute (per customer) dollar amount, a per kWh mark-up or a percentage mark-up?

The "balance point" locks in contributions to shared network costs that are "similar (or lower)" than "similar existing connections". This could limit electricity distributors flexibility to revise their pricing methodologies and cost allocations. The proposal could 'grandfather' a particular approach at the time the regulation was introduced.

The Code drafting (6B.11B(1)) is premised on the incorrect assumption that if a distributor has not applied the connection charge balance point principle, then its pricing will be inefficient, and the Authority needs to consider the "materiality of the identified efficiency concerns". Entrust considers the materiality of efficiency concerns is the wrong question. It should not be automatically assumed the pricing raises efficiency concerns just because it departs from the "balance point".

There are any number of efficient pricing methodologies that could conflict with the equal contribution requirement. The application of regionally differentiated prices or, as is becoming increasingly common, adoption of peak charges, could result in different customers (or customer groups) contributing different amounts to shared costs. The "balance point" concept simply does not cater for this.

When this was put to the Authority, the response was that the Authority would "undertake an in-depth and nuanced analysis of different factors at play" which "could include the impacts of regionally differentiated pricing on the distributor's connection pricing efficiency given there is a link between connection charges and lines charges within each region." A risk this creates is that an EDB could consider it safer to avoid more dynamic and efficient pricing options to avoid the risk of being investigated. The Authority should avoid Codifying a rule that potentially conflicts with efficient pricing.

From an efficiency perspective, the 'optimal' point can depend on a number of factors, including price elasticity of demand (Ramsey pricing), growth projections for the network and ensuring cost recovery.[16] EDBs with low growth may want to set capital contributions low to encourage new customers, while EDBs with high growth may naturally want to ensure new connections do not expose existing customers to risk and higher prices. The Code drafting should recognise there are potentially any number of

[16] We wonder what the Authority's view would be if an EDB departed from the "balance point" because it used a TPM beneficiary-pays cost allocation methodology? The Authority has detailed at length why it considers beneficiary-pays cost allocation to be efficient.

allocations that should be acceptable from a pricing and efficiency standpoint and not just a single point.[17,18]

Inconsistencies between transmission and distribution should be clarified

The Authority has been silent on the differences in approach it is proposing for distribution pricing compared to existing transmission pricing precedent. The lack of explanation or transparency could undermine regulatory certainty about the basis for the Authority's decision-making.

It would be helpful to understand the extent to which it has had regard to existing transmission pricing precedent.

If the Authority applied the same kind of reasoning in the consultation paper to its own TPM Guidelines it would have to conclude the Guidelines result in inefficiencies and barriers to new connections, at a time when new investment in generation is desperately needed.

Under the Authority's TPM Guidelines there are no restrictions on or limit to capital contributions. The cap that the TPM Guidelines places on transmission charges is set on the basis of stand-alone cost rather than a "balance point".[19]

There is no concept of a "balance point" in the TPM Guidelines. Quite the opposite. The TPM Guidelines require Transpower to allocate the costs of Benefit-Based Investments based on estimates of expected benefits which means the TPM is deliberately discriminatory and can result in substantial variations in contributions to sunk and shared costs.

In response to queries about the balance point versus beneficiaries-pay, the Authority suggested a benefit-based approach could improve efficiency but would still leave residual costs and the balance point would be relevant to these. Entrust considers that applying benefit-based charges and a residual would violate the Authority's proposals.

Care is needed to ensure regulation doesn't benefit 'big business' at the expense of domestic and small business consumers

The Authority should be careful it does not make things worse by favouring vested commercial interests at the expense of consumers.

Entrust has been concerned for a long-time about regulatory changes that end-up making small businesses and households worse off. The current proposals are the latest in a series of changes that have been detrimental to consumers.

Meridian shareholders were the big winners from transmission pricing changes with North Island consumers having to contribute to South Island generators' transport costs.

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[17] Under the TPM, for example, transmission prices will vary wildly from the balance point depending on: (i) whether the customer is a generator or load (residual charges are allocated to load only), and (ii) the extent to which the customer is deemed to benefit from benefit-based investments.

[18] Following clarification, the Authority has stated "The balance point as a principle is not a specific price point for each connection. It will be range of charges relative to the neutral and balance points for different customer groups." Entrust is concerned that this does not appear to marry up with the way the Authority has described the "balance point" as a "balance point" not a "balance range" and the way it has defined in the proposed Code amendment. It is far from clear what the bounds of a "balance range" would look like.

[19] The requirement for "new connections make a similar (or lower) contribution to shared network costs as similar existing connections" means the balance point could be above stand-alone cost for some customers where there is a smaller margin between incremental and stand-alone cost.

The Electricity Authority banned electricity distributors passing loss rental rebates (LRR) on to consumers.[20] In 2023 the LRR was $30 for each Auckland consumer. The Authority's ban has resulted in each Auckland electricity consumer missing out on nearly $90 in rebates in the last twelve months alone.[21]

The proposals are inconsistent with the consumer protection objective

In the Authority's previous (distribution) connection pricing consultation, the Authority undertook an assessment of the Authority's proposal against its consumer protection objective.

The overwhelming evidence from submissions, including Entrust's submission, highlighted that domestic consumers and small businesses would be exposed to increased investment risk and higher distribution charges without any clear countervailing benefits. Entrust does not consider the Authority has addressed these concerns.

We don't think the Authority is on strong grounds to maintain the view that its proposals "support the Authority's additional statutory objective". The Authority is also now saying "The amendments … are not primarily intended as measures to promote the protection of the interests of domestic consumers and small business consumers".

Entrust does not think it is relevant what the primary intention is. The Authority needs to comply with its statutory objectives. The fact proposals may not be "primarily intended" to protect consumers doesn't mean the proposals can be inconsistent with the consumer protection objective.

The claim "The proposed amendments intend to protect consumers overall" appears to side-step the issue that the proposals would harm small business and domestic consumers. The focus of the proposals is to favour new connection customers at the expense of existing domestic and small business consumers. There may be some small business consumers who benefit from the change but that doesn't change the overall outcome.

The Code should require the Authority to publicly consult as part of any price intervention

The Authority has indicated it does not intend to undertake public consultation as part of its application of the proposed connection pricing rules and "would engage directly with any affected distributors". We consider that all distributors would be affected by the precedent set by any intervention, as would all retailers and consumers.

If the Authority goes ahead with its proposals, it should introduce requirements that it must publicly consult on whether: (i) it should undertake an investigation, (ii) the distributor's pricing is consistent with the connection charge point principle, (iii) the materiality of the identified efficiency concerns (if any) and whether they justify the costs of intervention, and (iv) on the direction under subclause 6B.11B(1).

Entrust does not consider that there is any reason why the Authority's price determination process should not follow good regulatory practice, such as the Commerce

[20] https://www.entrustnz.co.nz/media/wa5bjjgo/submission-on-settlement-residual-loss-rental-rebate-allocation-1-march-2022.pdf and https://www.entrustnz.co.nz/media/bppn4vxn/submission-on-settlement-residual-allocation-methodology-27-september-2022.pdf.

[21] It is possible consumers could see some of this rebate through lower retail prices but there is no evidence of this, and it would depend on retail competition working well, something which the Authority has acknowledged is a problem.

Commission consultation requirements for price determinations under the Commerce Act and the Telecommunications Act.

Concluding remarks

Entrust wants to ensure electricity is supplied in an efficient and affordable way to all consumers and its beneficiaries, including the 368,000 households and businesses in its area of central, east and south Auckland.

The electrification of the economy creates opportunities for electricity networks to grow the size of their customer-bases and spread shared and common costs over a wider group of customers.

Distribution pricing done well will result in win-win situations for existing and new customers.

The Authority's proposals risk repeating the mistakes of distributed generation pricing where distributed generators are advantaged at the expense of existing consumers. Kiwi families and small businesses would be worse off financially if the Electricity Authority reforms for distribution connection pricing go ahead.

The Authority's connection charge proposals have been contentious, partly because they are poorly underpinned economically, but also because they create an 'us versus them' situation where new connections would benefit from the Authority's proposal at the expense of existing customers. We don't want to see the Authority adopting network pricing reforms that imposes more and more costs on residential/mass market consumers to the benefit of big business.

New businesses such as data centres that create the need for new investment should pay for it. Other customers, including households, should not be forced to effectively underwrite new businesses ventures.

The Authority should make sure its proposals do not advantage new connections at the expense of existing customers. The Authority should make sure its proposals do not require existing customers to be exposed to higher prices, simply to reduce the upfront costs to new connections, or expose existing customers to asset stranding risks for network investment required for new connections.

Kind Regards

[redacted]

Alastair Bell
Chair of Regulation and Policy Committee