20 March 2026

Electricity Authority

By email to: connection.feedback@ea.govt.nz

Tēnā koe

Response to "Distribution connection pricing reform - minor Code amendments"

Thank you for the opportunity to provide feedback on the *Distribution Connection Pricing Reform – Minor Code Amendments* consultation.

This submission focuses on the Authority's proposal to use the 65th percentile of the WACC for determining allowed returns on shared and incremental connection costs.

The Authority is proposing that this 65th percentile of the WACC is used in calculating the present value of the 'incremental revenue' term in the connection charge reconciliation formula. We understand that 'incremental revenue' relates to both recovery of shared costs and to the recovery of the incremental costs.

The Commission explains that the rationale for using the 65th percentile of the WACC is due to:

> *a possible asymmetry in the cost of setting the WACC too high versus setting the WACC too low. Setting the WACC too high is expensive for consumers because they pay higher bills. However, setting the WACC too low may result in even higher costs for consumers if it leads to outages. Outages from an unreliable network are expensive for consumers and remediating an unreliable network is likely to take some time.*[1]

We agree that this logic applies to shared network costs. Using the 65th percentile ensures new connections contribute appropriately to the shared network capacity from which they benefit. Using the mid-point instead would shift costs from connecting parties to existing consumers, which would be inconsistent with user-pays and cost-reflectivity principles.

However, we do not consider that the logic for using the 65th percentile applies to the recovery of incremental costs. For these costs the same asymmetry does not appear to apply:

- The costs of under recovery do not appear to have the same risk of under-investment leading to risks of outages. This is because the costs of the investment are agreed upfront with the connecting party, and are then carried out to the agreed specifications.

[1] https://www.comcom.govt.nz/assets/pdf_file/0022/337612/Part-4-IM-Review-2023-Final-decision-Cost-of-capital-topic-paper-13-December-2023.pdf, para 6.9

- However, there are significant costs of over-recovery. Over recovery could deter otherwise efficient connection decisions, deterring economic activity, and resulting in the shared network being under-utilised and therefore higher costs to all other connected parties.

We therefore consider that:

- For shared cost there are greater costs from underestimating the WACC
- For incremental costs there are greater costs from overestimating the WACC.

We recommend that the Authority balance these two conflicting risks. It may be that applying the mid-point of the WACC is a pragmatic compromise. Or it may be that it is best for the reconciliation equation to apply the 65th percentile of the WACC for recovery of shared costs and the 35th percentile for the recovery of incremental costs.

Ngā Mihi

[redacted]

Brett Woods

Head of Regulatory and Government Relations

Contact Energy.