16 SEPTEMBER 2026: CROSS-SUBMISSION TO ELECTRICITY AUTHORITY REGARDING DISTRIBUTION CONNECTION PRICING

Distribution connection pricing reforms require sound foundations

Entrust supports distribution pricing reform where it is built on sound economic foundations, helps facilitate electrification and efficient new connections, and applies the principle that 'growth pays for growth'.[1]

'Growth pays for growth' is a well-established principle in modern infrastructure policy.[2] Connection applicants should meet the costs they cause.

Submissions in response to the distribution connection pricing consultation make clear the Authority's proposals would instead shift costs and risk onto existing consumers.

Summary of Entrust's submission

- Entrust's view is that the Authority has not demonstrated current connection charges deter efficient connections or exceed efficient levels. Vector and other submitters have raised similar concerns about the proposals. Evidence of a problem is needed before the Authority progresses with its proposals.
- Vector's submission rightly cautions against simply reducing upfront charges. Connection costs should not be socialised. Kiwi families and small businesses should not fund new applicants or large commercial developments.
- While we agree with ERGANZ that connection growth can help spread fixed network costs over more customers and reduce prices, this does not mean existing customers should fund upfront connection costs. We agree with Vector that "Customers should face the costs they cause."
- It is clear from submissions that the Authority's "neutral point" and "balance point" concepts are neither neutral nor economically efficient.
- HoustonKemp (on behalf of Vector), for example, provide expert advice that the "neutral point" is not genuinely neutral because it can fall below the full incremental cost of connection and transfers commercial risks from connection applicants to existing consumers.
- HoustonKemp also shows that the Authority's "balance point" lacks a clear efficiency rationale and cannot be justified merely by characterising it as non-discriminatory.
- Entrust recommends that the Authority pause and substantially revise its proposals. We agree with Vector that reform should not be rushed, particularly given the weak and anecdotal case for change.

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[1] The 'growth pays for growth' principle means the financial costs of new infrastructure—such as electrical grid connections, pipes, and roads—should be borne by the new developers and connection applicants rather than being subsidised by existing consumers or ratepayers.

[2] https://www.beehive.govt.nz/release/going-housing-growth-new-and-improved-infrastructure-funding-and-financing-tools and https://ourauckland.aucklandcouncil.govt.nz/media-centre/2025/may/new-development-contributions-policy-approved/

Entrust's cross-submission

Entrust agrees with ERGANZ that connection growth and higher network utilisation can help reduce costs if fixed network costs are spread across more users or greater network usage. The Authority has similarly recognised that spreading fixed costs across more network users can lower electricity costs for all consumers.[3]

However, the Commerce Commission has cautioned that the benefit from new customers can depend on "the amount of upfront contribution they pay when connecting."[4]

A central point of Entrust's submissions is that network pricing reform should benefit all consumers, not just redistribute costs between consumer groups.

Achieving this requires careful balance. As ERGANZ suggests, connection charges should not be so high that they "deter efficient connections". Equally, they should not be reduced in a way that transfers costs or commercial risk to existing consumers. An arbitrary "balance point" will not achieve this balance.

EDBs need to be able to recover the full incremental costs of new connections, including for physical works and capacity required to maintain the safety, security, and quality of the existing system.

Supporting electrification or new connections does not justify requiring existing consumers to underwrite applicants' future demand, business viability or utilisation risk. As Vector submits, the Authority should "focus on long-term consumer benefit, not simply on lowering upfront charges."

The "neutral point" is not neutral

Submissions clearly establish that the Authority's "neutral point" is not neutral because it sets upfront connection charges below full incremental cost.

HoustonKemp explains that the "neutral point" would "shift connection applicants' business risks onto the existing customer base". We similarly agree with Vector that "Customers should face the costs they cause. Risks should sit with the party best placed to manage them."

The Authority incorrectly asserts that "the neutral point limb requires distributors to at least recover incremental cost from each connection". In practice, expected future line charge revenues are netted off upfront charges, so distributors may be unable to recover full incremental cost. As HoustonKemp observes:

> *"The Authority often refers to the neutral point loosely as 'incremental cost', but when applied to the calculation of connection charges, it is more accurate to refer to it as 'net incremental cost' since it is calculated net of the present value of future lines charges and is therefore a charge that is lower than the incremental cost of providing the connection."*

This distinction is a central flaw in the proposal.

ERGANZ supports the Authority's proposals precisely because they do not set upfront connection charges to recover the full incremental cost of connection.

The Authority cannot dismiss cross-subsidisation and asset-stranding risk by asserting that "abandoned connections will usually be taken up by another similar customer." That

[3] https://www.ea.govt.nz/news/press-release/feedback-welcomed-on-faster-simpler-electricity-connections/
[4] 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.

assumes the risk away. Connection pricing must address the real possibility that expected future customers do not materialise.[5]

The Authority also claims that "recovering less than 100% of estimated incremental cost through connection charges is common industry practice and does not present excessive stranding risk", but provides no basis for that judgement. A common practice is not necessarily efficient or risk-free.

The Authority also says distributors can recover commissioned asset costs from the wider customer base whether or not an asset is used. Socialisation of costs may protect distributors, but it does not protect consumers. It transfers stranded or under-utilised asset costs to existing households and businesses.

The Authority's positions are internally inconsistent. It says the neutral point is subsidy-free and recovers incremental cost, yet defends charging below incremental cost as common practice. It says asset-stranding risk is not excessive, yet also says stranded costs can be recovered from wider customer bases. In practice, that means recovering those costs from existing consumers through cross-subsidisation.

The balance point cannot be justified on non-discrimination grounds

As with the "neutral point", submissions clearly establish that the Authority's "balance point" lacks a sound economic foundation. We agree with Vector that the rationale appears to reflect implicit judgements about intergenerational equity and a preference for new connections, rather than a demonstrable efficiency objective.

These concerns are confirmed by HoustonKemp, who explains that the balance point "has no foundation in economic efficiency."

The Authority cannot simply respond to these criticisms by asserting that the "Balance point refers to non-discriminatory cost recovery". Whether a pricing approach is non-discriminatory is separate from whether it is economically efficient.

Non-discrimination is not an efficiency criterion.

The Authority itself has repeatedly recognised that efficient price discrimination can be both legitimate and welfare enhancing. As the Authority has previously observed, "price discrimination is not always inefficient and can be a legitimate practice ..."[6]

The Authority has also relied on efficiency arguments to justify discriminatory pricing in other contexts, including distributed generation, shared and common costs, and its view that charging new connections incremental cost would be theoretically efficient.

Regardless, it is difficult to characterise the "balance point" as non-discriminatory. The proposal is designed to reduce upfront costs for new connection applicants by requiring existing customers to fund more connection-related costs. It favours one consumer group over another.

[5] For example, a large commercial connection may be commissioned on the expectation of sustained demand, only for the applicant's project to be delayed, scaled back or abandoned. Assets may be sized for forecast electrification growth that does not occur within the expected timeframe. If upfront charges are set below efficient incremental cost, the shortfall is ultimately borne by existing consumers rather than the party that created or was best placed to manage the risk.

[6] https://www.ea.govt.nz/documents/2153/Inefficient-Price-Discrimination-in-the-Wholesale-Electricity-Market-Issues-an_zJqQCAl.pdf

Concluding remarks

The Authority should pause and substantially revise its proposals.

The Authority needs to ensure that EDBs can recover the full incremental costs of new connections, including for physical works and capacity required to maintain the safety, security, and quality of the existing system.

The Authority's proposals are contrary to user-pays and the beneficiaries-pay principle adopted for transmission pricing. They lack a sound and internally consistent economic foundation. Submissions make these issues clear, but they were known well before this consultation.

The Authority's proposals would be particularly harmful for consumers in regions where there is significant growth.

Kind Regards

Alastair Bell
Chair of Regulation and Policy Committee