

24 June 2014

Submissions  
Electricity Authority  
PO Box 10041  
**WELLINGTON**

via email: [submissions@ea.govt.nz](mailto:submissions@ea.govt.nz)

Dear Authority,

**Re: Transmission pricing methodology – connection charges**

In our view the current connection charge framework is stable and well understood by network companies and retailers. The Authority itself has observed submitters earlier comments<sup>1</sup> that connection charges are operating efficiently and effectively and that there aren't any material problems with the current methodology.

We do not see a reason for changing the connection charge framework. From a Retailer's perspective the current connection charge framework provides a number of benefits:

- It provides a smoothed price profile (equivalent to charging on the basis of an annuity depreciation method);
- It provides de facto insurance against asset failure (with the risk of asset failure pooled over all connection assets); and
- is a service (and service quality) based charge rather than the 'bricks and mortar' required to provide the service i.e. it adopts a service-type approach to pricing rather than an asset-based approach.

As this leads to a smoothing of prices at a retail level we also believe it is in the best interests of customers who are, as a result, protected from significant localised price shocks.

Yours sincerely



James Collinson-Smith  
**Manager, Market Services**

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<sup>1</sup> Page 25 of the Transmission Pricing Methodology: Connection charges, Working paper  
**Contact Energy Limited**