

Reducing barriers for new connections: up-front charges, distributor obligations and WACC

Decision paper

1/07/2026

Executive summary

New and upgraded network connections are an essential input for economic growth. They are necessary for electrification and, more broadly, for new housing, business activities and infrastructure.

This paper explains decisions made by the Electricity Authority Te Mana Hiko (the Authority) on two amendments to the Electricity Industry Participation Code (Code) aimed at improving the efficiency of pricing methodologies and provides an update on related work to clarify and strengthen distributor obligations to supply connections.

These decisions are part of a wider distribution network pricing reform programme, which includes:

- recently introduced ‘fast-track’ connection pricing requirements
- proposed amendments to long-standing distributed generation pricing principles
- work to develop further reforms ahead of the Commerce Commission’s (Commission) next review of distributor revenue paths.

We have decided to introduce a targeted intervention framework

Distributors recover the cost of supply through up-front connection charges and ongoing lines charges. Together these recover the incremental cost of adding each connection, plus shared (non-incremental) costs.

Some large customers have individual lines charges, allowing each connection to adopt a tailored mix of up-front and ongoing charges. For other customers lines charges are common across broad consumer groups.

This means a distributor that alters its pricing to increase the portion of incremental cost recovered through connection charges will shift recovery of shared costs from existing to new customers – ie, new connections will pay higher connection charges than existing customers plus the same lines charges (meaning their total contribution is higher).

This creates two pricing efficiency problems:

- increasing the cost of new connections creates a drag on connection growth. As long as pricing is subsidy-free, connection growth spreads shared costs and is beneficial to new and existing customers alike
- the lack of regulatory safeguards exposes anyone contemplating connection investment to the risk of cost shifting – ie, cost recovery settings for shared costs are not predictable.

Both of these problems are detrimental to dynamic efficiency – ie, they deter efficient investment in new and upgraded connections.

Following consultation in November 2025, the Authority has decided to introduce a targeted intervention framework ahead of more comprehensive reform of connection pricing methodologies. The framework includes a pricing principle, a review process and a power to direct distributors to modify their pricing methodologies to be consistent with the principle.

This promotes efficient investment ahead of further reform by creating a better environment for efficient connection growth by protecting access seekers from inefficient cost shifting,

while ensuring existing customers still benefit from each new connection. The balance point principle has two limbs:

- subsidy-free floor (neutral point) – new or upgraded connections are not subsidised by existing connections. This safeguards existing users from costs created by connection activity
- cost-shifting restraint (balance point) – new or upgraded connections otherwise make a similar (or lower) contribution to shared network costs as similar existing connections. This safeguards prospective connections from cost shifting.

The process is designed to focus efforts on methodologies that appear to be inconsistent with the balance point principle, allowing closer and more nuanced analysis before deciding whether to intervene by directing a distributor to amend its pricing methodologies.

The framework is prospective – focussing on pricing methodologies that apply to future connection charges rather than revisiting historical connection charges. The framework improves connection pricing ahead of further reform by deterring, detecting and stopping inefficient cost shifting.

While directions to amend methodologies may extend into the future, provision for the Authority to make new directions will lapse from April 2030. This is consistent with the framework being an interim measure ahead of further reform planned to coincide with the reset of price-quality paths for electricity distribution businesses.

We have decided to amend the discount rate for reconciliations

The Authority has decided to change how it specifies the discount rate distributors must use when assessing the subsidy-free neutral point for connections.

Distributors must disclose this information to connection applicants on request, and to the Electricity Authority. The change will mean higher discount rates and will typically result in lower estimates of the present value of revenue from lines charges and higher estimates of the minimum subsidy-free connection charge (ie, the neutral point).

The discount rate is based on the Commission's estimate of the weighted average cost of capital for distribution services. We had previously specified the mid-point estimate and have changed to the 65th percentile estimate (or any successor reference point used for revenue-setting). The discount rate is based on annually updated estimates (rather than the five-yearly rates used to set distributor revenue paths).

This change improves alignment between connection pricing and revenue-setting arrangements, improving the accuracy of neutral point estimates. This benefits consumers by reducing the risk of new connections being subsidised (which would encourage inefficient connections by shifting costs to others).

We will continue our work on clarifying distributors' supply obligations

Alongside targeted intervention proposals, in November 2025 the Authority consulted on its preferred direction for clarifying and strengthening distributor obligations to supply connections. The Authority is considering supply obligations in the context of a potential risk that tightening regulatory oversight of connection pricing methodologies could prompt some distributors to turn away connection demand.

The Authority's preferred direction involves establishing a clear obligation for distributors to make connection offers, accompanied by requirements to maintain a specified suite of access standards.

We have further decided to monitor the supply of connections and will revisit this approach if needed.

Next steps

The next steps in the connection pricing work programme are to:

- work with stakeholders to refine draft guidance on the targeted reform process and the balance point principle
- commence implementation of targeted intervention based on the balance point principle, with the screening phase progressing to closer examination and pricing methodology directions if required.
- release an issues paper on further reform for consultation.

We will work towards our preferred direction on distributor supply obligations over time and in stages with an initial focus on monitoring distributor behaviour and connection outcomes.

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1. Purpose

- 1.1. This paper sets out decisions by the Electricity Authority Te Mana Hiko (Authority) to:
 - (a) amend the Code to introduce the balance point principle, which improves pricing methodologies ahead of 2030
 - (b) amend the discount rate distributors must use under Part 6B in connection charge reconciliations when expressing future cashflows in present value terms
 - (c) adopt a staged approach to clarifying distributor obligations to supply.
- 1.2. The paper provides background and context, sets out decisions in more detail, summarises submissions and outlines our intended next steps.

2. Background and context

- 2.1. This section briefly recaps background and context relevant to this paper, including what connection charges are, the issues the Authority has identified with connection pricing, the fast-track measures already introduced to improve connection pricing methodologies and an overview of the rationale for the targeted intervention framework.
- 2.2. Distributors recover the cost of providing distribution services through two main funding sources:
 - (a) **connection charges** are one-off contributions, which may include cash payment (capital contributions) or building and transferring ownership of network assets (in-kind contribution or vested assets)
 - (b) costs not recovered through connection charges are mostly recovered through ongoing **lines charges**. These include operating costs, and the cost of financing assets (ie, charges for depreciation, return on capital and tax).¹
- 2.3. For non-exempt distributors,² the amount a distributor may recover through lines charges each year is governed by Commerce Commission revenue paths. Revenue paths are built up from inputs that include forecasts of expenditure and capital contributions. Exempt distributors must disclose the basis for their target revenue but are not subject to revenue paths.
- 2.4. Historically, distribution connection pricing regulation in the Electricity Industry Participation Code 2010 (Code) was focused on generation connections. Part 6 of the Code includes pricing principles governing distribution charges for generators – limiting charges to no more than the incremental cost of each connection. The Authority recently consulted on proposals to reform these principles by enhancing the incremental cost rule.³
- 2.5. Before April 2026, there were no Code provisions governing connection pricing methodologies for non-generation (ie, offtake or 'load') connection charges. In 2023, the Authority started a process of reforming connection charging for offtake.⁴
- 2.6. Issues the Authority has identified with connection pricing include:
 - (a) inconsistency across distributors spanning every aspect of connection pricing, from documentation and terminology through to methodology design and allocation outcomes
 - (b) incomplete or poorly documented methodologies and varying adoption of pricing features that promote efficient investment – eg, by mitigating position-

¹ Other sources are fees and proceeds from disposals.

² See [Consumer owned electricity distribution businesses | Commerce Commission](#).

³ See [Reforming distributed generation pricing to promote efficient investment | Our consultations | Our projects | Electricity Authority](#).

⁴ See [Targeted reform of distribution pricing - issues paper](#).

in-queue dynamics (where otherwise similar connections face different charges depending on connection timing) or providing cost-reflective signals⁵

- (c) evidence of some distributors shifting cost recovery to connection charges, such that new connections make a disproportionately larger contribution to shared costs than existing connections.
- 2.7. The Authority has since amended the Code to introduce four requirements that aim to quickly improve connection pricing methodologies. As well as aiming to improve transparency, consistency and efficiency, these create a foundation for potential further reform. These ‘fast-track’ requirements include:
- (a) Enhancement cost allocation – distributors must determine and allocate costs relative to the minimum scheme⁶ (or minimum ‘flexi’ scheme, if available and selected) for each connection.
 - (b) Capacity costing – distributors may not, with some exceptions, allocate network upgrade costs to a single ‘last-straw’ applicant. Instead, distributors may use published rates to allocate costs as capacity is consumed.⁷
 - (c) Pioneer scheme – distributors must develop a policy and operate schemes for reducing first-mover disadvantage by reallocating first-mover costs as subsequent connections are made.
 - (d) Connection charge reconciliation – distributors must provide standardised breakdowns of charges and costs associated with new or upgraded connections.
- 2.8. The ‘fast-track’ measures do not constrain the share of costs a distributor can allocate to new connections, or how distributors can change their connection pricing over time. The Authority will soon release an issues paper on further reform – focusing on settings that should be in place before revenue paths are next determined in 2029 (for effect from 2030). These could include constraints on the share of costs that distributors can allocate to new connections.
- 2.9. The timing for further reform aims to allow changes from the ‘fast-track’ measures to mature and to minimise disruption by aligning with the revenue path determination process. This means any changes in connection charges can be reflected in distributors’ expenditure forecasts that flow into revenue path determinations by the Commerce Commission.
- 2.10. However, this leaves four years⁸ following introduction of these fast-track measures where connection applicants remain exposed to the risk of distributors shifting

⁵ Position-in-queue dynamics are where charges for otherwise similar connections vary from one applicant to the next – eg, where a first-mover or last-straw applicant faces higher charges.

⁶ The ‘minimum scheme’ is the least-cost technically acceptable design solution for a given connection.

⁷ This requirement fully applies from April 2027. From April 2026, it only applies in respect of charge reconciliations.

⁸ There are four years from 1 April 2026 when the fast-track measures take effect to 1 April 2030 the start of regulatory period DPP5.

shared cost recovery to new customers. This creates two pricing problems that are detrimental to dynamic efficiency:

- (a) allocating a larger portion of shared costs to new connections creates a drag on connection growth. As long as pricing is subsidy-free, connection growth spreads shared costs and is beneficial to new and existing customers alike
 - (b) the lack of regulatory safeguards exposes anyone contemplating connection investment to the risk of cost shifting – ie, cost recovery settings for shared costs are not predictable and this has a chilling effect on investment.
- 2.11. To address this interim exposure, the Authority initially proposed to amend the Code to require all distributors to ensure they do not increase (year-on-year) their ‘reliance level’ – ie, the portion of incremental costs funded via connection charges.⁹
- 2.12. The reliance limit proposal would have relied on information disclosure data, which provides an imperfect view of connection charges and incremental costs. Distributors were concerned this may not function as intended and may create an unreasonable compliance risk.
- 2.13. In response to these issues, in November 2025 the Authority developed and consulted on a revised approach – involving targeted intervention based on a balance point principle with two limbs:
- (a) subsidy-free floor (neutral point) – new and upgraded connections must at least cover their incremental cost. This provides a safeguard for existing users from inefficient cost shifting
 - (b) cost-shifting restraint (balance point) – new and upgraded connections must make a similar contribution to shared costs as similar existing connections.¹⁰ This provides a safeguard for intending connections from inefficient cost shifting.
- 2.14. The framework aims to improve pricing methodologies ahead of further reform by deterring, detecting and stopping inefficient cost shifting.
- 2.15. Alongside the balance point principle, the Authority also consulted on a direction of travel for clarifying distributor obligations to supply and then more recently on a Code amendment to change to the discount rate to be used in the connection charge reconciliation requirement.¹¹
- 2.16. Clarifying supply obligations would address concerns that the status quo is relatively unclear and incompletely governed, leading to a risk that constraining connection charges could lead some distributors to refuse to supply some applicants. We are not proposing to progress a Code amendment to address this issue now but have set out our preferred direction in Section 5.

⁹ The proposed reliance limit was set out in the October 2024 [Consultation Paper: Distribution connection pricing proposed Code amendment](#). Pg 52-56.

¹⁰ See [Reducing barriers for new connections | Our consultations | Our projects | Electricity Authority](#).

¹¹ [Reducing barriers for new connections: pricing Code amendments](#). The proposal to amend the discount rate is discussed in chapter 7, Pg 20-21.

- 2.17. In the consultation paper, the Authority set out its preferred direction, which involved introducing a clear obligation for distributors to make connection offers, and:
- (a) specifying five access standards distributors must publish (connection standards, congestion management policy, connection pricing methodology, revenue protection policy and continuance of supply policy)
 - (b) guiding content of the access standards through some mix of principles, requirements and mandatory considerations, and
 - (c) prohibiting decommissioning, other than in accordance with a distributor's continuance of supply policy.

3. Targeted intervention

- 3.1. This section summarises the Authority’s decision on targeted intervention (based on the balance point principle) and its consideration of submissions.

Decision

- 3.2. The Authority has decided to amend the Code to introduce a regulatory framework for targeted intervention with respect to connection pricing.
- 3.3. The framework includes a power for the Authority to direct a distributor to amend its pricing methodologies if they are not consistent with the balance point principle. Having considered submissions, the Authority has made minor amendments. See Appendix A for the Code amendment, with redlining for comparison to the amendment proposed in November last year.
- 3.4. The framework is consistent with conventional economic principles for network pricing, including:
- (a) since firms supplying distribution services have market power, regulatory oversight should aim to ensure pricing promotes economic efficiency for the long-term benefit of consumers
 - (b) as part of this, dynamic efficiency can be promoted by safeguarding consumers from the risk of cost shifting. Two key cost-shifting safeguards that can promote dynamic efficiency are:
 - (i) ensuring revenue from each connection at least covers its incremental cost. This safeguards consumers from the risk that their costs will increase due to the distributor adding or upgrading connections for other consumers
 - (ii) restricting the ability for the distributor to shift costs to new consumers. This safeguards intending consumers from the risk that pricing changes will undermine the value of any sunk investments they make ahead of connecting.
- 3.5. The Authority has carefully considered all submissions and reviewed its analysis in light of those submissions. The Authority’s conclusion remains that targeted intervention will promote the Authority’s statutory objective and that benefits will outweigh costs:
- (a) the framework will improve pricing methodologies ahead of potential further reform by addressing cases where pricing methodologies produce charges that either subsidise connections or shift shared cost recovery from existing to new users. This supports investment by improving the predictability of pricing outcomes
 - (b) this promotes efficient investment in connections (and associated network development and upgrades) by:
 - (i) deterring inefficient connections that would only proceed if subsidised
 - (ii) supporting efficient connections that will cover their costs but may not proceed if deterred by cost-shifting (or exposure to the risk of cost-shifting)

- (iii) overall, creating a better environment for dynamically efficient connection investment that protects access seekers from inefficient cost shifting, while ensuring existing customers still benefit from each new connection
 - (c) manages costs and maximises benefits by providing for nuanced assessment and targeted and tailored directions.¹² This means costs associated with intervention are directed where the scope to improve pricing efficiency is greatest
 - (d) the framework does not worsen competition for the supply of connection services (design, equipment or works) and the Authority is working with the Commerce Commission on broader initiatives to address competition issues.
- 3.6. The regulatory framework for targeted intervention based on the balance point principle includes:
- (a) a subsidy-free floor (neutral point) limb that ‘new connections are not subsidised by existing connections’
 - (b) a cost-shifting restraint (balance point) limb that ‘new connections make a similar (or lower) contribution to shared network costs as similar existing connections’¹³
 - (c) an ability for the Authority to make a direction that has the effect of requiring a distributor to amend its pricing methodologies to make it consistent with both limbs of the balance point principle (within a specified timeframe)
 - (d) a requirement for the Authority to closely examine and report on a distributor’s pricing before issuing a direction to a distributor to amend its pricing methodology to make it consistent with the balance point principle (within a specified timeframe)
 - (e) a requirement for the Authority to notify a distributor before starting a close examination process
 - (f) a 1 April 2030 sunset clause.
- 3.7. This interim framework deters adverse changes to pricing methodologies ahead of further reform – ie, changes that would be inconsistent with either limb of the balance point principle.
- 3.8. It also creates a three-phase process through which the Authority may direct a distributor to amend its connection pricing methodology:
- (a) a scanning phase – This involves scanning available information to identify where there may be inefficiently low or increasing connection charges. This is

¹² For context, distributors collectively spent \$315 million on business support opex (of which pricing and related commercial activities are a component) in 2024 and invested \$678 million on consumer connection and system growth assets. This is based on information disclosures for the 2024 regulatory year. Expenditure on assets excludes vested assets, so understates actual expenditure.

¹³ This limb only addresses increases because decreases are less detrimental to connection activity and, provided allocations remain above the neutral point, connections remain beneficial to existing users. Also, rapid reductions to connection charges have a gradual impact on lines charges because the aggregate value of new connections is small relative to the value of existing network assets.

an ongoing process because the information base will change over time and because distributors may change their pricing methodologies at any time.

- (b) close examination phase for distributors identified through scanning – This involves information-gathering and analysis to determine whether a distributor’s pricing methodologies may be inconsistent with the balance point principle, and if so, whether further intervention by the Authority is warranted.
 - (c) pricing methodology direction phase, if warranted – This involves the Authority directing a specific distributor to update its pricing methodologies to better align with the balance point principle.
- 3.9. This process provides a mechanism for addressing situations where a distributor has already altered their methodology in a way that is shifting shared network costs to new connections. The Authority can direct a distributor to amend their methodology again to remove cost shifting for future connections.
- 3.10. This is designed to provide an approach that is:
- (a) targeted – close examination is only carried out if available information indicates potential non-alignment with the balance point principle. A direction is only issued following close examination, and only where the materiality of efficiency concerns justifies the costs of intervention
 - (b) temporary – the balance point principle expires at the start of the next revenue control period, by which time the Authority intends to have progressed its further reform work. Even though the principle expires, a direction to amend pricing may have a timeframe that extends beyond 2030
 - (c) tailored – close examination allows for careful analysis of whether a distributor’s methodology is producing allocations materially below the neutral point or above the balance point, and for design of a direction (including timeframe) tailored to a distributor’s circumstances
 - (d) prospective – while the cost-shifting restraint is defined with reference to historical pricing, directions are prospective. They require a distributor to change how it will allocate costs for future connections (not to reimburse existing customers).
- 3.11. The objective is to improve the efficiency of connection charges by improving connection pricing methodologies ahead of the next revenue path such that:
- (a) deterring pricing that subsidises new connections (by recovering less than incremental cost)
 - (b) deterring changes in pricing methodologies that have the effect of shifting shared cost recovery from existing to new customers
 - (c) providing a mechanism to return elevated connection charges to levels that do not shift shared cost recovery for future new connections.
- 3.12. This will improve dynamic efficiency, including by providing connection applicants (and potential applicants) with greater confidence they are protected from monopoly suppliers shifting shared costs to them.

- 3.13. The intervention is focussed on improving pricing methodologies ahead of potential further reform. While it limits the ability for distributors to change their pricing methodologies in a way that shifts shared cost recovery from existing to new customers, it does not otherwise require distributors to converge on a common approach.
- 3.14. The balance point principle intersects with the Commerce Commission’s regulation of electricity distribution services in two ways. First, the Authority will use the Commission’s regulated disclosure regime to help identify potential non-alignment. The information disclosure data will be particularly relevant to the scanning phase. Second, there are mechanisms for the Commission to reconsider existing revenue paths, (which includes section 54V of the Commerce Act 1986 which provides for the Authority to request the Commission to reconsider a price path determination),¹⁴ where the balance point principle prompts the need for a distributor to reduce its connection charges.
- 3.15. Directions to amend pricing methodologies to align with the balance point principle can specify a timeframe, which enables flexibility to accommodate Commerce Commission processes.
- 3.16. Table 3.1 sets out changes in the final decision compared to the amendment as proposed in the November 2025 consultation paper.

Table 3.1: Changes compared to proposed amendment

| Change | Comment |
|---|--|
| <p><i>Remove reference to distributor size and connection volumes from criteria for deciding whether to direct a distributor to amend its pricing methodology and refer instead to materiality of efficiency concerns, costs and benefits:</i></p> <p>...the materiality of the identified efficiency concerns, or the distributor’s size or connection application volumes, justify the costs of intervention...</p> <p>... provided the Authority has identified material efficiency concerns with the distributor’s prices and the costs of the distributor applying the connection charge balance point principle do not outweigh the benefits of doing so.</p> | <p>Drafting still allows distributor size and applications volumes to be considered alongside any other relevant cost-benefit factors.</p> <p>Singling out two potential factors is unnecessary (and potentially unhelpful).</p> |

¹⁴ [Commerce Act 1986 | New Zealand Legislation](#) Section 54V Impact of certain decisions made under Electricity Industry Act 2010.

| Change | Comment |
|--|--|
| <p>Clarify that the balance point principle applies to pricing methodologies, eg:</p> <p>...The connection charge balance point principle is the principle that connection charges a distributor's pricing methodologies should be set at a level such that provide that...</p> | <p>Framework is intended to ensure pricing methodologies are efficient, rather than operating at the level of individual quotes or charges.</p> <p>Methodologies should set out how incremental cost of a connection is estimated and allocated, which in turn determines shared cost contributions.</p> |
| <p>Rename second phase 'close examination' rather than 'investigation', eg:</p> <p>...notify the distributor that it is considering investigating close examination of whether to issue a direction...</p> | <p>Better reflects the nature of this phase and avoids overlap with terminology used in the Authority's enforcement processes. The reference to 'breach of the principle' has been replaced with a reference to 'not consistent with the principle' for the same reason.</p> |
| <p>Clarify that in specifying a timeframe for complying with a direction, the Authority may allow for a phased approach:</p> <p>...may specify a timeframe within which a distributor must comply with a direction...</p> <p>... allows for consistency...to be achieved over time, for example, by changing the allocation of costs between existing and new connections in steps; and specify a reasonable timeframe or timeframes within which consistency must be achieved; and...</p> | <p>Better reflects that reducing costs recovered through connection charges may sometimes best be done over several years to facilitate regulatory and capital management processes.</p> |
| <p>Clarify that directions may impact pricing methodologies beyond 2030:</p> <p>6B.11B (2) (c) specify a timeframe that extends beyond 1 April 2030.</p> | <p>Clarifies that the phasing of changes to connection charges may include periods beyond the life of the targeted intervention provisions</p> |

Submissions and the Authority's responses

- 3.17. The Authority received 22 submissions and one cross-submission on the proposal for targeted intervention, as shown in Table 3.2.

Table 3.2: Submissions on targeted intervention with the balance point principle

| Group | Submissions |
|---------------------------------|--|
| Distribution sector – 13 | Aurora Energy Counties Energy Electricity Networks Aotearoa (ENA, representative body) Entrust (ownership trust) Horizon Networks Orion Powerco, included report from Incenta Economic Consulting Unison and Centralines Vector, included reports from HoustonKemp and Oxera Wellington Electricity WEL Networks Westpower Cross Submission Vector |
| Access seekers – 4 | ChargeNet Fonterra Meridian (generator-retailer and EV charge-point operator) Property Council of New Zealand |
| Other power sector – 6 | Contact Energy Electricity Engineers' Association (EEA, representative body) Electricity Retailers' and Generators' Association of New Zealand (ERGANZ, representative body) Genesis Energy Transpower Utility Disputes |
| TOTAL | 23 |

General support

3.18. Access seekers, and most distributors and other submitters were generally supportive of the targeted intervention proposals. 15 submitters broadly supported the proposals.¹⁵ For example, the Electricity Engineers' Association submitted:

The EEA also supports the Authority's preferred option of targeted intervention. This approach strikes a workable balance: it responds proportionately to emerging pricing concerns while allowing for the legitimate technical variability across networks and avoiding rigid, sector-

¹⁵ EEA, Powerco, Genesis Energy, ChargeNet, Meridian Energy, Fonterra (neutral point), Property Council of NZ, Utilities Disputes, Contact Energy, ERGANZ, Unison Networks and Centralines, Counties Energy, ENA (qualified), Orion (with caveats), Horizon Energy (conditional).

*wide prescriptions that could compromise safety or distort investment signals.*¹⁶

3.19. Powerco submitted:

*We would also like to acknowledge the Authority's consultative approach and engagement with stakeholders throughout this process. Importantly, following feedback, the shift from a blanket approach to a more targeted framework has resulted in outcomes that are far more proportionate to the risks and challenges faced by the sector*¹⁷

Genesis Energy submitted:

*We agree the Authority's proposed targeted intervention is a pragmatic and proportionate interim option for ensuring network connection pricing methodologies are efficient and transparent, particularly as it will allow the Authority to identify and address specific instances of inefficient connection price discrimination (should there be any).*¹⁸

Case for intervention

3.20. Some submitters disputed there is a basis for intervening at all. For example, Westpower submitted:

*The paper implies that a small number of distributors may be over-recovering on new connections, yet the Authority has been unable to provide evidence of this behaviour, despite requests to do so. The mere presence of complaints does not establish overcharging.*¹⁹

3.21. The Authority is satisfied intervention is warranted and proportionate, as set out from paragraph 3.62. In particular:

- (a) the balance point framework provides for 'triage' and close examination prior to directing any distributor to alter its pricing methodologies – ie, intervention is targeted.
- (b) any directions would be prospective and tailored – ie, any intervention will be proportionate
- (c) the analytical case (ie, consideration of distributor incentives and the impacts of those incentives) provides a basis to support this level of intervention, and is reinforced by evidence that is available – including anecdotal claims from access seekers, indications of some distributors increasing capital contributions (including in absolute terms and for various reliance metrics), and elimination of alternative explanations (such as increases in the number

¹⁶ [Electricity Engineers' Association of New Zealand, submission](#), p. 2.

¹⁷ [Powerco, submission](#), p. 1.

¹⁸ [Genesis Energy, submission](#), p. 1.

¹⁹ [Westpower, submission](#), p. 2. – see also Vector, Entrust, Horizon Energy, Aurora Energy, and Wellington Electricity. Some submitters who broadly supported targeted intervention also raised qualified concerns – see ENA, Unison Networks and Centralines, Counties Energy and Orion.

of connections with individual pricing or changes away from use of in-kind contributions)²⁰

- (d) it is unrealistic to expect more extensive evidence of deterred connection activity to be available – including because there is no systematic collection of information on abandoned connection requests and because demand may be deterred prior to generating a connection application.

Additional objective

- 3.22. Entrust submitted that the amendment is inconsistent with the Authority's additional objective:²¹

*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.*²²

- 3.23. The Authority does not consider there is an inconsistency. The Authority's additional objective is to protect the interests of domestic consumers and small business consumers in relation to the supply of electricity to those consumers. The additional objective applies only to the Authority's activities in relation to the dealings of industry participants with domestic consumers and small business consumers.
- 3.24. The amendments in this case are not primarily intended as measures to promote protection of the interests of domestic consumers and small business consumers (small consumers). However, the Authority considers the amendments are nevertheless consistent with this additional objective where connection applications involve dealings between consumers and participants. Targeted intervention protects consumers by deterring inefficiently high connection charges.
- 3.25. The balance point principle has two limbs:
- (a) the subsidy-free floor deters pricing that subsidises new connections
 - (b) the cost-shifting restraint deters pricing that benefits existing customers by shifting shared cost recovery to new customers. While wealth transfers of this nature make some consumers better off, they do not promote the long-term benefit of consumers in aggregate.
- 3.26. Taken together, the two limbs promote efficient connection pricing that benefits new and existing customers alike. Domestic and small business consumers make up a substantial portion of both new and existing customers, so on the whole will benefit

²⁰ A reliance metric is a measure of the portion of capital expenditure recovered through connection charges. The Authority has used information disclosures to examine reliance levels for consumer connections expenditure, system growth expenditure, total growth expenditure and total expenditure.

²¹ The Authority's additional objective is '...to protect the interests of domestic consumers and small business consumers in relation to the supply of electricity to those consumers'. Refer s15 of the Electricity Industry Act 2010 at <https://www.legislation.govt.nz/act/public/2010/116/en/latest/>.

²² [Entrust submission](#), p. 10.

from more efficient connection pricing in a similar manner to any other class of consumer.

Reliance level data

- 3.27. Vector submitted that reliance level data does not support the case for intervention, including because:
- (a) examining the period from 2025 to 2035 shows that increasing total growth reliance levels are transitory – increasing from 2025 to 2030 then returning to their original level – and the consumer connection reliance level is constant (at 100%) throughout the period
 - (b) reliance data is not even-handed because it does not reveal the true scale or trend of in-kind (or vested asset) contributions.
- 3.28. The Authority agrees reliance level analysis provides an imperfect view of connection pricing outcomes, and this is a key reason why the Authority has decided to progress the balance point principle framework rather than the earlier reliance limits proposal – ie, because it allows for more nuanced and targeted analysis ahead of directing any changes to connection pricing methodologies.
- 3.29. We also note that:
- (a) the largest shift in Vector’s reliance levels occurred prior to 2025 and levels are forecast to remain elevated (compared to earlier years) throughout the forecast horizon. This may indicate new customers will continue to contribute more to shared costs than existing customers (unless Vector alters its pricing methodologies to reduce connection charges)
 - (b) the Authority has previously gathered information from distributors as to any changes in their use of in-kind contributions – noting that the second limb of the balance point principle is concerned only with *increases* in contribution levels.²³

Jurisdiction

- 3.30. Vector submitted that:

*the Authority is acting outside its jurisdiction...because the EIA prohibits the Code from controlling ‘prices’ and the ‘balance point principle’ seeks to control ‘prices’.*²⁴

- 3.31. The Authority disagrees. The Electricity Industry Act explicitly permits the Code to contain provisions that ‘...set pricing methodologies for... 1 or more distributors’. The balance point principle addresses the methodologies distributors use to estimate and allocate incremental connection costs – these are the core elements

²³ For example, a distributor that has maintained a consistent policy with respect to vested assets is likely to be compliant with the balance point principle in the same way as a distributor that has, say, always used capital contributions to recover the full cost of connection works. In both cases, new and existing customers would make similar contributions to shared costs.

²⁴ [Vector, submission](#), p. 16.

of a connection pricing methodology. We have however amended the drafting of the Code amendment to clarify that the balance point principle regulatory intervention operates at the pricing methodology level.

Validity of reference points

3.32. Some submissions challenged the validity of the neutral point as a reference for efficient connection pricing.

3.33. For example, on the neutral point Vector submitted:

*Vector's view is that capping connection charges below incremental cost would shift bespoke connection costs onto existing consumers via higher ongoing charges, creating or entrenching cross-subsidies...*²⁵

3.34. The Authority considers that new connections clearly generate revenue both from connection charges and ongoing lines charges, so connections are not subsidised (and existing customers are not made worse off by new connections) provided the total contribution across both revenue streams at least covers the incremental cost of a connection.

3.35. Other submissions challenged the validity of the balance point. For example, Entrust submitted:

*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.*²⁶

3.36. The Authority has adopted terminology to help convey, to a range of audiences, specific applications of common economic concepts. We have made terminology choices in the context that distributors already use a wide variety of terms to describe similar concepts, and we have seen early signs that new terms are aiding in consistency and clarity as they become familiar across the sector.

3.37. Balance point refers to non-discriminatory cost recovery – ie, where new customers have the same exposure to shared costs as similar existing customers. If prospective customers are not protected from network providers shifting shared cost recovery to them, this can have a chilling effect on connection activity. Hence, non-discriminatory cost recovery is a common goal for network pricing because it supports dynamic efficiency. To aid understanding we have also use 'cost-shifting restraint' as an alternative way of describing the second limb. See also CEPA's comments at paragraph 3.46 below.

3.38. Vector also submitted that capping connection charges would have the effect of:

*...encouraging uneconomic connections, and increasing stranded-asset and financeability risk for distributors.*²⁷

²⁵ [Vector, cross-submission](#), p. 8.

²⁶ [Entrust, submission](#), p. 6.

²⁷ [Vector, cross-submission](#), p. 8.

- 3.39. The Authority is satisfied these issues are addressed:
- (a) the neutral point limb requires distributors to at least recover incremental cost from each connection, so deters uneconomic connections
 - (b) recovering less than 100% of estimated incremental cost through connection charges is common industry practice and does not present excessive stranding risk. In particular, most connections are reusable by future customers, methodologies for estimating revenue from lines charges have conservative revenue life assumptions, and, in cases where there is material stranding risk (such as for some large, remote or unusual connections) this can be managed through financial security arrangements (such as bonds or guarantees)
 - (c) financeability is a function of allowable returns, revenue path profiles and a supplier's capital management. The balance point principle aims to prevent suppliers from inefficiently managing investment pressures by shifting shared cost recovery to new customers. There is also an ability for the Commerce Commission to reconsider revenue paths, at the request of the Authority, if warranted due to introduction of the balance point principle.

Contestability

- 3.40. Some submitters argue there is a tension between limiting connection charges and promoting competition for supply of connection works. For example, Electricity Networks Aotearoa submitted:

Until recently, it had been our interpretation that the Authority are aware of the competition risks, but that they are making a conscious policy choice, on the basis of the belief that the benefits of the proposed reforms outweigh the risks of lessening third-party competition. Without expressing a view on that position, ENA considers that the Authority should be more explicit about how it has weighed competition and contestability impacts against other policy objectives.²⁸

- 3.41. Vector submitted that:

The Authority, in proposing to require distributors to set connection charges, may also have underestimated how such a proposal may actually harm real and prospective competition for the provision of connection services seemingly in conflict with one of its core statutory objectives.²⁹

- 3.42. The Authority retains its previously stated view that it:

...does not agree that settings that resulted in up-front connection charges being set below the up-front cost of extension works would

²⁸ [Electricity Networks Aotearoa, submission](#), p. 4.

²⁹ [Vector, submission](#), p. 3.

*prevent or hinder contestability, provided distributors put suitable arrangements in place.*³⁰

- 3.43. To reiterate the basis for this view, the Authority:
- (a) agrees competition to supply connection works and associated services is desirable and can promote outcomes consistent with the long-term benefit of electricity consumers
 - (b) does not agree that low connection charges are inherently incompatible with, or in tension with, competition to supply connections. In principle, networks can (and some do) contribute to the cost of connection assets that they acquire from others.
- 3.44. The Authority also observes that, regardless of connection pricing settings, distributors can restrict competition because they control whether they will agree to acquire connection assets and live new connections. The Authority plans to examine competition more issues further, including:
- (a) in collaboration with the Commerce Commission as part of the Electricity Competition Taskforce³¹
 - (b) in relation to connection pricing, as part of its further reform programme. The Authority will soon publish an issues paper for consultation that provides further analysis of the interface between distributor operating models, connection pricing settings, and competition to supply connection equipment and works.

Consultant submissions

- 3.45. The Authority also asked consulting firm CEPA to review submission points by consulting firms HoustonKemp and Oxera, provided on behalf of Vector. Arguments put forward by HoustonKemp and Oxera included:
- (a) the Authority has not applied a suitable economic framework and the balance point lacks economic foundation and does not promote economic efficiency
 - (b) connection services and network services are economically distinct and should be priced separately (including to support competition for the supply of connection services).
- 3.46. CEPA's advice is attached at Appendix C and reinforces the Authority's views. CEPA's advice includes:

In contrast, in our view – and consistent with our previous work – we consider that the Authority's approach is based in a sound, conventional economic framework, and consistent with the statutory objectives applied in the context of economic regulation of a firm with market power. (para 8)

And

³⁰ Paragraph 9.44(e) of [Distribution connection pricing Code amendment](#).

³¹ See [Energy Competition Task Force powers ahead with fresh agenda | Electricity Authority](#).

The Authority allows EDBs to charge a different contribution to common costs from different classes of customers. The Balance Point principle ensures that similar customers are treated alike over time. This limits the ability of EDBs to discriminate between similar customers, giving potential connecting customers an assurance of their connection costs before they build their business case and choose a connection location. This preserves and promotes incentives for investment and connection, promoting dynamic efficiency. (para 137)

And

It remains our view that customers only purchase connection services and network services as part of a bundle that involves both services and that therefore, when applying the principles above, it is the revenues and costs of both that must be considered jointly. (para 41)

And

We continue to hold the view that setting connection charges below the incremental costs of connection is compatible with promoting contestability in the provision of connection assets. (para 72)

- 3.47. HoustonKemp also argue that the balance point principle is misaligned with the transmission pricing methodology (TPM). Vector's submission sums up the argument as:

Overall, the Authority's proposals for distribution connection pricing represent a clear departure from the principles embedded in the Transmission Pricing Methodology. Without a rationale for treating transmission and distribution connections so differently, the approach appears inconsistent and risks weakening the efficiency, cost-reflectivity, and stability that the TPM was designed to deliver.³²

- 3.48. In response, CEPA advise:

In summary, we agree that there is merit in comparing and contrasting the approach to transmission pricing and distribution pricing, to make sure they are consistent or that any inconsistencies are justified. We have not reviewed the Authority's Transmission Pricing Methodology, but we have examined the arguments raised by Vector and HoustonKemp and we consider that these do not give rise to a concern about inconsistency of treatment between transmission and distribution. (para 135)

³² See section G of Vector's submission: [Vector submission on reducing barriers for new connections](#).

- 3.49. The Authority also disagrees there are problems associated with inconsistency between the TPM and the balance point principle. In particular:
- (a) connection pricing must integrate with other pricing components for each network, and these differ considerably between transmission and distribution³³
 - (b) transmission and distribution network pricing arrangements reflect differences in operating environments and pricing history³⁴
 - (c) the balance point principle aims to achieve non-discriminatory pricing as between new and existing customers, which has also been a key consideration in the development of transmission pricing arrangements.³⁵

Impact on lines charges

- 3.50. Some submitters expressed concerns regarding the impact lower connection charges could have on lines charges. For example, ERGANZ submitted:

*It is important that the approach maintains an appropriate balance between new connection applicants and existing consumers.*³⁶

- 3.51. Others expressly recognised the trade-offs between reduction in connection charges and increases in lines charges. Genesis Energy submitted:

*In supporting this option, we note the Authority's analysis showing changes to connection charges are likely to be materially beneficial for new connectors while only very modestly increasing lines charges for existing users.*³⁷

- 3.52. The Authority is conscious of lines charge impacts and is confident the balance point principle strikes an appropriate balance. In particular:
- (a) the first limb ensures new connections are not inefficiently subsidised by existing users – ie, that connection growth is beneficial to new and existing consumers alike
 - (b) the second limb ensures lines charges are not inefficiently suppressed by shifting shared cost recovery to new connections.

³³ For example, network capacity costs for transmission are signalled via nodal prices and recovered through a mix of annual benefit-based charges (for interconnection assets), annual connection charge uplifts (for Transpower-initiated investments in connection asset capacity) and up-front payments (for customer-initiated investments in connection asset capacity). See also Appendix D of [Targeted Reform of Distribution Pricing - Issues Paper](#).

³⁴ For example, Transpower's customers are all market participants, it has comparatively few customers and connection points, it operates a sophisticated congestion management system with bid-based pricing and dispatch, and has regulated investment tests and security standards for network capacity upgrades.

³⁵ For example, our 2022 decision paper on transmission pricing observed that '...the Authority has sought to avoid, to the extent possible, uneven treatment of incumbent and new entrant transmission customers'. See paragraph 14.14 of [Transmission Pricing Methodology 2022 - Decision Paper](#).

³⁶ [ERGANZ, submission](#), p. 2. See also [Entrust, submission](#), p. 3; and [Westpower, submission](#), p. 3.

³⁷ [Genesis Energy, submission](#), p. 1.

Capex incentives

- 3.53. Some submitters argued the Authority has not properly considered the impact of its proposal on capital expenditure incentive outcomes. For example, Aurora submitted:

We acknowledge the Authority's attempts to recognise the impact of Part 4 regulation on distributor's connection pricing methodologies in the background and context section of the consultation document. However, the Authority have not recognised the effect the Incremental Rolling Incentive Scheme (IRIS) has on distributor's capital expenditure decisions. The IRIS mechanism is counteracting the Authority's objectives, and the Authority should be working collaboratively with the Commerce Commission to ensure that regulation is aligned and supports New Zealand's electrification transition. Our view is that consumer connection capex must be excluded from the IRIS mechanism in DPP5, before the Authority undertakes any further changes to connection pricing regulation.³⁸

- 3.54. We note the Commission has previously considered the inclusion of consumer connection capex within IRIS calculations, any further consideration of any such IM amendments would be a matter for the Commission. However:
- (a) for many distributors the balance point principle is likely to allow for continuation of their current connection pricing methodology
 - (b) The Authority intends to request the Commission reconsider its current DPP to account for identified non-exempt distributors which the Authority has engaged with who are amending their methodology to comply with the balance point (cost-shifting restraint) limb, which would include consideration of impacts on capital expenditure allowances
 - (c) unlike reliance limits, the balance point principle accommodates pricing that varies directly with the incremental cost of each connection. This means a distributor can amend their methodology in a way that both reduces contributions to shared costs while addressing the cost-per-connection aspect of IRIS risk³⁹
 - (d) the Commission's regime has mechanisms to account for uncertainty regarding connection capex including reconsideration provisions where increased capital expenditure is required and a separate mechanism for large connection contracts.

³⁸ [Aurora Energy, submission](#), p. 3.

³⁹ For example, if a connection pricing methodology provides for a distributor to fund a fixed sum for each connection of a given type, then much of the variability in actual cost per connection flows through to connection charges (rather than the distributor's capex or IRIS outcome). The distributor can align with the balance point principle by selecting suitable fixed sums for each connection type.

Clarity of balance point principle

- 3.55. Many submissions highlighted difficulty understanding how the balance point principle and, to a lesser extent, close examination criteria, may be applied in practice. For example, ENA submitted that it:

...has significant concerns with the proposal to codify the balance point in circumstances where there is no agreed or operational method for calculating it.⁴⁰

- 3.56. Consulting firm Incenta, on behalf of Powerco, provided advice on methodological issues that may need to be resolved when applying the balance point in practice – both identifying key issues and providing thoughts on how they could be addressed. Powerco submitted:

While we support the Authority's proportionate approach, having done some work to understand the practical implications of the proposals, the balance point is a lot more complicated to determine than we had anticipated.⁴¹

- 3.57. Others suggested how this could be addressed, including the Property Council of New Zealand:

We recommend the Authority publishes a clear set of metrics and benchmarks defining how the balance point principle will apply in practice, including what constitutes a comparable connection, how costs should be allocated and what remedial action will follow.⁴²

And the EEA:

While the concept is sound, the Code could more clearly signal how distributors should demonstrate compliance when their minimum scheme definitions, engineering standards, or DER integration approaches evolve over time.⁴³

- 3.58. The Authority is conscious the balance point principle is high-level and will require nuanced assessment and judgement when applied in practice. This contrasts with the earlier 'reliance limits' proposal that involved an objective but blunt test. The Authority is satisfied the principle-based approach is preferable on balance as it allows for context-specific assessment, while avoiding rigid outcomes.
- 3.59. To mitigate concerns about practical application and consistency, the Authority has developed draft guidance that sets out in greater detail the types of matters the Authority will assess when examining alignment with the balance point principle, and the subsequent process the Authority will follow.⁴⁴

⁴⁰ [ENA, submission, p4](#). - see also Vector, Orion, Wellington Electricity, Horizon Energy, Counties Energy, Entrust, Property Council of NZ, EEA.

⁴¹ [Powerco, submission](#), p. 1.

⁴² [Property Council of New Zealand, submission](#), p. 2.

⁴³ [Electricity Engineers' Association, submission](#), p. 8.

⁴⁴ Refer [Distribution connection pricing reform](#).

Regulatory statement

- 3.60. The consultation paper included a regulatory statement summarising the objectives of the proposed amendments, alignment with the Authority's statutory objectives and other Code requirements, and an assessment of costs and benefits.
- 3.61. Submitters did not directly address the regulatory statement, other than through the matters summarised above regarding the rationale for, and costs and benefits of, the proposals.
- 3.62. Having considered the submissions received, the Authority's view on the matters discussed in the regulatory statement remains unchanged. Accordingly, the Authority's view is that the balance point principle Code amendment is consistent with the efficiency limb of its main statutory objective and is necessary or desirable to promote the efficient operation of the electricity industry to deliver long-term benefits to consumers (including access seekers).

Costs and benefits

- 3.63. The balance point principle framework requires the Authority to consider costs and benefits before directing any distributor to amend its pricing methodology.
- 3.64. The framework:
- (a) may prompt some distributors to amend their connection pricing methodologies to ensure new connections are not subsidised
 - (b) should have a restraining effect on distributors that would otherwise have chosen to amend their connection pricing methodology to shift shared network costs to new connections
- 3.65. The first effect is net beneficial because it ensures connections are not subsidised – ie, that methodologies do not encourage inefficient connections that increase costs for existing users.
- 3.66. The second effect is net beneficial because it improves confidence for access seekers (and potential access seekers) that distributors are restrained from shifting costs to newcomers. This supports connection activity that efficiently grows the use of distribution networks.
- 3.67. The existence of the framework also adds to factors distributors must consider when amending their connection pricing methodologies. This may dampen change but forms part of a broader reform process that aims to lift coherency and consistency of connection pricing methodologies.
- 3.68. The Authority will incur costs associated with scanning, and potentially with close examination and direction processes.
- 3.69. Some distributors may be directed to amend their connection pricing methodologies to reduce future connection charges. Any non-exempt distributors may need to engage with the Commerce Commission to have their revenue paths reconsidered accordingly. Some distributors may need to adjust their capital management strategies, eg by reinvesting a larger share of profits or sourcing new debt or equity.

- 3.70. As noted already, the Authority is required to consider costs and benefits when deciding whether to direct a distributor (including deciding over what timeframe a distributor may adjust its pricing). Additionally, the Commerce Commission may consider supplier and consumer impacts when considering whether or how to amend a revenue path.
- 3.71. Accordingly:
- (a) the costs of the intervention are largely administrative in nature, and the amendment is designed to limit the number of distributors directly impacted, to incorporate further testing of costs and benefits before making a direction, and to fit with Commerce Commission regulation of revenue paths (which is designed to enable recovery of efficient financing costs)
 - (b) the benefits flow from more efficient connection pricing, which supports efficient investment in connections and associated network upgrades and modifications.
- 3.72. For context, reported business support operating expenditure (of which pricing and related functions are a component) by distributors was \$315m in 2024 compared with reported expenditure on consumer connection and system growth assets of \$678m.⁴⁵
- 3.73. Overall, the Authority is satisfied the amendment will produce benefits that outweigh the costs.

Alternatives

- 3.74. Alternatives to the amendment are:
- (a) do nothing – the Authority has already amended the Code to introduce ‘fast-track’ connection pricing measures, and is working toward further reform to come into effect from 2030
 - (b) reliance limits – setting limits in the portion of disclosed connection-related expenditure that a distributor may recover through connection charges.
- 3.75. Compared to the amendment, doing nothing would result in:
- (a) the potential for more distributors to shift shared network costs to new connections ahead of 2030
 - (b) a delay before pricing that subsidises new connections is addressed
 - (c) a delay before access seekers are protected from cost shifting (and cost shifting is halted)
 - (d) avoided costs associated with scanning, close examination and directions.
- 3.76. Compared to targeted intervention, reliance limits would result in:

⁴⁵ Expenditure on assets includes expenditure funded through capital contributions, but excludes expenditure on vested assets. As such, this figure understates the scale of expenditure.

- (a) less targeted restraint on allocation increases, and persistence of high allocations already in place
 - (b) administrative costs of managing compliance, including in cases where there is no benefit (eg, because reliance limits are an imperfect proxy for cost shifting).
- 3.77. Overall, the Authority considers the balance point principle is the most effective and cost-effective option to make connection pricing more efficient.

Compliance with s32(1) of the Act

- 3.78. The Authority’s main objective under section 15(1) of the Electricity Industry Act 2010 (the Act) is to promote competition in, reliable supply by, and efficient operation of, the electricity industry for the long-term benefit of consumers.
- 3.79. The Authority’s additional objective under section 15(2) of the Act is to protect the interests of domestic and small business consumers in relation to their supply of electricity. The additional objective only applies to the Authority’s activities in relation to the direct dealings between industry participants and these consumers.
- 3.80. Section 32(1) of the Act says the Code may contain any provisions that are consistent with the Authority’s objectives and are necessary or desirable to promote any or all of the matters listed in section 32(1).
- 3.81. The Authority considers the amendments are consistent with:
- (a) its main objective because it will improve the efficiency of distribution network pricing by helping ensure connections are not subsidised and shared network costs are not shifted to new users. This in turn promotes efficient investment in new and upgraded connections
 - (b) the matters listed in section 32(1) as set out in Table 3.3.
- 3.82. The amendments in this case are not primarily intended as measures to promote the protection of the interests of domestic consumers and small business consumers (small consumers), as per the Authority’s additional statutory objective. However, the Authority considers the amendments are nevertheless consistent with this additional objective where connection applications involve dealings between small consumers and participants. The amendments protect those consumers from inefficiently high connection charges.

Table 3.3: How amendments promote items in section 32(1) of the Act

| Item | Comment |
|---|---|
| competition in the electricity industry | n/a – amendment addresses distribution network connection pricing for end consumers |
| the reliable supply of electricity to consumers | n/a |

| Item | Comment |
|--|---|
| the efficient operation of the electricity industry | Promotes dynamic efficiency by improving predictability of pricing methodologies ahead of further reform; creates a better environment for efficient connection growth by protecting access seekers from inefficient cost shifting. A targeted approach to addressing connection pricing settings limits cost and disruption for most distributors. |
| the protection of the interests of domestic consumers and small business consumers in relation to the supply of electricity to those consumers | Protects consumers seeking a new or upgraded connection from discriminatory pricing (ie, from transfer of shared costs). |
| the performance by the Authority of its functions | Provides framework for addressing aspects of connection pricing efficiency on a case-by-case basis. |
| any other matter specifically referred to in this Act as a matter for inclusion in the Code | Addresses pricing methodologies for one or more distributors, as per s32(4)(b). |

Compliance with section 17(1) of the Act

3.83. Under section 17(1) of the Act, the Authority, in performing its functions, must have regard to any statements of government policy concerning the electricity industry that are issued by the Minister for Energy. Table 3.4 below sets out our consideration of the Government Policy Statement (GPS) on Electricity.⁴⁶

Table 3.4: Consideration of amendments with regard to the GPS on Electricity

| Item | Comment |
|---|---|
| 14. Efficient network pricing is essential: | |
| a. To find the lowest cost solution, which may include demand-side response and flexibility to avoid or defer the need for network capacity augmentation; and | |
| b. For connections to enable efficient investment in new electricity consumption, including electrifying transport and process heat in industry. | Amendment supports efficient investment in new consumption by providing mechanism to address inefficiently low (subsidised) charges, and charges that deter connections by shifting shared network costs. |

⁴⁶ New Zealand Government. [Government Policy Statement on Electricity - October 2024.pdf](https://www.beehive.govt.nz/government-policy-statement-on-electricity) (beehive.govt.nz). Accessed 11 October 2024.

| Item | Comment |
|--|--|
| <p>15. As provided for under current arrangements:</p> <p>a. The Electricity Authority is responsible for setting principles (and regulating if warranted) for transmission and distribution pricing structures.</p> | <p>Amendment addresses distribution pricing methodologies.</p> |
| <p>32. The Electricity Authority is expected to work collaboratively with other agencies across the wider regulatory regime, acknowledging the scope of each agency's remit.</p> | <p>Amendment has close interaction with the Commerce Commission's regulation of revenue paths for non-exempt electricity distributors. The Authority has engaged closely with the Commerce Commission to date and will continue to do so through implementation.</p> |

4. Discount rate

- 4.1. This section summarises the Authority’s decision on the discount rate for connection charge reconciliations as it applies under the new Part 6B of the Code that came into force on 1 April 2026.

Decision

- 4.2. Following consultation,⁴⁷ the Authority has decided to amend the Code as proposed in March 2026 with minor changes – see Appendix A for the Code amendment, redlining for comparison to the Code as it came into effect on 1 April 2026.
- 4.3. In November 2025 the Authority consulted on minor Code amendments to Part 6B alongside the proposed Code amendment to introduce targeted intervention and issues around supplier obligations.⁴⁸ In response to submissions on the discount rates to be used in reconciliation, the Authority issued a further consultation in March 2026.
- 4.4. Part 6B which came into effect from 1 April 2026 specified a mid-point estimate of WACC.⁴⁹ The consultation in March 2026 proposed an amendment to change the reference to the Commission’s estimated WACC to refer to the 65th percentile rather than the mid-point estimate.⁵⁰ We outlined that the change to the 65th percentile estimate would reduce the discrepancy between the rate at which assets will be financed (ie, the rate used by the Commission to determine target revenues for non-exempt distributors) and the discount rate used to assess the present value of deferred recoveries – ie, the higher rate will produce a better estimate of the subsidy-free connection charge.
- 4.5. We have decided to amend the Code as proposed in March 2026 except for changing the reference to the 65th percentile estimate to instead refer to the Commission’s above mid-point estimate. At present, this is the 65th percentile estimate. The change will ensure any future update by the Commission to the WACC percentile in the IMs will be automatically reflected in the reconciliation requirements in the Code.
- 4.6. We expect the Code amendment will lead to higher discount rates, and hence typically produce higher estimates of the connection charge needed to ensure a connection is subsidy-free. In conjunction with targeted intervention, this change

⁴⁷ [Reducing barriers for new connections: WACC estimate for connection charge reconciliation | Our consultations | Our projects | Electricity Authority.](#)

⁴⁸ The minor Code amendments were Part C in the consultation paper.

⁴⁹ The mid-point WACC estimated by the Commerce Commission is the best unbiased estimate of the cost of capital for distribution services. However, the Commission uses a 65th percentile estimate to set allowable revenues. This is because WACC is not directly observable, and selecting a conservative (higher) estimate helps mitigate under-investment risks.

⁵⁰ The consultation was part of the decision and consultation paper Distribution connection pricing reform - minor Code amendments, Decision and consultation paper. The consultation component being on the discount rate and the decision being on the other minor amendment proposed to Part 6B of the Code.

benefits consumers by reducing the risk of new connections being subsidised (which would encourage inefficient connections by shifting costs to others).

- 4.7. The Authority considers its decision will promote its statutory objective because it will improve the consistency of estimation of the subsidy-free range and therefore increase the efficiency of investment decisions by connection applicants and distributors.
- 4.8. The discount rate is used in charge reconciliations to determine the present value of costs and revenues that will occur in future years. Charge reconciliations are a disclosure-only obligation that provide information on the extent to which revenue from a connection is expected to be above or below the neutral point (floor of the subsidy free range).
- 4.9. The discount rate is most relevant to revenue from lines charges, which are typically assumed in the Code to extend 30 years into the future (or 15 years for non-residential consumers).
- 4.10. The Code amendment that took effect from 1 April 2026 specified the discount rate should be based on:
 - (a) the Commerce Commission's annually updated mid-point estimate of the 'vanilla' weighted cost of capital (WACC) for electricity distribution services, and
 - (b) the Reserve Bank's most recent forecast of CPI movement for the year ahead.
- 4.11. This represents the best publicly available estimate of the real (ie, excluding inflation) cost of financing distribution network assets.
- 4.12. The Authority has decided to amend the Code to specify a discount rate that is based on:
 - (a) the Commerce Commission's annually updated above mid-point estimate of the 'vanilla' weighted cost of capital (WACC) for electricity distribution services, and
 - (b) the Reserve Bank's most recent forecast of CPI movement for the year ahead.
- 4.13. The above mid-point estimate aligns with the approach adopted by the Commerce Commission to make price-quality path determinations, which is currently to use a 65th percentile estimate.⁵¹
- 4.14. This provides closer alignment with the financing cost the Commerce Commission uses when setting revenue paths. The impact of this change on how charges are shown in charge reconciliations is:

⁵¹ The Commerce Commission uses a value above the mid-point because the cost of capital is uncertain and the Commerce Commission considers it is better for consumers in the long-term to err on the side of too high than too low. For a more complete explanation of the Commerce Commission's logic, refer Chapter 6 of [Part 4 Input Methodologies Review 2023 - Final decision - Cost of capital topic paper](#).

- (a) the discount rate will be higher and the present value of revenue from lines charges will be lower
- (b) for connections assigned to consumer groups, the minimum connection charge shown to ensure a connection is not subsidised will be higher⁵²
- (c) for connections with individual pricing, the minimum lines charges shown to ensure a connection is not subsidised will be higher
- (d) resulting 'neutral point' estimates will more closely align with the Authority's intent (ie, indicating the minimum connection charge needed to produce a subsidy-free outcome).

Table 4.1: Changes compared to proposed amendment

| Change | Comment |
|---|--|
| <p><i>Remove specific reference to 65th percentile:</i></p> <p>(4)</p> <p>(c)</p> <p>(ii) a discount rate, equal to the most recent available 65th percentile mid-point estimate of vanilla WACC (being the weighted average cost of capital) made determined by the Commerce Commission under clause 2.4.5(4) of the EDB IMs in accordance with the EDB ID determination made under Part 4 of the Commerce Act 1986 less an adjustment to remove inflation consistent with inflation projections for the year ahead from the most recent Monetary Policy Statement published by the Reserve Bank of New Zealand at the time the determination is published by the Commerce Commission of that 65th percentile mid-point estimate of vanilla WACC; and '</p> | <p>Drafting updated to replace the proposed reference to the 65th percentile vanilla WACC (replacing the current reference to mid-point estimate of vanilla WACC) with a reference to the clause in the Input Methodologies that currently specifies the requirement on the Commerce Commission to determine a 65th percentile vanilla WACC for the purposes of information disclosure.</p> <p>This is to ensure that any future update by the Commission to the percentile in the IMs will be automatically reflected in the reconciliation requirements in the Code.</p> |

Submissions and the Authority's responses

- 4.15. The Authority received six submissions on its proposal to change the discount rate. There were no cross-submissions. Table 4.2 provides list of submitters, grouped by type.

⁵² In many cases, the minimum connection charge will be below zero anyway. This is because lines charges usually include a large shared cost-recovery component.

Table 4.2: Submissions on discount rate (WACC percentile)

| Group | Submissions |
|--|---|
| Distribution sector – 4 | Electricity Networks Aotearoa ENA (representative body) Orion Unison & Centralines (joint submission) Wellington Electricity |
| Access seekers – 1 (including representative bodies) | Major Electricity Users' Group MEUG representative body) |
| Other power sector – 1 | Contact Energy |
| TOTAL | 6 |

4.16. Submitters were generally supportive of the proposed amendment to align the discount rate with the approach taken by the Commerce Commission.

4.17. For example, Unison submitted:

... the discount rate used in connection charge reconciliation with the WACC applied by the Commerce Commission under Part 4 of the Commerce Act is appropriate and necessary to maintain coherence across the regulatory framework applying to electricity distributors.⁵³

4.18. Contact Energy raised concerns in their submission which we have summarised as follows.⁵⁴

- (a) the asymmetric risk logic underpinning the Commerce Commission's use of a 65th percentile estimate for revenue paths does not apply to incremental connection costs – ie, because connection investments are customer-initiated (so distributors will not under-invest)
- (b) conversely, for connections the risk of deterring connection activity outweighs the risk of dampening distributor investment appetite
- (c) accordingly, the risk asymmetry is reversed for incremental connection costs and an estimate below the mid-point should be adopted.

4.19. The Authority acknowledges the argument that the asymmetric risk may be reversed for incremental connection costs. However, the Authority notes:

- (a) the 65th percentile is, in practice, used to determine revenues for incremental connection costs not recovered through connection charges – ie, regulatory revenue models use the same financing rate for all assets (incremental and shared)

⁵³ [Unison Networks and Centralines, submission](#), p. 4.

⁵⁴ [Contact Energy, submission](#), pp. 1–2.

- (b) using a lower discount rate would therefore under-estimate the contribution needed to avoid a connection increasing charges for other customers by being below the subsidy-free point.
- 4.20. ENA, MEUG, Wellington Electricity, and Orion submitted the Code should be drafted to maintain alignment should the Commerce Commission change the percentile in future (rather than locking in the 65th percentile).⁵⁵
- 4.21. The Authority has adjusted the drafting to address these submissions and has amended the reference to the relevant clause in the IM that specifies the Commission must determine a 65th percentile vanilla WACC. As the WACC estimates for information disclosure purposes are estimated annually this approach aligns with our objective that the estimates for the discount rate to be used in reconciliations for part 6B be updated annually).
- 4.22. We have also not provided for a different estimate to be used for a specific distributor if the Commission were to prescribe one for that distributor's customised price path. This aligns with the approach for all other distributors of always using the most up-to-date (ie, annually updated) estimate, which also avoids discontinuities when revenue paths are periodically reset.

⁵⁵ [Electricity Networks Aotearoa, submission](#), p. 1., [MEUG, submission](#), p. 1., [Wellington Electricity, submission](#), p. 2., [Orion, submission](#), p. 2.

5. Supply obligations

- 5.1. This section summarises the Authority’s preferred direction for clarifying distributor supply obligations.
- 5.2. The Authority’s preferred direction involves establishing a clear obligation for distributors to make connection offers, accompanied by requirements to maintain a specified suite of access standards. We have decided not to progress a Code amendment to address this issue now.
- 5.3. The Authority is satisfied its preferred direction is broadly sound.
- 5.4. To manage the amount of change underway in the distribution sector as new connection requirements are implemented and bed in over the next few years, the Authority will monitor supply issues and work toward the preferred direction over time and in stages. We will closely monitor distributor behaviour and connection outcomes and revisit this approach if emerging evidence suggests access or supply issues.

Submissions and the Authority’s responses

- 5.5. The Authority received 20 submissions and one cross-submission on its proposals about supply obligations.

Table 5.1: Submissions on supply obligations

| Group | Submissions |
|---------------------------------|--|
| Distribution Sector – 12 | Counties Energy EA Networks Electricity Networks Aotearoa (ENA, representative body) Horizon Networks Orion Powerco, included report from Incenta Unison and Centralines Vector, included reports from Houston Kemp and Oxera Wellington Electricity WEL Networks Westpower Cross Submission Vector |
| Consumers – 3 | ChargeNet Meridian Energy (generator-retailer and EV charge-point operator) Property Council of New Zealand, representative body |

| Group | Submissions |
|------------------------|--|
| Other power sector – 6 | Contact Energy Electricity Engineers' Association (EEA) Electricity Retailers' and Generators' Association of New Zealand (ERGANZ) Genesis Energy Transpower Utilities Disputes |
| TOTAL | 21 |

5.6. Some submitters questioned whether there was a case to intervene, while others considered there was a clear and urgent need. For example, Wellington Electricity submitted:

[Wellington Electricity] disagrees that there is enough necessity to make change due to the rationale outlined in this paper. It is in an EDBs best interest to connect customers where it is economically efficient to do so.⁵⁶

5.7. In contrast, ERGANZ submitted:

We agree with the Authority's assessment that these changes are a necessary complement to the [connection pricing] proposals in Part A to enable efficient connections and that, absent effective oversight, distributors facing lower connection charges may instead choose either to refuse new connections or make them excessively difficult for applicants.⁵⁷

5.8. And ENA submitted:

ENA supports the Authority's objective of improving clarity and consistency in core industry arrangements, including EDBs' obligations to connect to, and maintain connections on, distribution networks. These obligations are fundamental to the purpose and function of EDBs. At present, they are dispersed across multiple legislative and regulatory instruments, which contributes to uncertainty and inconsistency for both distributors and access seekers. If the Authority intends to clarify, amend or extend these obligations, ENA strongly prefers that this be done through a single, coherent and durable regulatory framework that reflects the importance of these responsibilities.⁵⁸

5.9. The Authority considers there is a clear gap in the regulatory framework for distribution services that it would be beneficial to address – both to improve clarity and to mitigate risk of distributors refusing to offer supply. Addressing the gap ensures efficient access for consumers to the electricity system.

⁵⁶ [Wellington Electricity Lines, submission](#), p. 9.

⁵⁷ [ERGANZ, submission](#), p. 3.

⁵⁸ [Electricity Networks Aotearoa, submission](#), p. 1.

- 5.10. A common theme from distributors was a concern to ensure obligations are appropriately bounded – including that they are framed as an obligation to offer, and they do not extend to unlawful, unsafe or uneconomic connections. For example, Counties Energy submitted:

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.⁵⁹

- 5.11. The Authority agrees with these points and considers they can be addressed through careful design and sequencing as intervention options are further developed and consulted on.
- 5.12. Several distributors expressed concern that combining supply obligations with restrictions on connection charges could be unduly onerous – exposing distributors to unbounded obligations to finance investment (and expenditure incentive penalties). For example, WEL Networks submitted:

As to the Part B proposal on distributor supply obligations, WEL understands why the EA would consider reform in this area is necessary. We withhold support however until a full consultation is released. We have concerns that EDBs must be left with some mechanism to be able to avoid truly uneconomic connection proposals (including ongoing operations costs of remote connections) where an obligation to supply may impose unwarranted and unjust costs across all other consumers. WEL is aware of cases where the cost to reconnect a single supply following a weather event far exceed the revenues that would ever be generated over the lifetime of the connection.⁶⁰

- 5.13. The Authority acknowledges these concerns and agrees regulatory arrangements should provide distributors with a reasonable expectation they will be able to recover efficient costs. The Authority considers this can be addressed through the design of future intervention options and their alignment with further connection pricing reforms.
- 5.14. The Authority observes that a key part of addressing distributor concerns lies in adopting cost-reflective connection pricing – ie, so higher-cost connections face higher connection charges. This helps deter uneconomic connections and manages the financing burden and risk associated with high-cost connections. The Authority notes:

⁵⁹ [Counties Energy, submission](#), p. 5.

⁶⁰ [WEL Networks, submission](#), p. 1.

- (a) the balance point principle (in contrast to earlier 'reliance limits' proposal) is compatible with cost-reflective pricing
- (b) the Authority will soon release an issues paper on further reform of connection pricing that will go some way to further clarifying the future direction of connection pricing regulation.

6. Next steps

- 6.1. The next steps in the connection pricing work programme are to:
 - (a) work with stakeholders to refine draft guidance on the balance point principle
 - (b) commence implementation of the balance point principle framework, with the screening phase progressing to closer examination and price directions if warranted
 - (c) progress further reform of connection pricing methodologies, with a focus on decisions that can flow into revenue paths from 2030. This starts with consultation on an issues paper.
- 6.2. The Authority will continue working in collaboration with the Commerce Commission on connection issues, consistent with the recently refreshed priorities of the Electricity Competition Taskforce.⁶¹
- 6.3. Further work on distributor supply obligations will initially focus on monitoring.

⁶¹ See: [Energy Competition Task Force powers ahead with fresh agenda | Electricity Authority](#).

Appendix A Code amendment – balance point

- A.1. This appendix shows changes the Authority has made to the Code as well as changes that differ from those in the consultation paper. Code amendments in this appendix are displayed as:
- a. added text as consulted on is black underlined
 - b. deleted text as consulted on is ~~black strikethrough~~
 - c. added text compared to the consultation paper is red underlined
 - d. deleted text compared to the consultation paper is ~~red strikethrough~~

Part 1 Preliminary provisions

1.1 Interpretation

(1) In this Code, unless the context otherwise requires,—

connection charge balance point principle means the principle pricing methodology in clause 6B.11A

shared network costs means the ~~balance of~~ costs of a **distribution network** that are not incremental to a single **connection**, including the cost of:—

- (a) communal network development (eg, historical reticulation and grid connection); and
- (b) renewal of older **connections**; and
- (c) other shared business and network assets and operating expenses (including the balance of **network capacity costs**)

Part 6B Distributor pricing methodologies, information requirements and other requirements

Connection charge balance point principle pricing methodology

6B.11A Connection charge balance point principle pricing methodology

- (1) The **connection charge balance point principle** is the principle that **connection charges a distributor's pricing methodologies** should ~~be set at a level such that provide that~~ the contribution to **shared network costs** from new

connections and upgraded connections is commensurate with the contribution from existing **connections**.

(2) Contributions are commensurate when—

(a) **the costs of new connections and upgraded connections** are not subsidised by existing **connections**; and

(b) new **connections and upgraded connections** otherwise make a similar (or lower) contribution to **shared network costs** as similar existing connections.

(3) Contributions include **connection charges** and **lineslines** charges, including forecast **lineslines** charges.

6B.11B Consequence of not applying connection charge balance point principle

~~(1) The **Authority** must direct a **distributor** to amend its pricing to make it consistent with the **connection charge balance point principle**:~~

~~(a) if the Authority considers that a distributor has not applied, or is likely to not apply, the connection charge balance point principle; and~~

~~(b) the materiality of the identified efficiency concerns, or the distributor's size or connection application volumes, justify the costs of intervention.~~

(1) If the **Authority** considers that a **distributor** has not applied, or is likely to not apply, the **connection charge balance point principle**, it must direct the **distributor** to amend its pricing methodologies to make them consistent with the **connection charge balance point principle** provided it has identified material efficiency concerns with the **distributor's** prices and the costs of the **distributor** applying the **connection charge balance point principle** do not outweigh the benefits of doing so.

~~(2) A **distributor** must comply with a direction under subclause (1).~~

(2) A direction under subclause (1) may—

(a) provide for a **distributor** to amend its pricing methodologies in a way that allows for consistency with the **connection charge balance point principle** to be achieved over time, for example, by changing the allocation of costs between existing and new **connections** in steps; and

(b) specify a reasonable timeframe or timeframes within which consistency must be achieved; and

(c) specify a timeframe that extends beyond 1 April 2030.

- (3) ~~If the **Authority**, issues a direction under subclause (1), the **distributor** must make its pricing methodologies consistent with the **connection charge balance point principle** within any timeframes and consistent with any other requirements specified in the direction.~~
- (4) ~~Before issuing a direction under subclause (1), the **Authority** must, in the following order:~~
- ~~(a) notify the **distributor** that it is considering **investigating close examination of** whether to issue a direction in respect of the **distributor's pricing methodologies**:~~
 - ~~(b) give the **distributor** sufficient information about the reasons why the **Authority** is considering **an investigation close examination**, and an opportunity to respond within a reasonable timeframe specified by the **Authority** before commencing **an investigation close examination**:~~
 - ~~(c) following **an investigation close examination** and if the **Authority** **provisionally decides to make a draft direction**, give the **distributor**—~~
 - ~~(i) a draft report setting out the **Authority's** analysis of why the **distributor's pricing methodologies is are not**, or will **not** be, **in breach of consistent with** the **connection charge balance point principle**; and~~
 - ~~(ii) the reasons for the **Authority's** proposed direction and proposed timeframes for it to apply; and other requirements that the **Authority** proposes to set under subclause (2); and~~
 - ~~(iii) an opportunity to respond within a reasonable timeframe specified by the **Authority**:~~
 - ~~(d) give the **distributor** an opportunity to voluntarily address the issues identified in the draft report within a reasonable timeframe specified by the **Authority**.~~

6B.11C Clauses expire

- (1) ~~Clauses 6B.11A and 6B.11B expire on 1 April 2030.~~
- (2) ~~Despite subclause (1), a **distributor** must continue to ensure that its pricing methodologies are consistent with the **connection charge balance point principle** until the end of the timeframe specified in a direction given under clause 6B.11B(1).~~

Appendix B Code amendment – discount rate

- B.1. This appendix shows changes the Authority has made to the Code as well as changes that differ from those in the consultation paper. Code amendments in this appendix are displayed as:
- a. added text as consulted on is black underlined
 - b. deleted text as consulted on is ~~black strikethrough~~
 - c. added text compared to the consultation paper is red underlined
 - d. deleted text compared to the consultation paper is ~~red strikethrough~~

Part 6B

Distributor pricing methodologies, information requirements and other requirements

6B.11 Connection charge reconciliation requirements

...

(4)...

- (c) discounting the estimates under paragraph (b) to their present value using—
- (i) a duration from the beginning of the first full year of operation equal to the **connection revenue life**; and
 - (ii) a discount rate equal to the most recent available 65th percentile mid-point estimate of vanilla WACC (being the weighted average cost of capital) made determined by the Commerce Commission under clause 2.4.5(4) of the EDB IMs in accordance with the EDB ID determination made under Part 4 of the Commerce Act 1986 less an adjustment to remove inflation consistent with inflation projections for the year ahead from the most recent Monetary Policy Statement published by the Reserve Bank of New Zealand at the time the determination is published by the Commerce Commission of that 65th percentile mid-point estimate of vanilla WACC; and

Appendix C CEPA Final Report 29 June 2026

Reducing barriers for new connections: CEPA Response to submissions on Consultation Paper