

Submission on the Electricity Authority's Draft Balance Point Principle Guidance

Buller Electricity Limited (BEL) appreciates the opportunity to provide feedback on the Electricity Authority's draft *Balance Point Principle Guidance*.

BEL supports the Authority's objective of improving the transparency, consistency and efficiency of distribution connection pricing. We agree that connection pricing should avoid both the subsidisation of new connections by existing consumers and the inappropriate transfer of shared network costs to new connection applicants. We also support the Authority's staged approach of monitoring, engagement and, where necessary, regulatory intervention.

Overall, we consider the guidance to be well structured and technically robust. However, we believe there are several areas where additional clarification and flexibility would improve the guidance, particularly for smaller rural and provincial electricity distribution businesses.

1. Greater recognition of low-growth and declining networks

The guidance is largely framed around networks experiencing ongoing connection growth, where increased distributor funding of connections can be recovered over time through an expanding customer base.

While this assumption may be appropriate for many urban distributors, it does not reflect the operating environment faced by some regional networks.

Buller Electricity operates within a region that has experienced significant industrial load loss and relatively modest population growth. In these circumstances, opportunities to spread network costs across future customers are considerably more limited than assumed throughout the guidance.

Recommendation

The guidance should explicitly acknowledge that the balance point principle may require different implementation approaches for distributors operating in mature, low-growth or declining regions where customer growth is limited and long-term recovery of distributor-funded connection costs is inherently more difficult.

2. Financing capacity should receive greater consideration

The guidance recognises that increased distributor funding of new connections may affect financing requirements, capital expenditure allowances and dividend policies. However, these matters are largely discussed as implementation issues rather than fundamental considerations.

For smaller distributors, financing constraints are often a primary determinant of pricing policy.

Every additional dollar funded by the distributor represents capital that cannot be used for:

- asset renewal;
- network resilience;
- reliability improvements; or
- maintaining prudent debt levels.

These constraints are materially different from those faced by larger metropolitan distributors with substantially larger customer bases.

Recommendation

The guidance should acknowledge that distributor financing capacity is a legitimate consideration when assessing the appropriate pace and extent of pricing methodology changes.

3. Consumer affordability should be explicitly recognised

The guidance appropriately focuses on economic efficiency and cost reflectivity.

However, it gives relatively little consideration to consumer affordability.

For regional communities with comparatively low household incomes and limited economic growth, affordability remains an important component of efficient pricing outcomes.

While cost-reflective pricing remains an appropriate long-term objective, distributors should retain sufficient flexibility to implement change in a manner that avoids unnecessary price shocks for consumers.

Recommendation

The Authority should recognise affordability as an important implementation consideration alongside economic efficiency when assessing proposed pricing methodology changes.

4. Additional flexibility around "similar existing connections"

The guidance frequently refers to comparisons between new connections and "similar existing connections."

For smaller distributors this comparison can be difficult in practice.

Many regional networks experience relatively few large customer connections, meaning there may be no meaningful historical benchmark against which a new connection can be assessed.

Examples include:

- industrial developments;
- tourism facilities;
- rural processing operations; and
- major commercial developments.

Each connection may have unique characteristics that make direct comparison difficult.

Recommendation

The guidance should acknowledge that smaller distributors may require greater discretion when determining what constitutes a "similar existing connection."

5. Recognition of regional economic development objectives

BEL supports the principle that new customers should make an appropriate contribution toward network costs.

However, regional distributors are often required to balance strict cost reflectivity against broader economic development objectives.

Appropriately structured connection pricing can assist in attracting investment that ultimately benefits the wider customer base through improved utilisation of existing network assets and increased revenue recovery.

An overly rigid interpretation of the balance point principle could unintentionally discourage economically beneficial developments in regional New Zealand.

Recommendation

The guidance should recognise that connection pricing decisions may legitimately consider long-term network utilisation and regional economic development outcomes, provided the underlying principles of the Code continue to be met.

6. Strategic network investment should be recognised

The guidance distinguishes between connection costs and network development expenditure.

However, distributors frequently undertake strategic investment ahead of anticipated growth to improve long-term network efficiency and customer outcomes.

Examples include:

- servicing future residential developments;
- preparing industrial growth areas;
- reinforcing networks ahead of expected demand; and
- improving resilience in strategic locations.

Such investments should not necessarily be viewed as evidence of inappropriate subsidisation.

Recommendation

The guidance should more clearly recognise proactive network development undertaken for legitimate strategic planning purposes.

7. Outcome-based regulation should remain the focus

BEL welcomes the Authority's statement that the reference pricing methodology is illustrative rather than mandatory.

However, much of the guidance understandably references this methodology when discussing compliance.

BEL considers it important that distributors retain flexibility to develop methodologies suited to their particular network circumstances, provided those methodologies achieve outcomes consistent with the balance point principle.

Recommendation

The Authority should reinforce that compliance will continue to be assessed primarily against pricing outcomes rather than the adoption of any particular pricing methodology.

8. Clarification of materiality

The guidance refers throughout to "material efficiency concerns" as the threshold for regulatory intervention.

Additional guidance regarding the assessment of materiality would improve certainty for distributors.

Materiality is likely to differ significantly depending on the size, customer base and operating environment of individual distributors.

Recommendation

The Authority should provide additional guidance regarding how materiality will be assessed, recognising proportionality across different distributors.

9. Compliance burden for smaller distributors

The guidance contemplates detailed review of historical pricing methodologies, governance documentation, costing methodologies and internal analyses where close examination is undertaken.

While appropriate in some circumstances, the compliance burden associated with these activities may be proportionately greater for smaller distributors with limited regulatory resources.

Recommendation

The Authority should continue applying a proportionate and risk-based approach when requesting supporting information from smaller distributors.

Overall comments

BEL supports the introduction of the balance point principle and agrees with its underlying objectives.

In particular, we support the Authority's graduated regulatory approach of:

- monitoring;
- engagement;
- close examination where necessary; and
- formal direction only where material concerns remain.

We consider this to be an appropriate and pragmatic regulatory framework.

Our principal recommendation is that the final guidance provide greater recognition of the differing circumstances faced by regional and smaller electricity distributors. A flexible, outcomes-focused framework will better accommodate New Zealand's diverse distribution sector while continuing to promote efficient, equitable and transparent connection pricing.

BEL appreciates the opportunity to comment on the draft guidance and would welcome the opportunity to discuss these observations further with the Authority.

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