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Subject: BPP Framework Guidance

Dear Authority team

1. This is Vector's submission on the Electricity Authority's ("Authority") draft for comment balance point principle guidance ("Draft Guidance").¹
2. This submission has no confidential material, and we are happy for it to be published on the Authority's website.

Summary on the guidance on the balance point principle

3. Vector welcomes the Authority's work to explain how it will implement the balance point principle. We also appreciated meeting with the Authority to discuss the Draft Guidance. The Draft Guidance is a useful step forward: it identifies relevant information sources, examples, and process steps. However, it still does not give distributors enough practical certainty to assess whether their pricing methodologies will meet the Authority's expectations, particularly under the second limb of the balance point principle.
4. The targeted intervention framework has three steps. The second step, "close examination", and the third step, "direction", could impose significant costs on both the Authority and the targeted distributor. The Authority's guidance should therefore help distributors understand what pricing conduct will avoid those costly steps. This would support sound regulation and promote the long-term interests of consumers.
5. The Draft Guidance goes some way towards that objective. It identifies broad categories of potential non-alignment and gives examples of information the Authority may consider. However, it does not yet provide a sufficiently reproducible framework for distributors to predict how the Authority will apply its discretion. That uncertainty is likely to increase costs for distributors and, ultimately, consumers.
6. Vector recommends that the Authority explain more clearly which pricing conduct will not align with the balance point principle, and how the Authority will make that

¹ Electricity Authority, Balance point principle guidance, 9 July 2026,
https://www.ea.govt.nz/documents/10487/Balance_point_principle_-_draft_for_comment.pdf

assessment. The Authority should also align its compliance assessment with its enforcement approach. At present, the Draft Guidance appears to use different standards at different steps of the framework.

7. Vector is committed to complying with the balance point principle. We encourage the Authority to keep refining its approach and to provide clear final guidance for distributors.
8. Final guidance should allow distributors to apply broadly the same screening checks as the Authority and reach broadly similar conclusions. The current Draft Guidance identifies useful indicators and information sources, but it does not yet set out a practical sequence of checks, thresholds, or escalation criteria. To address this, the Authority should publish a practical screening checklist or decision tree, clarify how the balance point principle works regarding network capacity costing, explain its approach to materiality and evidence, define comparator rules for the second limb, and include worked examples developed with distributors.

Targeted intervention requires clear ex ante compliance standards

9. A targeted intervention framework can work only if distributors can assess compliance before intervention begins. This is not just an administrative point. It is central to sound regulatory design. If the Authority will screen suppliers, examine them closely, and potentially direct pricing changes, suppliers must be able to manage intervention risk in advance.
10. This requires more than just stating a broad policy objective. A distributor must understand the problem the Authority wants to address, the evidence that would show the problem exists, the benchmark used to assess conduct, and the factors that would lead the Authority to close or escalate a matter. Without this clarity, the framework becomes an ex post discretionary process. That increases regulatory risk and compliance costs. It also weakens incentives for distributors to make efficient pricing decisions based on the guidance.
11. Clear ex ante compliance guidance should include four elements. First, the Authority should identify the conduct that creates concern under the balance point principle. Secondly, it should identify the indicators it will use for screening, and the limits of those indicators. Thirdly, it should explain the cost-allocation standard, comparator group, and materiality threshold it will apply. Fourthly, it should describe the evidence a distributor can provide to show compliance or explain why a screening indicator does not show non-compliance.
12. This clarity matters because the balance point principle relies on judgement. Distributors must decide which costs are incremental and which are shared. They must assess what counts as a similar or commensurate contribution to shared network costs. They must identify similar existing connections. They also need to know whether the Authority will assess compliance at connection level, consumer-group level, and over time. If the Authority resolves these issues only during “close examination”, distributors cannot know their compliance position before facing the cost and uncertainty of intervention.

13. The Authority should design final guidance that lets a distributor make a meaningful self-assessment in good faith. This does not remove judgement or replace the Authority's role. Instead, it narrows the areas of judgement so a distributor can tell whether its methodology is plainly compliant, whether it needs further explanation, or whether changes are likely to be needed. Clearer guidance would reduce unnecessary "close examinations", support consistent outcomes, and lower costs for consumers.

The Authority's criteria for determining alignment with the balance point principle

14. The Authority has provided useful process guidance, including information sources and examples of indicators it may consider. However, it has not yet explained the assessment process in enough detail for distributors to predict whether their pricing methodologies will be treated as aligned with the balance point principle. This makes compliance harder. It also makes it harder for distributors to avoid the cost of becoming subject to the intervention framework.
15. The second and third steps of the targeted intervention framework could create significant costs for the Authority and any targeted distributor because:
 - a. at the "close examination" step, the Authority will need to seek more information from the distributor, understand the reasons for any apparent non-alignment, review plans to improve alignment, and decide whether a "direction" is required; and
 - b. at the "direction" step, the Authority will need to consult on why it considers the distributor's pricing methodology is inconsistent with the balance point principle, and on how the distributor must achieve consistency.
16. Because these steps can be costly, the Authority should give distributors clear guidance on how to meet its expectations during the "scanning" step. At that step, the Authority reviews public information to decide whether a distributor's pricing methodology appears sufficiently aligned with the balance point principle, or whether "close examination" is warranted.
17. The Draft Guidance identifies several broad drivers of potential non-alignment with the second limb, including changes in allocation methodology, costing methodology, revenue-linked methodologies, and individual pricing. That is helpful. However, the guidance does not yet explain how the Authority will apply those categories to a distributor's actual methodology during "scanning" or "close examination", or how it will decide whether an issue is serious enough to progress.
18. The Draft Guidance also gives examples of how the Authority might think about these factors. Vector appreciates that insight. However, the Draft Guidance still does not explain the weight the Authority will place on different indicators, or the level of evidence needed to close "scanning" or avoid "close examination". In particular, it does not explain how:
 - a. the Authority will assess the information that it receives during the "scanning" step or during the "close examination" step, and

- b. this assessment will inform its decisions as to whether to progress to the next steps in its intervention framework.
- 19. Vector considers that the second limb is difficult to apply. It depends on historical information, and the quality of that information will vary between distributors. Even so, the targeted intervention framework will work only if the Authority publishes clear statements on how it will assess compliance with the second limb.
- 20. The second limb should not operate as a simple rule against higher connection charges. A higher charge may comply if it reflects a genuine increase in incremental cost. Examples include higher input costs, different design requirements, or greater network capacity needs. The concern should be a methodology or allocation change that shifts more shared-network cost recovery onto new connections without a corresponding change in the underlying economics.
- 21. The Authority should address practical matters including:
 - a. how far back in history the Authority will look when assessing contributions to shared network costs, and how it will weight older information given the Draft Guidance recognises that historical methodologies, pre-2010 asset values, and the information disclosure time series data has limits;
 - b. how or whether the Authority will factor in changes in unit costs, design requirements, network capacity costs, cost of capital, or other cost drivers over time;
 - c. how the Authority will treat vested assets in practice, including the evidential standard it will apply where information about those assets is incomplete or held by parties other than the distributor;
 - d. how the Authority will identify “similar” existing connections where consumer groups are too broad, too narrow, or not meaningful, including relevant comparator characteristics such as customer type, connection capacity, connection assets, location, and whether the connection is individually priced;
 - e. how the Authority will measure a “similar contribution” to shared network costs, including whether this will be assessed by absolute dollars, relative contribution, contribution per unit of capacity, or another metric;
 - f. what evidence will be sufficient for the Authority to conclude the “scanning” step without progressing to “close examination”. The Draft Guidance gives examples of information a distributor may provide, but it should state what standard of evidence will normally be enough, particularly where historic pricing, cost, or asset information is incomplete; and
 - g. the evidence that would be sufficient for the Authority to conclude the “scanning” step without progressing to “close examination”, particularly where historic pricing, cost or asset information is incomplete.
- 22. The Draft Guidance also does not explain how distributors can proactively align with the balance point principle in a way that meets the Authority’s expectations.

23. For example, HoustonKemp has identified an approach that could support the Authority's objectives while improving economic efficiency.² That approach would involve:
- a. the setting of connection charges at levels that reflect incremental cost; and
 - b. the creation of new tariff classes, applying only to customers who paid cost reflective connection charges, that provide for lower lines charges so as to achieve the balance point principle.
24. The Draft Guidance notes that distributors could introduce more granular consumer groups to comply with the first limb.³ It also identifies consumer groups as a natural starting point for assessing the balance point principle. However, it should explain whether, and in what circumstances, more granular consumer groups would be an acceptable way to demonstrate compliance with the second limb.
25. The current Draft Guidance therefore leaves important judgements to the Authority's discretion. Although some discretion is unavoidable, distributors should not need to wait for "close examination" or repeated case-by-case engagement to understand how the Authority will apply the framework. That would be an inefficient way to develop regulatory clarity. It would impose costs on the Authority and distributors, and consumers would ultimately bear those costs.
26. The Draft Guidance also gives examples of discretion that do not clearly connect to the balance point principle or to economic principles. For example, the Authority suggests that:
- a. pricing that is "close to consistent" with the balance point principle may pass the "scanning" step, without defining what this may mean;⁴ or
 - b. it would not proceed to issue a "direction" to a distributor in circumstances in which it had failed "close examination" but its charges are low compared with peer networks.⁵
27. Vector encourages the Authority to:
- a. continue engaging informally with distributors to contribute towards firming its approach towards the second limb of the balance point principle; and
 - b. reflect the outcomes of the lessons from this engagement in clear final guidance on the balance point principle that provides transparency and predictability about how it will be applied.
28. Vector also recommends practical worked examples in the final guidance. The Draft Guidance's stylised scenarios are helpful for explaining the logic of the two limbs.⁶ However, the final guidance should go further and show how the Authority would apply its screening checks to realistic distributor scenarios. Examples should cover network

² HoustonKemp, Review of the Electricity Authority's proposed further reform of distribution connection pricing, 24 August 2026, section 5.2.4.

³ Balance point principle guidance, para 4.18(c).

⁴ Balance point principle guidance, para 3.4(a).

⁵ Balance point principle guidance, para 3.38(c).

⁶ Balance point principle guidance, appendix B.

capacity costing, vested assets, individually priced large connections, and cases where charges move differently within a consumer group. The Authority should develop those examples with distributor pricing practitioners before finalising the guidance.

The Authority's approach for enforcing alignment with the balance point principle

29. Vector considers that the Authority's approach to directions under the second limb highlights conceptual problems with that limb. It also raises concerns about how the targeted intervention framework will work as a package.
30. The concern arises because the "direction" step introduces a different test from the earlier steps, it introduces a cost-benefit assessment. The Authority says it will consider whether the efficiency concerns from correcting non-alignment are material, and whether the benefits of a "direction" outweigh the costs.
31. Vector agrees that a cost-benefit assessment is an appropriate hurdle before the Authority intervenes in a distributor's pricing methodology. If applied properly, it can support economic efficiency. However, the Authority has not aligned this test with the earlier steps of the framework. "Scanning" and "close examination" focus on alignment with the second limb. That limb is not necessarily consistent with a cost-benefit standard. This creates uncertainty about the standard the Authority will apply when it assesses and enforces alignment.
32. HoustonKemp explains that the second limb aims to promote intergenerational equity but has a weak efficiency basis.⁷ The Draft Guidance is consistent with that view. It recognises that enforcing the second limb may create costs, including efficiency costs. A cost-benefit assessment requires the Authority to weigh the costs and benefits of making a "direction". Greater intergenerational equity will not necessarily improve efficiency in the electricity industry.
33. These different standards are likely to increase process costs. The Draft Guidance notes that the Authority may consider efficiency concerns at the "direction" step and may also consider them earlier in limited circumstances. However, it should explain more clearly how efficiency considerations will interact with second-limb alignment during "scanning" and "close examination". If efficiency benefits can justify a distributor's pricing methodology, that standard should apply consistently across the targeted intervention framework.
34. Vector recommends that the Authority explain how it will assess the costs and benefits of pricing methodologies. The Draft Guidance identifies some costs associated with directions. However, it should provide a fuller description of the expected costs and benefits, and explain how the Authority will:
 - a. take these into account during the "scanning" and "close examination" steps of its targeted intervention framework; and
 - b. quantify these in a cost-benefit assessment to underpin its decision at the "direction" step of its targeted intervention framework.

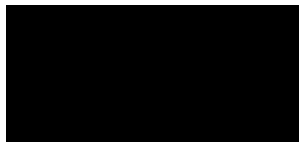
⁷ HoustonKemp, section 2.4.

35. Without this clarity, the Authority may spend resources on “close examinations” that find a balance point issue but do not justify a “direction”.

Conclusion

36. Vector appreciates the opportunity to comment on the Draft Guidance. We support the Authority’s objective of providing a workable framework for applying the balance point principle. This should however not be taken that Vector agrees that the balance point principle will deliver or even help to deliver efficient connection prices. Our earlier submissions and accompanying expert reports set out the reasoning for that view.
37. The final guidance should give distributors enough practical certainty to self-assess compliance, engage constructively with the Authority, and avoid unnecessary intervention costs. We would welcome further engagement with the Authority on these matters before the guidance is finalised.

Yours sincerely
For and on behalf of Vector Limited



Richard Sharp
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