

30 July 2026

Electricity Authority  
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Dear Electricity Authority team

## **Comments on Balance Point Guidelines**

Thank you for the opportunity to comment on the draft Balance Point Principle Guidance.

Overall, Westpower considers the guidance to be a useful and largely workable document. It provides a logical explanation of the balance point principle, clearly distinguishes between the first and second limbs, and outlines a pragmatic scanning, close examination and direction process. The inclusion of illustrative scenarios, and discussion of practical implementation considerations is particularly helpful.

However, we believe several areas would benefit from further clarification or expansion to improve consistency of interpretation, and provide greater certainty for distributors.

### **1 Greater clarity on the practical threshold for intervention**

The guidance explains the process the Authority will follow and notes that intervention will be targeted and proportionate. However, it remains difficult to understand what level of apparent misalignment will trigger progression from scanning to close examination.

While examples are provided, it would be helpful to include:

- indicative thresholds or ranges for key metrics;
- examples of situations that would generally not justify intervention;
- examples where intervention would likely be considered necessary.

A short checklist or decision tree that allows an EDB acting in good faith to carry out broadly the same screening exercise as the Authority would be extremely helpful. That would help distributors identify genuine issues early and avoid unnecessary investigation and compliance cost.

The guidance should also explain the factors the Authority will consider when assessing materiality, including the number and value of affected connections, the duration and customer impact of the issue, whether it is temporary or structural, and the cost and benefit of intervention. This is particularly important for smaller networks where the value and volume of connection activity may be low, even though an annual percentage movement appears large.



## 2 Interaction with network capacity costing and other fast-track requirements

The most important implementation issue is how the balance point principle interacts with the network capacity costing requirements applying from 1 April 2027, and with the treatment of incremental cost under Part 6B. EDBs are making decisions now about systems, policies and processes.

The final guidance should clearly distinguish between:

- a change in underlying incremental cost, including changes in input costs, design requirements or the capacity used by a connection, which may properly affect the connection charge without changing the contribution to shared network costs; and
- a change in the way cost is measured, such as moving from a shallow or last-straw approach to the prescribed capacity-costing method, where the underlying economics have not changed and an adjustment may be needed to avoid shifting shared cost recovery solely because of the methodology change.

The guidance should confirm that a methodology change required by the Code is not, by itself, evidence of movement away from the balance point. It should also explain the boundary between capacity cost attributed to an individual connection and the residual capacity cost treated as shared, how double counting will be avoided across the two limbs, and how the broad use of “incremental cost” in paragraph 2.24, maps to the Part 6B reconciliation construct and its treatment of ongoing operating costs.

A fully worked example would be very useful, taking the same representative connection through the position before and after capacity costing, and showing the extension cost, network capacity cost, incremental revenue, connection charge, network cost contribution and distributor-funded amount. A second example should cover a change from last-straw pricing where the timing of recovery changes but the average contribution over time does not.

## 3 Treatment of system growth and network development expenditure

The distinction between incremental connection costs, network development costs and system growth expenditure is fundamental to the framework, but this remains an area where significant differences in practice exist across distributors.

Further guidance would be valuable on:

- how the Authority expects distributors to distinguish connection-driven growth from broader network development;
- how mixed-purpose projects should be treated;
- how common assets should be treated where their classification depends on whether they are dedicated, an extension or part of shared capacity; and
- what evidence the Authority would regard as sufficient to support cost allocation decisions.

This would improve consistency across networks and reduce the risk of differing interpretations affecting balance point assessments.



## 4 Greater recognition of network-specific circumstances

The principles-based approach is appropriate, but the guidance should be more explicit that the same aggregate metrics can mean different things on different networks. Relevant circumstances include:

- low connection volumes, where one or two projects can materially move annual metrics;
- long, rural and low-density networks with high variation in connection cost;
- changes in the mix or scale of connections;
- large individually priced connections with few meaningful comparators;
- vested-asset arrangements, where the EDB may not hold the underlying cost information;
- one-off network development or transmission-driven projects; and
- timing differences between capital contributions and asset commissioning.

The final guidance should explain how these circumstances will be taken into account when comparing distributors, and when assessing trends over time. Variation should not be treated as non-alignment where it can be explained by genuine differences in network circumstances, scale or connection activity. For smaller networks, this requires the Authority to consider the actual value and customer impact of the conduct, not simply a percentage movement in an aggregate indicator.

## 5 Historical baseline and restoration of alignment

The discussion on restoring alignment under the second limb is helpful, particularly the concept that the balance point changes over time as historical investments age. However, the practical application remains somewhat uncertain.

The guidance would benefit from further explanation of:

- how historical baselines should be established where information is incomplete;
- the extent to which historic pricing decisions made before the framework was introduced will be relied upon; and
- how much precision the Authority expects in reconstructing historical allocation outcomes.

This is particularly important given the acknowledged limitations in historical disclosure data and changes to regulatory asset valuation approaches over time.

## 6 Reference formula versus alternative methodologies

The guidance repeatedly states that use of the reference formula is not required. However, because much of the analytical framework is built around the reference formula and its parameters, there is a risk it may become a de facto benchmark.

We suggest providing additional examples demonstrating how alternative connection pricing methodologies can also satisfy the balance point principle and how they would be assessed.



This would reinforce the principle-based nature of the framework and provide confidence to distributors using different methodologies.

The Authority seems reluctant to provide spreadsheet examples of these cases on the grounds their use may be seen as mandatory compliance. Spreadsheet examples are a great way for distributors to test their information against the guidelines and helps provide a better understanding of what is required. This would be particularly helpful for the reference formula where subjective information is required. The Authority could pre-empt the release of spreadsheets as for “guidance only”. The reference formula is a good example where this has occurred, so adding the spreadsheet example should be a simple matter.

## 7 Revenue-linked methodologies

The discussion of revenue-linked approaches is useful, but may benefit from further explanation.

In practice, some revenue-linked methodologies contain mechanisms intended to maintain stable funding proportions over time despite changes in revenue assumptions. The guidance could usefully distinguish between:

- methodologies that genuinely shift shared cost recovery to new connections; and
- methodologies that use revenue forecasts as an input while maintaining consistent allocation outcomes.

This would avoid treating the use of a revenue input as evidence of non-alignment where the methodology in fact preserves a consistent allocation. Worked examples could show how the Authority will look through changes in revenue assumptions and test the actual shared-cost outcome.

## 8 Information requirements during close examination

The examples of information that may be requested are helpful. However, distributors would benefit from more guidance on:

- expected response timeframes;
- the level of detail likely to be required;
- preferred formats for supporting information and analysis;
- what a reasonable evidential package looks like for each limb; and
- how the Authority will proceed where historical or third-party information is unavailable or cannot reliably be reconstructed.

This would improve preparedness and reduce the compliance burden if close examination occurs. The level of information requested should be proportionate to the apparent issue, the scale of the distributor and the likely customer impact. Where the evidence cannot support a robust conclusion, the appropriate response should be further engagement and reasonable judgement rather than a precise result built from unreliable proxies.

## **9 Practical testing before the guidance is finalised**

We recommend that the Authority test the guidance with EDB pricing practitioners, ideally through the ENA, before finalising it. The exercise should use anonymized, real-world examples from different operating models, including high and low volume networks, and identify the reasons (if any) where applying the guidance has resulted in different answers.

The Authority could maintain an accessible set of worked examples and frequently asked questions as implementation experience develops. This would be more useful than adding further abstract explanation and would help resolve uncertainty before EDBs make implementation decisions that later require rework. This would also improve preparedness and reduce the compliance burden if close examination occurs.

## **10 Conclusion**

Overall, Westpower considers the guidance to be well structured, generally clear, and capable of practical implementation. The framework appears workable and appropriately focuses on pricing methodologies, rather than individual connection outcomes. The additions suggested above would further improve understanding and certainty, consistency of application, and transparency of the Authority's assessment approach, while retaining flexibility to accommodate differing distributor circumstances.

Yours faithfully

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