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Re: Feedback on Open Letter – Local Lines Networks

Nothing in this submission is confidential and approval is given for it to be published.

Key Points

1. Traditional EDB-level metrics such as SAIDI and SAIFI are becoming less representative of actual consumer outcomes as distributed energy resources, batteries, smart technologies, and electric vehicles increasingly shape individual customer experiences.
2. The Commission's assessment framework should recognise the significant diversity between, and even within, networks and avoid one-size-fits-all benchmarking that fails to account for local geography, consumer needs, asset history, and operating conditions.
3. Long-term consumer benefit requires regulatory settings that reflect the forty-plus year life of distribution assets and encourage prudent stewardship rather than short-term optimisation of regulatory metrics.
4. Future regulation should focus on the quality, affordability, and resilience of outcomes experienced by consumers across the wider electricity ecosystem, including embedded networks and transmission influences, rather than concentrating solely on EDB performance.
5. The Commission should establish and validate consumer-focused performance measures before introducing any financial incentives or penalties, to avoid unintended behavioural distortions and regulatory gaming.

Opening Comments

The open letter identifies three principal purposes.

Purposes 1 and 2, if pursued through a genuinely collaborative process, have the potential to deliver significant benefits for consumers and for those responsible for providing electricity services.

Purpose 3, however, materially raises the stakes for both the Commerce Commission (the Commission) and industry participants. It places a much greater responsibility on the

Commission to understand and accurately measure what constitutes good and poor performance, and to ensure that any future financial incentive framework promotes genuine long-term consumer benefit rather than encouraging short-term behaviour or gaming of regulatory measures.

The paper states: “At this time, we consider stronger regulatory action is likely to be needed to promote the long-term benefit of consumers.”

Before progressing further, it will be essential for the Commission to clarify how "long-term benefit of consumers" is defined and assessed in a manner that remains relevant both today and within an electricity sector undergoing rapid transformation.

To my knowledge, the principal reference document addressing long-term consumer benefit remains the Electricity Authority's 2011 interpretation paper[1]. Although much of that document remains relevant, it has not yet been updated to reflect the 2022 statutory expansion to the objective relating to protecting the interests of residential and small business consumers. The distribution sector is evolving significantly through technological change, changing consumer expectations, distributed energy resources, electrification, and new energy service models. These impact on service quality and in some cases storage devices, such as batteries, reduce grid security and reliability requirements.

The availability of multiple sources of electricity to consumers may affect how reliability under Limb 2[2], and the efficiency aspects, Limb 3[3], in “…promot[ing] the long-term benefit of consumers”.

The challenge for the Commission is therefore not merely to identify good and poor performance within today's environment, but to ensure that future regulatory frameworks remain relevant in an electricity sector that may look substantially different over the lives of the assets being regulated.

Accordingly, the Commission should prioritise collaborative development and validation of consumer-focused performance measures before considering any financial rewards or penalties.

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[1] https://www.ea.govt.nz/documents/483/Interpretation_of_the_Authoritys_statutory_objective_izDdeF9.pdf

[2] Ibid, Limb 2: promoting reliable supply. A.32 The second limb of the Authority’s statutory objective is to promote reliable supply by the electricity industry for the long-term benefit of consumers.

[3] Ibid, Limb 3: promoting efficient operation A.50 The third limb of the Authority’s statutory objective is to promote the efficient operation of the electricity industry for the long-term benefit of consumers

Industry Change and Consumer Outcomes

The electricity sector is increasingly moving from network-centric outcomes toward consumer-centric outcomes.

Smart meters are now ubiquitous and, in some circumstances, are beginning to support the development of Distribution System Operator (DSO) capabilities. Counties Energy's experience provides one example of this trend.[4] However, much of the potential benefit of smart meter technology remains unrealised.[5] [6]

For instance, smart meters can be used to determine instant loading on all aspects of a distributors infrastructure in real-time. When this is coupled with a DSO and flexible services (load control, batteries, vehicle-to-grid) EDBs can make significant capital investment deferrals. This leads to better network utilization and lower costs to consumers. This will be critical as the decarbonization of the economy accelerates.

Consumers are increasingly adopting rooftop solar generation, battery storage systems, home energy management technologies, and electric vehicles. These technologies have the potential to materially alter how reliability, resilience, and service quality are experienced at an individual consumer level.

Battery systems may mitigate short-duration interruptions and voltage disturbances. Vehicle-to-Home and Vehicle-to-Grid technologies have the potential to provide additional resilience and flexibility.[7] Community energy initiatives will also become increasingly important contributors to local energy supply and resilience.[8]

Collectively, these developments are creating increasingly individualised service outcomes. As a consequence, traditional network-wide performance measures are likely to become less relevant over time. Future performance assessment frameworks will need to place greater emphasis on consumer-level outcomes, including what customers value, what they are willing to pay for, and the quality of service ultimately received.

This is a complex and rapidly evolving environment. Performance assessment can no longer rely solely on static EDB-level measures that may have been appropriate as recent as five-years ago.

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[4] https://countiesenergy.co.nz/media-centre/two-counties-energy-projects-selected-for-electricity-authority-power-innovation-pathway/

[5] https://bluecurrent.co.nz/news/smart-meters-making-a-big-difference-to-new-zealands-energy-system

[6] Part of this unrealised potential arises from current industry structures, where meter ownership, network operation, and customer retail relationships remain separated through regulatory and contractual arrangements.

[7] https://www.eeca.govt.nz/about/news-and-events/news/second-two-way-charging-trial-will-explore-how-to-use-evs-to-lower-power-bills/

[8] https://www.eeca.govt.nz/insights/eeca-insights/community-energy-how-to-guide/

Vision

The paper notes: “The vision is EDB-centric, given our regulatory role, but it is focused on a vision for the sector which will result in the delivery of outcomes for consumers that are to their long-term benefit.”

This provides a constructive starting point.

EDBs will undoubtedly remain central to the efficient provision of local electricity services. However, they represent only one part of the consumer electricity experience. The electricity system is no longer characterised by a simple one-way flow of electricity from generation to consumption.

Future electricity systems will likely involve increasingly complex interactions between consumers, distributed generation, batteries, electric vehicles, embedded networks, retailers, aggregators, local energy markets, transmission infrastructure, and distribution businesses.

EDBs will continue to perform a critical role in operating and maintaining local electricity networks while increasingly acting as coordinators of local energy systems. Transpower's role must also be recognised within any sector-wide vision. Transmission performance and transmission pricing materially influence consumer outcomes and electricity costs.[9] This is not just at grid level. Transpower direct supplies some EDB 11kV local feeders for some of the smallest EDBs, and also some of the largest EDBs. In these situations Transpower is central to both the grid and to local quality of supply.

Similarly, embedded networks are regulatorily unchecked and are becoming a more significant part of the electricity landscape and are forming nascent line companies at a time when the number of EDBs is being questioned.[10] [11] For consumers located within those networks, what matters is not who owns particular assets, but the quality, reliability, and affordability of service received. The Commission's vision should therefore remain centred on consumers rather than any individual sector participant and this should cover embedded networks.

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[9] https://www.ea.govt.nz/your-power/bill/ On average Transpower costs are 25% of EDB network prices, but this can vary significantly for reason beyond the control of EDBs.

[10] https://www.tenco-ebs.co.nz/?gad_source=1&gad_campaignid=13958759177&gbraid=0AAAABPV4hTsL2MXYGil34kqs3fKQjZaH&gclid=Cj0KCQiA77DXBhCHARIsAHf2MNoLfaOLTnTwOIWNtxQhe-s8scZW6X2fbmXhrWE_RlK2yWyDRefk4u0aAjPTEALw_wcB

[11] As recent as 3 November 2026 the Central Otago District Council has called tenders for design and supply to a new industrial estate with hallmarks this could become an embedded network. https://www.gets.govt.nz/CODC/ExternalTenderDetails.htm?id=35395268

Outcomes

The objective of improving efficiency is commendable. Similarly, initiatives that encourage collaboration and standardisation where they demonstrably benefit consumers should be supported.

However, achieving these objectives will not be straightforward.

A one-size-fits-all approach is unlikely to succeed. New Zealand's EDBs operate under markedly different geographical, demographic, historical, and economic circumstances. What delivers value for consumers in one region may not be appropriate elsewhere. Technology solutions may be essential for large and growing urban networks, but these come with on-going cost, and may not be necessary in smaller static load situations.

Effective performance assessment requires more than desktop analysis and comparison of published statistics. Understanding consumer outcomes requires investigation into what is occurring at the consumer level, why it is occurring, and how local circumstances influence those outcomes. This will require a multiple disciplined approach combining structure to analytic analysis with in-the-field experience.[12]

Particularly within larger EDBs, averaging can obscure important variations in service levels, operating conditions, and customer expectations. PowerCo is a prime example servicing diverse regions of the country including the Whanganui Region, Western Bay of Plenty, Tauranga City, Thames and the Coromandel Peninsula. Consumes in these areas will experience a wide range of service levels, yet the Commission looks at just the overall SAIDI and SAIFI for PowerCo.

Regulatory Incentives

Recognising and highlighting examples of good performance while identifying opportunities for improvement can generate valuable insights for both regulators and industry participants.

However, caution should be exercised before introducing financial rewards or penalties.

The Commission's proposed work programme requires participants to engage openly and constructively in a significant learning process. This work must first establish robust and widely accepted measures of good and poor performance across a diverse range of EDB and consumer circumstances.

The long-lived nature of electricity distribution assets further complicates assessment. Decisions made to invest, or not invest, may materially influence outcomes for several decades.

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[12] https://www.thesaurus.com/articles/wisdom-vs-intelligence

Introducing financial consequences before performance measures are sufficiently mature and tested risks unintended behaviours. For instance, this could incentivize EDBs to shift attention from improving consumer outcomes towards optimisation of the regulatory incentives to maximise regulatory returns.

A more prudent approach would be to first develop, test, validate, and refine performance measures. Once confidence exists that those measures accurately reflect consumer outcomes, consideration can then be given to whether financial incentives or penalties would add value.

The ultimate objective should remain improved consumer outcomes, not simply improved performance against regulatory metrics, although ideally the two should align.

Additional Considerations

Local and National Interests

As this work progresses, it is important to distinguish between the future requirements of local consumers, who ultimately fund electricity infrastructure, and broader national policy objectives.

National aspirations for electrification and economic development should not automatically be transferred to local consumers through network charges.

This issue is particularly relevant for sparsely populated regions situated on key transport corridors where local consumers may be required to fund infrastructure that delivers broader national benefits. Government policy is to increase the EV charging infrastructure throughout the country[13], which requires industrial sized power connections to areas where there isn't the distribution infrastructure. In these instances, who-pays is a key question. Similar challenges exist for some Local Government entities[14].

Consumer-owned EDBs and investor-owned EDBs have different ownership structures and accountabilities. Consumer-owned entities are directly accountable to their consumer owners, and exist for, the benefit of their consumers, while investor-owned entities must balance consumer outcomes alongside maximising returns to shareholders.

These differences also introduce legitimate intergenerational considerations that should form part of the Commission's thinking as this work develops. For instance, the Counties Energy Trust is concerned about the intergenerational benefits and costs of decisions made now.

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[13] https://www.transport.govt.nz/area-of-interest/environment-and-climate-change/supercharging-ev-infrastructure

[14] Eg: https://www.mackenzie.govt.nz/pages/public-notices/2026/why-mackenzie-is-moving-towards-user-pays-public-toilets

Whereas, investor-owned EDBs looking to maximize returns may divest EDB investments if higher returns can be made elsewhere.

Scale, Efficiency and Consumer Outcomes

The relationship between scale and efficiency is more complex than often assumed.

Scale can provide advantages, including broader resources and organisational depth. However, medium and smaller EDBs have ready access to consultant expertise without the overheads involved in embedding it in the organisation. Larger organisations also bring additional layers of management, governance, and coordination costs.

Conversely, smaller entities can often operate with greater agility, stronger local knowledge, and more direct engagement with consumers.

Neither model is inherently superior.

Consumer outcomes should remain the primary consideration rather than assumptions that either large or small organisations automatically deliver superior performance.

International experience also demonstrates that relatively small electricity distribution organisations can successfully deliver reliable services where their operating model is appropriately aligned with consumer needs.[15]

Long-Lived Assets

Most core distribution assets have economic lives exceeding forty years.

Assessing performance across such extended timeframes is inherently challenging. Network growth, asset age, historical investment decisions, maintenance practices, geography, climate, and changing consumer demand all influence outcomes.

The quality of decisions made today may not become fully apparent for many years.

Ownership structures can influence decision-making timeframes. Consumer-owned entities often naturally adopt a long-term perspective focused on future consumer benefit. Investor-owned entities with long-term investment horizons may exhibit similar behaviour, (but they often divest or reduce shareholding over time), and in addition this may not be the situation where shareholders have expectations of a high dividend yield.

The challenge for regulators is to ensure performance assessments appropriately recognise both short-term outcomes and long-term stewardship.

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[15] For example there are 800+ rural electric coops in the USA servicing over 50% of the continental land mass. The small end of this group supply in a range of 500-2000 customers, with an overall average for these coops of circa 30,000 customers.

Standardisation and Collaboration

Greater collaboration and standardisation between EDBs offers significant opportunities and should be encouraged where it delivers measurable consumer benefit.

However, several practical considerations require careful attention:

- Distribution networks operate under varying conditions and therefore cannot always be standardised without compromise.
- Current network configurations often reflect decades of historical development and cannot easily be converted into optimal greenfield designs.
- Infrastructure must be designed for extreme operating conditions, including equipment failure, rather than business-as-usual average operating conditions.
- Excessive reliance on single-supplier arrangements may introduce operational and commercial risks.
- Shared procurement approaches should remain mindful of competition law considerations.

The objective should be intelligent standardisation where benefits clearly exceed costs.

Monitoring and Benchmarking Performance

Structured performance monitoring is not new. Various benchmarking approaches have existed within New Zealand's electricity sector for several decades. The amount of data available to regulators and industry participants has expanded significantly, yet data alone does not necessarily reveal meaningful performance insights.

New Zealand's geography, climate, population distribution, and network characteristics vary considerably. As a result, many EDBs are effectively unique organisations operating under unique circumstances.

This raises legitimate questions regarding the validity of comparisons based primarily on statistical measures. It is essential that the work of the Commission is supported and informed with a mix of skills including in-the-field experience encompassing the diversity of New Zealand electrical supply challenges.

Benchmarking should therefore be applied with care. International experience shows that benchmarking is an evolving mathematical discipline rather than an exact science[16]. Recent work by Michael Pollitt similarly emphasises the importance of continually reviewing and refining benchmarking methodologies, particularly where utilities differ substantially in size, density, geography, and asset composition.[17]

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[16] Refer section 1 of the Annual Benchmarking Report - Distribution and Transmission 2025 | Australian Energy Regulator (AER)

[17] https://www.econ.cam.ac.uk/sites/default/files/publication-cwpe-pdfs/cwpe2647.pdf

The Commission should therefore remain cautious about drawing strong conclusions from benchmarking results alone.

Averaging and Consumer Outcomes

A particular concern is the reliance on EDB-level averages.

What matters most is the experience of the end consumer.

Aggregation at EDB level can conceal substantial variation in service quality, reliability, costs, and operating circumstances. The larger the EDB, the greater the likelihood that significant differences within the network are masked through averaging.

For example, the challenges facing sparsely populated rural networks differ fundamentally from those with dense urban networks, but these may also include pockets of consumers which face similar supply challenges to smaller networks. Yet benchmarking at the EDB level aggregates data with an overall averaged result.

The result can be reduced visibility of the factors that genuinely drive consumer outcomes.

This issue becomes more pronounced as EDB size increases, limiting the usefulness of benchmark comparisons and reducing their relevance to individual consumers.

Conclusion

The Commission's initiative represents an important opportunity to improve understanding of what drives successful electricity distribution outcomes for consumers. Affordability being a key consideration.

The strongest contribution the initiative can make is not the early introduction of rewards and penalties, but the development of a robust understanding of what genuinely benefits consumers over the long term.

The electricity sector is changing. Distributed energy resources, batteries, electric vehicles, embedded networks, smart technologies, and new consumer expectations are reshaping the traditional relationship between consumers and electricity networks.

Future regulatory frameworks should therefore focus less on the performance of networks in isolation and more on the outcomes experienced by consumers.

If the Commission succeeds in developing performance measures that accurately reflect those outcomes, then incentives may eventually have a role. Until then, the priority should be collaboration, learning, evidence gathering, and the development of measures that remain relevant in an increasingly diverse and consumer-driven electricity sector.

I would be pleased to provide further input on any of the matters raised.

Regards

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