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5 November 2026

Response to the Commerce Commission's open letter: Local lines networks — achieving better outcomes for consumers now and in the future

Energy Trusts of New Zealand Inc welcomes the opportunity to respond to the Commerce Commission's open letter on achieving better outcomes for consumers through improved performance across the electricity distribution sector.

Energy Trusts of New Zealand Incorporated (ETNZ) represents consumer-owned energy trusts across New Zealand. Trust ownership is the dominant ownership model for electricity distribution businesses (EDBs).

Trust-owned EDBs supply electricity to more than 1.5 million consumers and collectively hold over $9 billion in network assets. ETNZ members represent more than one million electricity consumers, with their trusts distributing more than $300 million annually to consumers.

Trust ownership retains essential infrastructure in the communities it serves, supports local employment and enables financial returns to be reinvested in networks or returned to consumers and communities. It also provides a framework for balancing affordability for current consumers with the investment required to maintain reliable and resilient infrastructure for future generations.

1. The value of consumer trust ownership

Consumer trust ownership provides a distinctive model of accountability and long-term stewardship. Trusts hold their interests in electricity distribution businesses for the benefit of consumers, with trustees accountable through their trust deeds and, where applicable, consumer elections.

This creates a direct connection between the interests of consumers and shareholders. Financial benefits generated by the network can be returned to consumers and communities or retained to support future investment. Trustees have a responsibility to consider the interests of both current and future consumers, including affordability, reliability, resilience, and the long-term sustainability of network assets.

The Commission's observation that the costs of inefficient performance should fall on shareholders rather than consumers needs to be considered in this context. For consumer trust-owned EDBs, shareholders and consumers are closely aligned. Shifting costs from the company to its shareholder may ultimately reduce the financial benefits available to those same consumers.

The regulatory framework should recognise and build on the existing incentives and accountability provided by consumer trust ownership. The effectiveness of any ownership model should ultimately be assessed against the outcomes it delivers for consumers.

Trust ownership for almost 20 years has been accepted by regulators as in effect self-regulating due to a several features, notably the return of profits and the accountability of Trustees to their customers both current and future. Time has proven the worth of this model. There has been no failure of a Trust owned network.

2. Starting point

This open letter is one of a suite of consultations from several electricity sector regulators. Each regulator is looking at the issues slightly differently, and there is no agreed definition or standard for what is "efficiency" or what is "good'.

ETNZ and its members are focused on what is good for our consumers.

As the representative of consumer-trust-owned electricity distribution business, we support the Commission's objective of ensuring that consumers receive reliable, resilient and efficient electricity distribution services at a fair and reasonable cost. We recognise the challenges facing the sector, including increasing electrification, changing consumer expectations, network resilience, workforce capability, technology investment and affordability.

We agree that all EDBs should continually assess opportunities to improve productivity, optimise the utilisation of existing assets and ensure that investment decisions deliver long-term value for consumers.

Before determining whether additional regulatory intervention is required, the Commission should establish where material inefficiencies exist, their causes, the extent to which they are within EDBs' control and the resulting impact on consumers. MBIE's May 2025 advice, developed in collaboration with the Commission, acknowledged that there was limited robust evidence of widespread inefficiency across EDBs. Any proposed intervention should be supported by evidence of a clearly identified problem and demonstrable net benefits for consumers, taking account of implementation and compliance costs.

We consider that the means of achieving these objectives should reflect the diversity of New Zealand's distribution networks. Differences in geography, customer density, asset age, demand profiles, growth forecasts, exposure to natural hazards and community expectations mean that a single model of optimal scale, operating structure or investment may not deliver the best outcome in every case.

Our central position is that **regulation should reward demonstrably efficient performance and good consumer outcomes, rather than favouring business size, ownership consolidation or standardisation as ends in themselves.**

For a consumer-owned EDB, the interests of consumers are also directly connected to the long-term stewardship of community-owned infrastructure. The regulatory

framework should recognise this feature while maintaining clear expectations for efficiency, transparency, reliability and accountability.

3. The proposed vision for EDB performance

We broadly support the Commission's three proposed areas of focus:

- delivering core network operations well;
- establishing effective commercial arrangements; and
- building the capability required for the future.

These are appropriate areas of focus for EDBs of all sizes.

However, the proposed vision would be strengthened by expressing the outcomes consumers should expect, including affordable, reliable and resilient electricity services, timely connections and networks capable of supporting future demand. Achieving these outcomes requires coordination across the electricity system. ETNZ encourages the Commission to work with MBIE, the Electricity Authority and the wider sector towards a shared, consumer-focused vision, with clear and complementary expectations for each part of the system.

We suggest that the vision should also explicitly recognise three complementary principles.

First, efficient performance must be assessed in context. Comparisons between EDBs should account for differences in operating environments, network configuration, customer density, asset condition, service obligations and risk exposure. Benchmarking is valuable, but poorly adjusted comparisons could penalise businesses that face structurally higher costs despite operating efficiently.
The Commission should explain how its assessment methodology will account for these differences. Where benchmarks suggest differing levels of performance, they should provide a basis for further examination rather than automatically determine the regulatory response.

Second, consumer outcomes should encompass more than short-term price reductions. Affordability is essential, but it must be considered alongside reliability, resilience, safety, timely connections, future capacity and the whole-of-life cost of network assets. Avoiding necessary investment may reduce costs in the short term while increasing costs and risks for consumers over time.

Third, ownership structure should not be used as a proxy for performance. All EDBs should be expected to demonstrate that they have the capabilities, systems and resources necessary to meet their responsibilities. However, where these requirements are met, local consumer ownership should not in itself be regarded as a disadvantage.

4. Scale, collaboration and consumer-trust ownership

We acknowledge the potential benefits of scale, including access to specialist expertise, shared technology platforms, common procurement arrangements, more diversified financial and operational risks, and reduced duplication.

We also agree that smaller EDBs should objectively examine whether these benefits can be achieved through collaboration, shared services, joint procurement, common standards or ownership consolidation.

However, we do not consider that ownership consolidation should be presumed to be the preferred solution simply because an EDB is small.

The appropriate question is which operating and ownership model delivers the best risk-adjusted, long-term outcomes for consumers, taking account of the costs of implementation and transition as well as the expected benefits.

For consumer-trust-owned EDBs, that assessment should also recognise the role of the trust in representing local consumer interests and stewarding community-owned infrastructure. Ownership arrangements can influence accountability, local responsiveness, the distribution of financial benefits and the extent to which decisions reflect the needs of the communities served.

We therefore encourage the Commission to distinguish between:

- scale benefits that can be achieved through collaboration without changing ownership;
- benefits that genuinely require a more integrated operating model or ownership consolidation; and
- circumstances in which the costs, complexity or loss of local accountability associated with consolidation may outweigh its benefits.

Any assessment should be based on transparent evidence, including realistic transition costs, governance and integration costs, workforce implications, stranded costs, financing impacts, implementation risks and the time required for benefits to materialise.

Consumer trust ownership should neither exempt EDBs from appropriate efficiency expectations nor be regarded as a barrier to good performance. Regulation should focus on the outcomes achieved, allowing businesses flexibility to adopt operating models, technologies and commercial arrangements suited to their circumstances. Overly prescriptive requirements risk constraining innovation and discouraging approaches that may deliver better results for consumers.

5. Priorities for improving outcomes for consumers

We suggest that the Commission prioritise the following areas.

a) Efficient asset management and investment

EDBs should be encouraged to make robust, risk-based investment decisions that consider asset condition, criticality, resilience, demand forecasts, alternative solutions and whole-of-life costs.

Regulatory incentives should support the avoidance of premature replacement where existing assets can be safely and reliably utilised for longer. Equally, the framework must not discourage prudent investment where the evidence demonstrates that replacement, reinforcement or resilience expenditure is justified.

Assessment should focus on the quality of decision-making and the resulting consumer outcomes, rather than relying excessively on uniform expenditure benchmarks.

b) **Appropriate access to digital capability and specialist expertise**
Modern asset management, data analytics, network monitoring and control systems can improve decision-making and network utilisation. We support the Commission's objective that consumers of smaller EDBs should not miss out on these benefits.
However, smaller businesses may not be able to justify the fixed cost of developing every capability independently. The regulatory framework should explicitly enable efficient shared services, common platforms, specialist contracting and collaboration.
Funding mechanisms should recognise the legitimate costs of capability development, implementation, cyber security, systems integration, training and change management where these investments are demonstrably efficient and deliver long-term benefits.
EDBs should retain flexibility to select solutions proportionate to the complexity and needs of their networks.

c) **Collaboration, procurement and standardisation**
We support the removal of unnecessary barriers to joint procurement, common technical standards, shared specialist services and streamlined industry interfaces.
Standardisation can reduce duplication and improve interoperability. Nevertheless, standardisation should be directed towards areas where it produces measurable benefits, with sufficient flexibility to accommodate legitimate network-specific requirements.
The Commission should work with the sector to identify practical opportunities for collaboration and develop proportionate implementation pathways, rather than assume that structural consolidation is required to realise efficiencies.

d) **Reliability, resilience and affordability**
Regulatory settings should balance cost efficiency with the need to maintain safe, reliable and resilient networks.
Resilience investment should be assessed against credible risk scenarios, consequences of failure, the needs of affected communities and the costs of mitigation. For smaller EDBs, the impact of a major localised event can be significant relative to the size of the business and its customer base.
We support a framework that recognises these differences and encourages proportionate, evidence-based investment without creating incentives to defer necessary expenditure.

6. Regulatory incentives and potential regime changes

We support the Commission's objective of aligning regulatory incentives with efficient investment and better consumer outcomes. We recommend, however, that any changes be subject to transparent impact assessment, consultation and appropriate transition arrangements.

In particular:
Standardised cost benchmarks: Cost-per-ICP or similar measures may assist comparative analysis, but should not become mechanical expenditure targets. Comparisons should account for material differences in network characteristics, service requirements, scale and operating environment.
Capitalisation of assets and standardised procurement: The Commission should avoid rules that inadvertently penalise efficient procurement outside a

prescribed arrangement, particularly where local requirements, market availability or project timing make an alternative approach more efficient. Any requirement should be supported by evidence of consumer benefit and provide appropriate flexibility.

Network utilisation and flexibility incentives: These should recognise differences in demand profiles, customer uptake, available technology, network constraints and the practical ability to influence consumer behaviour. Pricing and flexibility initiatives should be evaluated against realistic costs and benefits, including implementation and customer participation costs.

Innovation and transformation funding: Smaller EDBs should have fair access to mechanisms that support efficient digital transformation, shared platforms, innovative solutions and capability development. Eligibility should be based on the merits and expected benefits of the proposal, not on the size of the applicant.

Consequences for capability shortfalls: Any penalties, compensation requirements or restrictions on expenditure recognition should be proportionate to the circumstances, evidence of causation, the materiality of the failure and the EDB's ability to control the relevant risk. Regulatory consequences should encourage improvement without undermining the financial capacity required to maintain and improve essential infrastructure.

More generally, the Commission should distinguish between avoidable inefficiency and the legitimate costs of operating a smaller network. Regulatory settings should encourage efficient choices, not inadvertently create incentives to defer investment, reduce necessary capability or pursue consolidation primarily to avoid regulatory penalties. It also needs to avoid being unnecessarily prescriptive and thus stifling the very innovation that is trying to be fostered.

7. Assessing capability and performance

We support transparent performance measures and meaningful accountability to consumers. A proportionate framework could include Board-level reporting on:

- network reliability, asset condition and resilience risks;
- expenditure efficiency and the delivery of planned investment;
- asset utilisation, demand forecasts and network constraints;
- procurement effectiveness and opportunities for collaboration;
- workforce capability, succession planning and access to specialist expertise;
- digital maturity, cyber security and the use of asset information; and
- consumer outcomes, affordability and service performance.

We recommend that the Commission avoid imposing multiple overlapping reporting requirements where equivalent information is available through existing regulatory processes. Common definitions and reporting standards could improve comparability while reducing compliance costs.

8. Feasible implementation and regulatory coordination

We encourage the Commission to develop its work programme in coordination with the Ministry of Business, Innovation, and Employment, the Electricity Authority and other relevant sector participants.

A coordinated approach would reduce duplication, clarify responsibilities and enable EDBs to plan investment and capability development against a stable set of expectations.

The Commission's work should form part of a coordinated approach to the electricity system, with regulators working from a common evidence base and shared understanding of the consumer outcomes sought. This would help avoid inconsistent requirements, competing incentives and additional compliance costs that do not deliver corresponding benefits. A broader national energy strategy would provide a useful framework for this coordination.

We recommend a phased process:

a) Agree the desired consumer outcomes and a common set of performance principles;
b) Identify material performance gaps using appropriately evidence;
c) Assess the costs, benefits and unintended consequences of potential interventions;
d) Pilot or phase in significant changes where uncertainty is material; and
e) Review actual outcomes before expanding or making interventions more prescriptive.

Implementation timeframes should recognise procurement lead times, workforce availability, existing contractual commitments and the need to maintain business-as-usual network operations while delivering transformation.

9. Questions for the Commerce Commission

As noted, the commission's open letter raises important questions. We believe it is a v very basic opening part of what should be a long and detailed process of consultation and engagement. It should involve more than just the Commerce Commission – all regulators need to be working together on a combined vision for the sector, not just on EDBs.

We are willing to engage on these matters and our expectation is that no changes will be made without suitable consultation.

We also wish to highlight some key issues that in our view warrant further discussion before changes are made. These are not new issues – they have been raised with previous minister Simon Watts and current minister Simeon Brown, and with officials. We note we are yet to receive a response on these.

We attach ETNZ's response to then-minister Simon Watts and the submission to the MBIE discussion document, for your reference. As detailed in those, our concerns are:

- **How can we ensure efficiency savings flow to consumers?**
  ETNZ has previously raised concerns with the Minister and MBIE about whether reductions in distribution costs translate into lower electricity bills for consumers. ETNZ has previously raised concerns with the Minister and MBIE about whether reductions in distribution costs translate into lower electricity bills for consumers. We would welcome a substantive response from the Commission on how these savings can be passed through to end consumers.

  The experience of the DPP3 regulatory period highlighted the importance of examining how changes in distribution charges are reflected in retail electricity

prices. Where reductions in distribution charges are retained by retailers rather than passed through to consumers, the intended affordability benefits are lost.

Improving EDB efficiency is important, but the benefits must reach the consumers they are intended to serve. The Commission should explain how it intends to assess whether distribution cost savings are passed through to end consumers, and what action may be needed where they are not.

- **How should we regulate our sector going forward?**
  The Commission has raised the question of whether the current price-quality framework remains appropriate for the future. ETNZ is well placed to contribute to this discussion, representing trusts that own both price-quality regulated and exempt EDBs.

  MBIE's recent consultation acknowledged that there is insufficient evidence to draw firm conclusions about performance differences between exempt and non-exempt EDBs. Before extending price-quality regulation, the Commission should demonstrate that additional oversight would deliver measurable improvements in consumer outcomes sufficient to justify the associated compliance costs.

  ETNZ would welcome further engagement on a future-focused regulatory framework that recognises existing accountability arrangements, rewards good performance and provides appropriate incentives for investment and innovation.

- **How should costs be allocated fairly between consumers?**
  Equity in the allocation of network costs requires greater attention. A substantial proportion of EDB costs reflects existing infrastructure investment and fixed operating requirements. Pricing concessions for particular consumer groups may shift costs onto others rather than reduce the overall cost of providing network services.

  The Commission should work with the Electricity Authority and the sector to ensure that pricing and regulatory settings consider affordability, fairness and the long-term interests of different consumer groups, including the consequences of any redistribution of costs.

- **How should productivity and efficiency be measured?**
  ETNZ supports improved productivity but considers that meaningful assessment requires agreement on the outputs EDBs are expected to deliver and the factors affecting their costs. What methodology will the Commission use to assess efficiency across different networks, and how will it ensure that the results reflect genuine performance differences rather than differences in operating circumstances?

Conclusion

ETNZ supports the Commerce Commission's objective of improving efficiency and delivering better outcomes for current and future electricity consumers.

ETNZ encourages the Commission to build on these strengths through an evidence-based, outcomes-focused regulatory approach that recognises differences between

networks, supports collaboration and innovation, and demonstrates that any additional intervention will deliver net benefits for consumers.

Above all, improvements in efficiency must translate into tangible benefits for consumers, including affordability, reliability and resilience.

ETNZ welcomes further engagement with the Commission and other regulators to develop a coordinated approach that delivers these outcomes.



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