Local lines networks: achieving better outcomes for consumers now and in the future

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1 Introduction

Mercury appreciates the opportunity to provide feedback to the Commerce Commission ("the Commission") on the topic of local lines networks and how they might adapt to provide better outcomes for consumers.

Mercury is a generator and retailer of electricity in New Zealand. We strongly support the Commission's intention to define what good looks like for lines networks, set priorities and apply stronger financial and reputational incentives. We agree with the initial framing in the letter, which is that lines charges that are above efficient levels hurt living standards and productivity. Affordability is also a growing challenge. Lines costs are a major input cost for power bills, so it is important that lines charges are efficient and reasonable.

As a large retailer, Mercury holds the direct relationship with electricity consumers. As retailers and other companies start to offer more flexible and innovative products, we and others will rely on networks being a platform for being able to make these offerings. As the Commission notes in the letter, lines networks should be prepared to provide "…a platform that supports innovation and investment by others".[1]

Mercury agrees with the Commission's conclusion that stronger regulatory action is needed. For much of the past three decades, distribution has been regulated with a relatively light touch, relying on voluntary collaboration, guidance and disclosure. That approach was designed for networks in a steady state. It has not delivered the flexibility, capability or consistency the sector now needs. The gap sits where regulation currently does not reach: in the interfaces that customers and third parties deal with, and the new functions the energy transition needs. Several of the tools needed to address these gaps, including comparative benchmarking and the ability to regulate exempt networks, were recommended by the Electricity Price Review in 2019 but not implemented. We encourage the Commission to use its existing tools to the full, and we support legislative changes in this space as recently proposed by the Ministry of Business, Innovation and Employment (MBIE) in their consultation on options to improve the efficiency of electricity distribution businesses.[2]

Note, this submission also references a report prepared by economic consultants NERA and submitted by ERGANZ to MBIE's consultation. We are reattaching that report to our submission for ease of reference.

2 Mercury's view of what good looks like for lines networks

Mercury supports the Commission's overarching view of what good looks like for lines networks. We consider that "strong commercial arrangements" are the most relevant and important to electricity customers and third parties.

Mercury's interest is in the performance of the lines sector as a whole. At present, a customer's experience in connecting solar or an EV charger, accessing flexible products, or understanding network pricing can be very different depending on where they live. This variation is a problem. Customers should not face a postcode lottery for lines services depending on where they live.

Some of that variation reflects genuine differences in geography and the cost of serving customers. Some, such as differences in processes, capability and the products available to customers, does not. It is currently difficult to say which networks are performing well because comparative benchmarking has been prohibited. The available evidence suggests

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[1] Commerce Commission *Open letter – Local lines networks: achieving better outcomes for consumers now and in the future* 10 September 2026 page 2.
[2] https://www.mbie.govt.nz/have-your-say/consultation-on-edb

that capability does not necessarily track with size. The Commission's own review of low-voltage visibility found some of the smallest networks among the more advanced.[3]

The main objective should be a consistently good standard of service for customers across the country at an efficient cost, defined by outcomes rather than by reference to any particular network or business model. We are largely neutral on how this is achieved, whether this is through shared services, joint platforms or consolidation, so long as the outcomes are delivered across the sector.

A well-performing lines sector would ensure:

> Flexibility is treated as a genuine alternative to network build, and that lines networks are willing to purchase the cheapest/most-cost effective solution that meets the relevant requirements;
> Every network can use flexibility. That means network visibility, information on spare capacity, and systems to buy and dispatch flexibility. These can be built or shared;
> Flexibility goes to the highest value use;
> Pricing structures send clear time and location signals, and are consistent enough that retailers can pass them through;
> Customers, retailers and service providers deal with common interfaces wherever they are located;
> Existing assets are fully used (or close to fully used) before they are upgraded or replaced;
> Customers on smaller or more remote networks get modern capability at efficient cost.

Maximising use of flexibility is critical as every dollar of growth capex avoided is a dollar that customers do not need to pay for over the asset's life.

3 Why good isn't happening yet

The three barriers below set out why voluntary and light-touch approaches have not worked. Each of these is structural and none will be resolved through goodwill or collaboration alone.

> **The settings favour building network over buying flexibility.** Capex is adopted from forecasts. In contrast new operating costs, such as subscriptions or flexibility contracts, must be argued for as step changes or innovation allowance claims, or incur an incremental rolling incentive scheme (IRIS) penalty. This means that allowance settings may make building network procedurally easier than buying flexibility. Mercury supports the Commission's proposal to limit capitalisation of growth expenditure where flexibility has not been considered, and we encourage it to review the funding routes for operating-cost solutions ahead of DPP5.

> **Flexibility markets cannot reach scale without common products and processes.** Harmonising products and processes costs the networks, but retailers and customers get the benefits. A single network would not benefit by moving first. Without a regulatory standard, each new transition function could be built 28 different ways.

> **Pricing does not yet send the signal.** Retailers can only build scalable products around network signals if structures are consistent enough to pass through. Weak price signals in distribution capacity management leave holes in the value stack[4] and push investment towards grid-scale assets.

Mercury encourages the Commission to review the regulatory settings ahead of DPP5 in light of the bias towards building instead of relying on flexibility. The Commission should also develop a cost recovery mechanism for investment in more standardisation that does not penalise lines networks for doing this. We also ask that the Commission develops stronger incentives for shared head-office functions and transition platforms.

4 Potential regulatory changes that could be impactful and easily implemented

Mercury supports a regulatory regime with clear rewards and consequences, as the Commission proposes. Most of the illustrative changes are rewards, such as streamlined acceptance path, larger innovation funding, and compensation for

[3] Commerce Commission, *Visibility of Low Voltage Networks across Electricity Distribution Businesses*, 12 February 2025
[4] Flex Forum report *How to fill the holes in the value stack* 26 March 2025

transformation. As customers ultimately fund rewards, these should be tied to outcomes delivered rather than effort or progress. Our further comments below are focused on potential changes that are tied to the three structural issues we have identified in Section 3 above.

4.1 Making flexibility at least as easy to fund as network build

Mercury strongly supports:

- **Reducing RAB capitalisation of growth capex where a distributor hasn't offered flexibility or incentives or lacks the capability to manage flexible demand.** This is a consequence that is aimed directly at the bias towards building. The Commission says that this would apply in future, but we recommend setting a clear timetable so that networks and stakeholders know when this expectation applies and can develop their capabilities ahead of this.

- **Utilisation metrics in assessing expenditure and incentives.** These reward making better use of existing assets before building more.

- **Compensating the efficient costs of enablement and transformation.** This helps with the opex funding problem. The Commission notes in the letter that it considers that the existing regime already enables efficient transformation. However, flexibility up-take has lagged. Our view is that the Commission should review the opex funding routes (such as step changes, the innovation allowance, IRIS treatment) ahead of DPP5. The key test for review should be that where flexibility is the cheapest option, it is at least as easy to fund as network build.

4.2 Making standardisation pay

Mercury strongly supports:

- **Capitalising new assets at full value only if bought to a standard specification through at-scale procurement.** This is an incentive to standardise and it will also operate as a consequence.

- **Innovation allowance funding for distribution system operation preparation, building on other distributors' work.** Our view is that this would be particularly effective where it funds shared or common platforms rather than separate builds.

We note that the letter covers network equipment, but not the interfaces that customers, retailers and flexibility providers deal with. This is a significant gap and will matter for customers. Standardising interfaces costs lines networks money while the benefit is felt by others (consumers). Money spent on standardising interfaces would be an overspend for lines networks. We would therefore like to see an explicit cost-recovery route for interface standardisation, aligned with binding standards which could be set by the Electricity Authority.

We also note that reducing RAB capitalisation (discussed above) should be tied to common flexibility products and load management protocols. Otherwise, it could produce 28 different flexibility arrangements and recreate the interface problem.

4.3 Pricing that sends the signal

Mercury supports streamlined capex acceptance where pricing structures signal how to optimise network capacity. Pricing signals will reach customers if retailers are able to pass them through. Mercury's view is that pricing structures need to be consistent enough across networks to build products around. Pricing levels can still reflect local costs, but having more consistency in structure will aid in passing through these signals. We therefore recommend that this work considers consistency across the sector, instead of allowing each network to price on its own terms.

4.4 Comparing performance

Consistent with Mercury's submission to MBIE, we are strongly supportive of efforts to use more benchmarking and comparative tools. One element of this could be to assess back-office operating costs using a standardised cost per connection, while controlling for density and geography. NERA's report found that most cost differences between networks reflect customer density.

4.5 Mercury is neutral on the aggregation of lines networks

Mercury is neutral on the structure of lines networks. Our view is that outcomes for consumers across the sector is what matters most, and that regulatory changes should be focused on removing barriers to efficiency. We also note NERA's

point that consolidation would reduce the number of comparators available for benchmarking, which would therefore reduce the effectiveness of benchmarking as a tool.

4.6 Gaps in the illustrative list of proposals

We consider the following are further important options to consider beyond the illustrative list of potential changes identified by the Commission:

- **Exempt networks.** Most of the illustrative changes operate through allowances or capitalisation into the regulatory asset base, so none would reach the 13 networks exempt from price-quality regulation. In our submission on MBIE's discussion document, Mercury supported applying price-quality regulation to all distributors, with individual price-quality paths for the largest. These changes would require legislation. In the meantime, we encourage the Commission to use the tools that it has. We note also that this would be a substantial increase to the Commission's workload and that this should be resourced appropriately.

- **Third-party interfaces.** The Commission identifies common streamlined interfaces for third parties (meaning interactions between distributors and the customers, retailers and service providers who deal with them) as a desired outcome. However, none of the illustrative changes directly target this. As this is something that would cost distributors but result in benefits to others, we think that it is unlikely to happen without either a regulatory standard or a cost-recovery approach. We encourage the Commission to look at providing for cost recovery, and to align with the Electricity Authority on the use of regulatory standards. Our view is that this would be particularly effective where it funds shared or common platforms rather than separate builds.

- **Funding for non-network solutions.** Beyond compensating the costs of the transformation, none of the illustrative changes directly addresses how new operating costs (such as flexibility contracts or subscriptions to shared platforms) are funded. These must currently be argued for as a step change or through the innovation allowance, or carried as an overspend, while network investment is funded by being forecast. We encourage the Commission to review this ahead of DPP5, so that where flexibility is the cheaper solution it is at least as easy to fund as building network.

5 Priorities and measuring progress

Mercury's view is that the overall priority should be ensuring a consistent standard of service for customers across all networks. As set out above, we think that the biggest differences that could be made for customers would be to ensure flexibility capability and procurement, common interfaces for customers and third parties, and pricing structures that send clear signals.

Our view is that baselines should be set and that the Commission should take a common-sense approach to quantification. Some costs can be evidenced if not quite quantified (for example, interface costs, which NERA notes that, while there is no published New Zealand estimate, the Electricity Authority's retailer survey in 2020 found about half of retailers said there were networks they wouldn't trade on, mostly because of pricing and metering arrangements).[5]

The Commission should also ensure that there is a concrete way to track progress. It should aim to measure outcomes for customers, not just activity or progress. We also think there is value in reporting at the sector level, showing both the average and the spread between networks, as narrowing this spread will be a good measure of a consistent standard. Our view is that exempt and non-exempt networks should be covered on the same basis. We suggest the following as potential indicators:

- Low-voltage visibility, and availability of information on spare network capacity.
- Share of growth needs met through flexibility or other non-network solutions.
- Flexibility procured through open, standardised processes.
- Time to connect DER and EV chargers.
- Consistency of pricing structures across networks.
- Capex growth relative to demand growth and asset utilisation.

[5] NERA para 106.

6 Developing the work programme

The Commission should use its existing tools in full ahead of DPP5. As we noted in our submission to MBIE, Mercury is supportive of expanded tools for the Commission and consider the Commission should be resourced appropriately in line with its expanded role.

We note that there will be overlapping workstreams between regulatory agencies within the work programme. Regulators should ensure that they are coordinated and that there is a clear view of who is leading on which workstream.

We also think that there is value in involving the wider sector on the development of this work programme, as the Commission has done with this open letter. This should include retailers, aggregators and flexibility providers, in addition to distributors.

Responses to the Commission's specific questions are set out below.

Evealyn Whittington
Senior Regulatory Advisor

Consultation questions

	Question	Mercury response
1	Is the proposed future state focus of EDBs delivering core network operations well, having strong commercial arrangements in place and building capability for the future appropriate?	Yes. Mercury supports the three pillars outlined in the letter. We read them as desired outcomes for the sector as a whole, instead of for individual networks. We are largely neutral on how these are achieved. Our view is that strengthening commercial arrangements will be what matters most to customers and third parties.
2	Are there aspects which you consider are not adequately addressed within the Vision statement which are either impacting performance now, or are likely to in the future?	> Exempt networks. Most incentives work through allowances and the asset base, so they won't reach the 13 exempt networks. Mercury supports applying price-quality regulation to all distributors, with individual price-quality paths for the largest. It is not tenable that the energy transition should take place while the 28 lines networks have vastly different regulatory settings. > Costs being borne by shareholders not consumers. We agree with this aspect of the vision but consider that this will not work in relation to consumer trusts, where the shareholders are the consumers. > Measurement. Progress cannot be tracked without comparative analysis and benchmarking, which s53P of the Commerce Act currently prohibits.
3	What are the industry's priorities, based on the needs of current and future consumers, and are we aligned?	Mercury considers that the priorities set out in the letter are broadly aligned with industry priorities. Our view is that the overall priority should be a consistently high standard of service for customers across all networks at an efficient cost. Customers should not face a postcode lottery for an essential service. We accept that there will be a level of variation to reflect cost differences. However, variation in processes, capability and products is not necessarily driven by underlying cost differences. This is an area where more and better regulation could lift service.
3.1	Where are the biggest areas of focus where a material difference can be made for consumers and the potential hierarchy (priority) of these?	In priority order: > Flexibility capability and procurement. Growth capex built now sits in the asset base for decades. > Common interfaces for customers and third parties, before transition functions are built 28 different ways. > Pricing structures that send clear signals and are consistent enough to pass through. Price levels can still reflect local costs.
3.2	How should priorities be valued/evaluated, and what level of assessment or quantification may be good enough for proposed regulatory action?	We note that the evidence base may be thin in part due to the prohibition on benchmarking and comparative analysis. Some costs, such as interface costs, can be evidenced even if they cannot be precisely quantified. Our view is that decision-makers should act where the direction of the benefit is clear and the cost of delay is high.
4	How are EDBs internally determining the capabilities required to deliver most effectively and efficiently for their consumers and setting the path towards a future state? What is this compared against? Is there a specific set of Board level metrics which are tracked or specific information which it would be useful to require for disclosure to the Commission to better allow comparison?	Lines networks would be best placed to answer the questions relating to internal priority setting. Regarding board-level metrics, we suggest considering sector-level indicators such as low-voltage visibility and spare capacity information, the use of non-network solutions, existence of open flexibility procurement, DER and EV charger connection times, consistency of pricing structures, capex relative to demand growth and utilisation. Our view is that lines networks (both exempt and non-exempt) should report these metrics on the same basis. As set out in our submission to MBIE, we also consider that transparency alone won't deliver accountability. Most customers have no direct relationship with their distributor, so disclosure must feed into regulatory consequences.
5	What is needed from regulators/regulation/legislation to	Mercury recommends that regulators use their full set of regulatory tools ahead of DPP5. We note also that we support the

	enable achievement of the vision and outcomes?	legislative changes that MBIE proposed recently, including comparative benchmarking, but would go further and recommend using price-quality regulation for all networks. Every network is a monopoly, which is an enduring case for regulation, regardless of ownership structure. We note also that new regulatory tools will only be effective if they are used. We would support a requirement for the Commission to report periodically on its use of regulatory tools and the outcomes achieved.
5.1	What other enablers are important or essential within our, or other, regulatory regimes?	We think that it will be essential for the Commission to coordinate work with the Electricity Authority and ensure that there is a clear view of who is leading which workstream, especially where they overlap.
5.2	What should we deprioritise/reduce regulatory burden on?	Our view is that increasing process obligations that add costs while generating limited benefits to customers would be one thing that could be deprioritised. An example of this is extensive consultation requirements for climate resilience work. While consultation is important, it should also be fit for purpose and suitable for the size of the work.
6	What timescales are feasible?	This question is best addressed by distributors. However, our view is that setting up common interfaces and making the most of flexibility capability are two things that are time sensitive, and that these should come before new functions are built separately on each network.
6.1	For EDBs, where cost is identified as the key reason for not progressing system or capability development – how is the impact of this assessed and quantified?	This question is best addressed by distributors.
7	For smaller EDBs, where cost is identified as the key reason for not progressing system or capability development – how is the impact of this assessed and quantified?	This is another question that distributors will have direct insights to share on. We note that the NERA report singled out the shared provision of platforms and head-office functions as a way of reducing cost barriers without changing ownership.[6]
8	What are the barriers to increased consolidation and standardisation within the Part 4 regime? What is needed to overcome or reduce these barriers?	We see three structural barriers: > Building network may be easier to fund than buying flexibility. > Aligning processes costs distributors while others benefits. No distributor gains by moving first. > Pricing doesn't yet send clear signals. Regarding consolidation and shared arrangements, we note that up-front costs of this fall in the present, while IRIS lets a distributor keep savings for only five years. Mercury is neutral on the structure of lines networks, but we also note that voluntary measures to encourage more standardisation have been tried over the past two decades without much progress. In addition, standardisation and collaboration may need different instruments. Finally, as NERA note, some of the functions that are duplicated across 28 networks could be centralised. These could be straightforward changes with benefits to consumers, without being amalgamation or voluntary collaboration.
9	Are there particular proposed potential regime changes where you consider alternative approaches may be more impactful and easily implemented by both EDBs and the Commission?	Mercury strongly supports the consequences described in the letter. We also support rewards where they are tied to outcomes delivered. Our view is that criteria for consequences should be published in advance. We suggest the following additions: > Cost recovery for standardising interfaces.

[6] NERA, page 29.

		> A review of how non-network solutions are funded ahead of DPP5. > Comparative publication that includes exempt networks. > Tying the flexibility lever to common flexibility products and load management protocols.
10	On the Commission's process from here – how do you think our work programme could be best developed in coordination with the sector?	We recommend including wider sector participants such as retailers, aggregators and flexibility providers, not just distributors.