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Dear Simon

Submission – Local Lines networks: achieving better outcomes for consumers now and in the future

Thank you for the opportunity to submit on the Commission's open letter (the letter). Network Tasman Limited (NTL) agrees that the sector must be as efficient as possible for current and future consumers and ready to meet the changing needs of our consumers.

The Commission's letter proposes a vision for the sector which we support:

- EDBs delivering core network operations well;
- EDBs having strong commercial arrangements in place; and
- EDBs building capability for the future.

We also support the Commission's view that consumers should not bear the costs of sector inefficiencies. As a consumer trust-owned EDB, we consider consumer value and returns in every aspect of our business.

The letter identifies a number of "likely outcomes" from achieving the vision and proceeds on the basis that these outcomes are not being consistently achieved across the sector. However, it provides no empirical evidence establishing the extent of any sector-wide performance gap before moving to a set of possible regulatory measures.

In making these assertions, the Commission does not provide evidence that the outcomes are not already being delivered across much of the sector, does not quantify the gains available from closing whatever gap exists, and does not provide an analysis of the costs and benefits of achieving those gains.

MBIE advised the Minister for Energy that "there is limited robust evidence showing widespread inefficiencies across EDBs"[1], so either:

1. inefficiency is not widespread, in which case the gains available are more modest than the letter assumes; or
2. the extent of inefficiencies has not been adequately measured, in which case the scale of the problem is unknown.

The Commission has engaged recent external advice on a range of matters discussed in the open letter. The analysis contained in that advice does not support the issues the open letter presumes.

Cambridge Economic Policy Associates (CEPA) undertook a study of EDB productivity for the Commission in 2024.[2] CEPA found a decline in measured EDB productivity between 2008 and 2023, but did not determine the cause of that decline. The study identifies several possible explanations, including external factors and measurement limitations, and does not establish that the observed decline was attributable to factors within EDBs' control.

The letter suggests that EDBs can achieve “benefits of scale” but provides no evidence of what they are or how large they would be. Several recent studies commissioned by the Commerce Commission have found mixed evidence on the benefits of increased scale, with no clear basis for concluding that larger EDBs consistently outperform smaller EDBs.

IA Engineering Consultants New Zealand Limited’s 2024 review[3] of EDB asset management planning, forecasting, and resilience concluded that size range and process orientation, evidenced by ISO 55001 alignment, is available to EDBs of any size. Similarly, Michael Pollitt's 2025 report[4] for the Commerce Commission, found that there is no single optimal scale for EDBs and that scale alone is not a reliable predictor of performance.

These studies do not support the view that smaller scale necessarily prevents EDBs from delivering cost-efficient outcomes for consumers. Instead, the studies highlight that the relationship between scale and performance is complex, with no single optimal scale and no clear evidence that larger EDBs consistently outperform smaller EDBs.

Before considering changes to its regulatory approach, NTL submits that the Commission should establish a robust evidence base that identifies: the specific consumer harm being addressed and its magnitude; the causes of that harm and the extent to which they are within EDBs' control; why existing regulatory and sector mechanisms are insufficient; and the net benefit of any proposed intervention after implementation and compliance costs are taken into account.

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[1] Ministry of Business, Innovation and Employment (2025), Encouraging EDB Efficiency, Briefing REQ 0013881, 21 May 2025.

[2] Cambridge Economic Policy Associates (CEPA) (2024), *EDB Productivity Study: A Report Prepared for the Commerce Commission*, 24 June 2024.

[3] IA Engineering Consultants New Zealand Ltd (IAEngg) (2024), *2023 AMP Review Series*, prepared for the Commerce Commission

[4] Pollitt, M. (2025), *Benchmarking and Optimal Scale for Electricity Distribution Boards in New Zealand: A Study for the Commerce Commission*, 20 November 2025.

The letter sought views on specific areas. Our comments are detailed below:

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?**

   NTL supports the focus on delivering core network operations well. We have a range of commercial arrangements that grant us access to the capability and resources required to deliver an efficient and effective network service.

   NTL operates an outsourced operational model based on long-term competitively tendered contracts for network maintenance, minor capital works, and vegetation control programmes. NTL retains the asset management, planning and operations in-house. This model has allowed us to achieve economies of scale in contracting services while retaining the network knowledge within our business.

   This outsourced model also allows for customer-initiated works, including new connections to be undertaken by a range of accredited third-party contractors. There is a competitive market for these services within the Nelson/Tasman region, ensuring consumers have choice and price visibility for the work.

   In addition, NTL has invested in complementary businesses that are delivering real economies of scale and technical resources. Our advanced meter ownership, as well as our shareholding in Smartco Limited (**www.smartco.co.nz**), provides us with critical data and network tools that have allowed us to refine how we deliver our network services.

   These complementary businesses also provide economies of scope that our lines business could not achieve on its own. Back-office and overhead costs are shared across a wider range of services, reducing the share carried by the line business and, in turn, by our consumers.

   We believe that with our internal capabilities, external contracting resources, and our investments in advanced metering and data analytics, we remain well-placed to meet the expected changes in consumer needs.

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?**

   NTL supports the Commission's vision as drafted.

3. What are the industry's priorities, based on the needs of current and future consumers, and are we aligned?

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?

3.2 How should priorities be valued/evaluated, and what level of assessment or quantification may be good enough for proposed regulatory interventions?

Ranking priorities by benefit to consumers requires a reasonable picture of where the gaps sit. Comparative benchmarking is one of the more established international approaches, and the one the Commission's advisers (Pollitt and Sbai) were asked about, but it would not produce a definitive picture. Pollitt notes that results are sensitive to the choice of method and variables, that variable selection is a significant area of disagreement between regulators and regulated firms, and that individual efficiency scores are becoming more open to challenge as networks diverge in their circumstances.[5] Sbai likewise records that each of the main techniques carries known biases and recommends applying several and comparing the results.[6] Any exercise of this kind would need to be read with those caveats in mind.

Even so, it may tell the Commission more than it knows now. Pollitt recommended it undertake such an exercise; Sbai sets out how it could be done.[7] Without some attempt at it, any hierarchy of priorities under question 3.1 rests largely on judgement — ours as much as the Commission's.

Section 53P of the Commerce Act is not an obstacle. It prevents the Commission using comparative efficiency measures to set starting prices or rates of change for an individual EDB; it does not prevent comparative analysis undertaken to understand performance. Pollitt recommended such an exercise partly to establish whether amending section 53P would be worth proposing — a question that cannot be answered without first doing the work.[8] Even an indicative exercise might illustrate roughly how far the sector sits from the frontier, whether the divergence is wide enough to warrant the interventions contemplated, and where to look for the practices that account for it. That last point is what makes the Commission's standardisation objectives actionable, since a practice identified can be shared. On our reading, that work is itself the first priority, and the one that makes the rest more answerable.

On question 3.2: every proposal should pass the following tests:

1. What is the problem, for which EDBs, and how is it being measured?
2. How large is the problem, and is it a real shortfall or a gap in the disclosed information?

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[5] Pollitt, M. (2025), *Benchmarking and Optimal Scale for Electricity Distribution Boards in New Zealand: A Study for the Commerce Commission*, 20 November 2025.

[6] Sbai, E. (2025), *Assessing the Efficiency and Optimal Scale of Electricity Distribution Businesses in New Zealand (report for the Commerce Commission)*, 20 November 2025.

[7] This is an observation, not an endorsement of the approaches suggested by Sbai.

[8] Pollitt, M. (2025), *Benchmarking and Optimal Scale for Electricity Distribution Boards in New Zealand: A Study for the Commerce Commission*, 20 November 2025, p.15.

3. What would existing tools deliver without the new measure?
4. What are the costs of implementation, who bears it, and over what period?
5. How will the Commission know whether it worked, and what will it do if it did not?

The last of these is the one most often left out. Without testing whether an intervention delivered what was expected of it, the Commission is effectively treating its expected outcomes as actual outcomes. It cannot know whether consumers are receiving a net benefit, and any error in its estimates or assumptions persists into the next decision.

Analysis is imprecise, so the Commission should be transparent about uncertainty

We are not asking for a precise benefit-cost ratio in every case, and we acknowledge the measurement difficulties the Commission's own productivity study identified. In most circumstances it would be more appropriate to use ranges rather than point estimates. Additionally, assumptions should be stated with their source; tests of whether the conclusion should survive plausible variation; and there should be a clear separation of what has been measured from what has been assumed. Where a number cannot be produced, the analysis should say so and why. The same standard should apply to any benchmarking the Commission undertakes.

Robust regulation requires robust analysis. We encourage the Commission to establish the size of the benefits available, and the cost of pursuing them, before determining what form regulatory action should take**.**

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?**

As with all EDBs, NTL has a comprehensive Asset Management Plan (AMP) that is reviewed and updated annually. This review considers current and future asset condition, asset lifecycles, options for new and emerging technologies and expect changes in demand.

The board receives regular reporting on the progress of individual capital investment programmes as well as the AMP as a whole. Performance against the target can vary as new load growth may deviate from the target due to changes in customers' own investment plans.

NTL also has a defined set of Board and shareholder performance measures through its Statement of Corporate Intent. These include public safety and lost-time injury measures; planned and unplanned SAIDI, SAIFI and CAIDI; faults per 100km of line and restoration performance; EBITDA, operating surplus and operating surplus to shareholders' funds; cash operating costs per consumer; and line charge discounts. The SCI also monitors capital structure. These measures are subject to forward targets and actual performance is subsequently reported against them.

NTL considers that existing, established measures and disclosure requirements should be the starting point for any Commission work on Board-level metrics, rather than creating a

parallel set of measures. Comparative measures should consider costs alongside outcomes and provide sufficient context for material differences in network geography, density, asset condition, resilience requirements and investment needs.

One significant issue with comparative benchmarking is the differing treatment of opex and capex within the sector. While this is an area where some subjectivity can occur, the incentive to capitalise expenditure into the RAB versus expensing expenditure via the income statement can make meaningful comparison of performance difficult. The Commission should consider options to standardise treatment of expenditure to ensure benchmarking is based on a like for like basis.

5. What is needed from regulators/regulation/legislation to enable achievement of the vision and outcomes?

5.1 What other enablers are important or essential within our, or other, regulatory regimes?

5.2 What should we deprioritise/reduce regulatory burden on?

While we support the regulatory oversight of our industry, we note that regulation is not costless, and ultimately these costs fall on our consumers.

We would ask the Commission to ensure that the ongoing regulatory regime is targeted and balances the cost of compliance against the benefits to consumers.

One example of a regulation where we question the cost/benefit is the introduction of the requirement to record outages using the multi-count definition. While we supported the multi-count definition of successive interruptions, in practice, the cost of complying has proved materially higher than we anticipated.

Recording successive interruptions to the standard required by Schedule 10, which is subject to audit and director certification, imposes high ongoing manual administrative and audit costs on NTL. Automating the process is possible, but it will require a significant and costly upgrade to our systems. We are uncertain whether the requirement to record outages using the multi-count definition delivers benefits to our consumers.

The Commission introduced transitional reporting for disclosure years 2024, 2025 and 2026, requiring EDBs that had not previously used the multi-count approach to disclose values on both bases in parallel. Its stated purpose was to compare values across the two approaches and assess the impact of the change in methodology, and it extended the transition from one year to three specifically to allow that analysis.[9] That transition is now complete.

The Commission holds the full three years of parallel data it designed the requirement to produce, and no further data of this kind will be generated. We would welcome the Commission's findings on this transition. That comparison would tell us whether the two measures differ materially. However, it would not, on its own, tell us whether the difference matters to consumers.

[9] Commerce Commission, *Targeted Information Disclosure Review for Electricity Distribution Businesses — Tranche 1 final decisions: Reasons paper (25 November 2022)*, paras 3.145, 3.154 and 3.165.

The Commission observed in its 2019 consultation that it lacked clear information on consumer preferences regarding successive interruptions and was considering how to improve its understanding.[10] We assume that the Commission has undertaken further analysis of consumer preferences in preparation for the stated assessment of the two methodologies and welcome its findings.

Our position is that while the two methodologies produce different SAIDI and SAIFI results, they do not signal materially different performance and does not justify NTL incurring the additional cost of implementing the multi-count methodology.

6. What timescales are feasible? For EDBs, do you have a clear work programme which identifies when certain capabilities or insights will be more readily accessible?

NTL's Asset Management Plan provides a clear multi-year programme for network investment and asset capability and is reviewed and updated annually. It considers current and future asset condition, asset lifecycles, emerging technologies and expected changes in demand, with the Board receiving regular reporting on delivery.

NTL believes that efficiency is determined more by governance than a set structure. We believe the current regulatory settings are adequate to provide oversight of the sector while also giving EDBs sufficient incentive to innovate and invest in networks.

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?

NTL currently has significant revenue headroom, low debt levels, and a skilled and capable workforce. We have not deferred any system or capability developments due to cost. We have a rigorous focus on efficiency and consumer value, and any new investment must deliver both.

8. What are the barriers to increased consolidation and standardisation within the Part 4 regime? What is needed to overcome or reduce these barriers?

NTL supports greater collaboration and standardisation between EDBs and is involved in a number of initiatives with other EDBs that deliver benefits to our business and our consumers.

The letter states that the Commission welcomes views on how regulation can support sector aggregation, recognising that there may be short-term costs associated with aggregation to achieve a stronger long-term operating position. That question assumes consolidation of EDBs will deliver positive outcomes for all consumers.

The Commission assumes aggregation will deliver a stronger long-term position, and the only matter to be determined is how the transaction costs will be treated. A question about how regulation can support aggregation forecloses the prior question of whether it should.

The most directly relevant assessment is one that the Commission helped prepare. In May 2025, MBIE briefed the Minister for Energy on measures to encourage EDB efficiency, based

[10] Commerce Commission, *Default price-quality paths for electricity distribution businesses from 1 April 2020 — Recording of successive interruptions for SAIFI: Consultation paper* (7 October 2019), para 18.

on advice developed in collaboration with the Commission.[11] That briefing found limited robust evidence of widespread inefficiency across EDBs. It observed that while quantitative evidence is limited, commentary on the potential for greater efficiency is common, and it attributed part of the evidence gap to the absence of comparative benchmarking. It also distinguished electricity distribution from the water sector, where clear efficiency and quality problems made structural reform easier to justify.

We are not aware of evidence produced since that would change that assessment, and the open letter does not point to any. That matters for the whole of the letter, not only for Question 8. If evidence of widespread inefficiency is limited, the material benefit the letter's proposals assume has not been established, and moving to solutions — structural solutions above all, whose costs are certain and whose effects are least reversible — is correspondingly harder to justify.

The Government reached a consistent view. Frontier Economics' review of electricity market performance identified three options for rationalising EDBs, preferring amalgamation into five. The Government declined to pursue structural amalgamation, finding "no conclusive evidence that structural ownership changes are needed to achieve efficiencies", and chose instead to pursue collaboration and standardisation.

The Commission's own expert advisers have been similarly cautious. Professor Sbai records that "concerning the study of optimal scale and market structure for EDBs, empirical methods are less developed and robust than in efficiency studies."[12] Professor Pollitt concludes that "there is no single right answer to the question of optimal scale of an EDB, because scale is a poorly defined economic concept with respect to the operating unit"[13], and cautions that the scale studies he surveys are static comparisons that do not support an inference that any given merger would improve efficiency.

On mergers specifically, the ex-post evidence is stronger. A study undertaken by Pollitt and Kwoka, examined US distribution utilities between 1994 and 2003.[14] This study found that electricity mergers are not consistent with improved cost performance.

Scale

NTL owns and operates two networks – the Tasman network with around 44,000 ICPs and the recently acquired Nelson network serving around 9,500 ICPs. We are a relatively small EDB, but our costs are some of the lowest in the sector.

The Commerce Commission’s Performance Accessibility Tool provides a wide range of data points highlighting that size and scale are not necessarily determinants of efficiency.

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[11] Ministry of Business, Innovation and Employment (2025), Encouraging EDB Efficiency, Briefing REQ 0013881, 21 May 2025.

[12] Sbai, E. (2025), *Assessing the Efficiency and Optimal Scale of Electricity Distribution Businesses in New Zealand (report for the Commerce Commission)*, 20 November 2025, section 2.1, p.5.

[13] Pollitt, M. (2025), *Benchmarking and Optimal Scale for Electricity Distribution Boards in New Zealand: A Study for the Commerce Commission*, 20 November 2025, p.24.

[14] Kwoka, J. & Pollitt, M. (2010). *Do mergers improve efficiency? Evidence from restructuring the US electric power sector.* International Journal of Industrial Organization, 28(6), 645–656.

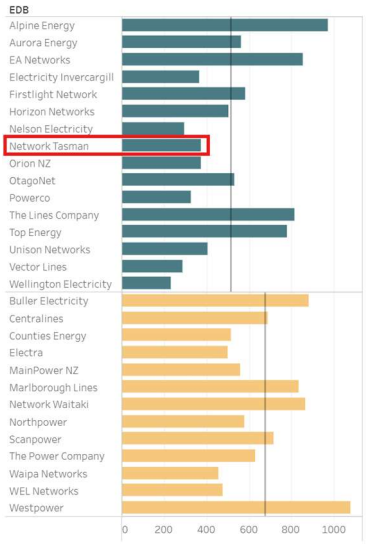
The first graph below shows the indirect business support costs per ICP. These costs show that, despite NTL being a smaller EDB, our business support costs are significantly lower than those of many other larger EDBs.

The second graph shows the total operating costs per ICP. Again, NTL's performance sits well below other EDBs and in-line with much larger companies.

Business Support Costs per ICP



Total Operating Costs per ICP



NTL's relative cost efficiency shows that scale in and of itself isn't necessary to achieve operational and financial efficiency. NTL's performance reflects consistent governance that holds management to account for operational and capital efficiency, a board and owners focused on consumer outcomes and consistent and focused operating discipline over a long period of time.

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?**

We would encourage the Commission to consider the wider regulatory regime to ensure that regulation of the EDB sector is targeted and does not impose significant additional compliance costs on companies and, therefore, consumers.

10. **On the Commission's process from here – how do you think our work programme could be best developed in coordination with the sector?**

NTL encourages the Commission to coordinate this work closely with MBIE, the Electricity Authority and other relevant agencies, and to engage closely with ENA, individual EDBs and other sector stakeholders. This is particularly important given the substantial overlap with MBIE's current EDB efficiency work and other regulatory initiatives.

A common evidence base should underpin these processes, and their sequencing should avoid regulatory options being developed before the nature and scale of the problem have been established. Any new information or regulatory requirements should also avoid unnecessary duplication of existing disclosure. Early engagement with the sector can help

identify where existing information already answers the Commission's questions and where genuine information gaps remain.

The Commission itself acknowledges the parallel work programmes and says it intends to seek alignment across the regulatory system.

Ownership

Finally, the Commission's letter notes that it is appropriate for smaller EDBs to "actively consider" whether scale-related efficiencies can best be achieved through collaborative or consumer-trust mergers. As noted earlier, NTL is currently delivering network services to our consumers at a cost well below that of larger EDBs. We believe that the Commission's comments are based upon broad-brush assumptions on scale rather than any empirical evidence. NTL has the financial capacity and technical resources to continue to invest in our network and does not support any presumption that further mergers or ownership consolidation would necessarily be in the long-term interests of our consumers.

Conclusion

NTL supports the Commission's vision for the sector. Consumers should rightly expect EDBs to focus on delivering the core network services as efficiently as possible.

NTL's performance demonstrates that a consumer-trust-owned EDB, with strong governance practices and accountability to its consumer owners, can deliver a low-cost, safe, and reliable network that matches that of the larger EDBs in New Zealand.

While mergers among smaller EDBs may appear attractive, we believe that scale is not necessarily the primary determinant of a business's efficiency.

We would, however, support further benchmarking by the Commission, as part of an evidence-based approach to future regulation.

Yours sincerely



Oliver Kearney
Chief Executive