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Tēnā koe,

Open letter on local lines networks: achieving better outcomes for consumers

Powerco welcomes the early engagement and opportunity to respond to the Commerce Commission's (**Commission**) open letter on local lines networks. We support the Commission's vision for a high-performing electricity distribution sector. The letter provides an important opportunity to consider how regulatory settings can promote efficient long-term investment, support electrification, and help consumers navigate the trade-offs between cost, service quality, resilience, future network capability and affordability.

We believe a high-performing Electricity distribution business (**EDB**) is one that consistently delivers value for consumers through efficient investment decisions, efficient operations, reliable and resilient services and readiness for the future consumer needs. A high performing EDB should be able to demonstrate that its investment, replacement and operational decisions are evidence based, supported by robust asset management practices, informed by customer preferences and deliver long-term value for consumers.

In our view, the role of regulation is to create the conditions that encourage and reward these behaviours, while providing confidence that consumer interests are being protected. DPP5 is an opportunity to preserve the fundamental strengths of the current incentive-based regime, while adapting it for a changing operating environment. Rather than layering additional obligations, greater emphasis should be placed on expenditure justification, demonstrating how proposed expenditure delivers outcomes for customers, targeted scrutiny of expenditure, and improved quality standards driving investment.

We have provided commentary in the attachment on considerations for an evolving regulatory regime, including areas where we have evidence of delivering improved outcomes for customers (Section 5). Our key messages are set out below.

Focus on customer outcomes

- We support a vision for a high performing electricity distribution sector, that is prepared for an electrified future, however, the measure of success should be consumer outcomes: planned and unplanned outages, reliability, resilience, efficient connections.
- Capability, asset management practices and commercial arrangements are enablers but shouldn't become objectives in their own right.
- As customers' expectations evolve, delivering these will require investment which will require trade-offs between price and quality, this is particularly important in an environment where replacing assets should not always be like-for-like.

Quality standards should be a top priority for DPP5 reform	• Customers cannot be protected from inefficient expenditure if the quality standards driving investment decisions are misaligned. • Current measures do not reflect the reliability outcomes experienced by individual customers in a more electrified and decentralised energy system. Outdated quality incentives risk driving inefficient investment e.g. continued reliance on HV metrics will encourage networks to maintain traditional redundancy. • Future regulation should enable EDBs and customers to agree to alternative solutions rather than assume like-for like replacement.
Preserve the strengths of incentive-based regulation	• A core strength of the current regime is that it's primarily based on *ex ante* incentives and not prescriptive inputs. • Maintain clear expenditure efficiency incentives. • Consider strengthening targeted incentives where there is a genuine gap e.g. an expanded and refined INTSA to incentivise encourage collaborative innovation. • However, regulatory mechanisms must work as a package and not drive poor customer outcomes though complex, overlapping and potentially inconsistent incentives.
Investment flexibility and confidence in decision making	• Adopt more flexible approaches to expenditure assessments (e.g. different categories of expenditure have different treatment) and enable some investment decisions to be assessed closer to the point of commitment through reopeners or approve/propose mechanisms. • Where greater confidence is required (e.g. in asset management capability, expenditure forecasts etc.) prioritise targeted assurance, verification and scrutiny mechanisms before introducing more prescriptive incentives. There is scope for greater use of existing accountability mechanisms including AMPs, ID and director certification. • Approvals for large initiatives should span across regulatory periods for procurement and contracting efficiency. • Many of the improvements in our asset management and decision-making capability were a direct response to the need to justify expenditure, demonstrate value for money and withstand regulatory scrutiny as part of the CPP process. Demonstrating capability uplift is often achieved through strong scrutiny and accountability incentives.

We are always keen to meet with the Commission to discuss and develop ideas in our submissions. In the meantime, if you have any questions or would like to talk further on the points we have raised, please contact me at [redacted]

Nāku noa, nā,

Emma Wilson
[redacted]
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POWERCO

1. Introduction

The operating environment for EDBs is changing rapidly. New technologies, evolving customer expectations, facilitating distributed generation and storage and new forms of energy participation, electrification of transport and industry, and the transition away from natural gas are all driving changes in the role EDBs play within the energy sector.

These changes are also altering the nature of network expenditure. Historically, investment decisions were often focused on replacing assets with functionally similar assets and responding to relatively predictable patterns of demand growth. Today, networks face greater uncertainty around where and when demand will emerge and increasing pressure to invest ahead of demand to support future electrification outcomes. This means regulatory frameworks will need to solve how to deal with anticipatory investment against price impacts and intergenerational equity.

In addition to this, the mix of expenditure required to support future consumer needs is evolving. Greater system complexity, increased data requirements, network visibility, flexibility services and emerging distribution system operator (**DSO**) functions mean that operational expenditure is becoming increasingly important alongside traditional capital investment. Regulatory frameworks developed for a more traditional network operating environment may not always adequately recognise these changes.

Many networks are also facing growing challenges associated with asset replacement and renewal as their assets are reaching the end of their operational lives in an environment where replacement costs are significantly higher than the original investment costs. These challenges can be particularly acute in lower-density and rural areas where the cost of maintaining and replacing assets may be increasing faster than the customer base funding them.

At the same time, affordability is a central focus for government, regulators, the energy sector and consumers. New Zealand households and businesses are facing significant cost-of-living pressures, and electricity networks must retain the trust and social licence required to operate and to continue to invest in the energy transition. This creates a fundamental challenge – consumers increasingly expect networks to deliver greater reliability, resilience, capacity and new services, while keeping the service affordable. Successfully navigating this tension will be critical to achieving the outcomes sought by consumers, policymakers and regulators.

Regulatory evolution while preserving its strengths

Against this backdrop, the Commission's letter is both timely and important as the sector is in a period where many of the assumptions underpinning traditional regulatory frameworks are being tested. It is appropriate to consider whether current regulatory settings remain fit for purpose and whether changes may be required to ensure consumers continue to receive long-term benefits from the electricity distribution sector.

The question is not whether regulatory settings should evolve, but how they should evolve while preserving the strengths of the existing incentive-based framework. The Part 4 regime has a relatively simple objective to provide incentives for regulated suppliers to invest efficiently, innovate, and deliver services consumers value and it's important the Commission doesn't lose sight of the strengths of the existing framework or inadvertently weaken the incentives that support efficiency, innovation and long-term investment.

We ask the Commission to consider the impact increasing regulatory complexity has on the difficulty for both regulated businesses and regulators to understand which behaviours are being incentivised. Experience internationally demonstrates that layering additional mechanisms, objectives and compliance requirements onto an existing framework can produce unintended consequences and dilute outcomes[1]. The Commission should avoid moving toward an increasingly prescriptive regime where businesses become focused on complying with regulatory processes rather than delivering for their consumers.

Before introducing new regulatory tools, consideration should be given to whether existing mechanisms can be utilised more effectively to achieve the desired outcomes. Where changes are being contemplated, they should be assessed as part of the broader regulatory package rather than in isolation. Individual components of the regime do not operate independently and changes to expenditure treatment, incentive mechanisms, quality standards, innovation settings or risk allocation can each affect the effectiveness of the overall framework. It's essential that the whole regime works together as a package to support efficient outcomes for consumers over the long-term.

2. Customer outcomes should be the starting point

The Commission's proposed vision focuses on EDB capability, commercial arrangements and operational performance. While these are important enablers, consumers ultimately judge the success of the electricity system by the outcomes they receive. In our view, we should be starting with what outcomes consumers want, measure these and then consider how regulatory settings can best support those outcomes.

2.1 Customer expectations are evolving

Consumers are unlikely to place value on particular regulatory approaches, asset management frameworks or organisational structures in their own right. Rather, consumers are looking for affordable electricity, reliable and resilient supply, efficient and well communicated planned and unplanned work, timely and efficient connections, support for electrification and the ability to participate in new technologies and services.

As the sector evolves and electrification occurs, it is important that regulatory settings remain focused on delivering these outcomes rather than prescribing the specific processes businesses must follow. This will help ensure the regime remains fit for purpose, future proof and that investment and effort are directed towards matters that are most important for consumers, instead of regulation becoming a tick box compliance exercise.

The future needs of consumers are unlikely to be the same as those today. Future consumers are likely to place greater value on flexibility, integration of distributed generation, visibility of network capacity, electrification support, while also expecting either higher levels of supply resilience, or a role in decisions about level of resilience. Regulatory settings need to be sufficiently adaptable to accommodate these changing needs while maintaining affordability and service quality.

[1]See, for example, the Independent Water Commission's recommendations for reform to improve the water sector regulatory system in England and Wales

As the expectations of consumers evolve, delivering these will require additional expenditure, capability and investment, which will require trade-offs between price and quality. It's therefore not the role of regulation to maximise one single outcome (like affordability) in isolation, but to support efficient decisions that appropriately balance competing objectives over the long term.

2.2 Customer engagement informs investment and quality trade-off decisions

Delivering long-term benefit to consumers requires engaging communities directly on service-level trade-offs. Pricing and quality metrics play an important role here. The Electricity Authority's distribution pricing principles have guided a transition to more cost reflective pricing, as prices should show what it costs to serve each location. This will ultimately help inform consumer trade-offs as customers who accept a lower cost service with lower reliability would then pay less for it (or vice versa).

Quality standards and metrics also need to evolve to support trade-offs consumers face in an increasingly electrified and decentralised energy system. However, the Commission's letter is largely silent on the role of quality standards in delivering consumer outcomes. We consider this to be one of the highest priority areas for future regulatory development, given the significant influence quality standards have on both network investment decisions and the prices ultimately paid for by consumers.

Current quality standards were designed for a network characterised by one-way power flows and a relatively consistent customer experience. Measures such as SAIDI and SAIFI are broad average indicators assessed at the high voltage (**HV**) level and do not reflect variances in service quality across different parts of the network, nor the reliability outcomes experienced by individual customers and communities.

As the energy system becomes more distributed, customer outcomes are likely to be less directly linked to HV network outages. In many circumstances, a HV outage may have limited, or no customers impacts due to the presence of distributed energy, storage etc. Equally, when quality standards, incentives and penalties remain focused on HV reliability metrics, networks will continue to be incentivised to maintain traditional N-1 redundancy and invest in solutions that may not represent the most efficient outcome for consumers.

Quality standards significantly influence where, when and how networks invest. Given the Part 4 Commerce Act framework seeks to balance service quality and price, any potential reform of regulatory settings must give significant attention to whether existing quality standards remain fit for purpose in a changing energy system. Ensuring quality measures appropriately reflect customer outcomes will be critical to supporting efficient investment decisions and achieving the right balance between the level of service customers receive and the costs they are asked to fund. If we are to meet the objective of customers not paying for inefficiency, then we need to begin by re-assessing the quality standards which underpin our decision making.

This is particularly important as modern assets are more expensive than the networks they replace. EDBs with low-density, end-of-life rural lines face severe affordability constraints and replacing like-for-like infrastructure build under a different socialised funding model would create a material price shock. Rather than replacing like with like when renewing an asset, an EDB could treat it as a new connection and test customers willingness to pay for lines at their current capacity, whether flexibility could support or extend the asset life, whether local generation or storage can keep supply on and whether customers would prefer a lower-cost service with lower reliability. Regulation

should not simply direct the cheapest way to maintain the service but rather facilitate consumers participation in trade-off decisions.

3. A strength of the regime is ex-ante incentives

Powerco agrees that the regulatory settings need to evolve as the sector responds to electrification and to improve outcomes for consumers. However, we strongly encourage the Commission to preserve the fundamental strengths of the Part 4 regime as the framework has generally provided a stable and predictable environment that supports efficient investment, innovation and long-term decision making while protecting consumers from excessive profits.

A key strength of the regime is that it is primarily incentive-based rather than prescriptive. By establishing clear ex-ante incentives, the framework provides EDBs with flexibility to determine how best to deliver services to their consumers while remaining accountable for the outcomes achieved. The Default Price-Quality Path (**DPP**), while often criticised for not taking into account the different circumstances across EDBs, the fungibility and non-prescriptive nature of it means that EDBs are able to respond to local conditions (growth, customer expectations etc.) without having to comply with predetermined set of operational requirements. Maintaining the ability to innovate, adapt and continuously improve is particularly important as the sector transitions towards a more electrified, digital and decentralised future.

3.1 Ex-ante incentives can more effectively support efficiency

The Commission's letter hints at considering the role of ex-post mechanisms such as suggestions about "*adding customer compensation regime for consequential failure arising from inadequate capability*" and "*capitalisation of new commissioned assets at full value only if procured on a standardised specification and through an 'at scale' procurement arrangement*"[2].

There is risk associated with placing increasing reliance on ex-post assessments, penalties or retrospective judgements regarding investment decisions. It may unintentionally discourage prudent risk taking, reduce innovation and create incentives for businesses to favour conservative or short-term decision making. In our view, clear ex-ante incentives provide a more effective and predictable means of influencing behaviour than increasing reliance on retrospective review.

If it is not the Commission's intention to shift towards ex-post tools, we ask the Commission to confirm that any action from performance assessments would only apply on a forward-looking basis. Although these mechanisms might be aimed at the lowest-performing EDBs, they would not operate in isolation. They would change the incentives facing all EDBs, creating a risk of unintended consequences through reduced regulatory certainty, less predictable outcomes, and weaker incentives to invest efficiently.

[2] Commerce Commission, Open letter – local lines networks: achieving better outcomes for consumers now and in the future, 10 September 2026, pg 5.

3.2 Clear incentives and straightforward regime

A strength of the current regime is the relative simplicity and transparency of the incentives it creates and we are concerned with the complexity some of the Commission's proposals would drive into the framework. Individual interventions may appear reasonable when considered in isolation however, there is risk the cumulative effect of multiple new mechanisms, metrics, disclosure requirements, approval pathways, incentive schemes and penalties can make the overall regulatory framework increasingly complex.

The predictability currently provided by the regime is important. Electricity networks are long-lived infrastructure businesses making investment decisions with asset lives lasting decades. Confidence that the regulatory framework will remain stable and that efficient investments can be recovered over time is fundamental to supporting long-term planning and efficient investment decisions. Uncertainty and unpredictability will also be priced into investment decisions and would weaken the attractiveness of New Zealand electricity distribution sector as a place to invest.

As the framework becomes more complex, it becomes difficult for both regulators and suppliers to understand which behaviours are being incentivised, and which outcomes are being delivered. EDBs may end up facing multiple and sometimes competing incentives when it comes to investment decisions which can reduce the effectiveness of the regime. International experience highlights the importance of maintaining clarity and coherence in regulatory frameworks. Reviews of the Ofwat regulatory regime have noted that over time the framework accumulated multiple layers of incentive, performance mechanisms and regulatory interventions, creating complexity and making it difficult to understand which incentives were driving behaviours and outcomes. Subsequent reviews have highlighted the need to return to a greater focus to core regulatory principles and clearer incentive structures[3].

The key consideration is not whether individual proposals have merit, but whether the overall package creates a coherent set of incentives. Regulatory settings should be assessed collectively to ensure they support clear signals, maintain certainty and avoid unintended cross over between multiple mechanisms targeting the same decision.

3.3 Focus on outcomes, not prescribed business models

Powerco is really encouraged by the Commission's objective of lifting performance across the sector. We believe this is best achieved by regulating for high-performance rather than prescribing a particular model, structure or operating approach. The Commission's letter contains a number of examples that moves beyond outcomes and towards specifying or favouring particular ways of operating such as standardised "at scale" procurement arrangements, or streamlined acceptance path for capex where pricing structures provide clear signals to optimise network capacity utilisation. We discourage this shift towards the Commission becoming increasingly involved in determining how the business should operate rather than focusing what outcomes they should achieve.

The highest performing EDBs often achieve strong outcomes through different strategies, and there is unlikely to be a single model that represents best practice across all circumstances. The regulatory framework should seek to emulate the outcomes achieved by leading performers rather than prescribing inputs, processes or structures used to achieve them. Once regulation starts prescribing how outcomes are delivered, it effectively embeds today's best practice into regulation. The challenge is that future best practice is unlikely to look the same.

[3] Independent Water Commission's recommendations for reform to improve the water sector regulatory system in England and Wales

Our view is that regulation is most effective when it is clear about the outcomes it seeks to achieve, while allowing individual businesses flexibility in how those outcomes are delivered as it creates space for businesses to innovate and respond to local circumstances. Prescription and standardisation come at a cost of innovation, where it can create a compliance mindset and discourage wanting to go first. This is particularly important given the pace of change facing the sector. The capabilities, technology and business models to support the future electricity system are still evolving. Regulation should therefore encourage experimentation, learning and innovation, rather than embedding assumptions about what future best practice will look like. Networks face different circumstances, and preserving flexibility is likely to support greater innovation, stronger accountability and more efficient long-term outcomes for consumers than prescribing a single pathway to success.

Many of the Commission's suggestions in the letter seek to address legitimate issues and may represent effective ways of improving performance. However, we consider these are best viewed as potential means of achieving an outcome, rather than an outcome in themselves. When you step back from the Commission's examples, many of them are trying to achieve three underlying outcomes simultaneously:

1. Lower costs for customers (efficiency)
2. Better investment decisions (utilisation, timing, and asset management capability)
3. Future readiness (innovation).

Many of the Commission's proposals are targeting the same underlying outcomes, but through different and often overlapping mechanisms that influence the same investment decision but from different directions. Faced with future demand growth, an EDB may choose to invest in network capacity, procure flexibility services, develop DSO capability, or rely on pricing signals.

If each pathway is subject to different regulatory rewards, penalties or expectations, the regulatory framework risks implicitly favouring particular approaches over others, rather than allowing EDBs to determine the most efficient solution for their circumstances. Different EDBs may achieve lower costs, better investment decisions and future readiness through different combinations of pricing, standardisation, collaboration, capability development or innovation. Assessing and introducing mechanisms in isolation therefore risks sending mixed signals about how outcomes should be achieved, increasing complexity and effectively predetermining delivery models, rather than focusing on whether the desired customer outcomes are being delivered.

The risk is that EDBs will respond to the strongest regulatory signal rather than pursuing the solution that best delivers long-term value for customers.

3.4 Incentives for consolidation and collaboration

Powerco agrees that there are opportunities for consumers to benefit from greater collaboration, standardisation and consolidation. However, these are not outcomes in themselves but means for delivering outcomes for consumers and we support regulatory settings that encourage efficient collaboration and consolidation through the use of incentives or removing any barriers.

We have previously highlighted that the current regulatory framework provides limited incentives for consolidation. While the costs, risks and implementation effort associated with mergers can be significant, many of the resulting efficiency benefits are ultimately shared with consumers through future regulatory resets. This can reduce the

incentive for businesses to pursue transactions that may be in consumers' long-term interests. We therefore support exploring regulatory settings that better recognise the costs and risks associated with delivering consolidation benefits and welcome the Commission's suggestion in its letter around capitalisation and depreciation of cost incurred with transactions.

Similarly, we support the use of incentives to encourage greater collaboration across the sector where it improves efficiency, capability or service outcomes for consumers. Collaboration can take many forms, including joint procurement, shared services, common platforms, capability sharing and coordinated innovation. The most appropriate and efficient arrangements are likely to differ across EDBs. Rather than prescribing how and when collaboration should occur, regulatory settings should incentivise it.

The INSTA appears to be successful at encouraging collaboration and we support the Commission's thinking to expand the INSTA as a means to support collaborative initiatives. An enhanced innovation funding mechanism, such as a larger and more refined INTSA-style allowance, could provide a practical way of encouraging collaboration on emerging challenges such as flexibility markets, digital capability, DSO functions and other future network capabilities. In our view, this type of incentive-based approach is more likely to deliver meaningful collaboration and enduring consumer benefits than prescriptive requirements.

As the Commission and customers are asking EDBs to fundamentally transform how networks operate while simultaneously increasing affordability pressure, innovation funding mechanisms become more critical.

4. Supporting efficient investment in electrification

As noted in our response to the Commission's Open Letter on DPP5, a key challenge for future regulatory settings is that the expenditure required to support future customer needs may look substantially different from historical expenditure patterns[4].

Historically, distribution network expenditure has largely been driven by traditional asset replacement, maintenance and network reinforcement activities. While these remain essential components of delivering safe and reliable electricity services, the transition to a more electrified and decentralised energy system is driving expenditure in areas that have historically played a smaller role within the regulatory framework.

Increasingly networks are investing in digital capability, network visibility, data and analytics, cyber security, flexibility services, customer platforms and emerging DSO functions. Many of these activities are operational rather than capital in nature, and operational expenditure is expected to play a greater role in delivering efficient consumer outcomes. In particular, non-network solutions may defer or avoid traditional network investment and provide a lower-cost pathway for consumers.

This presents a challenge for a regulatory framework that relies heavily on historical expenditure patterns to establish future expenditure requirements. Approaches such as Base-Step-Trend (**BST**) forecasting and capex scaling work best where historical expenditure provides a reasonable indicator of future needs. As the nature of

[4] Powerco, response to the Commerce Commission's open letter on electricity DPP5, 7 October 2025,

network services evolves, this assumption becomes increasingly difficult to rely upon across all categories of expenditure.

Rather than applying a single forecasting methodology to all expenditure categories, the Commission should consider whether different categories of expenditure warrant different regulatory treatment depending on the type of expenditure and whether historical expenditure remains a reliable predictor of future needs.

Traditional business as usual expenditure including many back office and support functions may remain suited to the existing BST approaches. However, expenditure associated with emerging capabilities, non-network solutions, digital enablement and future system operation may require greater reliance of forward looking evidence such as asset management plans supported by independent verification / review.

The Commission could also make greater use of existing regulatory tools, including reopeners, targeting funding arrangements and use-it-or-lose-it allowances, to manage expenditure that is novel, rapidly evolving or inherently uncertain. These approaches could be supported by increased scrutiny of expenditure assumptions, targeted reviews of specific expenditure categories, greater focus on the base-year and additional assurance where required.

This would allow funding decisions to be informed by better evidence as expenditure requirements emerge, while preserving flexibility and avoiding the risk of over-or under-funding future capability requirements.

The Commission discusses streamlined acceptance paths. We believe this should be framed as streamlined acceptance paths where good industry practice is demonstrated, and investment needs are evidenced.

In addition to this, there are opportunities to improve the performance of EDBs by utilising existing tools more to strengthen reputational incentives. For example, the Commission could expand its summary and analysis obligations, and use of information disclosure data by applying benchmarking to identify EDBs showing persistent capability gaps, and over-or underinvestment. For those EDBs, the Commission could apply targeted mechanisms that are already utilised under CPPs such as independent verification of asset management plans and annual delivery report reporting obligations. This would be a proportionate tool targeted to EDBs with capability gaps.

5. Evidence that delivers benefits to customers

In asking what “good” looks like, the Commission is seeking evidence of behaviours that improve outcomes for customers. We do not suggest Powerco has all the answers, and we continue to evolve our approach. However, our experience points to several practices that have delivered demonstrable benefits for customers in the form of lower costs, better investment decisions and improved future readiness. Our key takeaway is that “good” EDBs don’t do all the same things, they have the capability, information and incentives to make consistently good and informed decisions. We set out some examples below that we know have delivered or will deliver for customers.

Using a risk-based approach to avoid unnecessary expenditure

Powerco has progressively shifted its asset management approach towards prioritising expenditure based on total monetised risk[5]. This has enabled investment to be targeted where it delivers the greatest customer value and avoids expenditure where risk can be managed through alternative means.

This approach has delivered tangible affordability benefits in AMP26 and demonstrates how stronger asset management capability can improve investment efficiency while continuing to appropriately manage network risk:

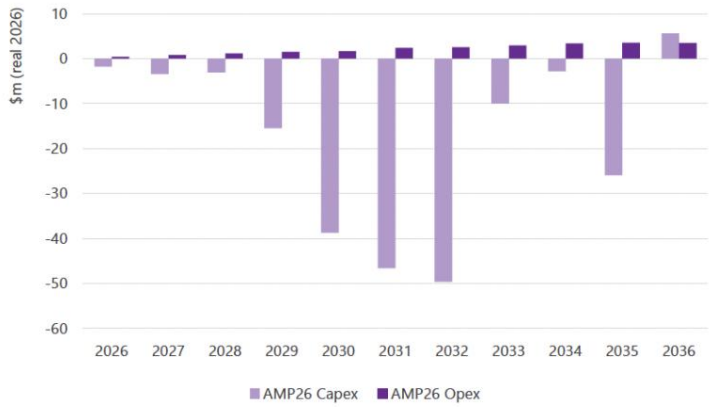
- Powerco moved $1.054 billion of overhead fleet expenditure (about 25% of the plan) to explicit risk-based strategies.
- Powerco deferred $60 million in underground cable renewals by refining Probability of Failure model assumptions.
- Powerco reduced the ECP34 transformer risk programme cost by $28 million while reaching as low as reasonably practicable (**ALARP**) risk status 3.5 times sooner.

Using flexibility to defer traditional network investment

Another characteristic of a "good" EDB is the ability to consider both network and non-network solutions when responding to growth.

Powerco's 2026 AMP identifies over $100 million of planned growth capex that is likely to be deferred over the 10-year forecast period using flexibility to reduce network loadings at peak. This is the direct result of Powerco applying its experience from early trials in the use of flexibility and systematising the way in which we identify the opportunity for investment deferral and organise formal market tenders for flexibility services to maximise the size and duration of investment deferral. The figure below from our AMP26 highlights the potential capex deferral through the use of flexibility procurement.

Figure 3.7: Forecast Capex deferred through flexibility, and associated Opex cost of flexibility procurement



[5] Wishart, A. and Jarman, A. From Condition to Risk: Maturing Overhead Renewal Strategies to Support Affordable Electricity, Powerco, Rev 0, August 2026. Presented at EEA conference September 2026.

Building capability to make better decisions faster

Another characteristic is investing in the systems, data and capabilities necessary to make informed decision and respond quickly to changing customer and regulatory needs.

Over the past decade, Powerco has made significant investments in asset management, operational and analytical capabilities including SAP, ADMS, ISO55000, Copperleaf and supporting data and analytical platforms (Gridsight). These investments have improved our understanding of network condition, utilisation and hosting capacity, enabling more targeted, efficient and customer-focused investment decisions.

Importantly, these capabilities have also improved our ability to respond quickly to emerging opportunities. For example, Powerco introduced export rebates for small customers ahead of formal regulations because we had sufficient understanding of future network requirements and local hosting capacity to support the change with confidence. Similarly, we were able to respond quickly to increased default export limits because we had visibility of where network constraints existed and where additional exports could be accommodated.

In practice, these investments reduce the need for conservative assumptions and risk margins, enabling more efficient outcomes for customers.

Building capability through accountability and justification

A common theme across these examples is that they were enabled by strong incentives to justify expenditure, demonstrate value for money and improve decision-making capability.

Many of Powerco's investments in systems, data quality and asset management capability were accelerated through the scrutiny associated with the CPP framework and application process. The requirement to robustly justify expenditure encouraged the development and/or adoption of analytical tools and processes that support better long-term decisions and lower lifetime costs for consumers. While some of these changes may be specific tools (e.g. Copperleaf), others were about the internal processes to scrutinise decisions or obtain Board approval.

Powerco vision to be customer focused and has put considerable effort into integrating that lens into our internal processes and decision-making frameworks. Our Board has very high expectations and tests, which have grown as a result of the CPP experience, and their strong commercial focus. The governance discipline of our Board does influence Powerco’s objectives, financial discipline and oversight to drive efficient investment and consumer outcomes. As outlined above, there is an opportunity for the Commission to make more use of director certification, or monitor governance discipline across the sector.

Taken together, these examples suggest that "good" is less about adopting any particular business model or process, and more about building the capability to consistently make efficient, evidence-based decisions that balance cost, risk and service outcomes for customers.

Benefits of scale

Powerco's purchase of Firstlight is expected to result in a number of financial and non-financial benefits. These benefits were built into our acquisition business case and we are very confident these and more will be delivered. Examples of some of the benefits are set out below:

- Financial
  - Economies of scale realised through opportunities to remove duplicate roles and functions
  - Reduced business system costs by integrating Firstlight into Powerco systems, including removing duplication in systems and licences.
  - Reduced compliance costs through needing to complete corporate and regulatory compliance activities for one business, not two, reducing overhead resources and external compliance costs.
  - Significant cost reductions, for example Powerco's insurance premiums did not increase from prior year when Firstlight was not included.
- Capability and reliability
  - Accelerating asset condition assessments through systems such as LiDAR and pole top photography across the Firstlight network enabling improvements in network reliability to be realised sooner
  - Network operations at Firstlight will have greater automation, resilience and response in emergency through the Powerco operations centre.
  - Larger resource pool to respond to emergency events or outages in the Firstlight area through access to Powerco staff and contractors.
  - Growth, learning and career opportunities for Firstlight staff with access to additional career pathways at Powerco, retaining and growing skills in the sector.
- Electricity services
  - Firstlight customers will get access to reduced costs to connect to the network when we align the region to our standard practices.
  - Extending our account management service to large demand and generation customers in the region.
  - Improved customer facing information and tools giving customers more timely information such as outage, capacity, and constraint maps.

6. Responses to the Commission's questions

The first table answers the Commission's ten questions. The second gives our view on each of the illustrative changes and on other statements in the open letter.

Consultation questions	**Comments**
Questions on the vision	
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, we broadly support the Commission's vision and agree that EDBs should: • Deliver core network operations efficiently and effectively. • Have commercial arrangements that support efficient utilisation and investment.

Consultation questions	Comments
	• Build the capability required to support electrification and future consumer needs. However, we consider these are enablers rather than outcomes in themselves. The ultimate focus should not be prescribing these, but rather be on the outcomes consumers receive, including affordability, reliability, resilience, efficient connections and support for electrification.
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?	Yes, the vision could more explicitly recognise: • Consumer outcomes • The importance of quality standards and their link to investment decisions. • Trade-offs between affordability, resilience, service quality and future readiness. • Anticipatory investment and intergenerational equity considerations. • The changing nature of network expenditure and growing importance of operational expenditure, digital capability and flexibility services. • The importance of preserving strong regulatory incentives and avoiding unnecessary complexity.
Questions on priorities and capability	
3. What are the industry's priorities, based on the needs of current and future consumers, and are we aligned?	Broadly aligned. Key priorities are supporting electrification, affordability, facilitating efficient investment, improving customer outcomes, and building the capability required to support future consumer needs.
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?	1. Relevant quality standards 2. Good asset management capability 3. Maintaining strong investment incentives and regulatory certainty. 4. Developing future capability, flexibility and DSO functions.
3.2. How should priorities be valued/evaluated, and what level of assessment or quantification may be good enough for proposed regulatory interventions?	Regulatory interventions should be proportionate to the demonstrated problem and/or benefit of the solution to consumers. Regulatory interventions should be assessed based on whether they improve customer outcomes through lower long-term costs, better investment decisions, efficient asset utilisation, and improved future readiness. Proposed interventions should be considered as a package rather than individually.
4. How are EDBs internally determining the capabilities required to deliver most effectively and efficiently for their consumers and setting the path towards a	Capability development should be guided by customer needs, future network requirements and improved decision making.

Consultation questions	Comments
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?	We have a range of metrics which are monitored by our board each month, which tracks a range of metrics alongside core financial and quality metrics related to: • Health and safety. • Customer metrics: number, volume/capacity, applications, complaints, outage comms, customer satisfaction etc. • Delivery and performance.
Questions on what is needed and how quickly	
5. What is needed from regulators/regulation/legislation to enable achievement of the vision and outcomes?	Regulation should preserve the strengths of the existing incentive-based framework, support efficient investment for electrification, improve quality standards, and provide flexible approaches to funding emerging expenditure categories. More scrutiny will encourage EDBs to invest in capability / tools to help them justify their decision making. PQ regulation for all will ensure that consistent regulation is applied to all EDBs.
5.1. What other enablers are important or essential within our, or other, regulatory regimes?	Greater alignment across regulatory initiatives, including Commerce Commission, Electricity Authority and Government reforms. Cost-reflective pricing, innovation funding and flexibility market development will all play important roles.
5.2. What should we deprioritise/reduce regulatory burden on?	Additional prescriptive requirements, overlapping incentives, and information requests that duplicate existing disclosure obligations. Priority should be placed on existing mechanisms before introducing new regulatory tools.
6. What timescales are feasible?	The Commission can use its existing powers today, particularly through summary analysis: publishing comparative performance data, recognising asset management maturity, and comparing disclosures. More substantial reform should be considered through the DPP5 process. Fundamental capability shifts will occur progressively, and regulator expectations will need to recognise that capability maturity varies and monitor this across the sector.
6.1. For EDBs, do you have a clear work programme which identifies when certain capabilities or insights will be more readily accessible?	Yes. Powerco's AMP sets out its pathway to support increasing flexibility, improved asset management capability and progression toward DSO-type functions and customer transformation.
Questions on smaller EDBs and consolidation	
7. For smaller EDBs, where cost is identified as the key reason for not progressing system or capability	N/A – for Powerco

Consultation questions	Comments
development - how is the impact of this assessed and quantified?	
8. What are the barriers to increased consolidation and standardisation within the Part 4 regime? What is needed to overcome or reduce these barriers?	A barrier to consolidation is that transaction and integration costs are high. There is limited ability to retain a sufficient share of efficiency gains as benefits are shared through future resets. Regulatory settings should allow transaction costs to be capitalised into the RAB and amortised over time, alongside acquisition-related reopeners would improve this. The joint submission of the Big Six PQ-regulated EDBs to MBIE notes that the Alpine and Aurora deal ended for lack of a governance model or incentive framework, not because of the business case. Incentives for standardisation, not being told when/how to standardise will improve outcomes in this space.
Questions on alternatives and process	
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?	The Commission could do a lot within existing tools, which would significantly improve the settings by placing greater emphasis on: • Expenditure justification. • Customer trade-off decisions. • Improved quality metrics. • Targeted assurance and verification. • Scrutiny of expenditure proposals. • Innovation funding. • Look at different methods for determining expenditure envelopes: treating categories differently and expanded uncertainty mechanisms and reopeners.
10. On the Commission's process from here - how do you think our work programme could be best developed in coordination with the sector?	The Commission could develop and implement the work programme through: • Continue early engagement with the sector. • Use workshops to test ideas before developing detailed proposals. • Work closely with other regulators to avoid duplication. • Focus first on defining desired outcomes before determining regulatory mechanisms. • Assess reforms as an integrated package and consider interactions across the broader regulatory framework.