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6 November 2026

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

Transpower welcomes the opportunity to respond to the Commerce Commission's open letter *Local lines networks: achieving better outcomes for consumers now and in the future*, published on 10 September 2026.

Transpower supports outcomes-focused regulation

Transpower supports the focus of the Commission's vision on consumer outcomes under the Part 4 objectives. While the vision is EDB centric it must be ultimately focussed on d*elivering outcomes that are to consumers' long-term benefit*.

The vision identifies three main desirable attributes for EDB performance that we consider would align with the views of network operators:

- efficient and effective core network operations
- commercial arrangements that support better use of network capacity and alternatives to traditional investment, and
- the future capability to respond to changing consumer needs, technology and sector conditions.

These themes, in our view, are reflected those identified in the Annex 1 2026-07-07 - Letter to EDB Chief Executives[1], which include improving efficiency, supporting innovation, and reducing unnecessary duplication through collaboration and standardisation. They are also consistent with the Commission's broader regulatory direction, including its work on Competition in Connections[2], which emphasises outcomes for consumers and efficient service delivery. Viewed through the consumer lens, the appropriate focus is whether outcomes consistent with workably competitive markets are being achieved, consistent with the statutory purpose in section 52A of the Commerce Act 1986.

[1] Hon Simeon Brown Minister for Energy Annex 1 2026-07-07 - Letter to EDB Chief Executives
[2] Commerce Commission sets expectations for competition in electricity connections 13 August 2026

Regulated suppliers operate in widely varying circumstances, shaped by differences in network scale and characteristics, geography, consumer preferences and investment needs. It is unlikely that one business model, operating approach or capability pathway will suit every supplier. A one-size-fits-all approach could effectively impose inefficient costs on an EDB's consumers and/or constrain solutions better suited to their needs.

Where there are likely to be differing views across the industry on how best to achieve statutory outcomes, it may be useful to step back and assess whether an intervention is likely to improve those outcomes and deliver net consumer benefit, rather than whether suppliers are following a particular approach.

Consistent with that principle, the regulatory framework should retain sufficient flexibility to accommodate innovation, learning, capability development and new approaches where they provide a reasonable prospect of improving long-term consumer outcomes. We note that the advice from consultancy Asset Dynamics[3] for MBIE, identified a range of initiatives involving smarter network operation, flexibility services, improved network data, enhanced planning capabilities, and distribution system operation arrangements. Collectively, these initiatives highlight the importance of capability development, learning, coordination and transformation activities across the sector as a means of improving long-term efficiency and consumer outcomes. Many of these benefits are likely to emerge progressively over time and may not be fully reflected through existing incentives at the point investment decisions are made.

In this regard, we welcome the Commission's recognition that efficient transformation and capability development may warrant appropriate regulatory support, including innovation-based funding mechanisms.

Interventions should be evidenced, proportionate and net beneficial

Before progressing any illustrative measures, the Commission would need to establish a well-supported basis that:

- there is evidence of a material problem that existing regulatory incentives do not adequately address
- the intervention is directed at an outcome under the Part 4 objectives
- the expected consumer benefits for an EDB exceed the direct costs of implementation, administration and compliance costs
- the measure can operate predictably within a relatively low-cost DPP and
- the measure preserves suppliers' incentives to choose the most efficient means of achieving the required outcomes.

The Commission should distinguish between measures intended to address a demonstrated regulatory problem and measures intended to encourage the adoption of a preferred industry practice. While both may have merit, they raise different regulatory considerations and should each be tested against the criteria above.

[3] Asset Dynamics, Independent advice and recommendations - Electricity distribution business efficiency 9 April 2026

Consolidation and standardisation need clear regulatory support to overcome barriers

We agree with the Commission's illustrative measures for capitalisation and depreciation treatment to reduce barriers on funding arrangements that deliver scale or shared capability, and for funding transformation activities.[4]

Costs, uncertainty and misaligned incentives impede consolidation and standardisation, for example:

- the lack of an approach for agreeing standards to adopt and whether they should be mandatory or recommended
- upfront transaction and implementation costs before efficiency benefits are realised
- uncertainty about the size, distribution and timing of benefits, when dependent on multiple parties
- opportunity costs, particularly for organisations with limited specialist capability
- consequential changes to systems, processes, contracts, operating practices, governance arrangements and staff capability
- perceived loss of autonomy and flexibility.

We also consider statutory pathways for joint-service or operational arrangements could be developed, similar to those introduced for regulating water services.

Managing non-point load system growth through flexibility [5]

We support the role that flexibility services may be able to provide to manage load growth.

However, for system growth driven by the aggregate demand of many smaller consumers (non-point load growth), we consider flexibility services may likely be unsuitable for this type of investment need. In situations where there is no single constraint that flexibility can be targeted at, it would require suppliers to undertake time consuming and likely ineffective processes for managing non-point load growth. Making capitalisation (assets in the RAB) contingent on this process would necessitate evidence requirements and expose investment decisions to ex-post scrutiny, increasing compliance costs and creating future investment uncertainty contrary to the Part 4 objective for incentives to innovate and invest. OFGEM[6] describes the role for flexibility as an approach to minimise consumer impacts in the short term while retaining option value, but also that it is

> "*not a substitute for necessary reinforcement: capacity must be delivered in time to meet customers' needs, and Distributor Network Operators should not delay investment decisions beyond the point at which infrastructure can still be delivered in time without risking connection delays*."

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[4] The Commission writes *The legitimate efficient costs of enablement/transformation should be compensated* and *Capitalisation and depreciation of costs incurred in transactions which result in aggregation of EDBs, which would otherwise be recognised as opex*.

[5]The Commission writes *In future, reduce capitalisation into the RAB of non-point-load system growth expenditure, where an EDB has failed to deliver meaningful flexibility incentives through pricing and localised contracting arrangements and/or lacks capability to manage/orchestrate flexible demands*

[6] OFGEM ED3 Sector Specific Methodology Decision May 2026 page 8 (also 2.124 page 40)

Further, while cost-reflective pricing (incentivising flexibility) should help moderate aggregate demand, consumer uptake and response is inherently uncertain, including because some retailers may not be passing distribution price signals through to their consumers.

Yours sincerely

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