6 November 2026

Simon Wakefield
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Commerce Commission
Wellington 6011
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Dear Simon

Feedback on open letter – local lines networks

1. This is Vector's response to the Commerce Commission's (Commission) *Open letter – Local lines networks: achieving better outcomes for consumers now and in the future.*

2. We support the joint submission made by Large Distribution Group[1] that sets out our shared positions on the topics raised in the open letter. This submission sets out additional comments and provides further detail on areas of particular importance to Vector.

Vision for the sector

3. We strongly support the Commission's indicative vision for the sector of –
    - EDBs delivering core network operations well;
    - EBDs having strong commercial arrangements in place; and
    - EDBs building strong capability for the future.

4. As reflected in the vision statement, future performance should be judged both by how effectively EDBs build and operate assets and by how effectively they manage capacity and enable wider-system use of the network.

5. The open letter notes the vision is EDB centric due to the Commission's regulatory role. While this focus is appropriate, we consider that overall success should be measured at a whole-of-system level, recognising that enduring benefits for consumers depend on the coordinated performance of all parts of the electricity supply chain, rather than the performance of EDBs in isolation.

Ongoing conversation between stakeholders is needed to deliver the vision

6. We appreciate the Commission's focus on the future. We are already moving towards many aspects of that vision through our strategy, which is focused on enabling the energy

[1] Aurora, Orion, Powerco, Unison, Vector and Wellington Electricity

transition, improving customer outcomes, strengthening resilience, and delivering efficient long-term investment. As such, many of the outcomes identified in the Open Letter are consistent with the direction already reflected in our planning and decision-making.

7. We are supportive of continuing to evolve the regulatory framework to support consumer outcomes. Our joint submission by the Large Distribution Group to MBIE's review of electricity distribution regulation supported measures including transitioning to an IPP regime, using benchmarking to inform regulatory decisions, and encouraging greater collaboration and standardisation across EDBs.[2]

8. We consider ongoing dialogue between regulators, EDBs and other stakeholders to be essential as the framework evolves and have appreciated the Commission's willingness to engage.

9. Achieving the vision outlined in the Open Letter will require careful consideration of a number of inherent tensions within the regime. For example:

- **Connection experience vs minimising opex**: Delivering faster and more customer-centric connection processes often requires greater investment in people, systems and capability, which may not be fully aligned with incentives to reduce operating expenditure in the short term.
- **Flexibility vs minimising opex**: Similarly, greater use of flexibility services, demand response and other non-network solutions can improve network utilisation and defer capital expenditure. However, these solutions often involve ongoing operational costs, creating a potential tension between efficient service delivery and incentives to minimise opex over the regulatory period.
- **Readiness for growth vs avoiding over-build**: EDBs are expected to accommodate electrification and customer growth while simultaneously maximising asset utilisation and avoiding unnecessary investment in network capacity.
- **Short term efficiency vs long term capability**: Pressure to reduce costs in the near term can sometimes sit uneasily alongside the need to invest in workforce capability, digital systems and organisational capacity required to support a more complex future energy system.
- **Resillience vs affordability**: Customers increasingly expect networks to be resilient to severe weather events and other emerging risks. Delivering higher resilience can require upfront investment that may increase costs in the short term while delivering benefits over a longer timeframe.

10. Continued engagement will help ensure the framework is designed in a way that appropriately navigates these trade-offs and delivers benefits for consumers.

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[2]Available:https://media.vector.co.nz/production/documents/jointsubmissionaurorao rionpowercounisonvectorwetombie.pdf

Priorities for better long-term consumer outcomes

11. We consider the industry's priorities should centre on safe, reliable and resilient services, timely and financeable investment for growth and electrification, and better use of existing capacity through visibility, pricing, flexible connections and non-network solutions.

12. Delivery will require digital, data, cyber security and workforce capability, alongside improved connections and customer experience.

Appropriate incentives should be the focus

13. The open letter signals the Commission's intention to apply stronger financial and reputational incentives than in the past to drive improvements.

14. We consider incentives that reward continuous improvement are the best way to drive outcomes.

15. Financial penalties should not apply until there is confidence the relevant metrics and data are accurate, consistently measured and sufficiently contextualised to support fair assessments of EDB performance.

16. Maintaining investment confidence and EDB financeability is crucial for EDBs to meet the vision set out in the letter. Accordingly, mechanisms that reduce certainty around efficient cost recovery should be avoided.

17. Similarly, we recommend the Commission commit to testing and maintaining EDB financeability ahead of DPP5. This will support investment confidence in a time of significant regulatory change.

18. Of the options suggested in the letter:

Suggested regulatory change	**Vector view**
EDBs delivering core network operations well	
EDBs are rewarded through regime incentives, including streamlined allowance acceptance paths for the application of higher quality asset management practices, such as ISO5500	We support streamlined allowance assessment where EDBs demonstrate higher quality asset management practices, although adoption of ISO5500 should not be mandatory. This should include that EDBs can evidence they have appropriately assessed non-network alternatives and pricing options.

	Greater use of independent verification reports could also enable more streamlined assessment.
Operating costs are assessed using standardised cost per installation control point (ICP) for back-office functions.	This would be a useful metric to inform (but not automate) consideration of operating costs. It shouldn't be used to set allowances until there is confidence the reasons for differing network costs are accounted for. Appropriate design of any benchmark and the collection of high-quality data should be the initial focus.
Consumer compensation regime for consequential failures arising from inadequate capability (e.g., cyber-based network outages due to immature cyber defences)	We consider greater use of incentives (e.g. reward/penalties) would be simpler to implement than a consumer compensation regime. This is because EDBs don't have a direct relationship with the customer. There may be some complexity if an EDB is required to provide compensation directly or through the retailer.
Capitalisation of new commissioned assets at full value only if procured on a standardised specification and through an "at scale" procurement arrangement.	We consider assets should be capitalised at full value provided the cost is efficient. At scale procurement and standard specification could be a way to demonstrate costs are efficient, however, this should not preclude other efficient investment. We strongly support developing standard specifications and removing barriers for shared procurement. Competition law (and the perception of risk under competition law) remains a barrier to shared procurement by EDBs. We recommend a class exemption to address this.
EDBs having strong commercial arrangements in place	

EDBs are rewarded for efficient network utilisation through greater application of utilisation metrics in assessing expenditure programmes and incentive outcomes	This would be a useful metric to inform (but not automate) decision making. Utilisation metrics can provide useful information on network performance, but should not be treated as a standalone measure of efficiency. Lower utilisation may reflect efficient forward-looking investment, including where building ahead of demand minimises whole-of-life costs and supports timely connections, resilience and future growth. EDBs should be rewarded for efficient network utilisation, including where investment ahead of demand delivers the most efficient long-term outcome. This requires recognition of justified anticipatory investment, taking account of long delivery lead times, where there is a time-limited opportunity to coordinate with other infrastructure providers, the option value of maintaining capacity and the costs of providing capacity too late.
Streamlined acceptance path for capex where pricing structures provides clear signals to optimise network capacity utilisation.	We support introducing a streamlined acceptance path where EDB pricing provides clear signals to optimise network capacity utilisation. We see pricing as a key lever to promote efficient investment.
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 (i.e., lacks sufficient distribution system operation (DSO) functionality	This could be an appropriate mechanism in future. EDB ability to reduce system growth expenditure through these mechanisms also depends on other parts of the system (i.e. that retailers offer appropriate pricing packages responding to these signals and that contracts for flexibility are available).

EDBs building capability for the future	
Larger innovation-based funding mechanisms with a wider scope where EDBs are applying leading practice	We support this as a logical development of innovation funding. INTSA has been a step up from DPP3 innovation allowances. DPP4 has seen greater innovation expenditure from EDBs and should lead to these innovations and innovation practice being embedded in EDB processes. Ahead of DPP5, it will be worth assessing how EDBs have performed under INTSA and how innovation can be further incentivised.
The legitimate efficient costs of enablement/transformation should be compensated	We agree and support exploration of additional tools that could better support efficient enablement/transformation costs to be compensated. This includes LV visibility and DSO preparation. Use-it-or-lose-it allowances and greater use of pass-through/recoverable costs could be candidates to enable the recovery of legitimate efficient enablement/transformation costs.
INTSA for preparation for operation of DSO functionality on an EDB's network, leveraging off activities already undertaken by other EDBs and collaboration	We support INTSA as a mechanism for EDBs to enable DSO functionality and agree it will be important to leverage off activities already undertaken to avoid funding the same lessons.
Capitalisation and depreciation of costs incurred in transactions which result in aggregation of EDBs, which would otherwise be recognised as opex	We support this as a greater incentive to promote aggregation where this is the most efficient approach.

Appropriate metrics

19. Appropriate data collection should be a priority if benchmarking is to provide meaningful insights. This requires consistent definitions, reliable data and metrics that reflect the outcomes that matter to consumers.

20. We support broader customer experience measures, particularly those focused on the worst-served customers, to complement existing network-wide reliability measures and improve consumer outcomes. We recommend CEMI-4 (customers experiencing multiple interruptions) which measures the proportion of customers experiencing 4 or more interruptions per year, helping identify where improvements are needed to deliver better outcomes for the worst-served customers.

21. The open letter also suggests greater application of utilisation metrics which we support. However, caution is needed when interpreting utilisation metrics. Lower utilisation does not necessarily indicate inefficient investment, as providing capacity ahead of demand can reflect the most efficient long-term network development in some circumstances.

22. Assessment of EDB utilisation will need to reflect justified anticipatory investment as well as efficient use of existing capacity, taking account of long delivery lead times, option value and the costs of capacity being unavailable when needed. Sometimes the most efficient time to invest is when the opportunity arises, rather than when the capacity is immediately needed. Coordinating with road, telecommunications or water infrastructure works can provide a one-off opportunity to install future capacity at substantially lower cost than returning later.

23. The European Commission's *Guidance on Anticipatory Investments for Developing Forward-looking Electricity Networks* provides a framework for assessing anticipatory investment. The guidance recognises both the potential benefits of anticipatory investment and the risks associated with investing under uncertainty, including the risk of assets being underutilised or stranded. It therefore supports robust, forward-looking assessment and appropriate risk management, while cautioning against relying on short-term utilisation as the principal measure of efficiency.[3]

24. In particular:
    - The guidance recognises that investing ahead of immediate demand can minimise whole-of-life costs, identifying as one example "putting down spare cable tubes in ditches to be ready for future capacity increases, since a second round of civil work may entail significant costs and time to attain new permits."[4]
    - The Guidance recognises that anticipatory investments may initially appear less efficient under conventional benchmarking because their benefits and utilisation emerge over a longer period. It therefore states that benchmarking practices should "account for anticipatory investments and, thus, not be based solely on historical

[3] Available: https://eur-lex.europa.eu/eli/C/2025/3179/oj/eng/pdf
[4] Page 3/14

information or short-term effectiveness", as otherwise networks undertaking those investments may show negative relative performance, creating "mis-incentives". [5]

- It similarly cautions against judging an investment retrospectively solely by whether actual utilisation matches the assumptions made when it was approved, noting that "ex post penalties to system operators for actual network asset utilisation that differs from the expectation at the time when the anticipatory investment was assessed may pose a significant disincentive to future investments". [6]

25. These principles support a forward-looking and context-sensitive approach to utilisation metrics, under which performance is assessed against the reasonableness of the investment decision at the time, including expected whole-of-life benefits, the costs of delaying investment and future demand uncertainty, rather than short-term utilisation outcomes alone.

Opportunities to simplify the regulatory framework

25. We appreciate that the Commission is also seeking views on removing unnecessary regulatory requirements.

26. We consider that some of the greatest gains are likely to come from streamlining AMP requirements.

27. A review could consider whether AMP requirements better distinguish between enduring asset management policies and information that changes materially from year to year. For example, EDBs could update material changes to investment plans, asset risks and delivery priorities without reproducing unchanged descriptions of policies and processes.

28. We consider it is likely more efficient to produce a full AMP every two years without requiring an annual AMP update. This should also be coordinated to DPP resets.

29. There may also be opportunities to consolidate information requested across AMPs, other information disclosures and price-quality regulation, allowing EDBs to reference existing material rather than restating it in different formats.

30. As discussed above, we support streamlined expenditure assessment where EDBs demonstrate higher quality asset management practices.

The process from here

31. We appreciate the Commission is considering what is needed from the regulators to achieve its vision for the sector.

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[5] Page 10/14
[6] Ibid

32. We consider a jointly developed roadmap that brings together the Commission's work programme and related initiatives led by MBIE and the Electricity Authority is needed (as suggested in the ENA submission). This should set out clear priorities and a timetable identifying what can be progressed before DPP5, through the DPP5 reset, through an input methodologies review, or following legislative change.

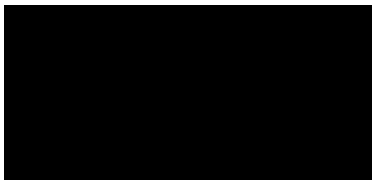
33. Ongoing engagement will be crucial. As set out in the Large Distribution Group joint submission, we are eager to workshop with the Commission to define a clear problem definition and work through ideas and delivery considerations for responding to any problems identified. We consider in person engagement should be prioritised as an efficient way to test ideas across all stakeholders.

34. As thinking evolves, providing EDBs with opportunities to verify data and explain relevant network circumstances will be needed to support a sound evidence base for decision-making.

35. We also recommend the Commission set out its views where the regulatory position is clear to better provide confidence for EDBs.

36. We look forward to continuing to engage constructively with the Commission as this work progresses.

Yours sincerely



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