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Commerce Commission
PO Box 2351
Wellington 6140

Via email: Infrastructure.Regulation@comcom.govt.nz

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

WEL Networks appreciates the opportunity to provide feedback to the Commission's open letter.

WEL Networks (WEL) is New Zealand's sixth largest electricity distribution company and is 100% owned by our community through our sole shareholder WEL Energy Trust. Our guiding statement of strategic intent is to be leading Waikato's energy future, and we work to ensure that our customers have access to reliable, affordable, and environmentally sustainable energy.

WEL supports the Commission's focus on ensuring EDBs continue to provide safe, reliable, and resilient network services while building the capabilities required for New Zealand's energy transition. However the letter seems to be starting from a position that there are systematic inefficiencies across all EDBs, resulting in poor customer outcomes and stronger regulation is required to address this. A position that is not supported by robust evidence. Regulation should remain focused on improving long-term consumer outcomes rather than prescribing a single operating model or detailed requirements that may not reflect the diverse circumstances of individual networks.

WEL does not support a one-size-fits-all benchmark for EDB performance. Scale and structure of EDB's have been examined in the past with no evidence that an EDB's size or ownership is a predictor of efficiency or customer outcomes. Rather removing the regulatory exemption from EDBs such as WEL would in all likelihood would add significant functional overhead and increased costs that would otherwise go into network and customer improvements. Any measurable attributes should reflect network-specific circumstances and focus on whether an EDB:

- Delivers safe, reliable, and resilient services;
- Demonstrates sustainable efficiency;
- Focuses on customer and consumer outcomes;
- Applies strong commercial discipline;
- Enables electrification;
- Digitalises where it creates value;
- Collaborates and standardises where it creates value; and
- Operates transparently and accountably.

In our view, the outcomes that matter most are affordability, reliability, resilience, efficient utilisation of existing network capacity, enabling electrification, and timely customer connections. EDB capabilities should be viewed as enablers of these outcomes rather than objectives in their own right.

A practical example of this approach is WEL's revision of its N-1 security of supply methodology. Historically, N-1 was based on a single set of operating limits using conservative assumptions and embedded margins. With improved data and network visibility, capacity can now be assessed across

multiple time domains using site-specific information, including instantaneous, time-bound, and steady-state limits.

The objective is to maximise the value of existing assets without increasing risk. Applying this methodology to a substation previously considered near capacity identified an opportunity to defer a $15 million capital project by approximately six years, delivering an estimated NPV benefit of $5 million while remaining within sound engineering limits and supported by straightforward operational responses.

WEL considers sequencing of capability development to be critical. Before advanced solutions such as widespread flexibility services, sophisticated pricing signals, and enhanced DSO functions can be realised, EDBs must first invest in foundational capabilities including data quality, network visibility, forecasting, modelling, digital systems, cyber security, operational processes, and workforce capability. WEL is already advancing in this space on a number of fronts. We have transitioned to using Copperleaf for our asset planning and management. This is providing more mature investment decisions which include consideration of non-network solutions as mandatory. We have made organisational structure changes to bring to realisation a DSO/DNO operation to more effectively manage future energy flows.

The Commission should therefore place greater emphasis on realistic transition pathways, capability development, and evidence-based decision-making. Regulatory interventions should be proportionate, underpinned by a clear consumer benefit case, and allow EDBs to pursue the most efficient solution, whether through traditional network investment, non-network alternatives, or a combination of both. Making capitalisation of new assets conditional on a standardised specification or procurement would be penalising investment because of its method rather than its outcome. Similarly imposing financial consequences where flexibility is deemed inadequate risks discouraging needed investments while sector DSO capability and flexibility markets are still developing.

WEL supports collaboration, standardisation, and shared capability where these deliver genuine consumer benefits such as WEL and Waipa Networks co-hosting our distribution management system and control room services resulting in cost to serve reductions for both businesses. However, ownership consolidation should not be assumed to be the primary means of achieving efficiency. EDBs already collaborate extensively through industry forums, emergency response arrangements, innovation initiatives, and shared service models. This is demonstrated through WEL and PowerCo (and other Australian EBDs) sharing learnings in use of Copperleaf and WEL's showcasing of its Distributed Generation online application process to other EDBs. By demonstrating both the technical implementation and customer benefits, WEL has helped other networks accelerate their own approaches while supporting greater consistency in the customer experience.

Any future regulatory approach should build on and encourage such arrangements as well as having clear outcomes rather than prescribed solutions, strong evidence to justify intervention, realistic transition pathways, appropriate funding mechanisms and be coordinated across all regulatory bodies.

Finally, WEL believes the Commission's future work programme should follow a staged, evidence-based process that:

- Aligns on desired consumer outcomes;
- Identifies material performance gaps;
- Understands the causes of those gaps; and
- Determines the incentives, capabilities, standards, or regulatory changes required to address them.

To this end WEL encourages the Commission to work closely with Electricity Networks Aotearoa (ENA) to identify and prioritise initiatives that deliver demonstrable sector-wide benefits through ENA's proposed coordinated and prioritised workplan. Focusing on a small number of high-value opportunities, rather than multiple concurrent workstreams, will help ensure regulatory and industry resources are directed towards areas with the greatest potential to improve consumer outcomes.

This approach would provide a practical pathway for sector development while maintaining a clear focus on improving long-term consumer outcomes.

Specific responses to the Commission's particular questions for feedback are addressed in the attached appendix and should you require clarification on any part of this submission, please do not hesitate to contact me.

Yours sincerely



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Appendix A: WEL responses to open letter questions.

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?

Broadly yes. Delivering core network services well, maintaining strong commercial arrangements, and building future capability are sensible measures of EDB performance. However, these should describe desired outcomes rather than prescribe a single operating model. Partnering between EDB's could be a way in which capabilities can be built up across the board without excessive duplication of effort. EDBs face different network, customer, and regional challenges and should be accountable for delivering outcomes with capabilities appropriate to their circumstances, not for adopting identical approaches

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?

The key gap is the transition from today's networks to the future state. The vision assumes capabilities such as digitalisation, flexibility, advanced forecasting, and DSO functions but does not sufficiently acknowledge the foundational capabilities required first, including data quality, system integration, network models, cyber security, operational processes, commercial frameworks, and workforce capability.

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

The Commission and industry appear broadly aligned on direction, but greater emphasis could be placed on sequencing.

We believe priorities should be:

- Continue delivering safe, reliable, and resilient networks.
- Improve data, forecasting, modelling, analytics, and digital capability.
- Use those capabilities to optimise existing assets and evaluate alternatives before investing in new network infrastructure.
- Develop more sophisticated operational and commercial arrangements as the foundations mature.

A partnering and collaborative industry approach will not only reduce the overall effort required but could reduce siloed and disparate thinking. The industry should avoid pursuing end-state solutions while ignoring the realistic foundational work required.

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?

WEL considers the highest priorities to be:

- Maximising capacity and value from existing network assets.
- Improving investment and asset decisions through better data, forecasting, analytics, and risk information.
- Making connection processes faster, simpler, and more transparent.
- Incorporating flexibility and non-network solutions where they provide genuine value.
- Reducing duplication through common standards, shared capability, joint procurement, and collaboration where economically justified.

These priorities align with improved utilisation, capital efficiency, and lower costs for consumers..

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

Consumer benefit should be the primary test. Assessment should consider whole-of-life costs and benefits, deferred or avoided capex, operating costs, reliability, resilience, service outcomes, and implementation costs.

The evidence required should be proportional to the significance of the intervention. Material penalties, RAB adjustments, or prescriptive requirements should be supported by strong evidence that they will improve long-term consumer outcomes and avoid unintended consequences.

While some benefits may not be precisely quantified, regulatory intervention should still require a credible link to consumer benefit.

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?

The starting point should be defining what the future network must achieve, identifying required capabilities, assessing current gaps, and implementing programmes to close them.

This is the approach WEL is taking through a broader future operating model rather than treating forecasting, flexibility, DSO capability, and digitalisation as separate initiatives.

WEL would be cautious about introducing extensive new disclosure requirements. A limited set of meaningful measures may be useful, but reporting should not become an end in itself.

Benchmarking and broad measures such as cost-per-ICP can help identify outliers but should not be used to determine efficiency without considering differences in geography, growth, asset mix, resilience requirements, and customer needs.

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

Regulation should be clear about desired outcomes while remaining flexible on how efficient EDBs achieve them.

The framework should treat traditional network investment and lower-cost alternatives equally where both deliver the same outcome. It should also recognise and fund the enabling capability required to support future operating models. WEL supports recognition of transformation costs and broader innovation funding.

WEL is concerned about using RAB treatment or financial penalties to effectively mandate specific solutions. The relevant test should be whether the EDB made the most efficient decision available at the time after considering realistic alternatives. Where credible alternatives did not exist, the regulatory framework should recognise that reality.

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

We feel important enablers would include:

- Clear treatment of transformation expenditure.
- Common data and interoperability standards.
- Information access.
- Cyber-security standards.
- Shared capability models.
- Regulatory settings that support collaboration.

Better coordination across the Commission, EA, MBIE, EECA, and the Ministry of Regulation is also desirable to avoid duplication and conflicting initiatives.

5.2 What should we deprioritise/reduce regulatory burden on?

Duplicative information requests, consultations, and disclosure requirements should be reduced.

Where EDBs can demonstrate good outcomes, regulation should focus less on prescribing the exact process used. Standardisation should only be pursued where it delivers value through interoperability, scale, or lower transaction costs.

6. What timescales are feasible?

The future state described is a long-term transformation. Achieving it requires improvements in forecasting, data, network models, digital platforms, cyber capability, commercial arrangements, operational processes, and workforce capability, many of which are interdependent.

The Commission should distinguish between acting in the short term, and fully achieving the end state. EDBs should be expected to have credible plans, programmes, governance, and milestones in place, but end-state capability should not be tied to an arbitrary regulatory timeframe. DPP5 may be a useful milestone for demonstrating progress, but not necessarily full maturity.

6.1 For EDBs, do you have a clear work programme which identifies when certain capabilities or insights will be more readily accessible?

Yes. WEL has active programmes covering forecasting, network intelligence, constraint and capacity analysis, flexibility, energy solutions, and supporting digital capability.

These initiatives will progressively improve information quality and expand available options. The pathway is deliberate and sequenced rather than attempting to deliver every capability simultaneously.

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?

Simply stating that a capability is too expensive is not sufficient. The key question is the most efficient way to access the capability, whether through internal development, shared services, common platforms, joint procurement, partnerships, or outsourced solutions.

The Commission should avoid assuming that ownership consolidation is a default solution. The assessment should compare the whole-of-life costs and consumer outcomes of all realistic alternatives.

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

The discussion paper appears to conflate standardisation, shared capability, and ownership consolidation at times.

There is strong potential value in common standards, shared platforms, joint procurement, workforce development, cyber capability, and common interfaces. Some capabilities may also be more efficient to develop collaboratively.

However, these benefits do not necessarily require ownership consolidation. Before considering consolidation, the industry should first exhaust opportunities to capture scale benefits through shared systems, capability, procurement, and standards.

A stronger evidence base would be required to justify regulatory intervention promoting ownership consolidation.

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?

Several proposals move too quickly from identifying an issue to prescribing a regulatory response.

WEL would prefer an approach based on:

- Greater transparency.
- Indicative benchmarking.
- Incentives.
- Constructive challenge.

If an EDB is a cost outlier, the reasons should first be understood. If credible lower-cost alternatives are consistently ignored, that behaviour should be challenged. If capability gaps exist, EDBs should be required to develop and deliver plans to address them.

More prescriptive measures should only follow where persistent inefficiency is demonstrated and supported by evidence.

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 process should focus first on capability development and sector alignment.

A staged approach would be:

- Agree desired outcomes.
- Identify performance gaps.
- Understand their causes.
- Define required capabilities and transition pathways.
- Remove barriers and improve incentives.
- Apply targeted regulatory intervention where material underperformance remains.

The sector should also build on existing successes. Before introducing new requirements, the Commission should identify what has already worked, what can be transferred across the industry, and where common approaches provide genuine value.

This would support a more evidence-based and achievable transition while still allowing the Commission to set higher expectations for the sector.