7 October 2026

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Dear Daniel

Submission on options to improve the efficiency of electricity distribution businesses

Thank you for the opportunity to respond to MBIE's discussion document on improving electricity distribution business (EDB) efficiency published on 19 August 2026. Wellington Electricity has co-signed a submission on that document by the six largest price-quality regulated EDBs. We are also making this specific submission on pricing signals.

Our key point is that providing clear, actionable price signals, that indicate future investment costs, is a core part of EDBs operating efficiently and therefore providing a network service to consumers at the lowest cost. But that only works if the price signals get through to consumers and can be acted on, ie, retailers need to adequately pass through those signals. Wellington Electricity is proposing a substantial new investment programme, which makes price signalling even more important. If MBIE, and the Electricity Authority, are committed to improving efficiency in the electricity sector, we encourage you to focus on this area.

Wellington Electricity's context

Wellington Electricity operates a low cost, highly reliable network. On any metric we consider that we have offered an excellent electricity distribution service to the Wellington, Porirua and Hutt Valley communities since CK Infrastructure Holdings Ltd and Power Assets Holdings Ltd purchased the network from Vector in 2008. We have set out a graph in the schedule to this letter that demonstrates this excellent service. We welcome any assessment of EDB efficiency, including benchmarking, and are open to any tangible suggestions for improvement.

Like many other infrastructure businesses in New Zealand, Wellington Electricity's assets are aging. While we have carefully maintained those assets, our current asset health assessment is that a substantial proportion will need to be replaced in the next 10-15 years. Fortunately, demands for greater electrification (reduction in fossil fuel use) allow for replacement to consider additional capacity requirements. We cannot fund that replacement programme under our default price-quality path, so are considering applying for a customised price-quality path (CPP), commencing on 1 April 2028. While we have yet to make a final decision on a CPP application, we have commenced the Commerce Commission's verification process.

As part of testing our CPP proposal, we are consulting with our communities, including on the price/quality trade-off inherent in a substantial investment programme. We are well aware that cost of living is a significant issue for many of our consumers and that any increase in electricity bills will not be welcomed. However, it is equally clear that delaying necessary investment in infrastructure is unwise, as it results in poorer service from declining asset performance and substantially greater costs in the future. Unfortunately, consumers in the Wellington region are already experiencing these exact consequences due to underinvestment in its water system.

Price signals ensure investment is efficient

Against this context Wellington Electricity has carefully considered how to structure its proposed investment programme (spreading it over more time), and how to best manage the community impact of the programme. We consider that efficiency is a key part of managing that impact, ie, sending pricing signals that clearly indicate load driven future network costs, which then empowers consumers to change their electricity usage or employ flexibility solutions to delay or avoid those costs (either directly or through third party aggregators).

We therefore intend to sharpen our pricing signals to consumers over the next two years to ensure our proposed investments, especially in network growth, are efficient and reflect consumer preferences. Put simply, effective prices signals are a critical mechanism for ensuring EDBs don't over-invest; don't build more poles and wires when a lower cost solution where peak demand is shifted away would benefit consumers more. This approach strongly aligns with the Electricity Authority's policy on distribution pricing reform, as set out in their Distribution Pricing Principles and Distribution Pricing Practice Note.

The concern we want to flag to regulators now is that price signals only work if they get through to consumers. If the signals don't get through, there is nothing for consumers to act on. The extent to which retailers should or do pass through network price signals has been debated for many years. We acknowledge that a competitive retail market should ensure that signals are appropriately passed through, but observe that:

- After many years of not intervening, the Electricity Authority, through the Energy Competition Task Force, has now taken actions that acknowledge retail competition is not working as well as it could be
- That includes a first step on the path of mandatory pass through of price signals: the Authority now requires the largest retailers to offer some form of time of use pricing. In their words "We consider time-varying price plans should already be a staple of retail offers. If competition was working more effectively, these price plans would be ubiquitous".[1]

This has been a useful first step by the Authority, but it does not provide Wellington Electricity with confidence that sharper price signals will be adequately passed through – retailers can effectively meet the Authority's requirement by offering any time of use differential that aligns with network demand periods.

Next steps; what we are seeking from MBIE and the Authority

We will shortly be consulting with retailers on our proposed pricing approach for the years commencing 1 April 2027 and 1 April 2028. We are hopeful that they will see the logic of the price signals we intend to put in place to lower peak demand which defers the cost of network investment, and adequately reflect those signals in their prices. From a consumer point of view, collaboration across the sector to provide clear, actionable price signals is the best outcome.

[1] Electricity Authority, *Improving pricing plan options for consumers: Time-varying retail pricing for electricity consumption and supply, Decision paper*, 16 July 2025, para 4.26.

But with substantial investments and distribution cost increases on the table, and against a history of flat retail tariffs from the largest retailers, we are reluctant to simply rely on "hope", or to wait and see. What we are seeking from MBIE, and the Electricity Authority, at this point is:

- A clear signal to EDBs and retailers that you expect collaboration across the sector to ensure pricing promotes the best outcomes for consumers
- A commitment to act if that does not occur.

A final point – timeliness matters

We welcome the Commerce Commission's announcement on 23 September 2026 that it has decided to change its approach to the cost of debt component of price-quality paths for electricity distribution businesses, adopting a five-year trailing average approach. This will help to reduce volatility between price paths, which is a good outcome for consumers.

We note though that the problems with the Commission's current approach – essentially a point in time estimate – have been on record since the price-quality path regime under Part 4 of the Commerce Act 1986 was implemented in 2010. While we appreciate that the Commission had a different perspective, it is concerning that it took 16 years, and the negative consumer impact of the substantial increase in allowances for distributors between DPP3 and DPP4, to reach a better landing.

We trust that MBIE will bear this experience in mind as it considers the current package of reforms set out in the discussion paper. For example, assuming there is widespread agreement that the largest four electricity distribution businesses are better suited for individual price-quality path (IPP) regulation (MBIE's option 2C), it would be unfortunate if that change then took 5+ years to implement. Introducing a well-calibrated IPP regime, with some regulatory period flexibility, would help to ensure that Wellington Electricity's 10-15 year investment programme was appropriately scrutinised and efficiently delivered, while recognising consumer affordability concerns.

We would welcome the opportunity to discuss this letter further with you.

Yours sincerely

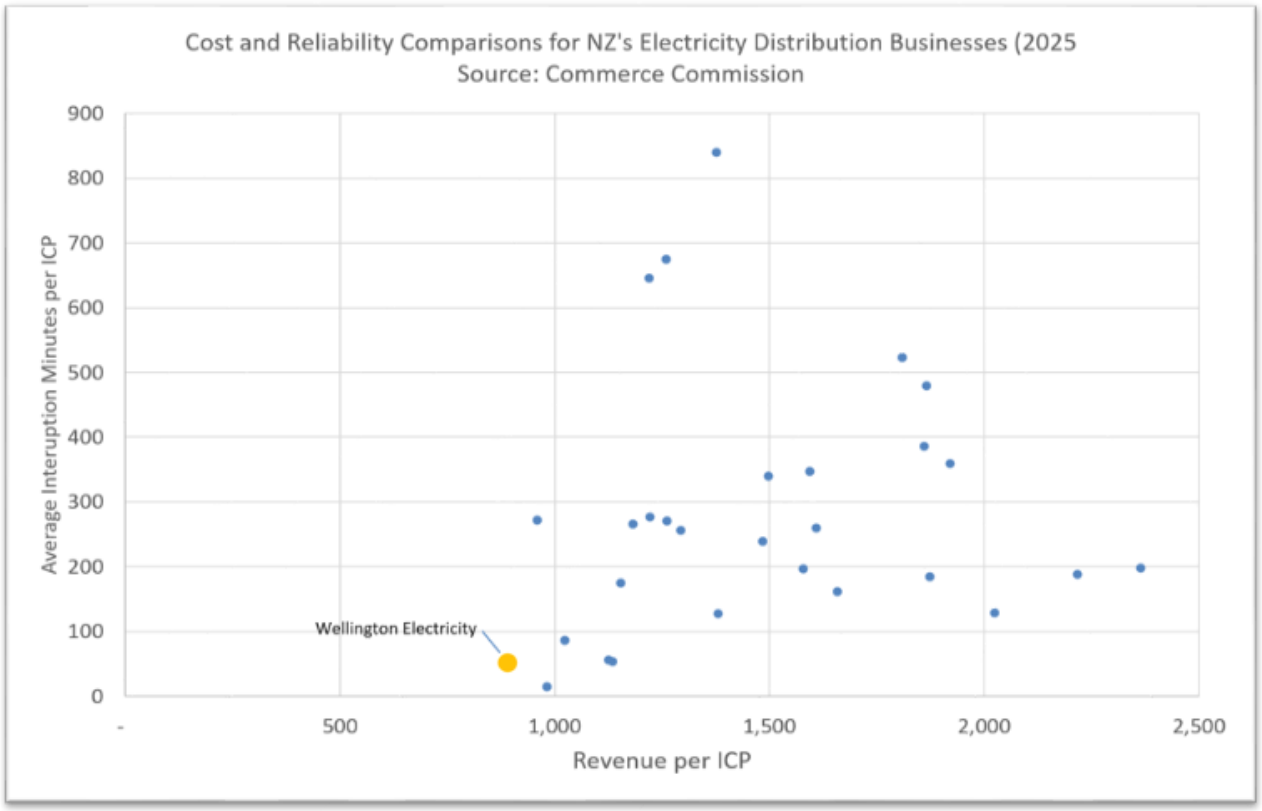
[redacted]

Greg Skelton
CHIEF EXECUTIVE OFFICER

cc Sarah Gillies and Tim Sparks, Electricity Authority
Andy Burgess, Commerce Commission

[redacted]

SCHEDULE



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