POWERCO

30 January 2026

Hon Simon Watts
Minister for Energy
By email: s.watts@ministers.govt.nz

Tēnā koe Minister,

Expectations for electricity distribution and improving outcomes for New Zealanders

Thank you for your letter of October 6, 2025, and your focus on developing regulatory and market arrangements to enable the sector to improve outcomes for New Zealanders. We share your ambition for a more efficient and coordinated sector. Our customers also echo your concerns that a transition to a low carbon economy will only be possible if energy is both secure and affordable.

As one of Aotearoa's largest gas and electricity distributors, supplying around 363,000 (electricity) and 113,000 (gas) urban and rural homes and businesses in the North Island, Powerco is exposed to both sides of the transition which includes maintaining gas networks to ensure customers have options about whether and when to switch while expanding capacity on electricity networks to accommodate new demand and supply as and when required.

As you asked in our meeting on 5 November last year, our response to you outlines specific, actionable steps to improve affordability and security of energy while enabling the transition to a low-carbon economy. The Government's objectives highlight the tension between short-term affordability and the medium-term need for significant capital investment to support electrification and integrate new generation.

Our experience is that while directing collaboration will certainly help ensure the energy transition is affordable, it will be slow, and a second order effect compared to strengthening Part 4[1] to put incentives on all electricity distribution businesses (**EDB**s) to reduce costs and share those cost savings with customers. With simple changes to the regime, this can be achieved through the following:

Immediate actions to improve affordability	• Incentivise efficiencies, mergers and acquisitions by price-quality regulating all EDBs • Use comparative benchmarking and like-for-like measurement of prices and discounts for Trust-owned and other EDBs to reveal efficient costs • Smooth changes in cost of capital by setting a trailing average to set the Weighted Average Cost of Capital (**WACC**)

[1] Part 4 refers to Part 4 of the Commerce Act 1986, which sets out the Commission's role in regulating monopoly markets by ensuring that regulated businesses have incentives to innovate, invest and meet customers' quality expectations.

Our reply addresses your main challenge to improve the **affordability and security** of energy for households and businesses through:

- Existing EDB collaboration and how it can be scaled
- New actions that can be taken to accelerate EDB collaboration and standardisation and
- How network utilisation can be improved to lower costs

We have thought more broadly on the affordability challenge and have included this thinking below:

Part 4 mechanisms can address affordability	• Input methodologies can be amended to:
	    o use a trailing average WACC to address price shocks and
	    o allow comparative benchmarking, to enable the Commission to set prices that reflect the efficient costs of delivery for <u>all</u> EDBs
	• These mechanisms require consistent price-quality (**PQ**) regulation of all EDBs to ensure they respond to efficiency and affordability incentives
	• These changes can be implemented quickly, without a Part 4 review, by repealing sections 54G and 53P(10) of the Commerce Act. This does not conflict with other legislation

Accelerate collaboration and standardisation	• Mandating or asking for collaboration across 29 EDBs will be less effective than incentivising them to collaborate and risks inefficiency • Incentives work better than mandates – when collaboration is voluntary and rewarded, EDBs are more likely to innovate and share learnings • Examples include CPI-x incentives for cost reduction and Commission's INTSA, which has successfully funded collaborative projects • The Commission could increase the INTSA funding proportion for collaborative projects to incentivise more collaboration • Tighter regulations applied consistently to all EDBs will force smaller companies to seek out rationalisation benefits – our current experience with acquiring Firstlight Network from Igneo Partners that consolidation delivers more scale benefits for consumers than collaboration and shared services.
Increase network utilisation to lower costs	• Increasing utilisation and leveraging flexibility services can defer network augmentation and reduce prices for consumers • EDBs require sophisticated Distribution System Operation (**DSO**) capability to take advantage of this and so enable consumers to benefit from lowering network costs • Price quality regulation applied to all, will incentivise EDBs to collaborate to deliver DSO services efficiently. • Coordination must occur across the supply chain, not just between EDBs e.g. Powerco and Transpower collaboration on flexibility procurement, Powerco and retailers on hot water control which is immediately passed onto customers

Incentives for collaboration and consolidation requires consistent PQ regulation across all EDBs. Powerco supports working with the Government to implement these changes quickly to ensure a secure, affordable, and sustainable energy transition.

New Zealand's PQ regulation for non-exempt EDBs is well-regarded overseas. Powerco and its shareholders are committed to investing in New Zealand, as our acquisition of the Firstlight network proves but regulatory stability and certainty are essential to attracting investment capital from overseas if investors are to have the confidence to continue to invest in the sector through the transition.

We appreciate your engagement with us and are always keen to meet to discuss how we and the rest of the industry can work together with government to deliver better outcomes for our customers. If you or your officials would like to continue our discussions, or if you have any questions on the points we have raised in this letter, please contact me or Emma Wilson (Emma.Wilson@powerco.co.nz).

Nāku noa, nā,

Jason Franklin
Chief Executive
POWERCO

1. Incentives are key to accelerating EDB collaboration and standardisation

We understand the urgency of the situation that you're drawing our attention to and your call for action. Your goals are clear, as a sector we must improve affordability and security of energy for households and businesses while also doing our part in electrifying the economy to achieve climate goals and enhance economic resilience. As noted in your letter, an estimated $22 billion in capital and operating expenditure that is required over the next decade to support electrification and integrate new sources of generation, will only increase affordability challenges.

1.1 Regulation must incentivise efficiency to lower costs for customers

Asking for or mandating standardisation and collaboration is unlikely to deliver the desired outcomes you are seeking. This approach attempts for solve for 29 EDBs with diverse operating environments, customer bases and network characteristics. Directing collaboration will be less effective than incentivising it and risks adverse unintended consequences for customers.

Your goal of incentivising all EDBs to lower costs for consumers requires the regulatory incentive regime to apply to all, not just non-exempt businesses (as it is at present), to be effective.

When collaboration is voluntary and incentivised, EDBs are more likely to innovate and share learnings. When it's forced, behaviour becomes compliance-driven and opportunities for genuine partnership dimmish. It's also worth noting that standardisation comes at a cost of innovation, and we need to be careful not to stifle innovation through these measures.

Because of this, we strongly encourage you to use incentives to accelerate EDB collaboration and standardisation. Collaboration for example, works when parties see the tangible value and benefits in participating. The Commerce Commission's (**Commission**) innovation and non-traditional solutions allowance (**INTSA**) is an excellent example of this. By putting funding on the table, the Commission has enabled EDBs to work together on projects that will deliver sector-wide benefits. Powerco, Unison and Vector already have approved funding for a collaborative project.[2]

This work has seen the establishment of new industry capability, establishing local flexibility market platforms using Our Energy's Localflex platform both to offer a lower long-term cost pathway by deferring or avoiding conventional capital investment and also allow customers to monetise the value of their flexibility resources.

The value of this platform has been significantly enhanced by the associated involvement of both Vector and Unison as two other EDBs in different parts of the country. Localflex now offers flexibility providers access to a single mechanism through which they can offer their resources to distribution businesses across the country.

[2] https://www.comcom.govt.nz/__data/assets/pdf_file/0027/365805/INSTA-Application-Powerco-Local-flexibility-market-platform-8-April-2025.pdf

For this to be truly effective, it requires all EDBs to be PQ regulated. regulatory mechanisms like the INTSA aren't available to exempt EDBs, so it's more challenging to use incentives to drive action, given the constraints of the regulation applying to exempt EDBs. It will not be as effective if only a sub-set of EDBs have this incentive. We discuss other incentives that can be achieved through PQ regulation below.

Standardisation without efficiency incentives does not always work in the interest of consumers. For example, the Electricity Authority (**Authority's**) new compliance regulations enforcing standard processes for new connection access and pricing impose costs on all EDBs regardless of whether their practices create obstacles to timely and efficient connection. In contrast, the Authority's proposals for targeted intervention against EDBs with inefficiently high reliance limits incentivises change for those businesses without imposing costs on the customers of other efficient businesses.

1.2 PQ regulation provides incentives for cost reduction

There are several relatively simple changes that could be made to the existing regime which would deliver on the outcomes you are seeking. But for them to be most effective, all EDBs must be consistently regulated to incentivise highest performance.

Price-quality regulation was introduced in September 2008 through the Commerce Amendment Act, but only applied to some EDBs. The reason for this limitation was to minimise the scope of regulation required to ensure distributors are limited in their ability to earn excessive profits, the "primary harm". As the Explanatory Note to the Commerce Amendment Bill as introduced explains

> *the reason for this relatively light-handed regime is because consumers, as owners, are able to ensure that the business acts in their interests, and with regard to 100 percent consumer trust-owned businesses, in principle the case for economic regulation is relatively weak where the customers are the owners of the firm.* [3]

The secondary objectives in Part 4 of the Commerce Act[4] are also achieved by price-quality regulation.

Removing the exemption to extend price-quality regulation to all EDBs under section 54G of the Commerce Act would involve modest legislative change. It would require repealing or amending a small number of provisions in the Act and repealing certain provisions in the Electricity Industry Act 2010 that would otherwise be redundant. It would not have any consequences for, or impact on, other legislation or regulation as the distinction between exempt and non-exempt EDBs is only relevant in the context of Part 4 of the Commerce Act. It would not require a full review of Part 4. Drawing on independent advice to Powerco, Appendix 1 provides the drafting changes necessary for these amendments while Appendix 2 provides a legislative review showing that these amendments would not conflict with any other existing legislation.

Similarly repealing Section 53P(10) of the Commerce Act would enable the Commerce Commission to use comparative efficiency benchmarking to set default price paths. This would allow the Commission to share

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[3] *Explanatory note to the Commerce Amendment Bill (201-1)*, Government Bill, as introduced to the House of Representatives, Wellington, 13 February 2008. Pp. 8 and 31

[4] *to promote the long-term benefit of consumers by promoting outcomes consistent with competitive markets, such that suppliers have incentives to innovate and to invest, have incentives to improve efficiency and provide services at a quality that reflects consumer demands and share with consumers the benefits of efficiency gains.*

efficiency gains with consumers by setting revenues that reflect efficient costs across all EDBs rather than the revealed costs of each EDB in isolation and treat costs, prices and returns consistently between Trust-owned EDBs who pay discounts to their consumer-owners and others who do not.

Repealing 54G and 53P(10) could be implemented as part of the Energy Security Bill, currently before Parliament, though a simple Amendment Paper. The Commission could then apply default price paths to all currently exempt EDBs from DPP5 onwards, giving them 3 years to prepare and align practices with the benchmarked efficiency of currently price-quality regulated companies.

In addition to price-quality regulation for all, regulatory certainty is essential. As the OECD's recent economic outlook for New Zealand notes

> *Increasing competition and easing market-entry barriers in banking, gas and electricity markets would help boost investment and foster innovation, while accelerating investment in firming capacity, renewable generation, and transmission infrastructure is vital to ensure a reliable and affordable energy supply*[5]

There is ample investment capital available worldwide to meet all New Zealand's electricity investment needs and more. Investors such as our owners, are happy to commit capital to long lived assets provided that they have confidence the regulatory regime will deliver a return on and of their investment.

Your objectives can be achieved within the existing framework / tools available, and we caution against completely overhauling the settings.

2. Existing EDB collaboration and how it can be scaled

Your letter has asked for our observations about what has worked well and what challenges have been encountered. While we believe collaboration and shared services will deliver some scale benefits, it will be limited compared to consolidation.

The regulatory regime in New Zealand established in 1999 has been effective for Powerco. We have responded to the incentives and explored collaboration both through acquisition and working with other EDBs directly and indirectly.

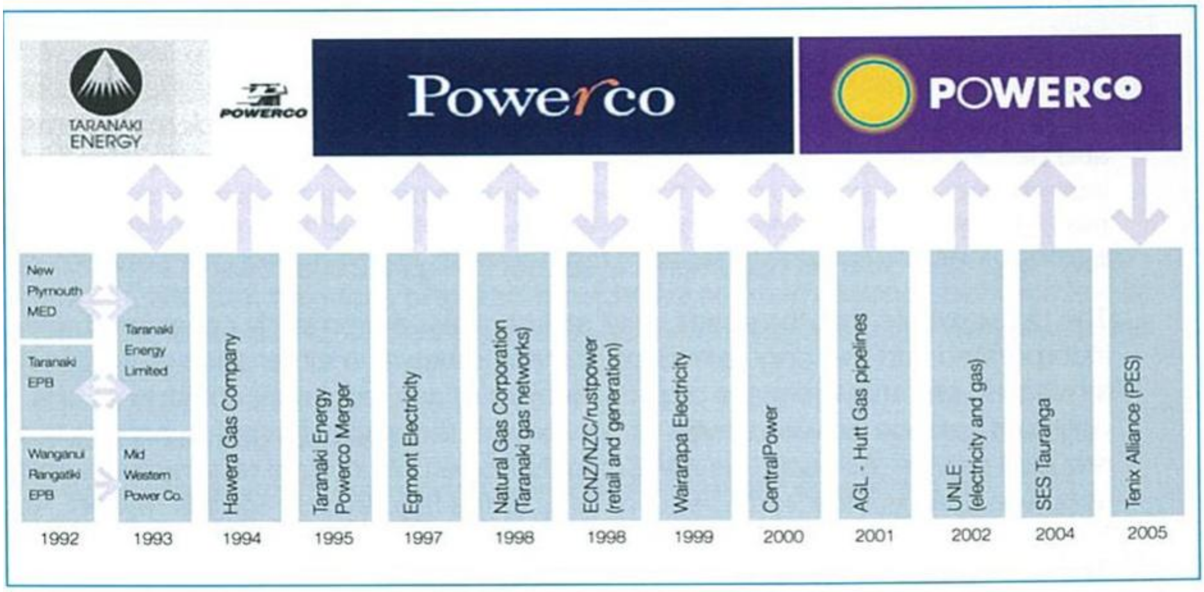
Non-exempt EDBs such as Powerco have been subject to the core regulatory incentive of a CPI-x revenue path since the establishment of price-quality regulation under Part 4 of the Commerce Act. This mechanism has been an effective means to drive efficiency while sharing the benefits of cost savings and innovation with consumers since it was first introduced in the UK in the 1980s and subsequently in Australia in the late 1990s.

It is the regulatory incentives in the price-quality regulation in Part 4 of the Commerce Act which are Powerco's motivation for pursuing these collaborations with other EDBs.

[5] OECD Economic Outlook, Volume 2025 Issue 2 (EN) p.228

Powerco's history started in 1992 (see Figure 1 below) with the merger of three local electricity boards and departments in Taranaki. Between 1992 and 2005 Powerco acquired another 7 local electricity lines businesses as well as growing its gas business across the central North Island.

Figure 1. Powerco's history



The result of these acquisitions was a substantial reduction in operating cost relative to the standalone costs of these networks:

> *Operating costs per kWh fell sharply, especially in the cases of Powerco and UnitedNetworks which reaped large economies of scale as their amalgamation of multiple network companies reduced administrative overheads and maintenance costs. ... It is notable that the two large companies which did not engage in merger and takeover activity (Orion and Vector) exhibit virtually the same trend reduction in operating cost as the trust-owned remainder of the industry, cutting average costs by a little over half a cent per kWh 1994–2002, whereas the two which grew by mergers (Powerco and United) achieved cost efficiencies roughly double this (over one cent per kWh), leaving Powerco at about the industry average and United about one cent per kWh below it.*[6]

However, for consolidation to occur, you need to have willing sellers. Since 2002, there haven't been many. Our current work preparing for the acquisition of the Firstlight network[7] has emphasised the power of consolidation to realise synergies in the fixed costs associated with subscale networks. Our business case for the Firstlight acquisition identifies savings not only in head office costs, insurance overheads, IT, management systems and the like but also in core expenditure on Asset Management, including access to wider industry capability where the efficiencies in taking a standard approach to the asset fleet are largest.

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[6] *Price-Cost Margins and Profit Rates in New Zealand Electricity Distribution Networks Since 1994: the Cost of Light Handed Regulation,* Bertram, G. and Twaddle, D., Journal of Regulatory Economics 27 – May 2005, pp. 281–308

[7] https://www.powerco.co.nz/what-we-do/our-projects/firstlight-network

Shared service models will only deliver economies of scale and efficiencies on business overhead cost (e.g. SONS and business support), not the wider, more substantial costs that relate to asset management and investment which forms the larger part of EDB costs. This can only be truly delivered through ownership consolidation.

This is because even where asset owners have contracted asset operation and maintenance to a service provider, they will retain control of investment decisions. To create commercial incentives on the service provider to make decisions to get better asset management outcomes, the service provider will need to face incentives and detriments around asset management investment decisions such as being paid on SAIDI/SAIFI performance. To take on the risk, the service provider will require a risk premium in the management service fees, which there is no incentive for the asset owner to pay.

It is only through consolidation of asset ownership that customers will enjoy the material benefits of economies of scale and efficiency in investment.

2.1 NZ history with shared services has had mixed results

In contrast to Powerco's experience driving efficiency through ownership consolidation, New Zealand's history with shared services between EDBs has a mixed record. All joint ventures end at some stage at which point any benefits that go with them are unwound. The benefits of ownership consolidation, however, are locked in for customers.

In 2000 Network Waitaki and Alpine Energy formed a joint management company. Pete Hodgson, then Minister for Energy commented:

> *"There are savings to be made by the joining together of smaller line companies. Joint management contracts could be one innovative way to realise those savings."*
>
> *Mr Hodgson said the recent announcement by line companies Network Waitaki and Alpine Energy of a joint management company indicated the possible benefits of amalgamation.*
>
> *"The main impact of the new management company will be on the management, corporate and planning staff, who will be co-ordinated in one location. The companies expect to achieve ongoing savings from this approach".*[8]

In 2005 Network Waitaki announced it would end the partnership agreement. Waitaki Power Trust chairwoman Helen Brookes explained that

> *because of the ownership structures, the management and governance of Network Waitaki and Alpine Energy differed and it was felt the return to Network Waitaki's shareholders was not as great as it could have been.*[9]

In 2002, Electricity Invercargill, The Power Company and Marlborough Lines formed the OtagoNet Joint Venture following the purchase of the OtagoNet assets. Again, the driver behind this collaboration was to realise

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[8] https://www.beehive.govt.nz/release/hodgson-urges-line-company-rationalisation
[9] https://www.odt.co.nz/regions/north-otago/lines-company-operations-back-home

operational synergies in the management of the various networks. In 2014, Marlborough Lines exited the joint venture:

> *The Southland Times reported that there had been a dispute between the three companies that owned OtagoNet, with Electricity Invercargill chairman Neil Boniface saying cracks in the "marriage" between the companies had begun to show. The companies had struggled over management of the network, Boniface said.*[10]

Your letter notes that not all EDBs are price-quality regulated. Our feedback is that while ownership by consumers is a safeguard against EDBs exploiting their monopoly power to extract rents from consumers it does not provide the same incentive to seek opportunities to reduce costs through collaboration that price-quality regulation based on efficient costs of operation does because companies are able to recover the standalone costs of implementing standards and policies rather than finding common ground with other companies in order to achieve economies of scale.

2.2 Tighter regulation can deliver scale benefits

While the fact that most EDBs use technical standards developed by either Vector, Powerco or Orion appears to be an example of collaboration, they differ in how they interpret those standards and do not collaborate on their implementation which is further evidence of the importance of PQ regulation to drive efficiency rather than simply control monopoly rents. As Michael Pollitt's recently released paper on EDB efficiency notes:

> *It is worth saying that **tighter regulation forces smaller companies to seek out rationalisation benefits**. The mergers of GB firms were definitely encouraged by the pressure to cut costs and find efficiency savings, under incentive-based price control regulation. This has been a major driver across Northern Europe in reducing the number of firms over time.*[11]

Our experience is that, while collaboration and standardisation will certainly help ensure the transition is affordable, it will be slow and a second order effect compared to strengthening Part 4 to extend PQ regulation to all EDBs in order to put pressure on costs and share those cost savings with consumers.

This is because a large proportion of the underlying costs structures are 'sunk' costs, whereby the impact on customers bills is driven by the return on (WACC) and of capital (depreciation), so reducing operational costs (through collaboration and standardisation) will be immaterial.

2.2.1 Reduce cost volatility for customers and businesses in setting the return on capital

The DPP4 reset highlighted the volatility that customers are exposed to with the current WACC methodology, with roughly 20%[12] of the uplift in DPP4 revenues due to the WACC uplift. We and others across the sector have been

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[10] https://www.stuff.co.nz/marlborough-express/business/10454174/Safety-cited-in-sale-of-lines-firm

[11] *Benchmarking and Optimal Scale for Electricity Distribution Boards in New Zealand - A study for the Commerce Commission*, Michael G. Pollitt, 23 July 2025. p.25 (emphasis added)

[12] Commerce Commission, *Default price-quality paths for electricity distribution businesses from 1 April 2025 – Final decision reasons paper*, 20 November 2024, Figure X1.

advocating that alternative methodologies,[13] such as the trailing average, can improve outcomes for customers, reducing the shocks that can happen between regulatory periods.

2.3 Incentives should encourage mergers and acquisitions as well as collaboration

Having 29 EDBs imposes significant fixed costs in distribution and across the retailers who operate on their networks due to the complexity of dealing with so many businesses.

Frontier Economics' advice to the Government's review of electricity market performance was to amalgamate the 29 EDBs into five super distributors[14]. The Government's response was

> *Agree with diagnosis, but not with the forced amalgamation of EDBs. Instead, Government is encouraging greater efficiency and the EA and Commerce Commission are progressing measures to promote greater alignment and innovation.*[15]

From the evidence above and Powerco's experience, it is important that regulatory incentives should encourage mergers and acquisitions if customers are to benefit from efficiencies in asset management and investment as well as fixed cost reductions. A number less than 10 EDBs is desirable to achieve an efficient distribution sector.

In addition to reducing costs to customers, consolidation also reduces cost to serve across the supply chain and industry complexity with retailers, Transpower and regulators by having a smaller group of better resourced EDBs to engage with.

3. Collaboration across the supply chain is necessary to lower prices for customers

Your letter focuses on collaboration between EDBs. Customers' bills reflect the combined costs of the entire supply chain from generation and transmission through distribution and retail. It's important that regulation incentivises EDB collaboration across the supply chain which can affect customers' bills as fast or faster than collaboration between EDBs.

3.1 Collaboration between EDBs and <u>retailers</u> can lower prices for consumers

Our collaboration with competing energy retailers trialling new smart meter technology to control hot water heating, is an example of cross-industry collaboration that benefits residential customers immediately[16].

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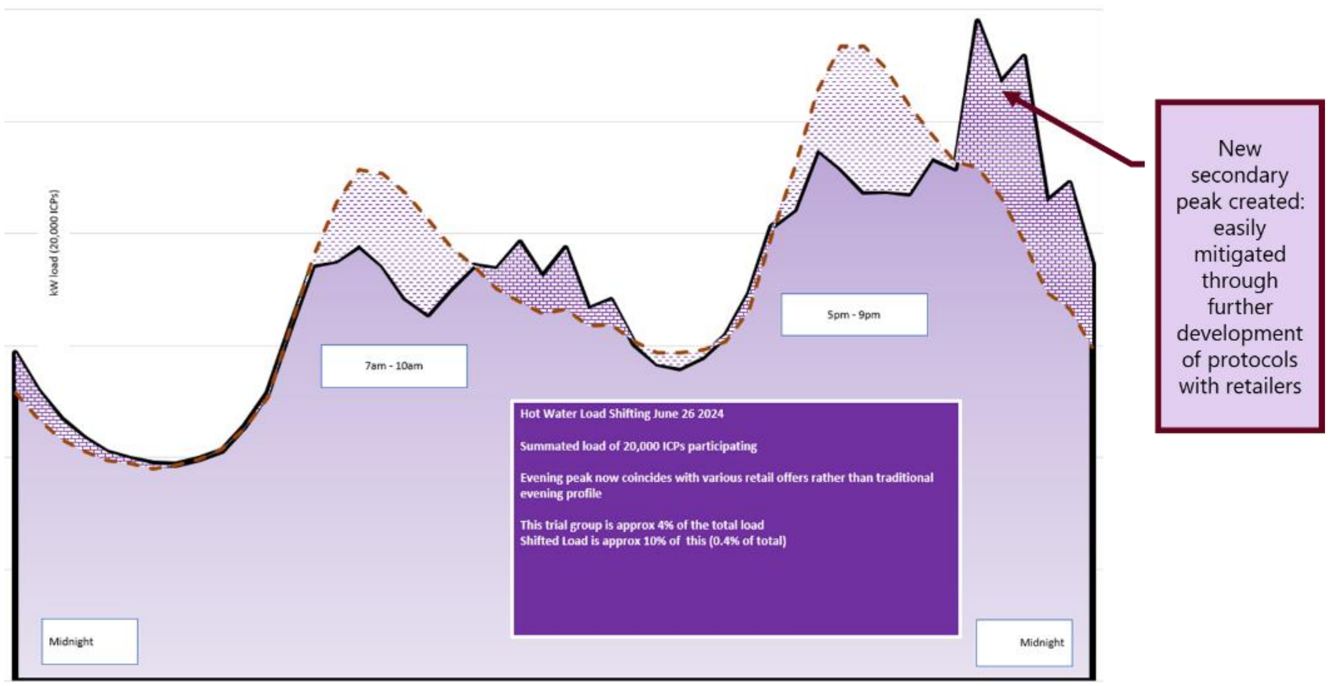
[13] ENA, *Submission to the Commerce Commission on the Fibre IM Review issues paper – Tranche 1*, 7 August 2025
[14] *Review of Electricity Market Performance - Final Report to Ministers & MBIE*, Frontier Economics, 23 May 2025. Section 8.5
[15] https://www.mbie.govt.nz/dmsdocument/31231-key-frontier-recommendations-and-the-governments-response
[16] https://www.powerco.co.nz/news/industry-insights/residential-hot-water-control-trial-insights and *Opportunities for the use of ripple and smart-meter controlled circuits for managing peaks* presented to the Electricity Authority's Security & Reliability Council https://www.ea.govt.nz/documents/7083/SRC_meeting_papers_-_24_October_2024.zip agenda item 8

Unlike ripple control which switches off all customers in a network area together, modern smart meters can control each hot water circuit individually. As a result, larger, more modern cylinders can be switched off for longer than smaller, older ones without the risk that anyone has a cold shower. Under ripple control we have to limit operation for every cylinder to make sure water stays hot in the smallest, worst insulated ones.

Customers have directly benefitted from the trial, with competing retailers offering incentives of up to $150 a year for customers to join their controlled hot water schemes. Over time, we expect to see an increasing proportion of load on our network controlled by retailers and other parties rather than us directly.

Over 30,000 customers signed up in the first year. Our early experience is that retailers switching off individual hot water cylinders during the morning peak in the electricity spot market (dashed line in the graph below) has taken nearly 10% off the peak load that we would otherwise have experienced but without having to turn every single cylinder off (refer Figure 3).

Figure 2 Powerco-retailer trial - hot water load shifting



Mercury Innovation Specialist Jeremy Levy says Powerco was a pragmatic, transparent and collaborative trial partner.

> *"It was great to work with Powerco on this trial, which has shown what's possible in this space. We are excited for the future potential of initiatives like this, which help manage pressure on the national grid and ultimately reduce carbon emissions."*

Since our initial trial in winter 2024, retailers have encouraged other EDBs to open up smart-meter controlled hot water on their networks. As other EDBs have enabled this, their customers have shared in the benefits of these wholesale market efficiencies in the same way that customers do on Powerco's networks.

4. Network utilisation can be improved to lower costs

Your letter also draws attention to the importance of the electricity sector in supporting the Government's commitment to electrifying the economy as a means of achieving climate goals and enhancing economic resilience.

The challenge is to increase investment in electricity distribution businesses without a corresponding increase in prices which threatens to make the service unaffordable.

4.1 All EDBs need sophisticated capability to improve utilisation and achieve efficient capex

In March 2025 we updated our electricity Asset Management Plan (AMP), reflecting changes to our full ten-year plan which we published in 2023. This

Our AMP supports our Grow to Zero vision for Aotearoa New Zealand. We see the sustainable energy transition as an opportunity for Aotearoa to grow. Kiwis could leverage our abundant and affordable clean energy to produce low-emissions goods and services as countries worldwide seek to decarbonise.

We are putting significant effort and investment into becoming a network of the future to meet the evolving needs and services our customers want. DSO capability is one of the most effective ways of responding to the energy trilemma in order to:

- Reduce energy cost to our communities;
- enable rapid customer decarbonisation;
- Customers become an integral part of the energy solution and monetizing these services; and
- Help maintain network stability.

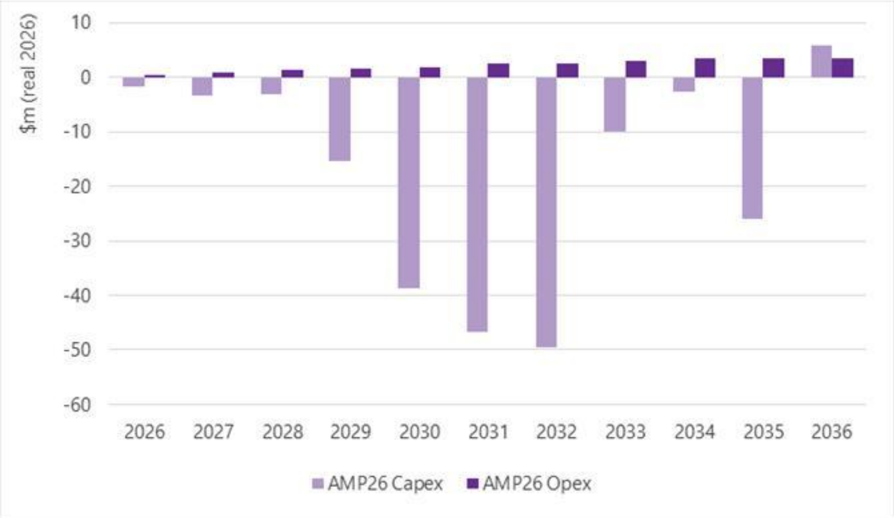
Smarter and more sophisticated management of demand will ensure electricity services remain affordable and enable our customers to export into and trade energy on our network which we will operate dynamically which in turn will enable two-way flow of power to and from our customers. To do this, our network will be highly automated, and we'll be using a range of options to manage capacity effectively.

The first step in doing this is investing to gain full visibility of network use and power quality down to low-voltage (LV) level. That will enable us to see where the network has capacity and where it is constrained so we can make fully-informed decisions about where we need to invest. It will also improve safety and reliability because we'll be able to accurately pinpoint outages, and we'll be able to see where distributed generation power is flowing from our customers back into the network. This LV work is also key enabler for creating a full network model, and to run system simulations.

We'll also have flexibility products and solutions in place to manage peak demand, and a flexibility market platform for customers, flex providers and other electricity distributors to use. The ability to more effectively manage peak demand and defer capital expenditure, and in some cases completely avoid the need to invest in capital expenditure by delivering network capacity through alternatives, will ensure electricity services remain affordable.

For example, our draft 2026 AMP identifies a capex deferment target of almost $200m over 10 years and the indicative cost of flex procurement as a guide to the scale of investment efficiency that DSO capability can release.

Figure 3. forecast capex deferred through flexibility and associated opex cost of flexibility procurement

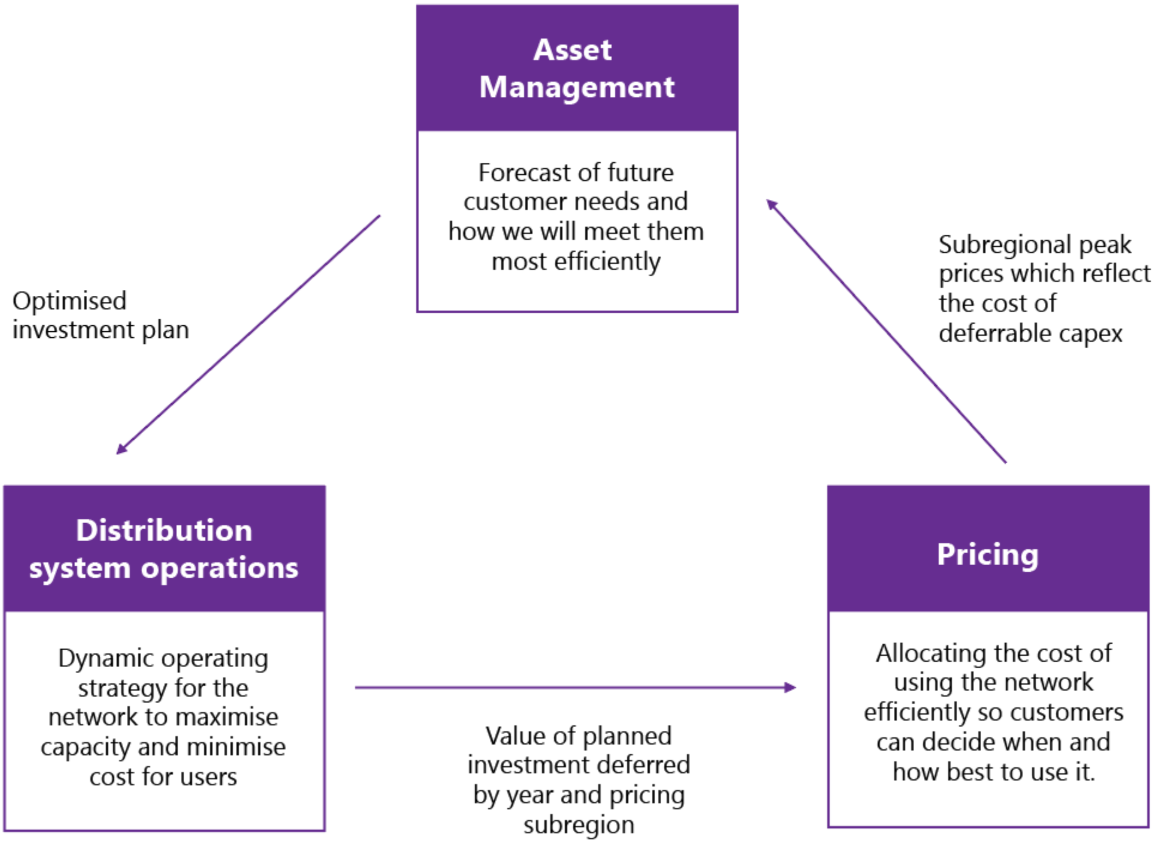


For all customers in New Zealand to see the same benefits will require sophisticated new DSO capabilities at every EDB. It is essential that no customers are underserved or have to pay too much for this, consistent price-quality regulation for all EDBs will create the safeguards and incentives to ensure this.

4.2 To increase utilisation, regulation must incentivise integrated pricing and planning

Making sure that our customers are using our existing network effectively before we build more capacity means we can be sure we're making the best network investment decisions and spending wisely.

To achieve this, we're using localised price signals and collaborating on flexibility solutions to reduce peak demand.



In areas of our network where we'll need to add capacity in the next 10 years we'll look to introduce peak charges during high demand times. This provides a signal for customers to shift their power use outside peak times so the existing capacity is used more effectively, and in turn that means we can defer capital investment. Examples of this include:

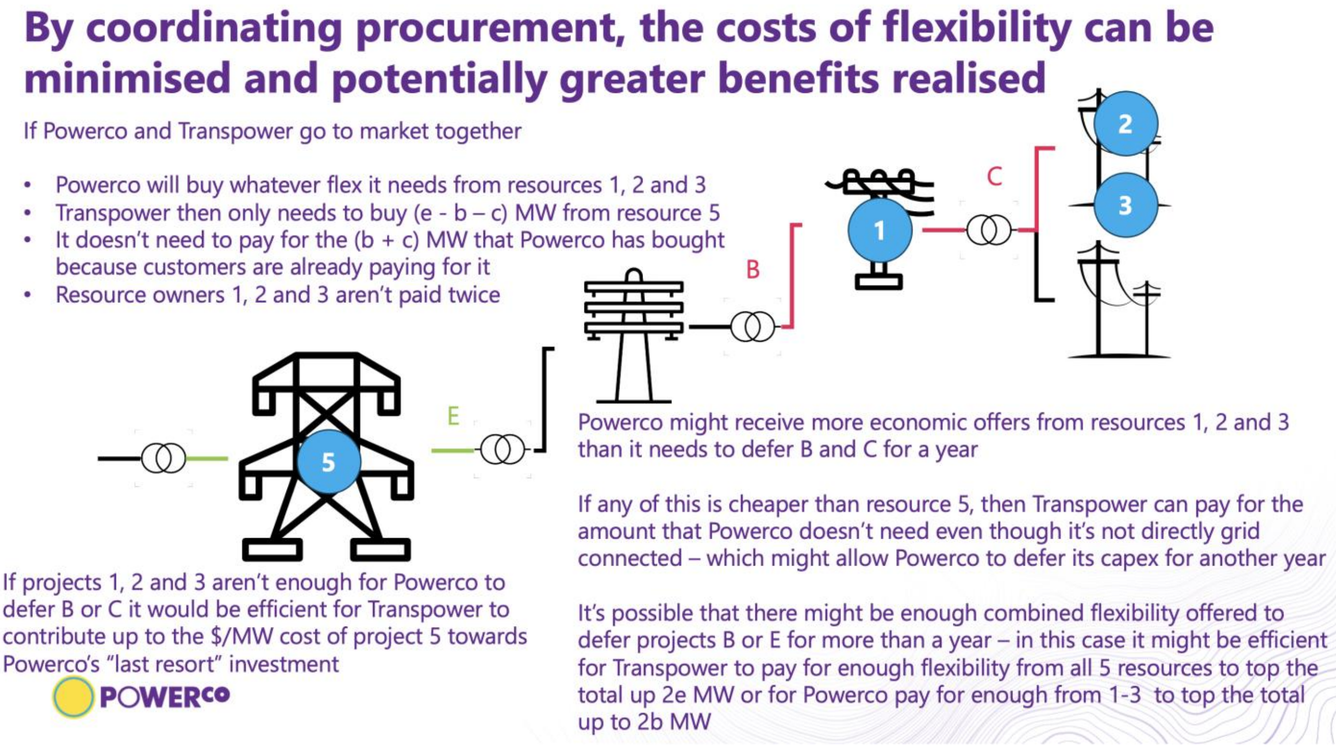
- From 1 April 2025 we introduced peak charges in the north Coromandel where we experience high demand during the holidays.
- We've also introduced a rebate for customers who export excess power from their batteries or distributed generation into our network during peak periods, because this also helps us defer planned investment.

4.3 EDBs must collaborate with Transpower as well as each other to increase network utilisation efficiently

We agree that increasing utilisation of existing distribution networks is one lever by which planned augmentation can be deferred and increases in asset costs avoided in the short to medium term. Powerco is currently running tenders for flexibility services in all the areas where we have planned expenditure to accommodate growth focused on deferring that investment in order to minimise short medium term price increases.[17] However, we believe that collaboration across the supply chain is also important to ensuring we can lower the cost of energy.

[17] https://www.powerco.co.nz/our-partners/flex-solutions

The largest of our growth forecasts is in the Western Bay of Plenty, an area Transpower is also planning major investments to support regional growth. Transpower and Powerco are coordinating their procurement of flexibility as a non-network solution to defer augmentation investment.[18] Where Powerco contracts flexibility on networks that are hierarchically below the augmentation projects that Transpower is planning on deferring, Transpower can reduce the amount of flexibility that it procures because the network peaks are coincident.



This is not only a good example of how flexibility can be used to increase network utilisation and so defer planned capital investment but also of how coordination across the sector ensures that customers do not pay twice for the same resource and so growth can be accommodated without a direct impact on network charges.

[18] https://www.powerco.co.nz/news/media/plan-to-power-western-bay-of-plenty-into-the-future-released

Appendix 1 – Legislative amendments to extend PQ regulation to all EDBs

Commerce Act 1986	Proposed amendments
Section 54	**54 Overview of how subpart applies** (1) This subpart provides— (a) that all suppliers of electricity lines services are subject to information disclosure regulation and price-quality regulation; and ~~(b) that suppliers of electricity lines services that are not consumer-owned are also subject to price-quality regulation; and~~ ~~(c)~~(b) for the transition to the new regime provided for in this Part. (2) This section is only a guide.
Section 54B	**54B Interpretation for subpart** (1) In this subpart, unless the context otherwise requires,— **administrative settlement** means a deed entered into by the Commission and a supplier of electricity lines services in respect of a breach of a threshold or a breach of a default price-quality path referred to in section 54J ~~**consumer-owned** has the meaning given in section 54D~~ **electricity lines services** has the meaning given in section 54C **Part 4A** means Part 4A of this Act as in force immediately before its repeal by the Commerce Amendment Act 2008 **threshold** means a threshold set by the Commission under Part 4A for the declaration of control in relation to large electricity lines businesses **Transpower** means Transpower New Zealand Limited or any subsidiary of, or successor to, that company. (2) References in this subpart to Transpower include references to Transpower in its role as system operator under the Electricity Industry Act 2010.
Section 54D [*Repealed*]	~~**Section 54D Definition of consumer-owned**~~ [*Repealed*]
Section 54G	**54G Certain electricity lines services are also subject to default/customised price-quality regulation** (1) All electricity lines services (other than those supplied by Transpower) are subject to default/customised price-quality regulation under this Part ~~unless they are exempt~~. ~~(2) All electricity lines services that are supplied by a supplier that is consumer-owned are exempt (unless an Order in Council has been made in respect of the service under section 54H).~~
Section 54H [Repealed]	~~**54H How exempt status can be lost and default/customised price-quality regulation can be applied to consumer-owned suppliers**~~ **[Repealed]**
Section 54I	**54I Commission must make section 52P determination specifying how subpart applies**

Commerce Act 1986	Proposed amendments
	(1) The section 52P determinations that specify how information disclosure regulation applies to each supplier of electricity lines services must be made as soon as practicable after 1 April 2009. **(2) The section 52P determinations that specify how default/customised price-quality regulation applies to each supplier of electricity lines services that is subject to that form of regulation as at 1 April 2009 are made as set out in section 54J.** **(3) The section 52P determinations that specify how default/customised price-quality regulation applies to each supplier of electricity lines services that ~~becomes~~ is subject to that form of regulation ~~as a result of an Order in Council made under section 54H~~ from [date amending Act enters into force] must be made as soon as practicable after ~~the order comes into force~~ [date amending Act enters into force].**

Electricity Industry Act 2010	Proposed amendments
Section 151 [Repealed]	**~~Section 151 Definition of consumer-owned~~ [Repealed]**
Section 152 [Repealed]	**~~152 How exempt status can be lost and default/customised price-quality regulation can be applied to consumer-owned suppliers~~ [Repealed]**

Appendix 2: Legislative review to test impact on other legislation

Act/Legislation/Regulation	Distinguishes between exempt/non-exempt with regard to s 54G?	Reference
Commerce Act 1986	Yes	Section 54G(2) provides for the exemption, and other provisions listed in **Appendix 1** relate to the exemption.
Electricity Industry Act 2010	No	While the EIA does not distinguish between exempt and non-exempt EDBs itself, the two provisions listed in **Appendix 1** provided for the amendments to the Commerce Act to put in place the exemptions.
Electricity Industry Participation Code 2010	No	
Electricity Act 1992	No	
Energy Companies Act 1992	No	
Electricity (Exemptions from Registration) Regulations 2022	No	
Electricity Industry (Participants and Roles) Regulations 2012	No	
Electricity Industry (Enforcement) Regulations 2010	No	
Electricity Industry (Levy of Industry Participants) Regulations 2010	No	
Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004	No	
Electricity (China Free Trade Agreement) Regulations 2008	No	
Electricity (Hazards from Trees) Amendment Regulations 2024	No	
Electricity (Hazards from Trees) Regulations 2003	No	
Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Amendment Regulations 2008	No	
Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004	No	

Act/Legislation/Regulation	Distinguishes between exempt/non-exempt with regard to s 54G?	Reference
Electricity Operators Order 2000	No	
Electricity (Safety) Amendment Regulations 2011	No	
Electricity (Safety) Amendment Regulations 2012	No	
Electricity (Safety) Amendment Regulations 2013	No	
Electricity (Safety) Amendment Regulations 2014	No	
Electricity (Safety) Amendment Regulations 2018	No	
Electricity (Safety) Amendment Regulations 2025	No	
Electricity (Safety) Regulations 2010	No	
Electricity (Statistics) Regulations 1996	No	