20 OCTOBER 2026: SUBMISSION TO THE COMMERCE COMMISSION REGARDING OPEN LETTER: ACHIEVING BETTER OUTCOMES FOR CONSUMERS

Regulation should be smarter and focused on the greatest consumer risks

Entrust supports smarter, targeted modernisation of Part 4 regulation so it keeps pace with electrification, resilience and reliability needs, and changing consumer expectations. Economic regulation should continue to evolve alongside changes in the electricity sector.

The Commerce Commission's operation of Part 4 should reward good performance, including through positive incentives to invest, innovate and improve efficiency. In our view, the most effective reforms will balance strong consumer protection with strong investment incentives.

We agree with the Commission that there is scope for more collaboration and standardisation across the electricity sector, and that this can help improve efficiency through use of shared services, common standards, procurement efficiencies and broader adoption of industry best practices. We also support updating regulatory settings to ensure they incentivise innovation, improved efficiency, and meet the needs of current and future consumers.

It is clear the Commission has concerns about smaller and currently exempt EDBs, where evidence suggests that limitations in scale, capability, governance, resilience or investment capacity may create higher risk for consumers.

At the same time, the Commission should avoid blunt or punitive regulatory interventions that could undermine investment certainty. New Zealand requires significant investment to support electrification, improve resilience and maintain long-term affordability. Well-performing networks should continue to be encouraged to make prudent and efficient investments, underpinned by clear incentives, innovation funding, and regulatory settings that reward strong performance.

Entrust also encourages the Commission to recognise the limits on matters within EDB control. In particular, achieving more efficient utilisation of existing network assets depends, in part, on adoption of efficient, forward-looking peak pricing signals at both the distribution and transmission levels. Addressing this issue will be important if consumers are to realise the full benefits of flexibility, deferred network investment, and efficient electrification. The Energy Competition Task Force (ECTF) may provide an appropriate forum for addressing these network pricing issues.

Relationship with MBIE consultation on EDB efficiency and Part 4 reform

Our recent submission to MBIE is part of our response to the open letter. The two consultations canvass overlapping issues.

The submission to MBIE emphasises that changes to Part 4 settings should be well targeted, ownership and governance arrangements can affect performance and investment capability, and heavier-handed or more interventionist options may reduce the attractiveness of investment in electricity distribution.

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Summary of Entrust's submission

- **Entrust supports modernising EDB regulation**. Part 4 Commerce Act settings need to evolve and adapt just as the sector is evolving. Regulation should be smarter and more targeted, protecting consumers where risks are greatest while preserving incentives for efficient investment.

- **Vector is well placed to meet current and future demands**, supported by a strong balance sheet and record investment. Vector invested about $4.5 billion over the last decade and plans to spend another $5.4 billion between 2026 and 2036. Importantly, despite recent increases in line charges, Vector has kept its share of household bills broadly stable in real terms, while returning value to Auckland consumers through Entrust majority ownership.[1] Even with the forecast price increases for next year, Vector distribution charges will be less than $4 more in real terms than they were in 2013, increasing from $61.45 per month to $65.26.

- **The Entrust-Vector ownership model combines local accountability with commercial discipline.** Majority trust ownership returns value to Auckland consumers, while NZX listing brings governance, transparency and access to capital.

- **Consumer risks should be addressed where they are greatest.** The Commission and MBIE identify risks linked to scale, capability, governance, resilience and limited oversight, which are more commonly associated with smaller and exempt EDBs.

- **Price-quality regulation should apply to all EDBs.** With 12 small EDBs exempt from price control, it is unclear how the Commission can prevent consumers funding inefficiency or ensure "the limitations of small scale [are] borne by shareholders, not consumers". This is a matter that will likely need the legislative change MBIE recently consulted on to address.

- **Benchmark industry best practice:** The Commission can use benchmarking to highlight good or best practice, which other distributors can follow, rather than relying on across-the-board intervention based on the lowest-performing businesses.

- **The Commission should avoid blunt or punitive interventions**, such as reducing Regulatory Asset Base (RAB) capitalisation, because that could raise investment risk and undermine long-term network resilience.

- **Pricing reform is needed across both distribution and transmission** to provide better peak pricing signals, improve use of existing assets and defer unnecessary network investment. Because the missing transmission pricing signal is outside the control of EDBs and the Commerce Commission, it will require coordination across regulatory agencies and may warrant consideration by the Energy Competition Task Force (ECTF).

[1] https://vector.co.nz/posts/vector-amp26-future-ready-energy-for-a-growing-auckland

Entrust's submission

Entrust supports initiatives aimed at modernising economic regulation and delivering better outcomes for consumers. Electricity distribution regulation should evolve and adapt with electrification and changing resilience needs. While the Commission's intention is to work with stakeholders to establish what 'good' performance looks like and to align regulatory settings with industry priorities, consensus on these matters will be difficult.

Entrust considers that regulation should protect all consumers from inefficiency, excessive prices and poor investment decisions, regardless of where they live or do business.

We also consider that regulation should be proportionate to the level of risk and performance of each business, reducing unnecessary compliance costs for well-performing EDBs while enabling more focused oversight where consumer risks are higher. The Commission should avoid measures that increase investment risk and should instead reward good performance, collaboration and standardisation.

A more flexible and risk-based approach would improve regulatory efficiency, support innovation, and allow resources to be directed towards achieving better consumer outcomes.

Vector demonstrates why regulation should distinguish between well-performing and higher-risk EDBs

Entrust agrees with the Commission that EDBs should be putting in place clear initiatives to meet future challenges, improve efficiency, and optimise network utilisation through effective asset management and commercial arrangements.

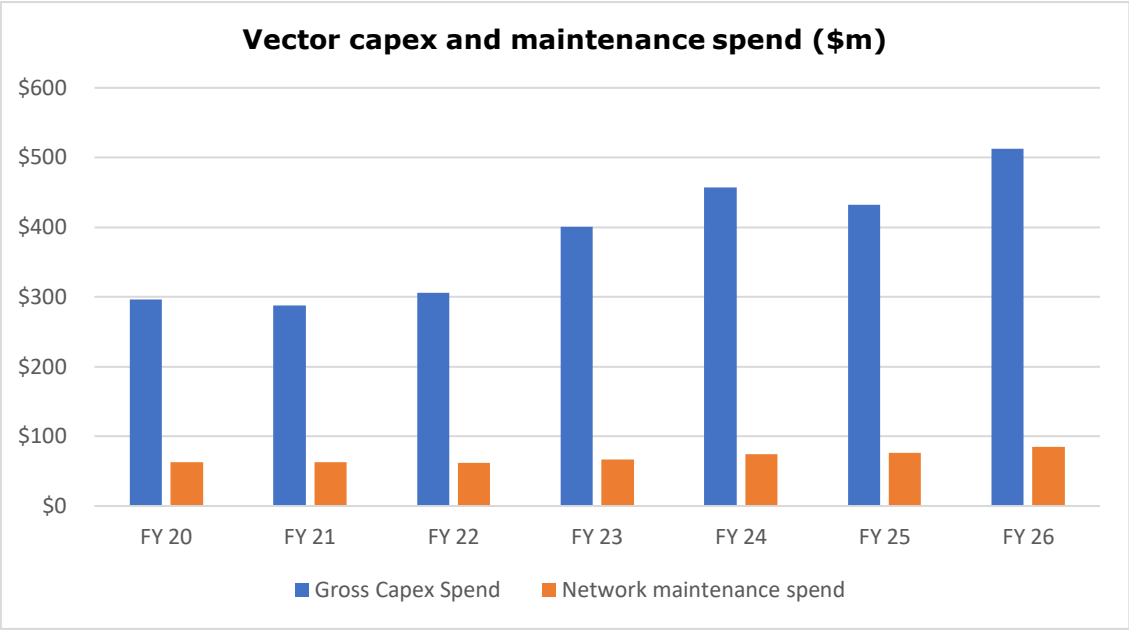
EDBs are not all in the same position. They are adapting to change at different paces. Some face scale, capability, governance or investment constraints; others, including Vector, already demonstrate financial resilience, investment at scale, innovation, strong governance and a clear focus on long-term consumer outcomes.

Vector provides a concrete example of why regulation should distinguish between well-performing and higher-risk EDBs. Vector is investing at scale, maintaining a strong balance sheet, keeping its share of household electricity bills broadly stable in real terms, and returning value to Auckland consumers through the Entrust mixed-ownership model:

- Vector has a strong balance sheet. Vector's Standard and Poor's credit rating is BBB+ with a positive outlook. Its gearing is 39%, down from 59% four years ago.[2]

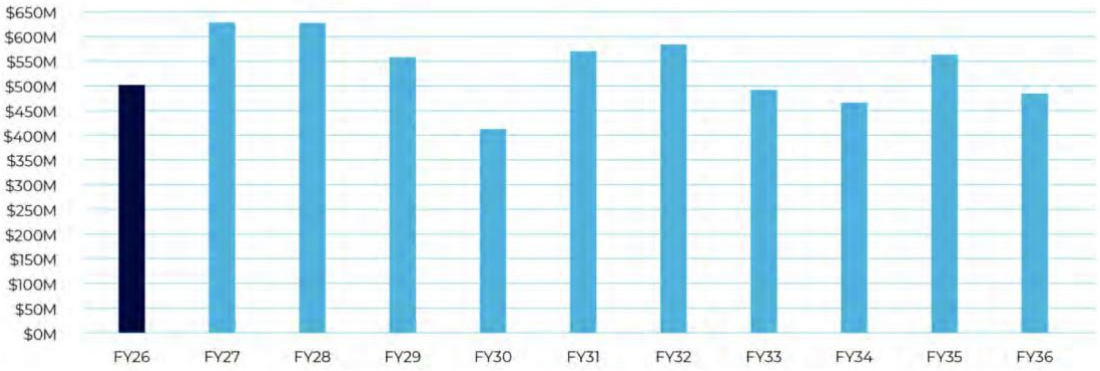
- Vector invested about $4.5 billion over the last decade and plans to spend another $5.4 billion between 2026 and 2036.[3] Gross capital expenditure for the electricity segment was a record $512 million in 2026.[4] This investment is designed to ensure the network grows with demand, is resilient, reliable, and enabled for the future as electrification accelerates.

[2] Vector, Financial and Operational Results YEAR ENDING 30 June 2026.
[3] https://media.vector.co.nz/production/documents/electricityassetmanagementplan20262036-1.pdf
[4] https://vector.co.nz/posts/vector-delivers-strong-2026-result-and-record-investment-in-auckland-s-electricity-network



Source: Commerce Commission Information Disclosures

15.2.1 TOTAL CAPEX



Source: Vector Asset Management Plan 2026

- Outside of severe external forces, the underlying network performance is showing structural improvement. The network is tracking within baseline regulatory thresholds for service quality.

A Case Study: Benefits of the Entrust-Vector ownership model

Vector has more than 600,000 consumers (about 25% of the national distribution market) making it New Zealand's largest EDB. In comparison, consumer-owned Buller Electricity Limited has fewer than 5,000 consumers (less than 1% of the New Zealand electricity market).

Vector operates under a mixed-ownership model with Entrust holding 75.1% of Vector's shares.[5]

The Entrust-Vector mixed-ownership model sits in the spectrum between fully listed private companies and 100% trust-owned EDBs. It offers the best of both worlds, combining private-company governance and discipline with the benefits of community ownership.

[5] Entrust (formerly AECT) owned 100% of Vector until 2005, when it supported Vector's initial public offering. Selling 24.9% of the shares in Vector enabled it to acquire NGC Holdings and expand into gas.

Listing on the NZX brings market scrutiny, strong governance expectations, and access to broader capital markets. Public shareholding and stock-exchange rules require Vector to maintain a sharp commercial focus and operate efficiently. At the same time, majority trust ownership ensures that the value created flows directly back to Auckland consumers. This creates a closed loop where Vector investment directly benefits the local community and profits derived from those investments go directly back to the local community that paid for them.

The Treasury has, at various times, endorsed the mixed-ownership model commenting, for example, that:[6]

> *"A further step would be to partially list some SOEs on the stock exchange – in the same way as Air New Zealand is partially listed. This in our view would deliver the greatest performance gains (short of fully privatising some SOEs, for which there is no public or political support). The gains would come from: better monitoring and feedback to the SOE from the private sector investors and their agents, and from the SOE's share price; more public transparency from the SOE; and greater constraints on non-commercial influence in the SOE from the government."*

The strength of the mixed-ownership model was one of the drivers behind the Government's partial sale of Genesis, Mercury and Meridian. Treasury studies indicate that mixed-ownership model State-Owned Enterprises (SOEs) outperform wholly-Government owned SOEs.[7]

Target the problem, not well-performing EDBs

The Commission should target intervention at the EDBs and behaviours that create the greatest consumer risk, rather than apply broad measures to the sector as a whole. On the material identified by the Commission and MBIE, those risks are most acute where smaller or exempt EDBs face limitations in scale, capability, efficiency, governance, resilience or adoption of modern practices.

The practical issue is consumer protection. Consumers served by exempt businesses do not receive the same protections as consumers served by price-controlled EDBs and may be more exposed to inefficient costs and poor investment decisions e.g. bad investments and decisions would impact profits and dividends rather than price.

The Commission's open letter identifies concerns about smaller EDBs.

These concerns are mirrored by MBIE in its recent consultation on EDB efficiency and Part 4 Commerce Act regulation e.g.:[8]

> *"… the relatively small size of some EDBs limits their ability to achieve scale efficiencies, adopt technology to discipline costs, attract skilled personnel, and access capital – which can in turn affect investment decisions and performance."*

MBIE goes on to express concerns about the governance arrangements of smaller trust-owned EDBs:

> *"Many of the governance concerns raised to date, such as the risk of diversification and limited accountability, have been raised in the context of trust ownership arrangements, rather than EDB governance more broadly. Trust-owned EDBs also operate within a particularly complex legislative framework."*

[6] The Treasury, Treasury Report: Improving the performance of State-Owned Enterprises, 29 December 2008.
[7] The Treasury, He Puna Hao Pātiki 2022 Investment Statement, 22 March 2022.
[8] MBIE, Discussion document for the electricity distribution businesses, 19 August 2026.

> *"The ownership model of EDBs may also affect efficiency, as trust and local government-owned EDBs are not subject to shareholder discipline of the market"*[9]

MBIE also cites 2025 Auditor-General findings that some smaller EDBs face challenges with board capability, executive capability, technical skills, and capital programme management.

Exempt and non-exempt EDB pricing

We interpret the Commerce Commission's open letter as meaning that either revenue threshold regulation[10] or price-quality regulation (PQR) is needed. The Commission has made clear, in relation to small EDBs, that:

> *"We … want to be clear what we think the future is not: … Consumers paying for inefficiency: the limitations of small scale or costs arising from ineffective capability and capacity in terms of costs, quality of service and resilience should be borne by shareholders not consumers, consistent with workably competitive market outcomes."*
>
> *"… it is important that consumers of smaller EDBs do not … pay excessive prices …"*

The Commission should support MBIE progressing removal of EDB exemptions so consumers served by all distributors can receive equivalent protection against inefficient costs and poor investment decisions.

Different forms of diversification can present very different risk profiles, strategic rationales and consumer impacts. Regulatory frameworks should be capable of distinguishing between investments that support core infrastructure outcomes and investments that sit further from an EDB's core network functions. There is a clear difference between investment in unrelated activities and Vector's ownership of gas networks, its interest in Bluecurrent, or EDB involvement in the UFB rollout.[11]

The continued exempt status of some smaller EDBs means consumers in those regions do not receive the same regulatory protections as consumers served by price-controlled EDBs.

Despite recent increases in line charges, the proportion of the average residential electricity bill attributable to Vector in Auckland has barely changed, in real terms, over the past decade.[12]

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[9] https://www.mbie.govt.nz/dmsdocument/31671-encouraging-edb-efficiency-briefing-req-0013881

[10] Revenue threshold regulation is an option that is available under Part 4 Commerce Act for water services. MBIE is currently proposing that this option also be available.

[11] There is a legitimate role for electricity distributors to diversify. Successive Governments have recognised this e.g. through the UFB tender process and by easing restrictions on EDB investment in generation.

Diversification can reduce risk, leverage existing capabilities, and create additional value.

Vector's ancillary investments have a clear link to its core business as an EDB.

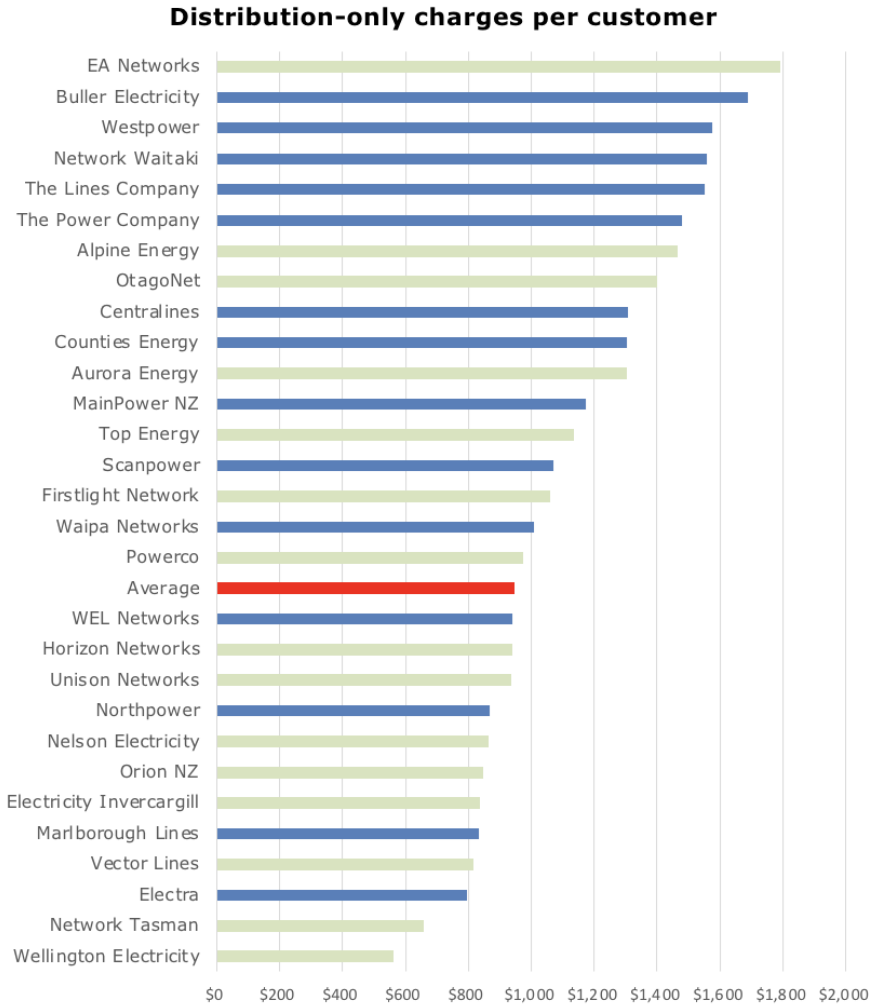
Many EDBs have genuine commercial capabilities in areas such as telecommunications, metering, distributed energy, EV infrastructure, batteries, solar, energy services, data, engineering, and asset management.

[12] Vector, Annual Report 2026.



Source: Vector, Annual Shareholder Meeting 2026

Vector's line charges are in the lowest quartile across all EDBs, including exempt (blue) and non-exempt (green) businesses.



Source: Commerce Commission Information Disclosure

Making the most of assets requires efficient pricing

Entrust agrees with the Commission on the importance of maximising the utilisation of existing network assets and avoiding premature replacement or upgrades. We also support the objective that consumers should benefit from the flexibility of controllable loads and resources, such as EV charging, through effective pricing and contracting arrangements.

Achieving these outcomes requires efficient and coordinated price signals across the entire electricity supply chain, including transmission, distribution and retail. The Commission cannot reasonably expect EDBs alone to optimise investment outcomes across the broader electricity system when efficient pricing signals exist for only part of that system.

A key barrier to efficient utilisation of existing assets is the absence of forward-looking transmission pricing signals. The removal of transmission Real-time Coincident Peak Demand (RCPD) charges means that peak network pricing signals now only exist at the distribution level and not the transmission level.

Entrust agrees with Vector that "there is a clear gap in pricing signals sent within the sector for the costs of impending transmission upgrades to influence consumer decision-making".[13] We similarly agree with MEUG that the TPM "doesn't provide the clear price signals needed to encourage efficient use of the grid."[14]

The current regulatory framework effectively asks EDBs to optimise utilisation of both distribution and transmission assets but only allows pricing signals for one part of the network. This creates an inherent disconnect. Consumers responding to distribution peak pricing are not exposed to the forward-looking cost of transmission augmentation, even where transmission investment may represent a significant share of future system costs.[15]

This issue will become more significant as electrification increases demand for network capacity. It is anticipated that significant transmission investment will be needed for Auckland over the next five to ten years. As the need for new transmission investment grows, efficient consumer and investor decision-making will increasingly depend on visibility of the costs that can be avoided through demand flexibility, load shifting, distributed generation, targeted demand management, and other non-network solutions. This is a missed opportunity to achieve efficiency benefits and reduced investment costs at both the distribution and transmission levels.[16]

The result is a risk that consumers ultimately pay more than necessary for network infrastructure because transmission pricing does not provide a forward-looking signal.

Entrust submits that the absence of a forward-looking transmission pricing signal is a material barrier to efficient use of existing assets. This cannot be solved by EDBs or the Commission acting alone and will require coordinated action with the Electricity Authority. Reintroducing or developing forward-looking transmission pricing signals should therefore be considered an important complement to distribution-level pricing

[13] https://www.ea.govt.nz/documents/9319/Vector_-_Task_Force_open_letter_submission.pdf
[14] https://backend.meug.co.nz/assets/Documents/MEUG-Chair-Update-for-Sept-2026.pdf
[15] While the Authority has put faith in nodal pricing to substitute for peak-pricing for transmission, it has also explained that nodal pricing provides weaker short-term pricing signals and are not dynamically efficient e.g. "nodal prices reflect SRMC rather than LRMC".

Electricity Authority, Transmission Pricing Methodology Review: LRMC charges Working paper, 29 July 2014.
[16] https://www.entrustnz.co.nz/media/m4pkppbo/entrust-distribution-pricing-consultations_26-march-2025.pdf

reforms. Without efficient price signals across both transmission and distribution networks, the full value of consumer flexibility and existing network assets is unlikely to be realised.

The ECTF may provide an appropriate forum for this issue because it can coordinate Commerce Commission and Electricity Authority work on network performance, pricing and consumer outcomes across the electricity sector. Given the ECTF's role in retail peak/off-peak pricing, addressing the missing transmission signal would be a logical next step.

Reward good performance

Stronger financial and reputational incentives should be designed to encourage performance without deterring efficient investment. Care will be needed when setting "stronger and more direct financial and reputational incentives" that this does not result in blunt or punitive settings that could deter investment. Rewarding good performance ('carrot') can be more effective than penalising poor performance ('stick'). Positive enablement, innovation funding, and clear incentives are preferable to rules that could increase investment risk.

The Commission should consider whether stronger positive incentives can be incorporated into the regulatory framework. Recognition of industry leading performance, accelerated approval pathways, innovation allowances, and other forms of regulatory enablement may deliver better long-term outcomes than reliance on penalties alone.

Entrust considers the Commission should be cautious about reducing RAB capitalisation for system growth expenditure if an EDB fails to deliver meaningful flexibility incentives or sufficient DSO capability.

Current asset valuation settings give regulated suppliers reasonable certainty (but not a guarantee) that prudent and efficient investments can be recovered, with lower risk reflected in the regulated cost of capital and lower consumer prices.

Penalising EDBs by cutting RAB capitalisation could introduce significant investment risk. This could inadvertently compromise network security, raise the cost of capital, and ultimately undermine the long-term reliability of critical infrastructure.

Regulatory frameworks should rely on positive enablement and innovation funding (like the INTSA allowance) rather than punitive asset exclusions.

Under the current Commerce Commission Input Methodologies (IMs), the RAB asset capitalisation rules dictate exactly how capital expenditure transforms into regulated asset values for EDBs. These rules ensure cost predictability and prevent monopoly pricing.

Consideration of options for the extent to which expenditure can be capitalised in the RAB raises wider questions about whether similar rules should be applied to other regulated suppliers, including Chorus and Transpower, or whether the Individualised Price-Quality Path (IPP) and Capex IM arrangements that apply to these suppliers mean that such changes would not be necessary or appropriate. The Commission should be clear about these distinctions if it considers these options further.

Collaboration and standardisation

The Commerce Commission's open letter emphasises the importance of better realising the benefits of scale, including through joint procurement, common design standards, common asset management systems, and more streamlined interfaces and processes. Entrust supports practical measures that encourage collaboration and standardisation where this can deliver efficiencies for consumers.

Entrust would support Government and regulators reviewing barriers that may deter or prevent collaboration and shared services.[17]

Standardised approaches to common processes, procurement, technical requirements, connection practices, and customer interfaces can reduce duplication and help spread good practice across the sector without requiring structural consolidation.

Electricity Networks Aotearoa (ENA) is already leading a programme of work in this area and reporting to the Minister quarterly on progress. Care will be needed to ensure any additional Government or regulatory initiatives complement, rather than duplicate or cut across, that work.

These types of initiatives are likely to deliver tangible benefits while preserving local accountability, ownership flexibility, and the ability of larger EDBs to continue investing at scale. Entrust therefore supports collaboration and standardisation initiatives provided they remain enabling rather than prescriptive, and do not become a pathway to forced amalgamation.

Concluding remarks

In our view, the most effective reforms will be those that balance strong consumer protection with strong investment incentives. Regulation should evolve alongside the sector, applying greater scrutiny where risks are highest while allowing high-performing networks to continue delivering efficient investment, innovation, resilience, reliability and value for consumers.

If "stronger" regulation is adopted, Entrust submits that it should protect consumers from inefficiency while avoiding unnecessary obligations or punitive interventions for well-performing businesses, to preserve the investment incentives needed for electrification, resilience, reliability and long-term affordability for households and businesses.

A smarter, risk-based approach would give consumers confidence that poor performance and inefficient costs will be addressed, while ensuring that networks with the capability and financial strength to invest can continue preparing for growth, decarbonisation, severe weather and changing consumer needs. That is the best pathway to better outcomes for consumers now and over the long-term.

[17] Vector has submitted to MBIE that the following changes could assist greater collaboration:

- "Aligning the timing of incentives with standardisation benefits under the IRIS mechanism; and
- "Providing greater certainty around competition law, preferably through Commerce Act clearance or a sector-specific exemption for certain collaborative activities."

Vector, Submission to MBIE, Improving the efficiency of electricity distribution businesses, 30 September 2026.

Kind Regards



Denise Lee
ENTRUST CHAIR