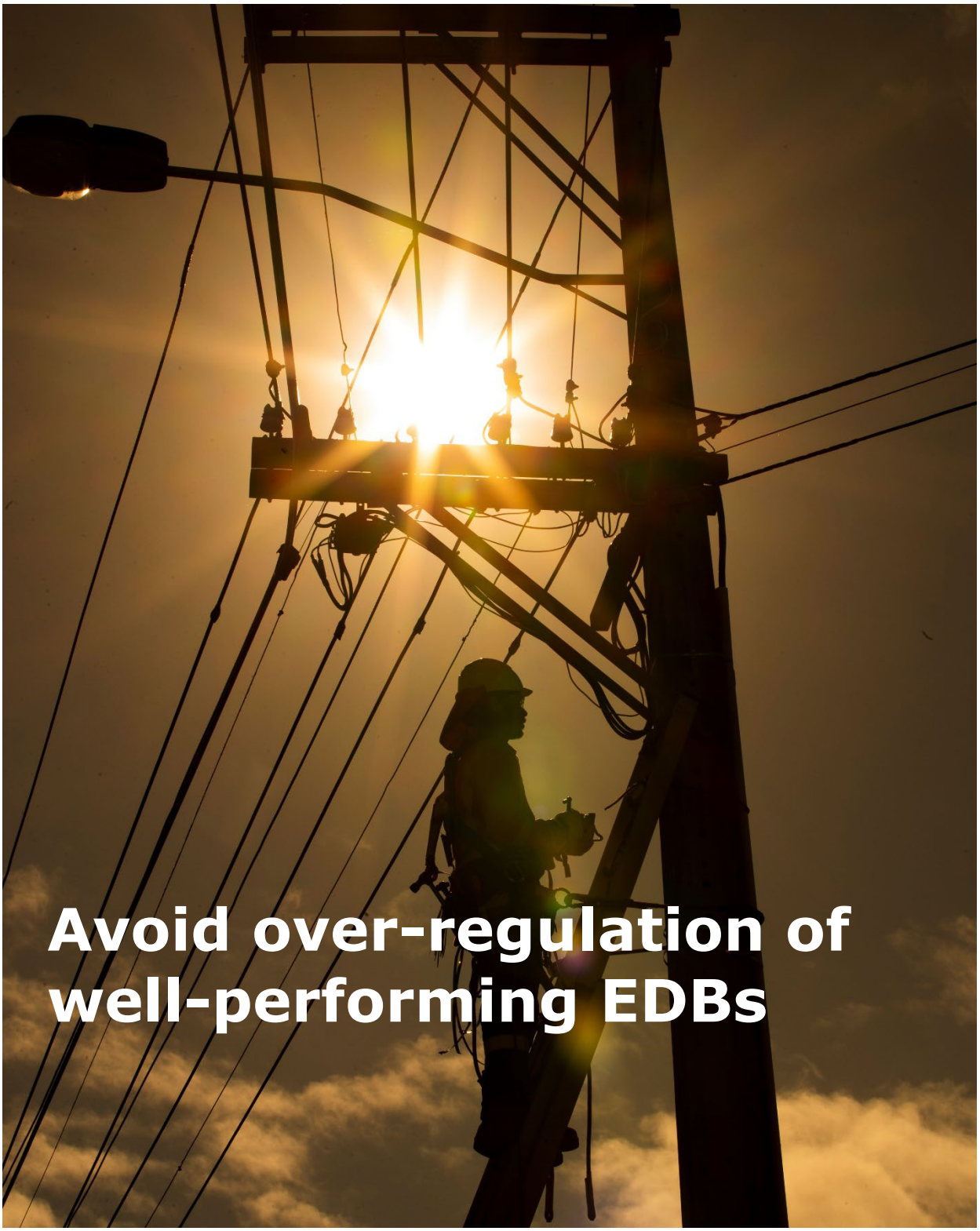


Avoid over-regulation of well-performing EDBs

SUBMISSION TO THE MINISTRY OF BUSINESS, INNOVATION AND EMPLOYMENT REGARDING EDB EFFICIENCY CONSULTATION

Date: 29 September 2026

Entrust
Majority shareholder of Vector

Opening comments

Entrust supports modernising electricity distribution regulation, but reform should be approached cautiously, proportionately, and in a targeted way that supports the investment needed for electrification and network resilience.

The consultation draws parallels between council-owned water businesses and small, 100% trust-owned or community-owned electricity distribution businesses (EDBs) that lack scale, including concerns about funding large investment programmes, prioritising non-core projects over electricity infrastructure, and isolated examples of small EDBs investing in things like wineries and retirement villages.

The more interventionist options in the consultation largely respond to MBIE concerns that the governance and commercial arrangements of smaller trust-owned EDBs "affect investment decisions and performance".

Entrust considers any interventions should be carefully tailored to those concerns[1]. Entrust encourages MBIE to maintain a clear and direct 'line-of-sight' between the problems it has identified and the proposed solutions.

The concerns may be valid for some smaller EDBs. However, larger commercially oriented EDBs such as Vector operate under materially different ownership, governance, financing, and accountability settings. Water-sector regulation was designed for different ownership, financing and investment challenges.

Wholesale adoption of water-style regulation could make EDB regulation more interventionist and heavy-handed than comparable regimes for Transpower, Chorus, airports, and other regulated services. The reasons for excluding those suppliers should be considered when assessing whether additional obligations are appropriate for larger, well-performing listed or mixed-ownership companies.

A 'one-size-fits-all' approach to economic regulation reform is unlikely to be optimal or to the long-term benefit of consumers.

MBIE should avoid measures that could weaken investment incentives and reduce the attractiveness of New Zealand as a place to invest. Dividend restrictions, ring-fencing requirements, and limits on owner flexibility risk reducing asset values, access to capital, and investor appetite at the very time electricity-network investment is needed.

Significant regulatory change could also weaken New Zealand's broader investment climate and increase regulated suppliers' cost of capital if investors perceive the electricity sector as higher risk.

[1] The targeting that has been done seems to be limited to directing the changes at electricity distribution and not transmission (and not airports, gas, fibre or telecommunications economic regulation).

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Submission summary

Distinguish between EDB ownership models

The MBIE consultation states that, given the diversity of ownership and governance arrangements across EDBs, "there is value in considering whether existing governance arrangements remain fit for purpose." However, it does not meaningfully unpack that diversity. Reform should distinguish between small consumer-trust EDBs, council-owned EDBs, and larger mixed-ownership or listed companies such as Vector.

Recognise the benefits of the mixed-ownership model

Vector's mixed-ownership model combines market discipline, access to capital, community ownership, and direct benefits to Auckland electricity consumers. That model should not be treated as equivalent to smaller trust-owned EDBs facing different scale, capability, governance, or capital-access challenges.

Focus on smaller and exempt EDBs

The core element of MBIE's problem definition is directed at smaller, trust-owned EDBs that may be less equipped for the investment and innovation demands ahead because of scale, governance, regulatory exemptions,[2] and access to capability or capital. The Commerce Commission's open letter, published after the MBIE consultation, reinforces this focus on smaller and exempt EDBs.

Use the right regulatory parallels

To the extent that MBIE sees parallels between water and electricity, the points that MBIE raise are most applicable to the smaller, trust-owned EDBs. A more appropriate parallel, and policy response, for larger, commercially oriented EDBs is with Chorus and Transpower and the way they are regulated. The MBIE options, apart from application of individual price-quality path (IPP) regulation, would shift the regulation of larger EDBs further away to the approach taken for Chorus and Transpower.

Prefer targeted reform over sector-wide controls

Given MBIE's concerns about affordability, scale, weak financial discipline, and governance capability among smaller trust-owned EDBs, a targeted response would be to remove price-quality regulation (PQR) exemptions, not impose sector-wide water-style controls.

[2] https://www.comcom.govt.nz/assets/Uploads/Open-letter-Local-lines-networks-achieving-better-outcomes-for-consumers-now-and-in-the-future.pdf

Options supported

Selectively modernise Part 4	We recognise Part 4 Commerce Act settings need to evolve and adapt just as the sector is evolving. Entrust supports modernising economic regulation and drawing on relevant telecommunications and water precedent, where the provisions are suitable for electricity and targeted at clearly identified problems.
Practical performance improvements	We support practical measures that improve sector performance without imposing unnecessary regulatory burden; including greater collaboration and standardisation, improved benchmarking and improved performance monitoring.
Remove PQR exemptions	Entrust supports the application of PQR regulation to all EDBs regardless of size and ownership type. All consumers should receive the same Part 4 protections regardless of where they live or work. If PQR is not applied across the board, Entrust would otherwise support the water model where the Commerce Commission can recommend to the Minister that performance requirement regulation, revenue threshold regulation, quality regulation or PQR regulation be applied to individual suppliers.
Apply IPPs for larger EDBs	Entrust supports adoption of IPPs for larger EDBs. At a minimum, we consider that the option should be made available for larger EDBs to voluntarily opt-in to the IPP regime.
Financeability should be added to Part 4	Entrust recommends that financeability be expressly added to Part 4 of the Commerce Act as part of any modernisation of the economic regulation framework.[3] Entrust has been clear in submissions the Commerce Commission should address financeability concerns to ensure a successful energy transition.[4]

[3] The Appendix references water precedent for explicit inclusion of financeability requirements in Part 4 Commerce Act.

[4] e.g. https://www.entrustnz.co.nz/media/1kjhb15v/submission-to-mbie-re-energy-transition_2-november-2023.pdf and https://www.entrustnz.co.nz/media/zutnphnc/2023-07-19-submission-ims-decision.pdf

Intrusive options not supported

Entrust does not support applying intrusive water-style tools across the electricity distribution sector	These tools were designed for council-owned water providers facing entrenched under-investment, financing constraints, and no prior economic regulation. Applying operational direction powers, dividend controls, financial ring-fencing, cash-flow restrictions, broad disclosure obligations, mandatory governance requirements, ownership reviews, or forced amalgamation to well-performing EDBs such as Vector would risk over-correcting for issues specific to smaller and exempt EDBs. These measures could also reduce investor confidence, increase capital costs, and make it harder to fund network investment.
Water-sector financial principles do not fit Part 4	Entrust does not support the water-sector financial principles being transplanted to Part 4 Commerce Act. It should not be simply assumed legislative provisions designed to address ownership and governance issues in the water sector should apply to electricity or electricity distribution. For example, PQR already restricts the revenue non-exempt EDBs may earn so there is no need for additional rules about how that revenue must be spent.
Limits on dividends aren't appropriate for private and mixed-ownership EDBs	Vector has sound safeguards in place, including under the Companies Act and its own dividend policy, to ensure it will not pay out dividend amounts that compromise its ability to sustainably provide safe, reliable and efficient distribution services.
Entrust Trust Deed ensures dividends go directly to consumer beneficiaries	The option to direct that dividends are paid to consumer beneficiaries has no useful application to Entrust. Our Trust Deed mandates distribution of net income directly to consumers and does not permit the application of funds for other purposes.[5]
Under PQR consumers are already safeguarded against poor investment decisions	Non-core investments are not inherently problematic. Diversification can create value and reduce risk. Concerns about isolated examples such as investments in wineries and retirement villages are governance issues, not systemic industry problems.
Don't mandate amalgamation	Entrust agrees with the concerns MBIE has raised about forced amalgamation. If amalgamation is mandated, this should be targeted at small EDBs only and not New Zealand's largest EDBs.

[5] https://www.entrustnz.co.nz/media/ewcanukt/entrust-trust-deed-as-at-9-july-2026-incorporating-all-changes-approved-on-30-june-2026.pdf

Entrust's submission

Entrust supports regulatory reform that is targeted, proportionate, and clearly linked to identified problems. In responding to MBIE's consultation, we consider there are four critical issues that should guide any reform package.

1 **Target the problem, not well-performing EDBs**

Policy measures should be directed at the specific problems identified in the consultation and not impose water-style regulation on well-performing EDBs that do not exhibit the concerns driving the review. The concerns highlighted by MBIE relate primarily to a subset of smaller trust-owned EDBs. MBIE has excluded Transpower but has otherwise taken a blanket approach to the application of the options it is considering for electricity distribution.

2 **Energy affordability**

Affordability matters, but consumers supplied by regulated EDBs already benefit from strong protections under the existing PQR regulation, while further affordability gains are more likely to come from improved competition across the wider electricity sector.

3 **Don't limit dividends**

Proposals that could restrict dividend payments risk undermining legitimate shareholder returns and reducing the benefits that flow directly to communities through ownership structures such as Entrust's.

4 **Heavy-handed regulation risk to investment**

New Zealand needs substantial investment in electricity networks over coming decades. Heavy-handed regulatory intervention could weaken investor confidence, increase financing costs, and make it harder to deliver the infrastructure required for a reliable and affordable electricity system.

These themes underpin the detailed comments that follow.

1. Target the problem, not well-performing EDBs

Entrust supports a targeted approach to identifying potential areas for reform. We consider that any sector-wide shift to water-style regulation should be assessed carefully to ensure it is justified, proportionate and to the long-term benefit of consumers. A 'one size fits all' approach to economic regulation reform is unlikely to be optimal or to the long-term benefit of consumers.

Entrust considers there should be a clear and direct link between the issues MBIE has identified and regulatory responses that are ultimately advanced.

Water services regulation was designed for a council-owned sector[6] with major under-investment, financing constraints and no prior economic regulation.[7] MBIE identified significant under-investment and "poor asset and financial management" as major problems in the water sector. The consultation notes, for example, that financial ring-fencing rules were introduced in the water sector "to address concerns about under-investment":[8]

> *"Issues that are apparent in the water services system include … significant long-term underinvestment in water infrastructure, including councils not investing in and planning for growth, urban development, and resilience" and "poor asset and financial management"."*

Many of the consultation options respond primarily to concerns about the governance, scale, and capability of smaller trust-owned EDBs. Entrust recognises why MBIE has explored parallels between council-owned water businesses and smaller trust-owned EDBs, including the following observations:

> *"… 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."*
>
> *"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.

[6] For example, the original rationale for the quality regulation tool in water was that lack of profit motivation meant PQR would play a lessor role in the water sector, which may also be relevant to some exempt EDBs. Source: Hon David Clark, Minister of Commerce and Consumer Affairs, Economic Regulation and Consumer Protection in the Three Waters Sector, 8 December 2022.

[7] Inclusion of tools such as revenue threshold regulation, quality regulation or performance requirement regulation (subject to the caveats below) may provide pragmatic options, short of full PQR, for the Commission to apply to small, trust-owned EDBs if current PQR exemptions are removed.

[8] https://www.mbie.govt.nz/business-and-employment/business/competition-regulation-and-policy/economic-regulation-of-goods-or-services/economic-regulation-of-water-services/discussion-document-commerce-commission-levy-for-the-economic-regulation-of-water-services/introduction

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

The Commerce Commission's open letter on EDB performance,[10] published after the MBIE consultation, reinforces that the key issues are scale, capability, efficiency, resilience, and the adoption of modern practices by smaller EDBs. Entrust considers the letter supports targeted, evidence-based reform rather than sector-wide intervention for well-performing, commercially disciplined EDBs:

- **Prices and scale efficiencies:** The Commission highlights that smaller EDBs may face higher unit costs and may be less able to realise scale efficiencies, which can ultimately affect the prices consumers pay. Smaller scale can limit procurement benefits, the spread of fixed costs, access to specialist capability, and the ability to adopt common systems and processes.

- **Cost barriers to development:** Smaller EDBs frequently cite cost constraints as the primary reason for failing to progress system or capability updates.

- **High transaction costs:** Attempting to solve scale limitations through collaborative activities may result in high transaction costs.

- **Financial resilience:** Smaller networks may have less ability to spread the costs of localised high-impact events, such as severe weather, across a broad consumer base.

- **Capability and resilience:** Limited operational, technical, and commercial capability can affect service quality, network resilience, and the ability to respond to future investment and electrification demands.

- **Missing out on modern technology:** Consumers of smaller EDBs could miss out on the benefits of modern digital systems, data analytics and control systems or pay excessive prices to achieve these benefits.

These are important observations, but they do not establish a sector-wide governance problem or, on their own, justify applying water-style regulation to every EDB. Where MBIE's concerns relate to governance, scale, or financial discipline among smaller trust-owned EDBs, Entrust considers policy measures should be directed specifically to those trusts. For example, if the core issue is that the current PQR exemptions weaken financial discipline, then removing those exemptions would be a more targeted response.

Issues specific to small trust-owned EDBs are, at points, translated into policy options that could apply to all EDBs. Highly interventionist measures such as financial ring-fencing or restrictions on dividend payments are linked to concerns about small trust-owned EDBs, yet the consultation also asks whether they "could be applied more broadly to all EDBs."

More interventionist regulatory tools developed for the water sector are not appropriate across the EDB sector, particularly for larger distributors and those operating under listed or mixed-ownership models. This conflation risks designing sector-wide regulation to solve problems that are not sector wide.

[10] Commerce Commission, Open letter – Local lines networks: achieving better outcomes for consumers now and in the future, 10 September 2026.

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 market).

Vector operates under a mixed-ownership model with Entrust holding 75.1% of Vector's shares.[11]

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.

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:[12]

> *"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.[13]

[11] 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.
[12] The Treasury, Treasury Report: Improving the performance of State-Owned Enterprises, 29 December 2008.
[13] The Treasury, He Puna Hao Pātiki 2022 Investment Statement, 22 March 2022.

2. Energy affordability

Entrust is acutely aware of the cost-of-living pressures facing households and businesses, and the importance of keeping electricity affordable. We recognise that rising electricity bills place real pressure on consumers and support efforts to ensure that necessary network investment is delivered as efficiently as possible.[14] With high prices hitting the pockets of Kiwis now more than ever, Entrust's 2026 annual dividend payment was a welcome reprieve for eligible Aucklanders this spring.

There are potential pressure points on electricity prices at all parts of the supply chain, including wholesale, transmission, distribution and retail. Entrust has advocated strongly for reforms to ensure a highly competitive electricity market that puts downward pressure on costs.

MBIE has highlighted concerns about rising distribution costs and pressure on power bills. EDBs expect to spend more than $32 billion over the next decade, while distribution charges already make up about 24.5% of the average power bill. MBIE is concerned that the significant investment required to maintain and expand networks could push bills higher unless delivered efficiently.

These are valid concerns. However, it is important any regulatory response is directed at the source of the problem.

Consumers supplied by non-exempt EDBs are already protected from excessive line charges by Part 4 regulation. Non-exempt EDBs are already subject to mature, PQR regulation which limits revenue and constrains excessive returns. Part 4 is specifically designed to promote outcomes consistent with competitive markets, including that "EDBs are limited in their ability to extract excessive profits".

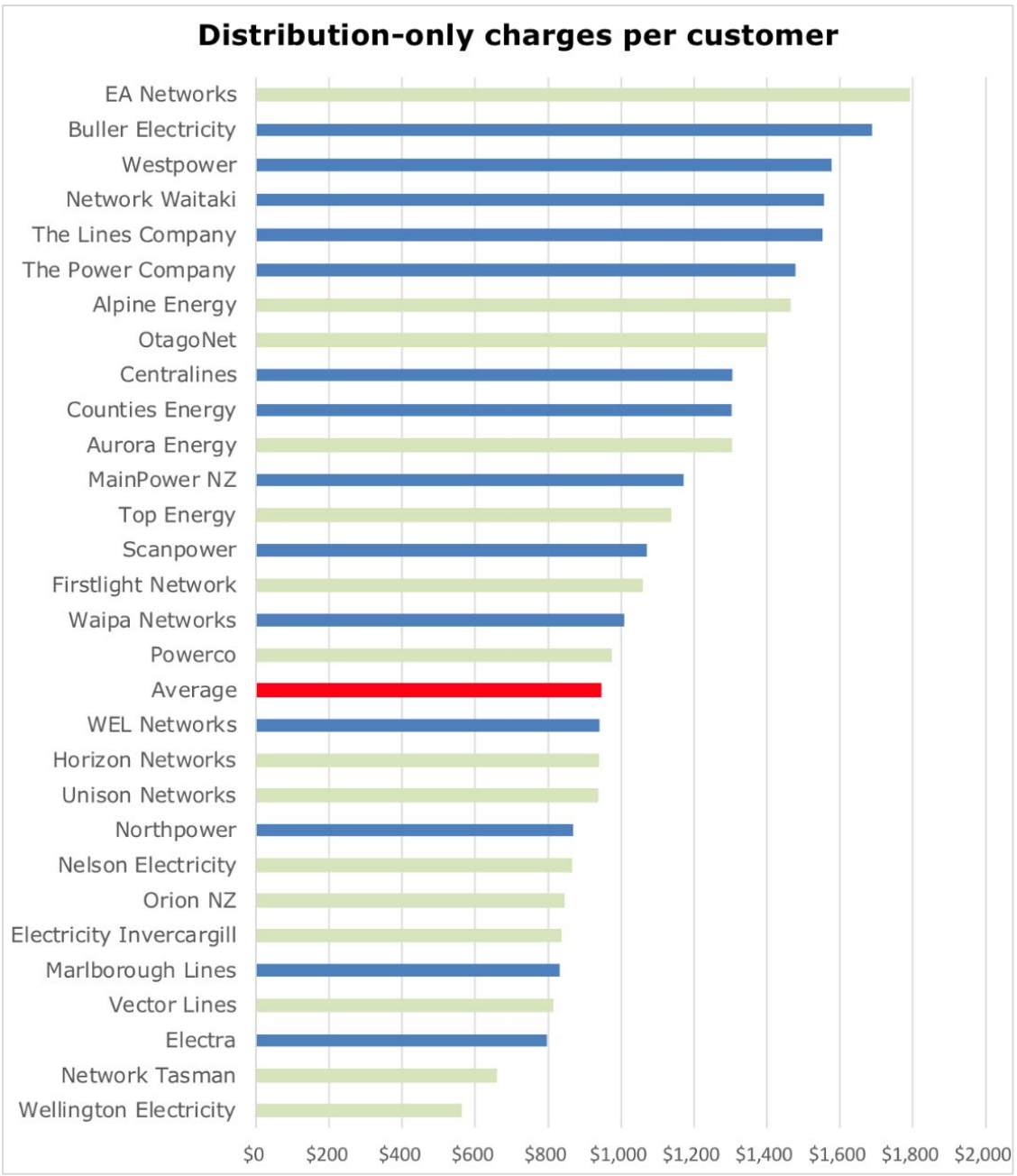


Source: Vector Annual General Meeting 2026

[14] Affordability concerns and how they should be addressed is a common theme in Entrust's submissions.

Importantly, 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.[15]

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



Source: Commerce Commission Information Disclosure.

[15] Vector, Annual Report 2026.

MBIE's concerns with the existing regime appear to focus on two specific issues:

- the impact that the Commerce Commission's use of rate-of-the-day (ROTD) WACC had on line charges in the 2025 reset,[16] which the Commission has announced it will address with the adoption of a trailing average cost of debt (TACD) WACC;[17] and

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

In relation to the exemption status, MBIE notes:

> *"Although the expenditure allowance in the most recent default price-quality path was significant, it was still lower than the amount of expenditure forecast by non-exempt EDBs in their public planning documents."*

These concerns do not require a fundamental redesign of the regulatory framework. They can be addressed by removing the exemption status and either: (i) providing the Commerce Commission with the suite of intermediary regulatory tools, detailed in the consultation, it could apply to the small EDBs and/or, preferably, (ii) applying price control to all EDBs.[18]

3. Don't limit dividends

Entrust is especially concerned about the proposed powers that would allow the Commerce Commission to limit dividends. Dividends are important for shareholders and our trust beneficiaries.

A policy position that seeks to attract greater private investment in infrastructure while simultaneously signalling the possibility of tighter dividend restrictions risks sending mixed signals to investors.

In providing debt or equity finance, investors expect to earn a reasonable return that reflects the risk they are taking in providing that finance. Allowing equity investors to earn a return through dividends makes the utility an attractive, stable option for long-term investors (like pension and infrastructure funds).

We have previously raised concerns that requiring investors to forego dividends is not a sustainable long-term strategy.[19] It should not be assumed investors are indifferent to

[16] Entrust shares MBIE's concern about the use of ROTD and its implications for affordability. The use a rate of the day (ROTD) WACC artificially lowered line charges in 2020 on the back of very low interest rates, which were never fully passed through to consumers, and then was a key driver for line charge increases in 2025 which were rapidly passed through by retailers in full. Entrust agrees with what seems to be an emerging consensus across the sector and market participants that the Commission should switch from ROTD to a trailing average (TACD) WACC e.g. https://www.entrustnz.co.nz/media/ds0k4eta/2024-07-03-submission-to-commerce-commission-regarding-dpp4-draft-decision.pdf.

[17] https://www.comcom.govt.nz/assets/Documents/2027-input-methodologies-review-common-cost-of-capital/Revised-Notice-of-Intention-Part-4-WACC-review-23-September-2026.pdf

[18] The exemptions were very controversial when they were introduced and opposed by the Commerce Commission.

[19] We raised these concerns in response to Commerce Commission suggestion that lines companies can deal with financeability issues through "a range of tools … including reducing dividend payments". Our views on this matter are unchanged: https://www.entrustnz.co.nz/media/xrelbpb1/2023-07-19-submission-ims-decision.pdf.

cash-flow timings simply because they may be NPV neutral in the long-run. Nor should Part 4 regulation dictate equity funding requirements.

Dividend limits could unintentionally favour debt over equity by making equity returns more uncertain while leaving debt returns unaffected.

Dividend restrictions could make equity investment less attractive by increasing uncertainty about how and when shareholders may receive returns. If equity becomes less available or more costly, regulated suppliers may need to rely more heavily on debt, which can increase financing costs and ultimately affect consumer affordability.

We agree with the concerns previously raised by Vector for example:[20]

> *"… equity investors foregoing dividends … could have a damaging effect on a network's ability to attract capital in the future. Additional equity (or suspension of dividends), while the network company still receives the same permitted allowances, is asking equity holders to sacrifice the minimum level of return that the Commission itself has determined as a fair minimum return for such investors. Any future equity investor, looking to commit scarce capital to New Zealand projects (which could easily be invested elsewhere globally), is unlikely to be attracted to a regime where any cashflow shortfall will be made up by equity investors sacrificing some of their allowed return. In applying its regime, and in electing to speculate about the availability of capital, we would encourage the Commission to appreciate that not only do investors have options on where to place capital, but that shareholders rightfully expect fair and sustainable returns. It is clear to us that the Commission has failed to take account of the credit rating risks arising from cashflow profiles against debt levels."*

New Zealand needs greater investment in electricity networks. Entrust therefore encourages the Government to ensure any additional regulatory obligations or powers are clearly linked to an identified problem and supported, where practicable, by a quantified assessment of expected consumer benefits.

We are also conscious of what a dividend limit could mean for our trust beneficiaries. We can always be guaranteed to receive positive feedback from our beneficiaries about the annual dividend payments for example from last year:







[20] https: //www.comcom.govt.nz/assets/pdf_file/0022/323167/Vector-Cover-letter-to-Commerce-Commission-Chair-John-Small-Submission-on-IM-Review-2023-Draft-Decisions-19-July-2023.pdf

There is overwhelming support amongst beneficiaries, with 90% supporting the continuation of Entrust dividend payments.[21]

Entrust is not only required by its Trust Deed but is also determined to deliver for our beneficiaries. This year approximately 374,000 trust beneficiaries in the Entrust District will receive a dividend payment of $377 for each trust beneficiary. The dividend will contribute more than $141 million to Auckland's economy.[22] The Entrust dividend provides some relief amid the high cost of living, and helps cover everyday costs, such as rent, petrol or groceries, or help with power bills.

> Always look forward to this, thank you Entrust.
>
> Cal

> Thank you it really does help my whānau.
>
> Dorothy

We know that some in our community really rely on the dividend, and it makes a difference. We are putting money directly back into the community at a time when it's needed most. A good portion of it will be spent in local neighbourhoods, with local businesses, which further benefits local communities.[23]

4. Heavy-handed regulation risk to investment

At a time when New Zealand needs EDBs to mobilise tens of billions of dollars of capital, policy settings should avoid reducing the attractiveness of investing in EDBs or unnecessarily constraining the capital structures through which that investment is financed. This is particularly important for listed or mixed-ownership EDBs such as Vector.

Applying water-style regulation across the board could have unintended consequences, including reduced investor confidence and higher financing costs, and could ultimately make it harder for EDBs to deliver the network investment New Zealand needs.

The Government should be cautious about measures that may weaken investment incentives. Restrictions on dividends, financial ring-fencing requirements, limits on owner flexibility, or constraints on non-network activities could all affect asset values and access to private capital. Any new Commerce Commission powers or heavy-handed regulatory controls should be clearly linked to an identified problem and supported by a robust assessment of expected consumer benefits.

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[21] The survey was undertaken in 2025 by Dynata, an independent NZ online research panel. Weighting and quotas have been applied for age, gender and ethnicity to ensure the sample is representative of all Entrust beneficiaries.

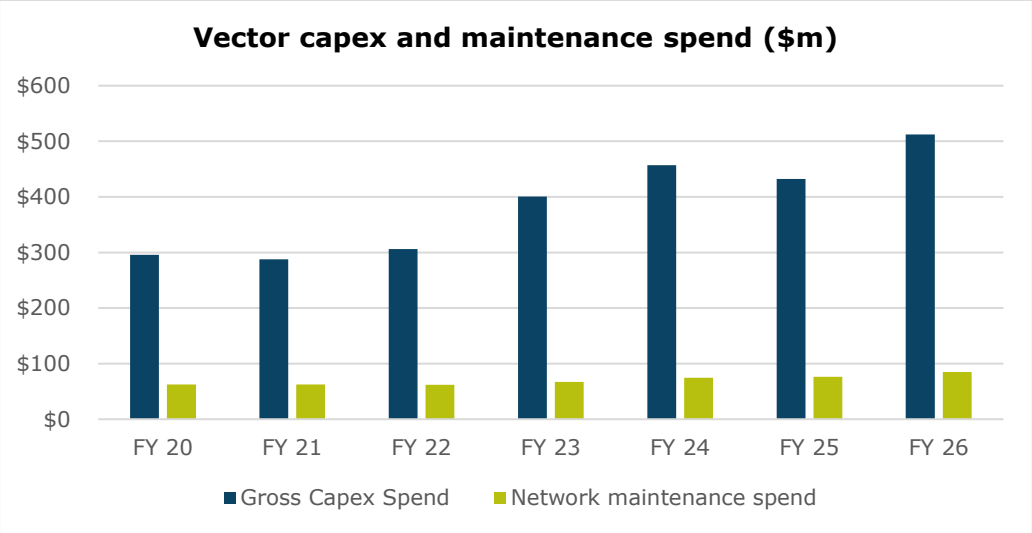
[22] https://www.entrustnz.co.nz/news/news-and-media-releases/woo-hoo-377-entrust-dividend-lands-for-374-000-aucklanders/

[23] Last year we were proud to report that the Trust had reached a major milestone with more than $2.5 billion paid out in dividends since 1994. That's $2.5 billion put directly back into the pockets of Aucklanders, supporting households and small businesses in the community for over 30 years. https://www.entrustnz.co.nz/news/news-and-media-releases/more-reasons-to-smile-364-dividend-to-be-paid-to-368-000-aucklanders/

A Case Study:
Vector is delivering for both investors and consumers

Vector is an example of an EDB that is delivering under the current regulatory framework. It 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 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.[24]
- Vector invested about $4.5 billion over the last decade and plans to spend another $5.4 billion between 2026 and 2036.[25] Gross capital expenditure for the electricity segment was a record $512 million.[26] This investment is designed to ensure the network grows with demand, is resilient, reliable, and ready for the future as electrification accelerates.



Source: Commerce Commission Information Disclosures

[24] Vector, Financial and Operational Results YEAR ENDING 30 June 2026,
[25] https://vector.co.nz/posts/vector-amp26-future-ready-energy-for-a-growing-auckland
[26] https://vector.co.nz/posts/vector-delivers-strong-2026-result-and-record-investment-in-auckland-s-electricity-network

A Case Study:
Vector is delivering for both investors and consumers



FIGURE 15-1: TOTAL CAPEX

Total capex averages $537m p.a. with the expenditure profile reflecting the growth and integrity forecasts (detailed in the following sections), which are punctuated by large significant projects for which there is more certainty in the short term. The higher gross expenditure in FY27 to FY28 is driven by increased customer connections expenditure and associated system reinforcement requirements, as well as a large number of primary asset replacement projects planned during this period. The expenditure profile also aligns with network technology initiatives including ADMS phase 2 delivery implementation of future phases, Enterprise Resource Planning (ERP) transformation and a programme of customer related initiatives (including a Customer Relationship Management (CRM) review and/or upgrade).

Source: Vector's 2026 Asset Management Plan.

- The Vector component of household bills has barely moved, in real terms, in the past decade, reflecting Vector's commitment to ensuring customers receive value from our investments.
- Outside of severe external forces, the underlying network performance is showing structural improvement. The network is tracking within baseline regulatory thresholds for service quality.
- Following its 2026 financial results, Vector declared a final dividend of 13.5 cents per share, bringing the total full-year dividend to 26 cents per share (up from 25.0 cents in FY25).[27]
- $255 million in dividends returned to shareholders in 2026:[28]

> *"The benefits of a stronger energy network extend far beyond our lines. With at least 75% of our dividends returned to Auckland consumers, the value we create for Auckland stays within our communities, supporting local people, businesses and communities to thrive."*

[27] https://media.vector.co.nz/production/documents/fullyearresultspresentation2026.pdf
[28] Vector, Annual Report 2026.

Options supported by Entrust

Entrust supports measures that modernise the economic regulation of EDBs where the changes are evidence-based, proportionate, and targeted at clearly identified problems. We support greater collaboration and standardisation, improved benchmarking, a more responsive economic regulation, and options to extend economic regulation to exempt EDBs.

Collaboration and standardisation

Entrust supports practical measures that encourage collaboration and standardisation where this can deliver efficiencies for consumers.

We would support the Government and industry regulators undertaking reviews to remove barriers that may deter or prevent collaboration and sharing of services.

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.

The Commerce Commission's recent open letter[29] 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 these practical measures where they are enabling, proportionate, and focused on barriers to efficient collaboration:

> *"… we consider that it is appropriate for smaller businesses to actively consider whether scale-related efficiencies can be best achieved via collaborative activity which may have high transaction costs, or through ownership 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.

Option 1A: Improved benchmarking and performance monitoring

Entrust supports removing the prohibition on comparative benchmarking and requiring the Commerce Commission to publish summaries of EDB performance. Better benchmarking can improve transparency, help identify genuine performance issues, and support more informed policy decisions.

[29] Commerce Commission, Open letter – Local lines networks: achieving better outcomes for consumers now and in the future, 10 September 2026.

Entrust's support is subject to benchmarking being used carefully. The Commerce Commission should draw on the experience with benchmarking in overseas jurisdictions such as Australia and the United Kingdom.

Differences in density, geography, network configuration, growth, asset age, customer mix, and resilience requirements can materially affect performance and cost comparisons. Benchmarking should therefore inform regulatory judgement rather than operate as a mechanistic substitute for proper assessment.

Option 2A: A more responsive regulatory toolkit

If the Government decides not to apply PQR regulation to all EDBs, Entrust would support giving the Commerce Commission a broader and more graduated suite of regulatory tools, including revenue threshold regulation, quality regulation and performance requirement regulation.

A wider toolkit could be useful if the current exemption settings are removed and the Commission needs intermediate options short of full PQR for smaller EDBs.

MBIE raises valid questions about whether the current regulatory framework is sufficiently flexible and targeted, and whether the Commerce Commission has adequate tools to address poor performance, particularly by consumer-owned EDBs exempt from price-quality regulation.

The Commerce Commission has previously favoured having a broader range of tools in responding to concerns about the performance of exempt EDBs, "For example, having the ability to introduce enforceable quality standards could help to ensure exempt EDBs are providing appropriate service levels."[30]

We note also that the Commerce Commission is in the process of applying performance requirement regulation, for the first time, to Tiaki Wai. The Commission determined there were serious problems that had not been addressed, despite being apparent for an extended period of time, including decades of under investment, assets that are in very poor condition, and patchy information about its assets. The Commission assessed there were material risks in relation to Tiaki Wai's delivery of water supply and wastewater services.

If the Government decides that PQR regulation should be applied to all EDBs, it should be unnecessary to adopt the same set of intermediate regulatory tools for EDBs as apply for water services, because PQR already provides the primary framework for regulating revenue and quality. For that reason, EDBs subject to PQR regulation should be excluded from additional revenue threshold regulation, quality regulation and performance requirement regulation.[31]

Entrust would have particular concern if existing PQR regulation was overlaid with additional regulation giving the Commerce Commission powers relating to how suppliers operate, manage their business, and what investments they must make, including under

[30] Commerce Commission, Commerce Commission submission on the Electricity Price Review's first report, 23 October 2018.

[31] There seems to be an anomaly in the existing section 57G water provisions. For example, the Commission could recommend that a regulated supplier already subject to PQR regulation also be subject to revenue threshold and/or quality regulation, which would clearly be duplicative and redundant.

section 19(4)(b)(i), (ii), (iii) and (vii) of Schedule 7.[32] These are not minor compliance tools. They are operational directives.

Historically, the position has been clear. The Commerce Commission regulates the revenue and quality of lines businesses, not their owners or day-to-day management. Councils 4 Local Democracy (C4LD), a grouping of 30 participating councils, made the following comments about adopting regulation that goes beyond orthodox price control and allows the regulator to take a direct role in business operations:[33]

> *"The ethos of PQR … is that it provides incentives for regulated suppliers to invest, innovate and improve efficiency but it is left to the regulated suppliers and not the Commerce Commission to determine how best to achieve this."*

Option 2B: Removing PQR exemptions

Entrust supports removing the current exemption provisions applying to PQR regulation. This would help directly address the concern that some consumers do not receive the same regulatory protections as consumers connected to non-exempt EDBs.

Entrust considers that all EDBs should be subject to PQR regulation but would otherwise support the water model where the Commerce Commission can recommend to the Minister that performance requirement regulation, revenue threshold regulation, quality regulation or PQR regulation (see commentary above).

Removing exemptions would help create stronger and more consistent incentives for efficient investment, prudent expenditure, and appropriate management of consumer-facing risks.

Given MBIE's concerns about weak financial discipline and governance capability among some smaller trust-owned EDBs, extending economic regulation to those EDBs is a more targeted and orthodox response than imposing water-style controls across the whole sector.

We also consider that the Commerce Commission's recent open letter[34] should be interpreted as meaning that either revenue threshold regulation or PQR regulation 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."*

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[32] "(i) requirements to adopt a particular approach to risk management"; "(ii) requirements in relation to the condition of assets and remaining asset life"; "(iii) requirements to make particular types of investment"; and "(vii) requirements to adopt asset management policies and practices".
While the consultation describes performance requirement regulation as "an intermediary tool between information disclosure and price-quality regulation",[3] it should be recognised that these elements are more intrusive than that description suggests.

[33] Communities 4 Local Democracy, Submission to Finance and Expenditure Select Committee on Water Services Economic Efficiency and Consumer Protection Bill, 10 February 2023.

[34] Commerce Commission, Open letter – Local lines networks: achieving better outcomes for consumers now and in the future, 10 September 2026.

> *"… it is important that consumers of smaller EDBs do not … pay excessive prices to achieve those benefits."*

We do not consider that the Commission will be able to achieve these outcomes unless revenue threshold or PQR regulation is applied to all EDBs.

Option 2C: Individual price-quality paths

Entrust supports adoption of IPPs for larger EDBs. At a minimum, we consider that the option should be made available for larger EDBs to voluntarily opt-in to the IPP regime.

The current DPP/CPP regime was established due to potential issues for the Commerce Commission administering PQR regulation to cater for a large number of small EDBs. This reasoning doesn't apply to larger EDBs in the same way it doesn't apply to Chorus or Transpower.

IPPs are appropriate for larger EDBs facing material investment programmes, distinctive network circumstances, or expenditure requirements that are not well suited to a default path. IPP regulation is an orthodox approach to regulation.

If IPP regulation is introduced for some larger EDBs, consideration may be needed of matters such as how the existing Input Methodologies (IMs) would apply to that type of regulation. It is likely that a distribution Capex IM would be needed, in line with the electricity transmission and Chorus fibre Capex IMs.

Technical amendments

Entrust supports the proposed technical amendments to the Commerce Act. These appear sensible, non-contentious, and useful to ensure the regulatory framework operates effectively. Technical changes that improve workability, remove unintended constraints, or better align regulatory periods should proceed where they do not materially increase regulatory burden or introduce new substantive obligations without further consultation.

Financeability should be added to Part 4

Entrust recommends that financeability be expressly added to Part 4 of the Commerce Act as part of any modernisation of the economic regulation framework.[35] Entrust has been clear in submissions the Commerce Commission should address these financeability concerns to ensure a successful energy transition.[36]

[35] The Appendix references water precedent for explicit inclusion of financeability requirements in Part 4 Commerce Act.

[36] e.g. https://www.entrustnz.co.nz/media/1kjhb15v/submission-to-mbie-re-energy-transition_2-november-2023.pdf and https://www.entrustnz.co.nz/media/zutnphnc/2023-07-19-submission-ims-decision.pdf.

Financeability is directly connected to the existing Part 4 purpose: regulated suppliers must have incentives to invest, maintain service quality, and finance long-lived infrastructure efficiently. If an EDB cannot finance an efficient investment programme on reasonable terms, consumers ultimately bear the risk through delayed investment, poorer resilience, higher long-term costs, or greater reliance on more expensive forms of capital.

A financeability requirement would not guarantee regulated suppliers a particular credit rating, capital structure, dividend level, or shareholder outcome. Nor would it require the Commission to approve all proposed expenditure. Its purpose would be to ensure that, when the Commission sets revenue, WACC, depreciation, capex treatment, wash-ups, reopeners, and regulatory periods, it tests whether a reasonably efficient supplier could reasonably finance the efficient investment required to deliver regulated services over time. Financeability should be assessed through the core regulatory settings that determine cash-flow timing and capital recovery.

This is especially important given the scale of network investment required to support electrification, growth, resilience, and consumer expectations for reliability.

Embedding financeability in Part 4 would also provide a better policy response than importing water-sector financial principles or dividend controls. Dividend restrictions are a poor proxy for financeability. A business may be financeable while paying dividends and may still be unfinanceable even if dividends are restricted. The real question is whether efficient investment can be financed through an appropriate mix of operating cash flow, debt, equity, and regulatory revenue.

For that reason, if MBIE is concerned that some EDBs may not be able to fund the investment required of them, an appropriate response is to strengthen Part 4 so that financeability is transparently considered in revenue-setting and investment approval processes. It should not regulate what owners do with profits after the Commission has already set efficient revenues and quality standards. This would better preserve investment incentives, support capital access, and keep the regulatory framework focused on the long-term benefit of consumers.

Options not supported by Entrust

Entrust encourages caution before importing water-sector regulatory tools into electricity distribution. Water services regulation was designed for a different sector, with different ownership structures, financing constraints, and investment problems. Applying those tools across all EDBs could over-correct for issues that are not sector-wide and could impose unnecessary regulatory burden on well-governed, commercially disciplined businesses such as Vector.

Option 3A: Objectives for consumer-owned EDBs

Entrust supports clear statutory objectives and recognises MBIE's interest in ensuring consumer-owned EDBs remain well placed to meet future investment, resilience, and electrification challenges.

A key feature of the Energy Companies Act (ECA) is that it does not impose objectives or accountability requirements on all EDBs. They only apply to those controlled by local authorities or trusts that were approved by the Minister at the time of establishment.

It is apparent that it was considered important for such EDBs to be required to operate as a successful business, presumably because there was a concern that their ownership structures might otherwise compromise the reform objectives of injecting commercial efficiency into the sector. On the other hand, it is unnecessary for EDBs with ownership structures that naturally promote commercial efficiency to be subject to the accountability regime under the ECA. In that context, the ECA provides for EDBs to exit the ECA accountability regime if they are no longer controlled by a local authorities or approved persons (trusts).

Entrust's position is that:

- EDBs that are outside the ECA accountability regime should not be subject to any new statutory objectives. The discussion document does not establish a case for effectively reversing the scheme of the ECA; and

- commercial objectives for EDBs subject to the ECA accountability regime should not be compromised by new public policy objectives (PPOs).

Accordingly, Entrust does not support Option 3A being applied to Vector, whether by amending the ECA or by repealing the ECA and incorporating new provisions into the Electricity Industry Act.

The best way to make the objectives of energy companies subject to the ECA more focussed may be to narrow or delete the requirement to "have regard, among other things, to the desirability of ensuring the efficient use of energy".

We do not believe that the principal objective to be a successful business for an energy company under the ECA should be diluted or potentially compromised by requirements aimed at addressing concerns about "risky diversification" (which can be addressed directly through imposition of PQR or revenue threshold regulation) or objectives in relation to the evolving role of EDBs including electrification, network resilience, innovation, and integration of new technologies (which again could be addressed through regulation including PQR and reform of network access regulation).

Vector is not bound by the "successful business" objective in section 36 of the ECA that Option 3A aims to modify or replace

Section 36 of the ECA provides that the principal objective of an energy company is to "operate as a successful business". However, section 42(1) of the ECA provides that nothing in sections 36 to 41 of the ECA apply to an energy company where its establishment plan did not provide for a controlling interest in it to be held by a "local authority" or an "approved person" (as such terms are defined in the ECA). Approved persons were specifically named trusts that would receive the shares in the new EDB.

The 1992 establishment plan for the Auckland Electric Power Board (AEPB), of which Vector is the historical successor, did not provide for a controlling interest in Vector to be held by a "local authority" or an "approved person". There is no Gazette notice specifying that Entrust (or AECT as known at the time) is an approved person. Sections 36 to 41 of the ECA have accordingly never applied to Vector, regardless of any change in its shareholding post the approval of the establishment plan, including when 24.9% of Vector's shares were offered to the public (as part of Vector's initial public offering and listing on the Main Board of the New Zealand Exchange (NZX)) in 2005.

Put another way, Vector is not, and never has been, subject to the "successful business" objective Option 3A is aimed at modifying or replacing. This reflects that at the time of establishment, Vector's intended ownership and governance structure (which included listing on the NZX) would provide inherent commercial incentives to operate as a successful business (in contrast to, for example, local authority ownership structures for some EDBs). It also likely reflects that the accountability regime under the ECA is not suitable for a listed entity.

A more focused set of statutory objectives (reflecting new objectives or PPOs), however expressed, would be equally inapplicable to Vector unless MBIE intended to extend ECA accountability obligations to Vector for the first time. This would be a substantially different and much more significant step than Option 3A appears to contemplate. It would also materially change the original intent of the ECA, which was to impose statutory commercial objectives on entities that were controlled by local authorities or trusts.

If Option 3A has been informed by statutory objectives in the water sector, then Entrust notes that:

- Regulated water service providers are currently either local authorities or water organisations owned by local authorities (with the potential for trust-owned water organisations to be formed in the future). In comparison to listed or other privately owned EDBs, it is more appropriate for local authorities and water organisations to be subject to statutory objectives (in the same way that local authority owned EDBs are subject to the ECA accountability framework).

- The water sector is very different to electricity distribution, including in terms of the current state of under-investment and future challenges facing water infrastructure. The decision to impose statutory objectives in an effort to refocus and improve service delivery in the water sector should not be seen as transferrable to the EDB sector.

State-owned Enterprises Act provides relevant precedent

The principal objective in the ECA to be a "successful business" is the same as the State-Owned Enterprises (SOE) Act principal objective to be a successful business that applies to Transpower.

It is unclear why MBIE is proposing that EDBs subject to the ECA should have a different principal objective to Transpower. If it makes sense for natural monopoly electricity distributors to depart from the commercially-based "successful business" objective, with addition of regulatory objectives, then it presumably follows that the same should apply for natural monopoly transmission owned by Government that is not subject to the same commercial incentives that NZX listing or private ownership generates.

The rationale for requiring SOEs to operate as successful businesses is to maximise national wealth, protect taxpayer funds, and ensure efficient public service delivery without market distortion. Entrust considers that the same rationale applies for EDBs subject to the ECA requirement to operate as a "successful business".

The MBIE proposals, perhaps unintentionally, could be read as questioning core elements of the SOE model that has been well established for the last 40 years.

Council-owned EDBs do not have a clearer legislative framework

The consultation suggests "Council-owned EDBs may already face more discipline from a clearer legislative framework for council-controlled organisations. Given this, there may be less need for the same level of explicit guidance." We respectfully disagree.

Energy companies within the meaning of the ECA are expressly excluded from the definition of council-controlled organisation (CCO) under the Local Government Act (LGA). EDBs that are controlled by local authorities are therefore only subject to the ECA accountability regime. It is therefore incorrect to presume that council-owned EDBs face extra discipline from the fact of being a CCO.

The statutory objective of CCOs is to pursue both commercial and non-commercial objectives of its shareholders. The exclusion of EDBs from the CCO framework further reinforces a clear and long-standing legislative scheme whereby all EDBs are expected to be squarely focussed on being a successful business.

Further, if a CCO performs poorly commercially it may not be obvious whether this is because of general poor performance or the way commercial and non-commercial objectives have been balanced under the accountability framework applicable to CCOs.

Entrust is uneasy that the direction the consultation options are taking could fall into the same mistakes that were made with the Electricity Commission's now defunct principal objectives under the Electricity Act 1992. The Electricity Commission faced a lengthy and confused mix of objectives and outcomes. It ultimately undermined the Commission's prospects of being a successful regulator. This was recognised as a problem that contributed to the under-performance of the Electricity Commission and was corrected when the Commission was replaced by the Electricity Authority.[37]

[37] Microsoft Word - Regulation and governance of electricity sector - 160209 date updated .doc

Additional objective versus matter to have regard to

While the ECA refers to "efficient use of energy" in section 36(2) this is something that the company "In seeking to attain its principal objective, an energy company shall have regard … to". It is not an objective in itself and does not compromise the principal objective to be a successful business.

The MBIE consultation appears to propose to elevate the new PPOs as "additional objectives" that would have the same standing as the principal objective:

> *"Rather than focusing solely on the broad concept of operating as a 'successful business', the objective could place greater emphasis on efficient investment, network reliability, resilience, and supporting electrification."*

Entrust would be wary about options to include PPOs that could interfere with the commercial objectives of regulated suppliers. We believe the commercial operation of private businesses should be treated as paramount and kept separate from wider public policy considerations.

Giving the PPOs equal status to the "successful business" principal objective or otherwise elevating them from something to "have regard to" to an "additional objective", would put EDBs in a situation where they would have to balance and make subjective judgements about the appropriate trade-offs between sometimes conflicting commercial and social goals, which could degrade their financial performance and operational efficiency.

A more appropriate approach, if section 36 of the ECA is amended, would be to replace the existing section 36(2) efficient use of energy provision with the broader emphasis on efficient investment, network reliability, resilience, and supporting electrification considerations but leave them as matters that "In seeking to attain its principal objective, an energy company shall have regard … to". Either way the application of the ECA objectives should not be extended beyond the current coverage of EDBs subject to the ECA.

Vector already has a strong focus on broader considerations because of its existing governance obligations

Leaving the ECA position aside, the PPOs Option 3A appears intended to promote are already addressed through director's duties under the Companies Act and general law, which require consideration of broader, relevant matters.

For example, a director's duty to act in good faith and in what he or she believes to be the best interests of the company (section 131 of the Companies Act) necessarily requires in the context of Vector prudent, efficient capital allocation and attention to the reliability and resilience of the network that generates the company's revenue.

The directors' duty of care (section 137 of the Companies Act) expressly requires that duty to exercise requisite levels of care, diligence and skill to be assessed having regard to the nature of the company concerned, which, for Vector, is a large-scale electricity distribution business for whom safety, resilience and reliability are paramount.

As it stands now, and in the absence of adopting Option 3A, Vector directors who fail to give proper attention to efficient investment, reliability, resilience or the electrification of the network they operate could potentially be exposed to consequences under the Companies Act and at law for breach of directors' duties. The relevant considerations may not always be the same as MBIE propose and may change over time for example the matter of electrification is a relatively recent phenomenon which would warrant more attention now than, say, 20 years ago.

There is no need to impose new statutory objectives for consumer-owned EDBs on Vector, as they could conflict with established directors' duties.

Option 3B: Regulation of ancillary investments

Entrust cautions against ring-fencing or disclosure requirements for non-regulated services, or new restrictions on EDBs engaging in unregulated activities. The issues identified in the consultation appear specific to a small subset of 100% trust-owned EDBs, yet the proposed solutions would apply to all distributors.

Entrust considers that a better approach would be to protect consumers through removal of current exemptions and apply PQR or, at the very least, revenue threshold regulation to all EDBs.

MBIE is concerned some EDBs or their owners may divert capital, management attention, or governance focus into activities outside electricity distribution, but acknowledges that "there is limited evidence that ancillary investments represent a systemic issue across the sector."

The proposal to require disclosure about goods or services not regulated under Part 4 is a legacy of the Three Waters reforms and was originally adopted because of water-specific concerns about financeability, including enabling the Commerce Commission to monitor "the ongoing capability of a regulated water service provider to raise finance". Concerns were raised about Council's diverting water revenue to fund other projects and that this would create risks about investment and maintenance adequacy.

Likewise, the Auditor-General's concerns about investments outside core network functions relate to governance, scale, and capability issues in some small EDBs, not the sector as a whole.

It is important not to conflate the need for substantially more network investment with the existence of investments outside core distribution activities. These are distinct issues, and they do not apply uniformly across all EDBs.

The consultation also does not define what constitutes "core" distribution activity or explain why certain investments are considered problematic. The distinction appears arbitrary.

There is a legitimate role for electricity distributors to diversify. Successive Governments have recognised this, for example through the UFB tender process and by easing

restrictions on EDB investment in generation.[38] 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.

These are materially different from the isolated examples highlighted by the Auditor General, such as a winery or a retirement village. Those examples understandably raise questions, but they should not drive broad policy settings. Investment in a battery business is not economically equivalent to investment in a winery.

Exempt versus non-exempt EDBs

The distinction between exempt and non-exempt EDBs is also important.

Consumers are protected by PQR regulation.

The way that the Commerce Commission operates Part 4 regulation, including through sharing of shared and common costs across regulated and unregulated services, means line charges will be less for EDBs that engage in unregulated activities than it would be for a stand-alone, distribution only EDB.

As Vector has previously commented:[39]

> *"… the Commission's cost allocation rules ensure that only those costs that are genuinely attributable to the regulated service are recovered through lines charges. The Commission's related parties rules impose disciplines on procurement of services by the regulated supplier from related parties. There are, consequently, already constraints in the regulatory framework – actively monitored by the Commerce Commission – that address this concern …. The risk of cross-subsidisation only exists where there is scope for the distributor to earn supernormal returns from its regulated network services, or to inefficiently allocate assets that provide competitive services into the Regulatory Asset Base for monopoly services. The current regulatory framework, which closely monitors both returns and cost allocation, already provides a mitigation to this risk."*

It is unclear why intervention would be needed, "requiring that revenue from providing electricity distribution services is spent on activities that EDBs undertake to provide electricity distribution services, and not on unrelated activities", when existing PQR regulation already protects consumers against over-charging or cross-subsidisation.

The suggestion that there should be "greater transparency around the use of profits generated by ancillary investments" is difficult to justify or understand. Profitable ancillary investments do not create regulatory risk. The concern arises only when

[38] MBIE's earlier analysis explicitly concluded that removing generation ownership restrictions could reduce barriers to investment and improve resilience and security of supply. The Government subsequently decided to increase the threshold for EDB generation ownership from 50 MW to 250 MW.
[39] Vector, Electricity Price Review – Options Paper, 22 March 2019.

ancillary services are loss-making and the EDB is exempt from PQR regulation meaning that the services could be cross-subsidised from line charges.[40]

If an exempt EDB makes a poor commercial investment, it may recover the cost through line charges, leaving consumers worse off. If an EDB subject to PQR or revenue threshold regulation makes a poor investment, the cost is borne by shareholders through reduced profits and dividends. Consumers remain protected.

There is a clear difference between, for example, Marlborough Lines' investment in Yealands Wine Group and Vector's ownership of gas networks, its interest in Bluecurrent, or EDB involvement in the UFB rollout.

The appropriate test is simple: Are consumers protected from cross subsidisation and misuse of monopoly power, while owners retain the ability to allocate capital efficiently and pursue complementary opportunities? That should be the guiding principle, not blanket regulations driven by issues that are not sector-wide.

Option 3B: Financial principles for water

Entrust does not support transposing financial principles designed for water service providers to Part 4 of the Commerce Act. These provisions were created to address ownership and governance problems specific to the water sector. The financial principles would sit clumsily with the existing PQR framework for electricity distribution.

Several issues illustrate why these principles do not fit Part 4 and it should not be simply assumed it is appropriate to transplant legislative provisions designed to address ownership and governance issues in the water sector into electricity.

PQR already restricts the revenue non-exempt EDBs may earn. Overlaying this with rules about how that revenue must be spent (section 18(1)(a)) adds little or no value and risks unnecessary complexity. If a regulated supplier is appropriately regulated under PQR, then what it does with its revenue is a matter for its management and shareholders.

The requirement that a provider must ensure its revenue is "sufficient to sustain long-term investment" (section 18(1)(b)) was designed for water-sector financeability problems. Under Part 4, it is the Commerce Commission that sets allowable revenue. If Commission-determined revenue were insufficient to meet this principle, the Commission may be failing to meet its section 52A objectives which requires incentives to invest and maintain service quality.[41]

Requirements for public transparency around revenue, funding, expenses, and dividends (section 18(1)(c)) would duplicate existing Information Disclosure regulations. They address water-sector governance issues, not electricity distribution.

[40] EDBs are already subject to substantial and complex disclosure requirements. The Auditor-General has commented that it has seen the effects of this complexity through its work and their auditors also continue to raise these concerns.
Auditor-General, Electricity distribution businesses: Observations from the 2023/24 audits, June 2025.

[41] Our view is that these matters should be addressed through addition of financeability provisions in Part 4 Commerce Act.

The requirement that providers be accountable to communities or shareholders for revenue and expenses (section 18(1)(d)) again reflects water-sector ownership structures, not the electricity sector.

Entrust has the same concerns about the rule that "the organisation must not pay a dividend amount that could compromise" long-term investment (section 28(3)) as we do about giving the Commerce Commission explicit powers to limit dividends. It is also unclear why regulated suppliers should face two separate sets of legislative restrictions on dividend payments.

In short, these financial principles were crafted for a sector with entrenched under-investment problems, council-ownership constraints, and no pre-existing PQR regime. They do not map cleanly or suitably onto electricity distribution, and they risk creating confusion, duplication, and regulatory over-reach if inserted into Part 4.

Option 3B: Limits on dividends

When approving the payment of dividends, the board of Vector must have regard to their duties as directors, both under the Companies Act and generally at law. As noted above in our response to proposed Option 3A, this requires directors to have regard to factors such as efficient network investment and network reliability, safety and resilience when determining an appropriate dividend quantum.

Vector directors must also follow Vector's dividend policy. Vector's dividend policy guidelines include a requirement that the Vector board will ensure, after the payment of any dividend, that Vector will have the capacity to meet its actual or anticipated near term investments and operating requirements. Such operating requirements will logically include an ability to sustainably continue to provide safe, reliable and efficient electricity distribution services.

Vector is forecasting $5.4b of investment into Auckland's electricity network over the next 10 years and is well placed to achieve that. Dividend limits or the possibility of dividend limits would make this investment more challenging and would be counterproductive.

Entrust would be concerned that financial ring-fencing rules from the water services regime could be imported into electricity distribution and used to restrict dividends. Those powers were designed for a largely council-owned sector, where dividend limits replaced an outright prohibition on paying dividends. The same rationale does not automatically apply to EDBs. If there are issues with EDB financeability, and ability to fund needed long-term investment, that is more likely to be an issue with revenue adequacy and price cap setting than dividends.

MBIE should avoid extrapolating concerns about small, 100% trust-owned EDBs into broader interventions that would affect all distributors.

Under the water services regime, the Commerce Commission may set limits on any dividends "to the extent necessary or desirable" to ensure the water supplier does not compromise its ability to fund long-term investment and meet its regulatory requirements (section 18(3)(b), Local Government (Water Services) Act).

Entrust considers these provisions to be open to subjective and differing interpretations between regulated suppliers and the Commerce Commission. The result could be that dividend limits are imposed on financially sound EDBs, based on Commission judgements about future capital uplift or preferred funding approaches, even where the business is already meeting all regulatory obligations.

EDBs could also face 'double jeopardy' with overlapping legislative limits on paying dividends; if the water services financial principles and powers for the Commission to impose limits on dividends are both adopted.

A dividend payment by an EDB does not, in-of-itself, demonstrate under-investment. The real question is whether the business can fund a prudent and efficient investment programme through operating cash flow, debt, equity, or other funding sources while maintaining an appropriate financial structure. If it cannot, that points to deeper issues of governance, ownership, or financial viability, not a problem to be solved through blanket dividend regulation powers.

A business may be financeable while paying dividends, and a business may be unfinanceable even if dividends are restricted. The real question is whether efficient investment can be financed through an appropriate mix of operating cash flow, debt and equity.

The Commerce Commission already recognises that EDBs must ultimately finance their own investment. Its regulatory framework does not guarantee that every proposed investment will be funded through higher customer charges.

There is an important distinction. The Commerce Commission should regulate what an EDB can recover from consumers and the quality of service it must deliver. Entrust considers it would be over-reach to regulate what owners can do with profits.

Entrust considers that there is clear risk of unintended consequences. MBIE should consider the impact that such regulations could have on the perception of investor risk if there is a prospect of limitations on recuperating or receiving a return on investment. The prospect of regulatory limits on returns could materially dampen investment incentives, particularly from private capital, at the very time New Zealand needs more of it.

Option 3B: Dividend policies for trust-owned EDBs

Entrust does not support options that would override or require changes to our Trust Deed. Entrust's dividends already go direct to income beneficiaries and cannot be used for broader community purposes.

Clause 2.1(b) of Entrust's Trust Deed requires that the Trustees each year, after meeting the Trust's administrative costs, to pay, appropriate or apply the net balance of the income the Trust receives, primarily from dividends from its Vector shareholding to the Income Beneficiaries/Consumers of Entrust, severally and absolutely.

Income Beneficiaries can elect to receive their Entrust dividend either by direct credit to their power account or by direct payment to a bank account, meaning that if they select the direct credit to power account option, the dividend payment can flow straight through to a reduction in their electricity costs.

As noted above in our submission in response to proposed Option 3A, Trustees are not permitted to apply trust funds (including income received by way of dividends from Vector) towards community grants or any other initiatives. In fact, if Trustees were to apply funds in that manner, they would commit a breach of trust.

Put another way, the Trust Deed mandates an outcome regarding distributions to Income Beneficiaries/Consumers of Entrust that is consistent with the outcome proposed Option 3B aims to secure.

Care would be needed with how such a statutory direction was prescribed. The reference to "affordability outcomes" could potentially be read broadly, in a way that would conflict with operating as a "successful business", such as sacrificing profits by reducing line charges or operating as a not-for-profit organisation to make electricity more affordable.

If the Government goes ahead with the proposal, it would be important to ensure the legislation is clear it directly relates to how dividends are used and not the size of EDB dividend payments to shareholders. The Government should also specifically list the trust-owned EDBs that would need to change their dividend policies to avoid unnecessary and costly compliance exercises for Entrust and other trusts that already prioritise paying dividends directly to consumer beneficiaries.

Option 3C: Measures to enhance capability and governance

MBIE is concerned about the governance and accountability of small consumer-owned EDBs, and that some governance settings may no longer be fit for purpose, especially given future challenges around electrification, resilience, innovation, access to capital, and complex infrastructure investment.

Entrust does not support Option 3C being applied to Vector, whether through the imposition of mandatory statutory skills and competency requirements, minimum competency frameworks, periodic independent governance reviews or a board accreditation scheme.

Vector's board already meets, and in most respects exceeds, the standard of governance capability and decision-making quality that proposed Option 3C appears designed to achieve. Further, Entrust's own governance arrangements provide an additional, valuable check on Vector's governance capability and decision-making quality.

Vector's board currently comprises seven directors, five of whom are "independent directors" within the meaning of the NZX Listing Rules. Those directors have extensive commercial experience and bring precisely the range of skills and experience that Option 3C identifies as relevant to EDB governance.

Two of Vector's seven directors are not "independent directors" within the meaning of the NZX Listing Rules because they are also Trustees.[42]

[42] Entrust retains a direct and immediate accountability mechanism over these two Trustee directors: under clause 26.4 of Vector's constitution, Entrust may, at any time, by written notice, remove with immediate effect a Trustee director and may appoint a replacement to fill that vacancy. This is a standing, continuous check on the calibre of Entrust's own Trustee directors on the Vector board, exercisable at will rather than on a fixed statutory cycle. It means that any concern about a Trustee director's ongoing fitness for the role can be addressed by Entrust immediately, without waiting for a periodic review process of the kind Option 3C appears to contemplate.

Like all "independent directors", Trustee directors must act in the best interests of Vector (the company) and are not permitted to act in a manner that solely promotes the best interests of Entrust.[43]

Entrust Trustees' trustee duties extend to exercising a high standard of care in connection with the appointment of all of Vector's directors, including its independent directors. Entrust is acutely aware that a Vector board lacking that calibre and skill set would place the value of the Trust's principal asset at risk.

Option 3D: Measures to review ownership models

MBIE is concerned trust-owned EDBs may not always undertake sufficiently robust reviews of whether their ownership structures best serve consumers' long-term interests. Entrust considers this to be another clear example where care is needed to ensure a specific concern MBIE has about small 100% trust-owned EDBs does not end up morphing into a policy change that applies to all trust-owned EDBs, including for Entrust which does not have a Trust Deed provision requiring periodic ownership review.

The Commerce Commission's open letter[44] also makes clear that its ownership and aggregation comments are directed principally at smaller EDBs. It acknowledges that communities may prefer to own their electricity infrastructure assets, while encouraging smaller businesses to objectively assess whether scale-related efficiencies are better achieved through collaboration or ownership consolidation.

> *"The Commission understands that communities may prefer to own their electricity infrastructure assets. Nevertheless, we consider that it is appropriate for smaller businesses to actively consider whether scale-related efficiencies can be best achieved via collaborative activity which may have high transaction costs, or through ownership consolidation. …*
>
> *…*
>
> *"We encourage governors of smaller EDBs to take an objective review of the merits of different ownership options to deliver the best, most cost-efficient outcomes to their consumers over the longer term. We welcome views on how regulation can support sector aggregation, recognising that there may be short-term costs associated with aggregation to achieve a stronger long-term operating position."*

A formal ownership review process is not well suited to a listed EDB

Option 3D is framed around Trust Deeds and Trustee decision-making, structured periodic reviews and formal board responses to review findings. While Option 3D might have merit for EDBs that are subject to the ECA accountability regime, it is not appropriate for a trust such as Entrust that holds shares in a publicly listed EDB that is outside the ECA and subject to comprehensive external market discipline.

Entrust's view is that Option 3D should be viewed as a potential mechanism to provide an incentive for EDBs subject to the ECA to consider ownership structures that would allow the EDB to exit the ECA accountability regime. As discussed above, EDBs that are

[43] For more details of the Vector Board membership refer to the Vector 2026 Annual Report.
[44] Commerce Commission, Open letter – Local lines networks: achieving better outcomes for consumers now and in the future, 10 September 2026.

already outside the ECA should be treated as a model to aspire to given that ownership structures not subject to the ECA provide strong incentives for efficient network operations, access to capital, effective governance, promoting consumer interests and long-term stewardship of critical infrastructure assets.

Conversely, imposing ownership reviews on EDBs that are outside the ECA regime would negate the incentive for EDBs within the ECA to change and would effectively penalise desirable ownership structures.

Entrust's Trust Deed recognises this and does not mandate a fixed-cycle ownership review of the kind to which other EDB-owning trusts are currently subject. That is not an oversight but rather was a deliberate move. The establishment plan under which the AEPB's successor energy company (which ultimately became Vector) was formed recorded the intention that Vector be listed on the NZX, with a substantial tranche of its shares to be offered to the public. Entrust's Trust Deed was accordingly drafted to reflect stewardship of an asset expected to become a listed company and therefore subject to a much higher level of regulation and scrutiny than non-listed EDBs.

Requiring Entrust's Trustees to conduct a periodic statutory review of whether Entrust should retain its shareholding in Vector as is, reduce it or even increase it sits awkwardly with Vector's listed company status. Under Option 3D, the question of a potential change of control of Vector as an NZX listed issuer would become a periodic inquiry mandatorily imposed on Entrust and Vector by EDB-specific regulation, rather than an inquiry that may or may not arise from time to time as a result of the ordinary commercial and market conditions that apply to NZX listed companies.

In the context of Vector and Entrust, matters such as consumer outcomes, network performance, governance effectiveness, access to capital, and future investment needs are for the Board of Vector to consider as directors on an ongoing basis, rather than just periodically.

Moreover, in a listed company context, the Board will undertake consultation with stakeholders to the extent it considers it appropriate to do so from time to time and provide transparent reporting on its general strategy and plans in line with the NZX Listing Rules. However, these are all matters for the Board to determine, except in limited cases where the Companies Act or Listing Rules also require shareholder approval.

Put another way, an ownership review process of the kind envisaged by Option 3D is inconsistent with the settled expectations of a listed market, namely that a controlling shareholder's intentions are a matter for that shareholder's own private commercial judgement, tested, if and when an actual change is proposed, by the Takeovers Code (as discussed further below), the NZX Listing Rules and other financial markets legislation that apply to listed companies. These rules and regulations are designed specifically to protect minority shareholders and ensure transparency. They require independent regulatory oversight by the Takeovers Panel, the Financial Markets Authority and NZX Regulation. Introducing an EDB-specific ownership review regime alongside that comprehensive body of existing regulation would risk inconsistent outcomes, including for Vector's minority shareholders, who are not consumers or beneficiaries under Entrust's Trust Deed. They would have no clear standing in an ownership review process required solely because of Entrust's majority ownership of Vector.

Importantly, too, the fact that Entrust might be reviewing whether to retain, sell down, distribute or increase its controlling stake in Vector would be market sensitive information capable of affecting Vector's share price well before Trustees had reached any view on ownership change and regardless of whether the review ultimately recommended no change to Entrust's ownership of Vector.

The mandatory review process would generate market speculation, invite media and analyst commentary on the possible change of control and unsettle the independent minority shareholders who hold approximately a quarter of Vector's shares. These factors could have a seriously detrimental impact on the stability that is so critical to the successful operation of an EDB the size of Vector.

Further, Option 3D's mandatory review process could ultimately turn out to be relatively 'toothless' for a trust like Entrust that owns shares in a listed EDB. It is not clear that Entrust could increase its stake as this would appear to require acquisition of shares from public market shareholders and payment from Entrust.

Periodic ownership reviews of the kind contemplated by Option 3D would also be substantial undertakings in terms of time and cost for both Entrust and Vector. Such reviews could not properly be conducted as a simple paper exercise given the scale and value of Entrust's shareholding in Vector and the number of Income Beneficiaries to whom Entrust Trustees owe duties. To meaningfully test whether retention, reduction or increase of Entrust's shareholding in Vector is in consumers' best interests, Trustees would need independent valuation and financial advice, legal advice addressing trustee duties, Takeovers Code issues and other matters and tax advice regarding tax consequences of a change in ownership. They would also need to undertake a proper process of engagement with the broad base of consumers. Vector's own board would separately need to consider, among a plethora of other matters, related party, continuous disclosure and market announcement implications for each review cycle, whether or not the review ultimately recommended any ownership change.

Because Option 3D contemplates ownership reviews repeating on a fixed cycle, for example every five years, the significant costs involved would recur indefinitely, regardless of outcome. They would become a standing compliance overhead for trust-owned EDBs. That overhead would be difficult to justify for Vector, as the question that such a review is designed to test (namely, whether the current ownership and governance arrangements remain fit for purpose) is already tested continuously and without additional cost via Vector's share price and the scrutiny to which a listed issuer is subject.[45]

Importantly, the cost of periodic ownership reviews would ultimately fall on consumers, whether directly through Entrust's own costs (which funds would otherwise flow to consumers as part of their dividend payment) or indirectly for costs payable by Vector that result in a decrease in the dividend received by Vector's shareholders. This is not in consumers' interests and is at odds with the objectives Option 3D is intended to achieve.

[45] For example, as an NZX Main Board listed issuer, Vector is subject to continuous disclosure obligations under the Financial Markets Conduct Act and the NZX Listing Rules, meaning that any matter material to an assessment of whether its ownership and capital structure remain appropriate and any material developments regarding efficient network operation, access to capital and governance must be disclosed to the market as they arise, rather than being saved up for disclosure as part of a scheduled review every e.g. five years.

Finally, having to carry out periodic ownership reviews on a timetable set by Government rather than by Trustees exercising their own judgement as to when, if ever, a change in Entrust's shareholding might be in beneficiaries' best interests, could result in Trustees initiating and participating in a comprehensive public ownership conversation at a time that is demonstrably not in beneficiaries' interests, for example during a period of share price weakness or EDB sector uncertainty. This is difficult to reconcile with Trustees' duties at law and their obligations under the Trust Deed, particularly their core duty to act for the benefit of beneficiaries.

Potential implications under the Takeovers Code if a periodic ownership review were adopted for Vector under Option 3D

Vector is a "code company" for the purposes of the Takeovers Code. If Option 3D's periodic ownership review concept were adopted and applied to Vector, it could (if it resulted in a recommendation or requirement that Entrust increase its Vector shareholding) conflict with the Takeovers Code.

The Code does not restrict Entrust from reducing its shareholding in Vector, but it tightly restricts who else can acquire an increased stake and restricts Entrust's own ability to increase its stake beyond a modest annual creep. Time-consuming and expensive compliance with the provisions of the Takeovers Code would very likely be required, either through a full or partial offer, an ordinary resolution process or a Takeovers Panel exemption, before any review-driven change in Vector's ownership structure could actually be implemented. Otherwise, Entrust may need to break up its control stake and sell at a discounted value in a 'block trade' into the market, which is contrary to the interests of the trust's beneficiaries. This could also have an acute impact on Vector's share price if it is anticipated to occur.

Forced amalgamations

Entrust welcomes MBIE's cautious approach to compulsory amalgamation and agrees that forced amalgamations should not be a preferred response. Entrust would not support any proposal requiring Vector to merge with other EDBs, though we are open to reforms that encourage efficient collaboration and voluntary consolidation.

We also consider that the compliance associated with being subject to price control could encourage smaller EDBs to consider whether mergers or amalgamation would serve consumers. In this respect, the Commerce Commission's recent open letter[46] makes clear it has concerns about the small size of some EDBs and that they should consider "whether scale-related efficiencies can be best achieved … through ownership consolidation":

> *"…consumer-trust mergers can retain consumer ownership interests of local assets, achieve scale improvements and bring other benefits such as diversification of risks (e.g., financial resilience and better spreading the costs of localised high impact events across a wider group of consumers – an insurance-like benefit)."*

[46] Commerce Commission, Open letter – Local lines networks: achieving better outcomes for consumers now and in the future, 10 September 2026.

If amalgamation is mandated, this should be targeted at small EDBs only.

For example, the Frontier Economics option of merging EDBs into 5 Super Rugby boundary EDBs (including separation of some of Powerco's assets to match up with the rugby boundary lines)[47] would have much more pervasive implications for New Zealand, and its investment climate, than the option of retaining Vector, Powerco, Unison and Wellington Electricity and consolidating the small trust-owned EDBs into 5 regional EDBs.

Next steps and recommendations

Entrust welcomes MBIE's work to modernise Part 4 of the Commerce Act, including its consideration of whether aspects of the water regulatory framework provide useful precedent. As part of next steps, Entrust encourages MBIE to continue developing the evidence base and test which options are best suited to electricity distribution.

Entrust considers that further targeted consultation should occur before MBIE moves from options analysis toward proposal development and any legislative or Bill drafting phase. This would help ensure any reforms are well-evidenced, proportionate, and workable across the diversity of EDB ownership and governance models.

Some concerns identified in the consultation paper are well supported, but several key propositions would benefit from further evidence and analysis. For example, the consultation acknowledges limited evidence that ancillary investments represent a systemic issue yet canvasses potentially significant interventions.

EDBs already subject to PQR regulation face extensive regulation of revenue, quality, expenditure, and investment. Options advanced to the next stage of the review should be assessed against effectiveness, proportionality, implementation cost, consumer impact, regulatory burden, and unintended consequences.

Entrust also encourages MBIE to assess the potential commercial risks for investors before advancing water-derived tools such as dividend restrictions, cash-flow controls, and limits on owner flexibility. Those measures could materially affect valuations, weaken access to private capital, and undermine the investment incentives needed to support electricity network investment.

Draw together relevant precedent

Entrust considers that there would be value in going 'full circle' and methodically reviewing Part 4 against subpart 12 (water services) of the Commerce Act and Part 6 of the Telecommunications Act. MBIE's focus on adapting parts of water-sector regulation for electricity distribution is too narrow.

A holistic review of economic regulation across airports, electricity distribution and transmission, fibre, gas, telecommunications, and water would help determine the extent to which legislative differences reflect genuine industry-specific factors or should be more closely harmonised.

[47] We are not aware of any reason the optimal configuration of EDBs would mirror Super Rugby boundaries and, even if that were the case, why the 5 boundaries for the men's Super Rugby competition would be preferable to the 4 for Super Rugby Aupiki.

A more systematic comparison would strengthen the consultation and help ensure any modernisation of Part 4 is coherent, deliberate, and grounded in established regulatory precedent.

Strengthen industry regulator specialisation

The current regulatory landscape is fragmented. There are legitimate questions about whether New Zealand has too many regulators and about the boundaries between their functions.[48,49]

MBIE should consider the merit of consolidating electricity industry regulation into one single regulatory body consistent with airports, groceries, fibre, telecommunications and water.

At a minimum, Entrust would support consolidating the Electricity Authority's distribution-business and network-regulatory functions[50] within the Commerce Commission.[51] This would sharpen regulatory specialisation and create a cleaner delineation of roles.[52] Under such an arrangement:

- The Commerce Commission would oversee economic regulation of networks: access regulation, pricing methodologies, information disclosure, and PQR (including the proposed new intermediate regulatory tools).
- The Electricity Authority would focus on market regulation, competition, and consumer protection.[53]

[48] We have raised concerns about the need for the two regulators to avoid duplication and overlapping workstreams on a number of occasions e.g. https://www.entrustnz.co.nz/media/hxcdxrdl/submission-on-authority-commission-joint-project-spotlight-on-emerging-contestable-services-12-april-2019.pdf.
This is an issue that is frequently raised by industry participants and stakeholders e.g. https://www.treasury.govt.nz/sites/default/files/2024-05/pc-inq-rip-sub-014-powerco.pdf.

[49] We have also raised concerns about the conflicting stances the two regulators take on some matters such as capital contributions e.g. https://www.ea.govt.nz/documents/9256/Entrust_YSJnqAH.pdf.

[50] The Electricity Authority has been focused on contentious network regulatory reforms. Some stakeholders have expressed concerns that the focus on network regulation has come at the expense of market development and promotion of competition.

[51] We agree with the points Vector made to the Electricity Price Review on these matters: Vector, Electricity Price Review – Options Paper, 22 March 2019.

[52] Reallocation of functions would also address the problem that both regulators are meant to promote the long-term benefit of consumers when regulating electricity networks, but they do not interpret that objective in the same way. Entrust has consistently argued that the statutory objectives under Part 4 of the Commerce Act and the Electricity Industry Act must be applied consistently e.g.: https://www.entrustnz.co.nz/media/tfcprhyq/submission-on-the-electricity-price-review-options-paper-14-march-2019.pdf
The Commerce Commission takes into account both efficiency gains and wealth transfers, while the Electricity Authority adopts a pure efficiency focus.
We support Vector's commentary on interpretation of the statutory objectives: Vector, Submission to the Electricity Authority on Transmission Pricing Methodology: Issues and proposals, Appendix II: Interpretation of statutory objective, 1 March 2013: https://www.ea.govt.nz/dmsdocument/14445-vector#page49.

[53] https://www.entrustnz.co.nz/media/mgtbs44v/submission_pricing_19_jan_2018.pdf

Entrust's recommendations

Entrust's recommendations are detailed below:

Category	Option	Entrust position	Entrust commentary
General	Stage 2 policy development consultation		MBIE should publish a detailed summary and response document, then undertake a second consultation with cost-benefit assessment before legislative drafting.
	Draw together relevant precedent		MBIE should comprehensively review telecommunications and water precedent and test whether any elements are suitable for electricity distribution.
	Strengthen industry regulator specialisation		MBIE should assess regulator consolidation or moving Electricity Authority network regulatory functions to the Commerce Commission.
	Financeability in Part 4		Financeability should be expressly added to Part 4 of the Commerce Act as part of modernising the economic regulation framework.

Options in the consultation paper

Category	Option	Entrust position	Entrust commentary
General	Collaboration and standardisation	Support	Entrust would support review of barriers that may deter or prevent collaboration and sharing of services etc.
Option 1A	Remove the prohibition on comparative benchmarking	Support	
Option 2A	Investment rules for significant investments	Support	Entrust would support a requirement for the Commission to establish an Electricity Distribution Capex IM.
	More flexibility to set the length of regulatory periods	Support	
Option 2B	Changing how further regulation is applied to consumer-owned EDBs	Support	Entrust supports: (i) removal of the current exemption provisions; and (ii) application of PQR regulation to all EDBs.

Category	Option	Entrust position	Entrust commentary
Option 2C	Introduce IPPs for EDBs	Support	At a minimum, we consider that larger EDBs should be able to voluntarily opt-in to the IPP regime.
Options 3A–3D	Objectives, governance capability and ownership reviews	Do not support for Entrust-Vector / listed or mixed-ownership EDBs	Do not apply more focused statutory objectives, mandatory governance frameworks or periodic ownership reviews to Vector or listed/mixed-ownership EDBs; if Chapter 3 options proceed, they should be limited to small consumer-owned EDBs.
Technical amendments	Proposed technical amendments to the Commerce Act	Support	
Structural reform	Forced amalgamation	Do not support for Vector	Do not require Vector to merge with other EDBs; if amalgamation is mandated, it should be targeted at small EDBs only.

Concluding remarks

Entrust supports modernising the economic-regulation tools in Part 4 of the Commerce Act.

Telecommunications and water-services precedent should inform this refresh. Differences between regulatory approaches should reflect genuine industry-specific factors, not arbitrary sequencing or the historical timing of when regimes were introduced.

We acknowledge that the consultation raises valid concerns about the size of some trust-owned EDBs and about exemption from PQR.

Our overall conclusion is that the consultation raises important and legitimate issues that warrant further consideration. Entrust encourages MBIE to further develop the economic case for several of the *more* interventionist options before they are advanced. In a policy environment where the Government is seeking *more* investment, careful attention should be given to ensuring reforms strengthen, rather than unintentionally weaken, the investment settings needed to support the long-term benefit of consumers.

Kind Regards



Denise Lee
Chair

Appendix: Examples of useful precedent

Flexibility to introduce new IMs

Entrust would support adoption of section 178(2) of the Telecommunications Act to allow the Commerce Commission to adopt additional Input Methodologies (IMs) at any time.

Section 178(2) was introduced specifically to address that the Commission did not consider it could determine new IMs under the Commerce Act. (A similar provision was included in section 26(5) of the repealed Water Services Economic Efficiency and Consumer Protections Act 2023 for the same reason.) All submissions that advocated for these provisions specifically referenced the Commerce Commission's Part 4 Commerce Act stance.

The Commerce Commission considered that:[54]

> *"We consider the absence in Part 4 of such express permission to determine further IMs in equivalent terms to section 178(2) of the Telecommunications Act shows parliamentary intent to distinguish Part 6 from Part 4 in this respect. This affirms our preliminary view from the 2016 IM review, and strongly suggests that expanding the scope of Part 4 IMs to cover matters not already covered by the existing IMs is a matter for Parliament – not us."*

The Commerce Commission's legal opinion in 2015 was that once the initial IMs were established under Part 4 of the Commerce Act it does not have discretion to create new IMs:[55]

> *"Our preliminary view is that we cannot create an IM on a matter not covered by an existing published IM for a particular type of regulated service as part of the IM review process. The review is of each IM after its date of publication. [footnote removed]"*

As part of the Commerce Commission's initial work on the 2023 review of the Part 4 IMs, it reconfirmed that "We have reconsidered, but not changed, our position from the 2016 IM review … on the scope under Part 4 for IMs on new matters".[56]

We agree with C4DL that there isn't any valid reason to restrict the Commerce Commission from establishing new IMs. We support the views of 2degrees[57] and Transpower[58] on this matter. Both 2degrees and Transpower were of the view that there was no good reason for such a restriction, and this should be fixed as part of adoption of Part 6 Telecommunications Act (which it was). Transpower, for example, submitted "This would seem like an unnecessary, and unintended, restriction".

[54] Commerce Commission, Part 4 Input Methodologies Review 2023, Draft Framework paper, 20 May 2022.
[55] Commerce Commission, Input methodologies review, Invitation to contribute to problem definition, 16 June 2015, paragraph 44.
[56] Commerce Commission, Part 4 Input Methodologies Review 2023, Draft Framework paper, 20 May 2022.
[57] 2degrees, Telecommunications Act Review: Options Paper, 2 September 2016.
[58] Transpower, Telecommunications Act Review: Options Paper, 2 September 2016.

Financeability

There could be merit in revisiting elements of the repealed Water Services Economic Efficiency and Consumer Protections Act 2023. There were improvements made based on the Part 4 Commerce Act provisions the Act drew heavily on that were subsequently lost when the Act was repealed and replaced.

For example, the Water Services Economic Efficiency and Consumer Protections Act 2023 adopted the concept of "financeability" in place of "undue financial hardship".

This mirrored the substantial emphasis on "financeability" in submissions to the Commerce Commission as part of its review of the Part 4 Commerce Act Input Methodologies. Vector, for example, submitted:[59]

> *"The Commission should amend the IMs to introduce a financeability test. These are common practice by regulators internationally.*
>
> *"Amending the IMs to introduce financeability testing would better support the Part 4 purpose by ensuring regulated businesses can finance their networks efficiently. This would ensure consumers are able to benefit from needed investments and greater efficiency by ensuring regulated businesses can invest at the optimum time rather than when cashflows permit investment. It would also support the ability of regulated businesses to obtain debt finance on favourable terms, thereby keeping the cost of debt low."*

[59] Vector, Submission on the IM Review 2023 Process and Issues Paper.