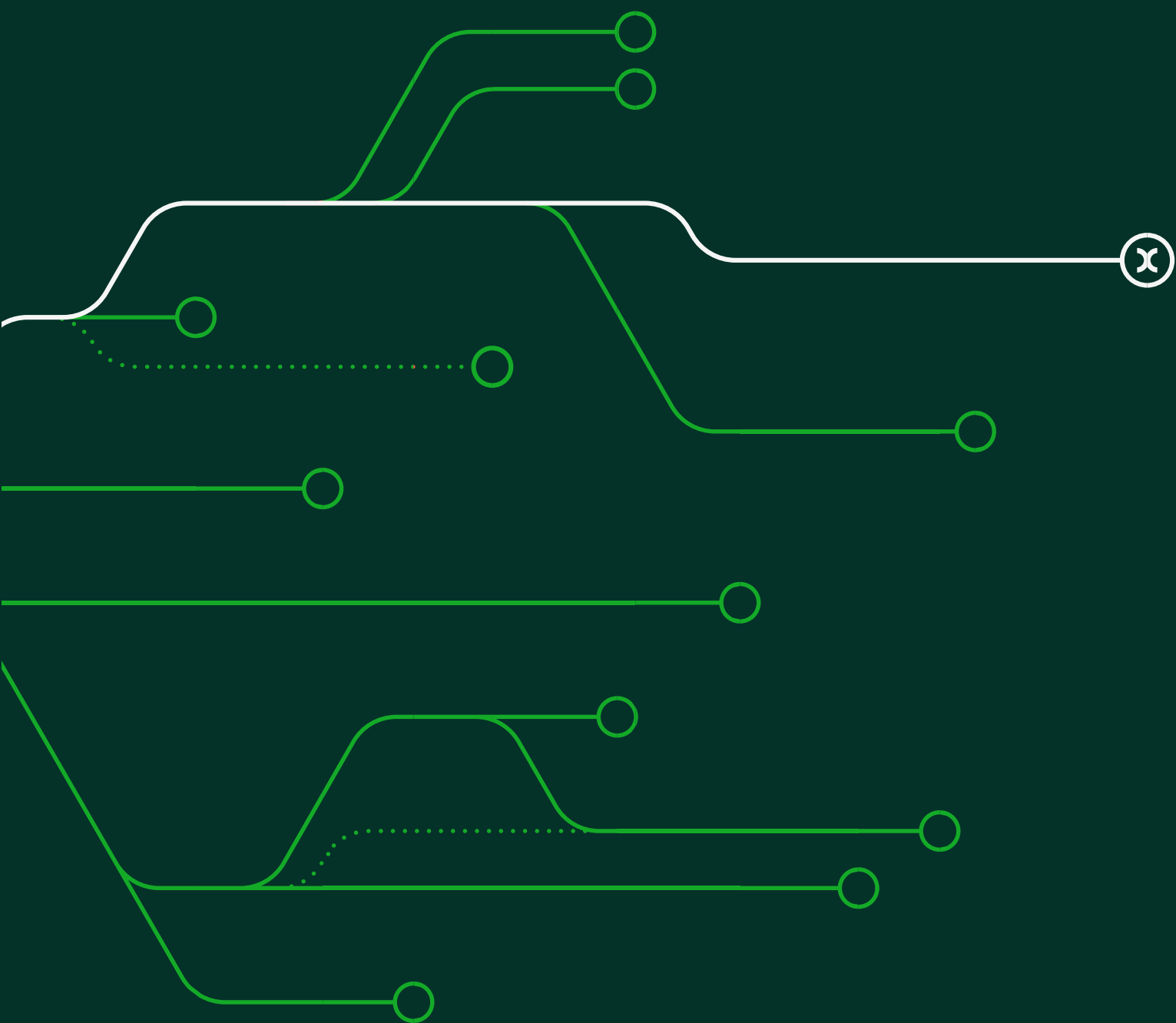


Review of reform options for the New Zealand
electricity distribution sector



Prepared for Vector Limited

25 September 2026



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Executive summary

In this report, written on behalf of Vector Limited ('Vector'), we explore issues relating to the consultation launched on 19 August 2026 by the New Zealand Government ('the Government') on options to improve the efficiency of electricity distribution businesses ('EDBs'). This consultation sits within the context of the plan to electrify the New Zealand economy, a project to which EDBs are expected to contribute by spending more than NZ\$32bn over the next ten years. The scale of that investment is expected to substantially affect consumers' electricity bills over the coming years, as noted by the Commerce Commission ('the NZCC' or 'the regulator'), which sets the allowed revenues of the EDBs that are subject to tariff regulation.¹

In the consultation, the Government considers three routes to improving efficiency: collaboration and standardisation; regulatory reforms to strengthen performance monitoring and regulatory tools; and governance reforms intended to strengthen accountability and organisational capability.

At the same time, the Government acknowledges that EDBs are not performing poorly in their core business, and it is therefore unclear how stakeholders can judge whether the reform agenda aims to improve an already efficient baseline or to remediate a demonstrably inefficient one. That distinction matters for assessing whether the proposed reforms are well targeted and proportionate to the issue that they are seeking to address: regulatory best practice suggests that the first steps for an informed debate around the Government's proposals would be to identify the market or regulatory failure, then explain why it could create inefficiencies and assess whether the inefficiencies are observed. That way, proportionate remedies can be proposed, and each proposal should be accompanied by an impact assessment showing how it addresses the identified failure, together with a design and implementation plan that considers the trade-offs inherent to reform.

Vector commissioned Oxera to assess some of the Government's proposals, identify their implications for EDBs and consumers, and

¹ Commerce Commission (2024), 'Default price–quality paths for electricity distribution businesses from 1 April 2025 – Final Decision—Reasons paper', 20 November, p. 4.

highlight where design and implementation issues are crucial to ensure that the reforms are fit for purpose.

Organisational and governance reforms

The Government's proposals regarding organisational and governance reforms revolve around strengthening the focus of EDBs on their core activity of providing electricity distribution services, and improving the governance settings of EDBs. In particular, the options under consideration by the Government would involve creating more separation between the EDBs' regulated activity and ancillary activities, and systematising 'ownership reviews' (i.e. assessments of whether the ownership arrangements of EDBs support efficient network operations) for trust-owned EDBs.

With regard to ancillary activities, we consider, at the outset, that some of these investments can create benefits for customers through their synergies with the electricity distribution activity, for example by sharing infrastructure, data and customer relationships, allowing more coordinated planning, and reducing duplication and innovation. Vector's metering business is a direct example of such potential synergies. We also observe that major European utilities, including Iberdrola and Enel, operate across multiple parts of the electricity value chain.

Based on regulatory precedent, we observe that it would be reasonable to introduce a degree of separation between regulated and ancillary activities. However, the extent of this separation should be proportional to the scale of the potential inefficiency, and we note that the Government has explicitly stated that there is limited evidence that ancillary investments are a systematic issue of concern in the electricity distribution sector. As such, light-touch separation instruments could be implemented. These would include a spectrum of safeguards used in network sectors in Great Britain and elsewhere, including regulatory accounting; fair, reasonable and non-discriminatory ('FRAND') access and arm's-length dealings across entities in the same group (building on provisions that already exist in the NZCC's input methodologies), but also till arrangements or other forms of functional or behavioural ring-fencing.

These tools can address cross-subsidy, discriminatory access and diversion of management attention without requiring a higher degree of separation. In any case, we consider that the Government's suggestion that dividend restrictions could be implemented should be avoided, as it may create inefficiencies in the allocation of capital across activities.

With regard to the Government's proposal to systematise ownership reviews for trust-owned EDBs, we consider that specific attention should be given to the impact of this reform on listed EDBs, with Vector currently being the only one that is listed. Indeed, public listing already involves a number of requirements regarding governance and disclosure while at the same time subjecting the company to scrutiny from non-trust shareholders. We therefore recommend that the proposed increased governance requirements linked to ownership reviews for trust-owned EDBs avoid duplication with the requirements that already apply to publicly listed EDBs under statutory rules. They should avoid creating disproportionate requirements for non-trust shareholders, as this could result in reducing the attractiveness of investing in EDBs precisely at a time when they are facing significant expenditure programmes. More importantly, ownership reviews should avoid jeopardising the listing status of publicly listed EDBs, as this would amount to cutting EDBs off from a potentially important source of financing in the future.

Regulatory reforms

In the consultation, the Government is making a number of proposals involving regulatory reform. These include, in particular, a more systematic use of comparative analysis, including the use of benchmarking analysis for setting key parameters of the price–quality paths.

We support the Government's proposal to systematise performance analysis and to use benchmarking analysis to set regulatory parameters. However, in order for these tools to be fit for purpose, it is crucial that they are implemented with care. This is particularly true for benchmarking analysis when it is used to set regulatory parameters, as inaccurate results could be largely counterproductive and yield inefficient outcomes. In order to avoid this, we recommend that the regulator ensures that benchmarking methodologies are feasible, robust, transparent and consistent with the wider regulatory framework; considers the use of multiple methodologies to cross-check results; and avoids relying excessively on backward-looking data at a time when step-change investment needs and global supply-chain constraints are creating forward-looking cost pressures.

In order to facilitate the NZCC's use of performance analysis, the Government is also proposing to extend the regulator's information-gathering powers. Some of its proposals constitute sound regulatory practice (for example, requiring independent reviews of investment plans) to reduce information asymmetry and improve the credibility of

the analysis. However, additional information requirements must be proportionate and must not significantly increase the regulatory burden on EDBs. We caution against expanding the regulator's information-gathering powers with respect to non-regulated activities without explicit safeguards: the information required should be relevant to the regulator's duties, properly motivated, and protected where commercially sensitive.

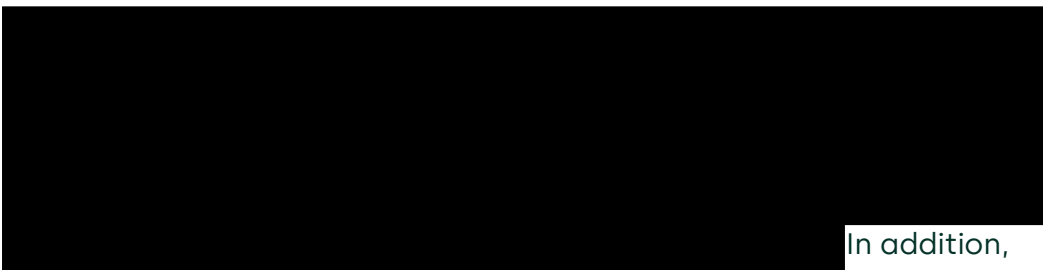
Further issues in relation to the remuneration of capital

In this response to the Government's consultation, we also consider potential changes to the methodology for estimating the allowed weighted average cost of capital ('WACC'), in light of the latest notice by the NZCC of its intention to set the cost of debt using a five-year trailing average. In particular, we observe that this could contribute to smoothing tariff evolutions across price–quality paths. However, using a trailing average approach would still allow for discrepancies between the allowed cost of debt and the rate at which new investment must be financed (in the current interest rate environment), which is particularly relevant at a time when significant investments need to be financed.

We also explicitly caution against one of the proposals put forward by the Government, namely to potentially restrict dividend payments under certain conditions. We understand that this proposal is inspired by the recent reforms in the water sector, but note that the rationale for introducing this tool there—i.e. persistent underinvestment and weakened financing capacity—has not been demonstrated for EDBs. Furthermore, we consider that stable dividends from companies such as EDBs are part of the investment proposition for a specific investor clientele, and a restriction may reduce the pool of EDB investors or raise the cost of equity. We therefore recommend that any dividend intervention be targeted at demonstrated financial difficulty and used as a mechanism of last resort.

In relation to this, we highlight the importance of financeability testing: a bottom-up cost-of-capital allowance is not enough to show that a price–quality path is deliverable. Instead, we recommend testing the combined effects of WACC, revenue-timing and other design choices on credit metrics, leverage and the ability to sustain a reasonable dividend yield.





In addition, while financeability testing is conventionally done for a single price control, assessing the impact of regulatory decisions over multiple periods would support EDBs with significant capital investment programmes by providing further visibility to companies and investors.

The scale of investment required to support New Zealand's electrification makes it critical that any reforms to improve the efficiency of the EDB sector are well evidenced, targeted at remediating specific failures, and carefully implemented to ensure that the costs of reform are proportionate. The regulatory framework must encourage efficient investment while protecting consumers and EDBs from unnecessary costs. It must also preserve the confidence of the debt and equity investors whose capital will be needed to deliver that investment.

² Oxera (2024), 'DPP4 financeability consultation response—financeability modelling analysis. Prepared for Vector Limited', 15 March.

1 Introduction

On 19 August 2026, the New Zealand Government ('the Government') launched a consultation on options to improve the efficiency of electricity distribution businesses ('EDBs').³

The Government launched this consultation against the backdrop of New Zealand's efforts to electrify its economy, an initiative that carries significant consequences for electricity networks. Indeed, in order to support the electrification of the country, EDBs are expected to spend more than NZ\$32bn over the next ten years.⁴ Electrification of the economy would support the delivery of the country's net zero targets.⁵

Such a level of expenditure will have a major impact on consumers' electricity bills. As noted by the Commerce Commission ('the NZCC' or 'the regulator'), which is responsible for setting the allowed revenues of non-exempt EDBs,⁶ the latest regulatory reset will lead to an increase in consumer bills over the current regulatory period, in part due to the fact that some EDBs will face higher investment requirements during the price control.⁷

In this context, the Government is seeking 'to ensure the substantial investment needed to support electrification is delivered as efficiently as possible'.⁸ The purpose of the consultation is to explore options from three different angles to achieve this objective:⁹

- a collaboration and standardisation area, where efficiency would be achieved by encouraging EDBs to collaborate more, thereby generating industry-wide efficiencies of scale;
- an economic regulation area, where regulatory reform would be undertaken to strengthen the regulatory toolkit, including

³ Ministry of Business, Innovation & Employment (2026), '[MBIE opens consultation on ways to improve efficiency of our electricity networks](#)', 19 August, last accessed 24 August 2026.

⁴ Ministry of Business, Innovation & Employment (2026), 'Discussion document for the electricity distribution businesses', 19 August, p. 1.

⁵ Ministry of Business, Innovation & Employment, '[Emissions Reduction Plan](#)', last accessed 24 August 2026.

⁶ 'Exempt EDBs' refers to the EDBs that 'meet the criteria under the Commerce Act to be considered as "consumer-owned" and be exempted from price-quality regulation'. Non-exempt EDBs, in contrast, are subject to price-quality regulation (i.e. tariff regulation). See Commerce Commission, '[Consumer owned electricity distribution businesses](#)', last accessed 14 September 2026.

⁷ Commerce Commission (2024), 'Default price-quality paths for electricity distribution businesses from 1 April 2025 – Final Decision—Reasons paper', 20 November, p. 4.

⁸ Ibid., p. 2.

⁹ Ibid.

- improving tools to monitor the performance of EDBs and, if necessary, applying stronger regulation to improve efficiency;
- a governance area, where EDBs would be subject to new governance and organisational requirements to ensure that EDBs are accountable for their decisions.

At the outset, we note that the Government itself acknowledges that 'EDBs are not necessarily performing poorly in their core business of providing electricity distribution services',¹⁰ and has, in fact, not clearly demonstrated that material inefficiencies have been affecting the New Zealand electricity distribution sector in recent years.

In light of this remark, it is unclear whether the proposed reform agenda aims to *improve efficiency* from a currently efficient baseline, or to *remediate inefficiencies* from a currently inefficient baseline. The nature of the baseline has implications for how regulatory reforms should be implemented. Indeed, one of the key principles of regulatory reform according to best practice is that intervention should be targeted (i.e. resolving the issue observed) and proportionate (i.e. the strength of the intervention is consistent with the extent of the issue observed).

Notably, improving efficiency from a currently efficient baseline is likely to require less intrusive, stringent or prescriptive regulatory tools, as such tools are typically associated with higher regulatory costs for the regulator as well as for the networks. Similarly, addressing market or regulatory failures that have not yet resulted in actual inefficiencies may also require different forms of intervention that are aimed primarily at resolving these failures without increasing regulatory oversight.

Regulatory best practice suggests that the first step for an informed debate around the Government's proposals would be to identify the market or regulatory failure, then explain why it could create inefficiencies, before establishing whether the inefficiencies are observed. Then, appropriate reform options could be proposed, and their costs, benefits and trade-offs examined to ensure that regulatory intervention is proportionate and targeted.¹¹ This process is broadly

¹⁰ Ministry of Business, Innovation & Employment (2026), 'Discussion document for the electricity distribution businesses', 19 August, p. 7.

¹¹ As an example of best practice, we note that when the European Commission made its proposal for a new energy directive in the electricity sector public in 2016, it published several working documents prepared by its services alongside the text of the directive. These documents included an evaluation of the 2009 directive (then in force), in which the EC analysed qualitatively and quantitatively whether the 2009 directive achieved its stated objectives across a number of dimensions, as well as an impact assessment discussing the main issues that the new directive would seek to address, presenting the main policy options and assessing the impact of each policy option across a number of dimensions. See European Commission (2016), 'Commission Staff

consistent with that recommended by the European Commission (the 'EC') in its 'Better Regulation Guidelines'.¹²

Thus, in order to support its own response to the Government's consultation, Vector Limited ('Vector') has commissioned Oxera to prepare an independent expert assessment of some of the Government's proposals for reform, focusing on areas where the implementation and/or impact may need to be further assessed, or reassessed, to deliver against the Government's objectives.

As part of this report, we highlight where the Government's proposals are consistent with good regulatory practice. We also highlight where some proposals could work well in principle, but would need to be carefully implemented to ensure that the intended objectives are achieved, and to avoid negative, unintended effects that would run counter to the interests of stakeholders—whether the EDBs or indeed the consumers. Lastly, we identify some of the options under consideration that should be avoided, as they are unlikely to help reach the intended objectives and appear to be more likely to lead to adverse consequences, based on international regulatory precedent.

The report is structured as follows.

- In section 2, we discuss the Government's organisational and governance reform proposals.
- In section 3, we discuss the regulatory tools that the Government is intending to give the regulator through the proposed reforms.
- In section 4, we discuss issues relating to the remuneration of capital of EDBs. This includes the regulator's current review of its cost of capital estimation methodology and the Government's proposals regarding potential restrictions on dividend payments.

Working Document—Evaluation Report covering the Evaluation of the EU's regulatory framework for electricity market design and consumer protection in the fields of electricity and gas and the Evaluation of the EU rules on measures to safeguard security of electricity supply and infrastructure investment (Directive 2005/89)', 30 November and European Commission (2016), 'Commission Staff Working Document accompanying the document Proposal for a Directive of the European Parliament and of the Council on common rules for the internal market in electricity (recast), Proposal for a Regulation of the European Parliament and of the Council on the electricity market (recast), Proposal for a Regulation of the European Parliament and of the Council establishing a European Union Agency for the Cooperation of Energy Regulators (recast), Proposal for a Regulation of the European Parliament and of the Council on risk preparedness in the electricity sector', 30 November.

¹² European Commission (2021), 'Commission Staff Working Document—Better Regulation Guidelines', 3 November.

- Section 5 concludes.

2 The Government's organisational and governance proposals

In this section, we discuss the organisational and governance proposals put forward by the Government in Part 3 of the consultation document.

Specifically, the Government's stated purpose in putting forward its proposals is to ensure that the governance and ownership arrangements of EDBs remain fit for purpose, given the scale of investment required from the sector and the length of time since the underlying legislative framework was last comprehensively reviewed. In particular, the Government is seeking to strengthen EDBs' accountability, focus, and governance capability, while ensuring that any ancillary investment activity does not divert resources or management attention away from the delivery of core electricity distribution services.¹³

To that end, the Government is putting forward four options for reform.¹⁴

- Option 3A would introduce clearer and more focused statutory objectives for consumer-owned EDBs.¹⁵
- Option 3B proposes that investments into non-regulated activities are monitored more closely, or even regulated.¹⁶ For the purpose of this report, we also consider the 'financial ring-fencing rules' discussed under Option 2A as part of this option, given that they are similar in nature.
- Option 3C considers measures to strengthen the capability and governance of consumer-owned EDBs.¹⁷
- Option 3D proposes measures to subject the ownership models of trust-owned EDBs to regular reviews.¹⁸

We understand from the consultation document that the definition of 'consumer-owned EDBs' for the purpose of these options may be wider

¹³ Ministry of Business, Innovation & Employment (2026), 'Discussion document for the electricity distribution businesses', 19 August, p. 31.

¹⁴ While not explicitly set out, given that they address distinct aspects of governance (statutory objectives, ancillary-investment oversight, board capability, and ownership reviews respectively), we assume that these are not mutually exclusive and could, in principle, be adopted together, whether in full or in part. We recommend that the Government clarifies this in its response to submissions.

¹⁵ Ministry of Business, Innovation & Employment (2026), 'Discussion document for the electricity distribution businesses', 19 August, p. 30.

¹⁶ Ibid., p. 31.

¹⁷ Ibid., pp. 31–32.

¹⁸ Ibid., pp. 32–33.

than the regulatory definition of the term,¹⁹ which covers consumer-owned EDBs that are exempted from price–quality regulation.²⁰ However, we note that Option 3C seems to be targeted at smaller EDBs (while Vector is the largest EDB in New Zealand). In the rest of this section we therefore focus only on Option 3B, and on Options 3A and 3D (considered together).

As noted at the outset of this report, based on our experience of international energy market design and regulation, some of the Government’s proposals could improve market or regulatory outcomes, provided that their approach is appropriately calibrated.

We assess below Option 3B, as well as Options 3A and 3D together. First, we look at the Government’s proposals with regard to investments in ancillary activities and conclude that this should be safeguarded, drawing on relevant principles and precedents. Second, we consider the Government’s governance proposals in light of Vector’s specific position as a market-listed entity, as distinct from wholly trust-owned EDBs; we set out how this warrants a differentiated approach relative to new governance measures that may be introduced for non-listed networks.

2.1 Considerations with respect to ancillary investments

In principle, the NZCC defines EDBs as suppliers of ‘electricity distribution services’, meaning ‘all electricity line services’.²¹ In practice, we understand that this means that an EDB is a (notional) entity that performs the regulated activity. As such, an EDB (as defined by the NZCC) cannot have ancillary activities or investments; only the companies owning the EDBs can. For simplicity, this section assimilates EDBs with the corporate entity carrying out the regulated service of providing electricity distribution services.

In the context of Option 3B, the consultation raises concerns that ancillary investments and activities by EDB owners could divert resources, management attention or capital away from the delivery of core electricity distribution services.²² The Government is therefore proposing to implement measures that would essentially limit the ability of EDBs to invest in ancillary, non-regulated activities—either by

¹⁹ Ministry of Business, Innovation & Employment (2026), ‘Discussion document for the electricity distribution businesses’, 19 August, footnote 23.

²⁰ See footnote 6.

²¹ Commerce Commission (2026), ‘Electricity Distribution Services Input Methodologies Determination’, 10 September, p. 25.

²² Ministry of Business, Innovation & Employment (2026), ‘Discussion document for the electricity distribution businesses’, 19 August, p. 31.

requiring that revenues from distribution activities are used to finance these same activities or by restricting dividend policies.²³

While the potential for ancillary investments to divert EDBs from their core business is a legitimate area for assessment, any regulatory response should be informed by the following principles and precedents.

- First, ancillary investments vary significantly in nature and scale, including in the extent to which they connect to core network services. A blanket restriction on EDBs' ability to invest in non-regulated businesses would not appropriately recognise this reality and would not be in the interest of consumers. Instead, any regulatory response should be proportionate and targeted at demonstrated risks.
- Second, there are economies of scope across the power value chain, such that common ownership of network, metering and related activities can promote consumer welfare and innovation, as illustrated by established practice among major European network businesses—and Vector's own investment in its metering business.
- Third, a range of practical safeguards, such as regulatory accounting guidelines, 'till' arrangements,²⁴ and functional or behavioural ring-fencing, are already available to manage any risk of cross-subsidy or diversion of management attention between regulated and non-regulated activities. This means that more complex, heavy-handed forms of organisational reforms are not required, as illustrated by precedents in both the water and electricity network sectors in Great Britain.

We discuss each of these points in more detail in the sections below.

2.1.1 Blanket restrictions are not adapted to the variety of ancillary investments and would not be in the interest of consumers

A priori, a uniform restriction on EDBs' investment in ancillary investments would not be a well-targeted regulatory measure. Indeed, the Government acknowledges in its consultation document that

²³ Ministry of Business, Innovation & Employment (2026), 'Discussion document for the electricity distribution businesses', 19 August, p. 31.

²⁴ Under a single-till approach, the regulated and non-regulated activities of a business are taken into account together in setting the regulated price cap or revenue allowance, with non-regulated net revenues being deducted from the regulated revenue requirement. Under a dual-till approach, by contrast, only the regulated activity is taken into account, and the non-regulated business's revenues are excluded from that calculation, with the two being effectively run and assessed as separate, ring-fenced businesses.

ancillary investments 'vary in nature and scale',²⁵ with some having 'a clear connection to network services'.²⁶ Any restriction on ancillary investments should take into account the nature and scale of these investments.

- First, we consider the nature of the investment. Specifically, in order to decide whether to apply any restrictions on investment, the Government and the regulator could assess the closeness of—and, therefore, the potential synergies that exist between—the core activity of the EDBs and the ancillary activity. If, for example, operational and quality of service synergies can be expected from the ancillary investment, which could benefit consumers, it may be desirable to retain the EDB investment in its ancillary business.
- Second, we consider the size of the ancillary investment. This is relevant because, if the ancillary investment by an EDB is large relative to the asset base and scale of its (core) regulated business, the ancillary business may be more likely to divert investment and/or management focus away from the (core) regulated activity and towards itself.

2.1.2 Economies of scope in the power value chain

Many international network businesses hold investments in retail, metering and/or generation activities alongside their core network business, reflecting economies of scope across the power value chain. These synergies arise because network, metering and retail activities share common inputs, most notably network infrastructure, connection and consumption data, and customer relationships, such that integrated ownership can reduce duplication of investment and enable more coordinated planning and delivery of services to the same end-customers. As a result, such investments can promote consumer welfare and innovation, for example by enabling more efficient use of shared assets, data and customer relationships across related activities.

For example, major European utilities such as Iberdrola²⁷ and Enel²⁸ operate across multiple parts of the electricity value chain, including generation, networks and retail, which illustrates that common ownership of related activities remains a commercially established

²⁵ Ministry of Business, Innovation & Employment (2026), 'Discussion document for the electricity distribution businesses', 19 August, p. 16.

²⁶ Ibid., p. 28.

²⁷ Iberdrola website, '[Iberdrola, a leader in power grids and renewable energy](#)', last accessed 15 September 2026.

²⁸ Enel website, '[Our Business](#)', last accessed 15 September 2026.

model. Similarly, in Germany, E.ON operates across the energy distribution grid, energy infrastructure solutions and energy sales.²⁹ Likewise, in the UK, SSE combines its renewables, thermal, transmission and distribution business with several other lines of business.³⁰

Moreover, German distribution networks tend to operate non-regulated metering businesses either directly or through their subsidiaries. EnBW, whose subsidiary Netze BW is one of the largest distribution network operators, markets its Gateway-Administration service, which is a competitive, non-regulated metering-data management function, directly to other grid operators.³¹ E.ON's German grid subsidiary offers a comparable full-service Gateway-Administration product on the same competitive basis.³²

Vector's investment in its metering business is a direct example of this type of economy of scope, given the shared reliance on network infrastructure, connection data and customer relationships between metering and core distribution activities.

Further, related synergies may arise on the operational rather than the ownership side. For example, in the UK, Ofgem's RIIO-ED2 framework treats smart meter data as a core input into DNOs' 'network visibility' strategies, alongside dedicated low-voltage (LV) monitoring: DNOs are expected to combine direct measurement, modelling and smart meter data to achieve full network visibility by the end of the RIIO-ED2 period.³³ Ofgem has identified specific operational uses for this combined dataset, including using historical and trend data to make better-informed network reinforcement decisions and to evaluate flexibility and smart solutions; increasing operational flexibility through direct monitoring of LV feeders, enabling proactive reconfiguration and other interventions; and detecting and mitigating power quality and phase imbalance issues to increase network capacity.³⁴ Smart meter data is also used specifically to improve voltage monitoring: Ofgem's RIIO-ED3 methodology consultation states that DSOs should supplement dedicated network monitoring with voltage data recorded through smart meters and third-party assets, such as EV chargers, to improve

²⁹ E.ON website, '[The E.ON Group at a glance](#)', last accessed 15 September 2026.

³⁰ SSE website, '[Our business units](#)', last accessed 15 September 2026.

³¹ EnBW website, '[Full-Service für die Gateway-Administration](#)', last accessed 15 September 2026.

³² Westenergie website, '[Gateway-Administration](#)', last accessed 15 September 2026.

³³ Ofgem (2021), 'RIIO-ED2 Draft Determinations – Overview Document', 30 June, paras 7.12–7.22.

³⁴ Ibid., para. 7.19.

understanding of voltage issues at customer premises and to predict voltage deviations before they cause network problems.³⁵

2.1.3 The regulatory treatment of ancillary activities

In essence, the Government's proposals regarding the regulatory treatment of ancillary activities aim to limit the possibility of cross-subsidisation between the non-regulated activity and the regulated activity, and could go as far as to restrict the payment of dividends from the regulated activity.³⁶

Based on regulatory precedent, we identify a range of ways in which the Government could separate the regulated activity of EDBs from ancillary activities. In particular, given the complexities and costs entailed by different forms of separation, the degree of separation should be proportionate to the evidenced market failure: heavier forms of separation such as ownership separation or legal separation tend to be used only to address substantive (potential) harm and/or as instruments of last resort when lighter forms of separation have proved ineffective to address the issue under consideration.

The most stringent form of separation, 'ownership unbundling', consists of fully separating the ownership of the regulated activity from that of non-regulated activities. However, an important regulatory precedent in this regard, the EU's Third Energy Package (2009), which introduced ownership unbundling as the default requirement, applies specifically to the transmission level of the electricity value chain; it does not require ownership unbundling of distribution businesses.³⁷ This is a material distinction: when European lawmakers decided to mandate ownership separation, distribution was treated differently from transmission. Drawing on this precedent, the case for extending equivalent structural remedies to EDBs' ancillary investments is correspondingly weaker.

A weaker form of unbundling, adopted by the EU for distribution network operators, is legal unbundling, where the regulated electricity distribution activity is legally separate from the non-regulated activities, even though they can be owned by the same entity. As discussed in the section above, this is a widespread model in the EU but also in the UK, where, for example, Scottish Power and SSE have retained their

³⁵ Ofgem (2025), 'ED3 Sector Specific Methodology Consultation – Core Document', 8 October, para. 5.95.

³⁶ Ministry of Business, Innovation & Employment (2026), 'Discussion document for the electricity distribution businesses', 19 August, pp. 23 and 31.

³⁷ European Parliament and Council (2009), 'Directive (EU) 2009/72/EC', Article 9 compared to Article 26.

electricity distribution businesses after the adoption of the Third Energy Package. The EU electricity directives also provide for an exemption from this unbundling requirement for networks serving fewer than 100,000 customers.³⁸

When preparing the Third Energy Package, the European Commission listed several arguments against further unbundling (i.e. against ownership unbundling) of distribution networks, including in particular the fact that network access discrimination issues were less acute for distribution networks than for transmission, and that investments in the distribution network were driven by customer needs rather than generators, suppliers or importers. Furthermore, the European Commission noted that removing the exemption from legal unbundling for smaller networks could affect such networks disproportionately due to the loss of synergies with non-regulated activities.³⁹

An even less prescriptive model would see EDBs being able to maintain regulated activities in the same company as non-regulated activities while managing the risk of cross-subsidy or diversion of management attention. These models generally rely on regulatory accounting guidelines that govern cost allocation between the regulated and non-regulated activities. In that regard, we note that there are already provisions in place, in the NZCC's input methodologies, regarding related party transactions (and arm's-length transactions) and cost allocation.⁴⁰ These provisions already constitute a first layer of protection for consumers against the risk of cross-subsidy between regulated and unregulated activities.

These provisions can potentially be associated with 'till arrangements' that separate out the cash flows of the unregulated activity, or regulatory ring-fencing of regulated and unregulated businesses, while preserving common ownership and management structures. Ofwat in the UK, has, for example, adopted a dual-till approach to certain unregulated activities undertaken by water companies,⁴¹ allowing such activities to operate outside of the regulated business provided that

³⁸ European Parliament and Council (2019), 'Directive (EU) 2019/944', Article 35(4).

³⁹ European Commission (2007), 'Commission staff working document - Accompanying the legislative package on the internal market for electricity and gas - Impact Assessment {COM(2007) 528 final} {COM(2007) 529 final} {COM(2007) 530 final} {COM(2007) 531 final} {COM(2007) 532 final}', 19 September, section 5.10.

⁴⁰ See, for example, Commerce Commission (2026), 'Electricity Distribution Services Input Methodologies Determination', 10 September, p. 77 or 181 (for related party transactions) or pp. 61–65 (for cost allocation).

⁴¹ Ofwat (2010), 'The treatment of regulated and unregulated business in setting price controls for monopoly water and sewerage services in England and Wales – a discussion paper', 5 October.

transactions with the regulated business take place on an arm's-length basis and at fair market prices.⁴² We note that such an arrangement would be consistent with one of the Government's proposals in the consultation, namely to '[require] that revenue from providing electricity distribution services is spent on activities that EDBs undertake to provide electricity distribution services'.⁴³ At the same time, we also note that, under a dual till arrangement, there is no cross-subsidisation between the regulated and unregulated activities.

In other words, if there is no ownership unbundling between the regulated and non-regulated activities, a key regulatory concern in designing and overseeing safeguards should be to ensure that ownership of assets does not permit a monopoly network to favour its own subsidiary at the expense of other assets that seek network access. A safeguard can be maintained by requiring access to be granted to network assets on fair, reasonable and non-discriminatory ('FRAND') terms.

We observe that a comparable principle underpins the approach taken in the GB electricity network sector, where a combination of behavioural and functional safeguards, rather than full ownership separation, is used to manage the risk that a network business's decisions will favour a related commercial activity. These safeguards vary by asset type rather than forming a single uniform regime: for example, GB interconnector licence conditions require Ofgem's approval of access charges on a non-discriminatory basis. Other regulatory provisions prohibit an operator from using, or failing to disclose, commercially sensitive network information to the advantage of an affiliated business.⁴⁴

For onshore transmission, the relevant vertically integrated licensees (Scottish Power and SSE) operate under 'alternative arrangements' in which key connection and system-operation functions sit with the independent system operator rather than the licensee itself.⁴⁵ In addition, at least one interconnector project (NeuConnect) has supplemented statutory safeguards with its own voluntary governance

⁴² Ofwat (2017), 'RAG 5.07 – Guideline for transfer pricing in the water and sewerage sectors', 27 April.

⁴³ Ministry of Business, Innovation & Employment (2026), 'Discussion document for the electricity distribution businesses', 19 August, p. 31.

⁴⁴ Ofgem (2025), 'The Authority's final decision and analysis on the application for certification as unbundled by NeuConnect Britain Limited', 1 August.

⁴⁵ European Parliament and Council (2009), 'Directive 2009/72/EC concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC', Article 9(9). UK Parliament (2011), 'Electricity and Gas (Internal Markets) Regulations 2011', SI 2011/2704, Regulation 10, inserting section 10E(4) into the Electricity Act 1989. Ofgem and DESNZ (2024), '#Decision notice to establish National Energy System Operator (NESO)', September.

and confidentiality arrangements to secure functional separation from its vertically integrated shareholder.⁴⁶

Separately, the treatment of Scottish Power and SSE also illustrates a precedent for 'grandfathering' existing investments where new unbundling requirements are introduced, rather than requiring retrospective divestment. As set out above, both companies were permitted to retain their vertically integrated onshore transmission businesses under the 'alternative arrangements' derogation, rather than being required to divest them to comply with the Third Package's default requirement for ownership unbundling. This confirms that, even in the context of a stricter EU-mandated unbundling regime applying to transmission, the UK Government and regulator have previously chosen to protect existing investments from disruption through calibrated safeguards, rather than imposing blanket separation requirements retrospectively.

Taken together, these examples demonstrate that **a spectrum of safeguards, calibrated to the scale and nature of the risk and the specific asset in question, can address concerns about cross-subsidy or diversion of management attention without requiring the affected business to divest or legally separate the related activity.**

We consider that mechanisms of this kind would allow the Government to address any legitimate concern about cross-subsidy or diversion of attention, without imposing the more severe costs associated with legal or structural separation, which would be disproportionate to the scale of any demonstrated harm (noting, as set out in Section 3.2 of the consultation document, that 'there is limited evidence that these investments represent a systemic issue across the sector').

We note also that there can be significant transaction costs associated with structural separation, as well as higher subsequent financing costs if business lines within the energy group have lower creditworthiness on a standalone basis. Accordingly, structural separation may not be a first-best solution if effective safeguards via functional and behavioural remedies can be maintained instead—especially in light of the fact that, as noted above, stringent separation models tend to be used where there are concerns about significant detriment and/or as last-resort

⁴⁶ Ofgem (2025), 'The Authority's final decision and analysis on the application for certification as unbundled by NeuConnect Britain Limited', 1 August.

measures to resolve proven market failures, if intermediary solutions have not been effective.

This being said, we also note that the models discussed above do not, in themselves, impose restrictions on the payment of dividends to the owner of the activities, and nor do they prevent the common owner from allocating capital freely between the regulated and non-regulated activities. The allocation of capital is a function of investment opportunities and of the risk and return associated with these opportunities.

It would be contrary to good regulatory practice to constrain the allocation of capital between activities, provided that the financial situation of the regulated activity is not in jeopardy and there are no proven inefficiencies affecting the regulated activity, such as underinvestment. Given the Government's statement that 'there is limited evidence that these investments represent a systemic issue across the sector', it does not appear that such restrictions are currently necessary in the New Zealand EDB sector.

More generally, the practicality of a monitoring framework on ancillary investments made by EDB owners also warrants consideration when an EDB is ultimately owned through an offshore holding company. For example, Wellington Electricity Distribution Network Limited is wholly owned by Wellington Electricity Distribution Network Holdings Limited, a holding company registered in the Bahamas.⁴⁷ In such cases, the regulator may not have the same visibility of the owner's wider business interests as it has of the EDB itself. It would therefore be helpful to clarify what information an EDB would be required to provide about its owner's other investments, how that information could be verified, and what powers the regulator would have to obtain it. Any requirements should be proportionate and focused on information that is relevant to identifying risks to the regulated business—as discussed further in section 3.3 below. Without clear reporting obligations and practical means of accessing reliable information, a review may be unable to establish the full extent of an offshore owner's ancillary activities, while imposing additional compliance costs on the EDB.

Overall, while we consider that it is well grounded in regulatory practice to introduce a form of separation between regulated and non-regulated activities, we also consider that EDBs should not face undue restrictions

⁴⁷ New Zealand Companies Office (2026), 'Wellington Electricity Distribution Network Limited (2118567)', Companies Register, 9 June.

on their financing decisions and the allocation of capital between their regulated and non-regulated activities without clear evidence that these would be necessary.

2.1.4 Concluding remarks

In summary, we do not consider that it is in the interests of EDBs or consumers to introduce blanket regulation restricting EDBs' ability to invest in non-regulated businesses. While a case for ring-fencing specific non-regulated businesses could be made, this should apply only to specific industries or cases where a genuine risk to the regulated business has been identified. Any blanket restrictions should not prevent investment in related businesses where the risk of cross-ownership is low and/or where any risks can be mitigated through functional and behavioural safeguards. Indeed, in this section, we have cited a number of precedents of European energy businesses that hold networks as well as ancillary assets.

2.2 Considerations in relation to Vector's market-listed status compared to other trust-owned EDBs

Option 3A seeks to introduce focused objectives for EDBs where their role as efficient electricity distribution companies would be reaffirmed, whereas Option 3D proposes measures to review ownership models for trust-owned EDBs. The stated objective of the two Options is to ensure that EDB ownership arrangements remain fit for purpose over time and are reviewed in a structured and transparent manner, considering matters such as consumer outcomes, network performance, governance effectiveness, access to capital, and future investment needs.

At this stage, it is important to highlight that Vector is approximately 75% trust-owned and is listed separately on the New Zealand stock exchange,⁴⁸ unlike all other partly or wholly trust-owned EDBs.

As a listed entity, Vector's governance and disclosure obligations already overlap directly with several of the matters that Options 3A and 3D propose should be considered as part of a periodic ownership review or statutory objectives. For example, the third bullet under Option 3D proposes that reviews establish 'minimum matters to be considered, such as consumer outcomes, network performance, governance effectiveness, access to capital, and future investment needs'.⁴⁹

⁴⁸ Vector Limited (2026), '[Ownership](#)', last accessed 15 September 2026.

⁴⁹ Ministry of Business, Innovation & Employment (2026), 'Discussion document for the electricity distribution businesses', 19 August, p. 33.

Vector's existing obligations as a listed issuer already provide an ongoing, market-tested check on several of these same matters as follows.

- **Governance effectiveness:** under NZX Listing Rules, Vector is required to have at least two independent directors (or one-third of the board where it has eight or more directors), providing an ongoing structural safeguard for board independence that is verified on a continuing basis, rather than only at periodic review.⁵⁰
- **Access to capital:** as a listed issuer, Vector's ability to raise equity capital on the NZX is itself a live, continuous test of investor confidence in its governance, financial position, and future investment plans. This differs from the position of a wholly trust- or council-owned EDB, which does not face the same ongoing external market discipline with respect to its capital-raising ability.
- **Consumer and market-facing outcomes:** Vector's continuous disclosure obligations under the NZX Listing Rules and the Financial Markets Conduct Act 2013 require it to promptly disclose material information affecting the value of its shares to the market, including matters bearing on network performance and investment outcomes, on an ongoing basis.⁵¹

Beyond these specific overlaps, we consider that the scrutiny provided by Vector's non-trust shareholders is itself a relevant and additional form of ongoing control that is not present, in the same form, for partly or wholly trust-owned EDBs, council-owned EDBs, or even privately owned EDBs such as Powerco. Non-trust shareholders have a direct financial interest in monitoring Vector's management performance, capital allocation and investment decisions, and can exercise that interest through voting rights, engagement with the board, and (in the event of sustained underperformance) the ability to sell their shares. This, in turn, affects Vector's share price and cost of capital. Together, these existing mechanisms provide a continuous, market-based signal of whether the company is being run well.

We would also caution against any proposal that risks jeopardising Vector's public listing or its ability to raise capital on public markets—or, indeed, the ability of any trust-owned EDB that may go public in the future to raise capital. Indeed, for EDBs that are publicly listed, any

⁵⁰ NZX (2025), 'NZX Listing Rules', January, para. 2.1.1.

⁵¹ New Zealand Legislation (2013), 'Financial Markets Conduct Act 2013', ss. 231 and 270–271.

ownership review framework under Option 3D that is designed primarily with partly or wholly trust-owned EDBs in mind risks imposing requirements, uncertainty, or additional compliance burden (beyond the specific overlaps that could already exist between the new ownership review proposal and those under the public listing status) that would fall specifically on their non-trust shareholders, without a corresponding benefit to consumers.

Indeed, a higher regulatory burden and higher compliance costs could reduce the attractiveness of Vector as a listed investment, which may ultimately be to the detriment of consumers due to higher financing costs. Such an outcome would work against the Government's objective of ensuring EDBs can attract the capital needed to fund the electrification investment programme described elsewhere in the consultation document.

In principle, more frequent or more structured ownership reviews of the kind proposed under Option 3D may bring some benefits of greater oversight. However, we consider that such reviews should focus on monitoring, transparency and reporting, and should not be used as a basis for imposing constraints on the ownership structure or the listed status of publicly listed EDBs. Any changes arising from the reviews should instead be introduced as a proportionate and targeted remedy to a specific governance concern. This case-by-case assessment approach is especially relevant where we observe long-standing differences between the ownership model of Vector and that of the other partly or wholly trust-owned EDBs for which Option 3D's underlying governance concerns were developed.

2.3 Conclusion

Given the economies of scope available across the power value chain, especially in the context of the energy transition, and the range of ring-fencing tools that are available short of legal or structural separation, we consider that any regulatory response to the concerns raised under Option 3B in relation to ancillary investments should be proportionate and targeted, rather than take the form a blanket restriction. As set out in section 2.1, this should safeguard EDBs' ability to invest in related businesses, such as Vector's metering business, while still allowing the Government to address any demonstrated risk to the regulated business on a targeted basis.

Furthermore, given the existing transparency and reporting requirements to which listed EDBs are subject, we consider that any further governance measures introduced as a result of this consultation, including the statutory objectives, ancillary-investment monitoring and

ownership review obligations discussed in Options 3A, 3B and 3D, should be designed to recognise the protections that the listed status already provides. Introducing additional statutory requirements without regard to the distinction in the reporting and governance requirements to which listed companies are subject risks unnecessary duplication and over-regulation, rather than a well-targeted response to any specific governance gaps that the Government may identify for wholly trust-owned EDBs. As a result, we consider that any new governance or organisational measures arising from this consultation should recognise the material difference between the ownership and governance structure of a publicly listed EDB and that of EDBs that are wholly owned by a trust or cooperative.

We summarise our recommendations regarding the Government's organisational and governance reform proposals in Box 2.1 below.



Box 2.1 Recommendations regarding the Government's organisational and governance reform proposals

Given the economies of scope available across the power value chain, especially in the context of the energy transition, and the range of ring-fencing tools that are available short of legal or structural separation, we provide the following recommendations:

- any regulatory response to the concerns raised under Option 3B in relation to ancillary investments should be proportionate and targeted, rather than take the form of a blanket restriction;
- any further governance measures introduced as a result of this consultation should recognise the protections already provided by the listed status, thereby avoiding unnecessary duplication and over-regulation;
- any new governance or organisational measures arising from this consultation should recognise the material difference between the ownership and governance structure of a publicly listed EDB and that of EDBs that are wholly owned by a trust or cooperative.

Source: Oxera

3 The Government's proposals on new regulatory tools for the NZCC

At the outset, we observe that the Government proposed, in the consultation, to provide the regulator with a wider set of regulatory tools that it could potentially apply to EDBs.

Among the options for reform proposed by the Government, some would apply only to consumer-owned EDBs (e.g. Option 2B⁵²), while others are presented as new regulatory tools sitting between information disclosure and price–quality regulation (such as some of the Option 2A tools, in particular revenue thresholds, performance requirements and quality-only regulation⁵³). Given that Vector is not consumer-owned and is subject to price–quality regulation, we do not discuss these proposals further in this report.

Of the four regulatory tools contemplated under Option 2A that could apply to EDBs that are subject to price–quality regulation, ring-fencing is discussed in section 2.1 above and comparative benchmarking is discussed further in the present section. With regard to the Government's proposal on the length of the regulatory period, we consider that the flexibility provided by re-openers and uncertainty mechanisms, and the predictability provided by stable methodologies, are at least as important as the duration of the price control in ensuring that EDBs are able to fund and carry out their investments. Accordingly, regardless of the length of the regulatory period, priority should be given to introducing and effectively using mechanisms that strengthen flexibility and predictability.

With regard to Option 2C, which proposes a greater use of individual price–quality paths,⁵⁴ we understand that Vector is open to the Government's proposal to make individual price–quality paths the default option for the largest EDBs. We therefore do not discuss this option further in this section. We also note that resorting to individual price–quality paths will likely enable the regulator to examine large investments in more detail, especially when combined with additional powers to request independent reviews of the information disclosed by EDBs envisaged as part of Option 1B (which we discuss further in section

⁵² Ministry of Business, Innovation & Employment (2026), 'Discussion document for the electricity distribution businesses', 19 August, p. 25.

⁵³ Ibid., pp. 22–23.

⁵⁴ Ibid., p. 26.

3.3). This could make additional rules for the scrutiny of significant investments largely redundant. As such, our main recommendation regarding such rules would be that they remain proportionate and do not deter EDBs from undertaking significant investments due to excessive regulatory or administrative constraints.

The rest of this section focuses on the Government's intention to extend the use of comparative benchmarking by the regulator, through the reforms outlined below.

- Under Option 1A, the Government is proposing that the regulator publishes benchmarking analysis on a more regular basis.⁵⁵
- Also under Option 1A, the Government is indicating that it is minded to remove the current prohibition on the regulator from engaging in comparative benchmarking for the purpose of setting the parameters of regulation.⁵⁶ We analyse the 'Comparative benchmarking' regulatory tool (presented under Option 2A) in this section, given the overlap.
- Under Option 1B, the Government is proposing to extend the scope of the information provided to the regulator by EDBs, facilitate the obtaining of that information from EDBs by the regulator, and facilitate its use for benchmarking purposes.⁵⁷

As a result of these changes, the regulator would have the necessary tools and information to start using comparative benchmarking in the construction of the regulatory settlement through, for example, efficiency targets.⁵⁸

Below, we discuss the Government's proposals in relation to the analysis of the performance of EDBs, including, in particular, its proposal to allow the regulator to use benchmarking analysis to set key parameters of the regulatory framework.

Given the Government's focus in the consultation on comparative performance analysis, we start in section 3.1 by discussing the rationale for carrying out such analysis, before outlining in section 3.2 best practice recommendations regarding benchmarking analysis. This is in relation to the Government's intention to remove the prohibition on the regulator to engage in benchmarking analysis for the purpose of setting

⁵⁵ Ministry of Business, Innovation & Employment (2026), 'Discussion document for the electricity distribution businesses', 19 August, p. 17.

⁵⁶ Ibid., p. 17.

⁵⁷ Ibid., p. 17.

⁵⁸ Ibid., p. 24.

regulatory parameters within the price–quality path. In section 3.3 we then we discuss the Government’s proposals to increase the regulator’s information-gathering powers.

3.1 The importance of comparative performance analysis

We agree with the Government that a regulator’s ability to monitor the performance of regulated companies is a cornerstone of good regulation.⁵⁹ Indeed, it allows regulators to assess how regulated operators are faring against the regulatory settlement within a regulatory period, to ensure that quality of service is assured, as well as to detect, as early as possible, issues that may need to be addressed by regulatory intervention.

In New Zealand, we understand that, currently, the regulator is able to monitor the performance of EDBs, and publishes regular performance summaries.⁶⁰ The information contained in these performance summaries shows that the NZCC is reviewing a large number of metrics as part of its performance monitoring exercise (e.g. operating expenditure ratios, performance metrics, and asset age),⁶¹ confirming that the regulator currently has adequate tools to assess the performance of EDBs.

However, where the Government sees a gap in the current regulatory arrangement is in the ability of the regulator to compare the performance of regulated operators, which is especially important in this case because the NZCC regulates a large number of EDBs.

Comparative analysis can be an important tool to put the performance of individual operators into perspective. In essence, it allows the regulator to assess whether the level of performance of an individual operator is an outlier relative to the wider industry.

However, in order to draw out meaningful conclusions from comparative analysis, the regulator will need to control for structural differences across the various regulated operators, such as network size, number of connections, and location, which may partly explain differences in performance. These differences need to be accounted for or normalised appropriately to ensure that like-for-like comparisons can be made.

⁵⁹ Ministry of Business, Innovation & Employment (2026), ‘Discussion document for the electricity distribution businesses’, 19 August, p. 16.

⁶⁰ Commerce Commission, ‘[Performance summaries for electricity distributors](#)’, last accessed 15 September 2026.

⁶¹ See, for example, the latest Vector performance summary.

To that end, more in-depth analysis, including the use of econometric techniques, may be required based on the metrics collected as part of the regulator's performance monitoring function. This would, among other things, allow the regulator to rank the performance of EDBs, thereby enabling it to identify best practices as well as areas for improvement.

We understand from the consultation that a degree of comparative analysis is already being carried out by the regulator,⁶² but that, under Option 1A, the Government is proposing that the regulator publishes such analyses more regularly, and in a way that enables consumers to properly assess the performance of EDBs.⁶³ Presumably, this would also mean systematising the use of more in-depth comparative analysis as described.

In our opinion, ensuring that comparative performance analyses are published regularly constitutes sound regulatory practice. Provided that the analysis being carried out satisfies different criteria in order to ensure the accuracy and reliability of the results (as discussed further below), implementing this aspect of Option 1A would enable consumers to make informed assessments of EDBs' performance, thereby enhancing customer accountability throughout the sector.

We note that the Government wants to go further in drawing conclusions from the comparative analysis. If such analysis allows the identification of best-in-class performance, it may then be possible to use it to set a benchmark for other EDBs—and this is what we refer to as 'benchmarking analysis'. Essentially, the regulator would be able to use benchmarking analysis to set regulatory parameters within EDBs' price-quality paths. However, legislative provisions currently prohibit the regulator from using benchmarking analysis for that purpose. Option 1A therefore also proposes to amend these provisions to remove this prohibition.⁶⁴ We discuss this in more detail in the section below.

3.2 Recommendations regarding the use of benchmarking analysis

At the core of the proposal to remove the prohibition on the regulator to use benchmarking analysis to set regulatory parameters lies the fact

⁶² Commerce Commission, '[Trends in local lines company performance](#)', last accessed 15 September 2026.

⁶³ Ministry of Business, Innovation & Employment (2026), 'Discussion document for the electricity distribution businesses', 19 August, p. 17.

⁶⁴ Ibid., p. 17.

that the regulator needs to incentivise regulated operators to achieve efficiency gains.

Indeed, in competitive sectors, individual firms seek to achieve efficiency improvements in order to gain a competitive edge over rivals. Regulated operators such as EDBs are natural monopolies, meaning that such competitive forces are absent. Regulators therefore need to ensure that operators have an incentive to improve efficiency through the regulatory framework.

With this objective in mind, benchmarking analysis constitutes one of the tools that regulators can use to identify potential efficiency improvements and quantify their scale, and then use the conclusions derived from this analysis to set key parameters of the regulatory framework (e.g. cost allowances). We observe that, over time, benchmarking analysis has been widely adopted by international network regulators to inform their regulatory settlements, and to ensure continued efficiency improvements in regulated network industries despite the absence of competitive pressure.

It would therefore be consistent with international precedent and good regulatory practice for the regulator to use benchmarking analysis to set key regulatory parameters within price–quality paths under Option 1A. However, we would like to bring to the Government’s (and the regulator’s) attention several important considerations in relation to the use of benchmarking analysis.

First, and as alluded to above, the methodology for the benchmarking analysis needs to satisfy various criteria in order to be fit for purpose in terms of setting regulatory parameters. In particular, the methodology should be designed to be:

- feasible—it should not require disproportionate resources to implement;
- robust—it should lead to accurate results regarding the performance of EDBs;
- transparent—stakeholders (including EDBs) should be able to understand and engage with the approach followed;
- consistent—it must be consistent with the wider regulatory framework.

A failure to meet one of these criteria may lead to counterproductive regulatory outcomes. The most salient example would be a non-robust benchmarking analysis resulting in unrealistic efficiency targets, which

could, in turn, lead EDBs to either under-recover efficient costs or cut efficient costs excessively to meet targets.

Second, the regulator may find that more than one benchmarking methodology is applicable, and that each methodology comes with its own limitations (e.g. in terms of the data required or its analytical complexity) and strengths (e.g. in terms of its predictive power), as well as its own choice of inputs.

As a result, the regulator may find it useful to use different approaches when carrying out benchmarking analysis for the purpose of setting key regulatory parameters, provided that each method satisfies the criteria outlined above.⁶⁵

On the one hand, applying different methodologies enables the regulator to reduce the uncertainties of each individual methodology and also to assess how different factors affect the performance of regulated operators. In turn, this enhances the credibility of the regulatory parameters and the robustness of the regulatory framework. On the other hand, it increases the complexity of the regulatory framework and the regulatory burden placed on both the regulator and the regulated companies.

As noted by Ofgem in the RIIO-3 sector-specific methodology consultation for the electricity distribution sector, relying on what the regulator refers to as a 'toolkit approach'⁶⁶ in its cost assessment 'helps reduce the potential for error or bias in any one model',⁶⁷ and allows it to '[capture] DNO electricity distribution activities in different ways'.⁶⁸

Third, when setting regulatory parameters based on benchmarking analysis, the regulator will need to be careful and not rely exclusively on backward-looking information on performance. While such information may be helpful to inform the scope or the scale of future potential efficiency gains, it does not account for forward-looking cost pressures that EDBs may face as a result of, for example, evolving macroeconomic conditions (which may be different from the macroeconomic conditions

⁶⁵ Biggar, D. (2025), 'The role of cost benchmarking in public utility regulation', *Journal of Regulatory Economics*, **68**:3, pp. 231–263.

⁶⁶ Ofgem (2025), '[ED3 Sector specific methodology consultation- Cost assessment Annex, 8 October](#)', para. 1.19.

⁶⁷ Ibid.

⁶⁸ Ibid., para. 1.20.

in which EDBs operated historically) or policy issues and goals (which may directly or indirectly affect the level of expenditure of EDBs).

This recommendation is especially relevant and important in the current context, in which EDBs are expected to invest significantly in the future in order to facilitate the electrification of the New Zealand economy. Indeed, at a time of step-change in terms of expenditure requirements due to electrification goals, and as EDBs are facing significant pressure on supply costs due to global supply chain constraints,⁶⁹ relying exclusively, or even significantly, on backward-looking data in benchmarking analysis may underestimate the level of efficient costs in the future.

In that regard, we note that Ofgem, in its final determination on the RIIO-3 electricity transmission tariffs, increased its baseline allowance due to higher reliance on forecast data.⁷⁰ Examples of this increased reliance included the fact that Ofgem decided to assign a 30% weight to the historical regression analysis and a 70% weight to the forward-looking analysis with respect to indirect costs⁷¹ 'to better reflect the expected step change in activity under RIIO-ET3'.⁷² Ultimately, Ofgem considered this weighting to be 'a pragmatic response to forward-looking cost pressures, while still maintaining a measure of efficiency'.⁷³

Underestimating the level of efficient costs would be detrimental to the achievement of the Government's policy objectives, not least those relating to the energy transition. It might also ultimately result in inefficient network operations, with underspending ultimately affecting quality of service metrics to a point where higher system costs would outweigh the savings generated by the regulatory allowances.

In summary, benchmarking analysis can be a powerful tool to improve efficiency in the electricity distribution sector. However, in order to ensure that such analysis does not become counter-productive when used to set key regulatory parameters within the price–quality paths, its

⁶⁹ Commerce Commission (2023), 'Default price-quality paths for electricity distribution businesses from 1 April 2025—Issues paper', 2 November, para. 3.47.

⁷⁰ Ofgem (2025), 'RIIO-3 Final determinations: Electricity transmission', 4 December, para. 5.4.

⁷¹ For Ofgem, indirect costs include 'internal support and overhead costs that are necessary to operate a transmission business, that could not, on their own, be classed as a direct network activity'. Ofgem splits indirect costs into two main categories: business support costs and closely associated indirect costs, which include costs relating to the construction and operation of the assets. See Ofgem (2025), 'RIIO-3 final determinations: Electricity transmission', 4 December, paras 5.74–5.76.

⁷² Ofgem (2025), 'RIIO-3 final determinations: Electricity transmission', para. 5.85.

⁷³ Ibid.

implementation in practice requires significant care and attention to detail.

As a result, we recommend that, if the Government were to remove the prohibition currently in place so that the NZCC were able to use benchmarking analysis to set regulatory parameters, the regulator should ideally design the benchmarking analysis framework through consultation with, and with input from, the EDBs. Furthermore, we would recommend phasing the introduction of benchmarking analysis, such that the methodologies can be tested and results potentially challenged by EDBs before the analysis is used to set regulatory parameters.

In Germany, for example, we observe that the regulator consulted on a new methodology for 'the future design of efficiency benchmarking' in the electricity distribution sector in July 2025,⁷⁴ and published a decision in December 2025.⁷⁵ However, this methodology will be applied only from the fifth regulatory period,⁷⁶ which will start in 2029 in the electricity sector. Similarly, the NZCC could develop a methodology for implementing benchmarking analysis as part of a specific input methodology, consult on it with the EDBs, and apply it in a subsequent price-quality path period.

This would ensure that the efficient industry- and company-specific cost drivers of EDBs are appropriately accounted for, and that the model works for the sector as well as for consumers.

To effectively monitor EDB performance and conduct robust benchmarking, the regulator must have access to complete and accurate input data. We discuss this in more detail in the sub-section below.

3.3 The regulator's information-gathering powers

The Government is proposing, under Option 1B, to 'expand the [regulator]'s information-gathering powers under information disclosure regulation'. This would be achieved by:

- extending the scope of the information to be provided by EDBs to information relating to non-regulated activities;

⁷⁴ Bundesnetzagentur (2025), '[Konsultation zu den Festlegungsentwürfen Effizienzvergleich Strom und Effizienzvergleich Gas und Stellungnahmen](#)', last accessed 24 September 2026.

⁷⁵ Bundesnetzagentur (2025), 'Beschluss In dem Verwaltungsverfahren nach § 29 Abs. 1 EnWG in Verbindung mit §§ 21, 21a EnWG wegen des Verfahrens zur Festlegung der Methoden zur Durchführung der Effizienzvergleiche für Elektrizitätsverteilernetzbetreiber', 8 December.

⁷⁶ Ibid., recital 20, p. 12.

- allowing the regulator to use information obtained outside of formal disclosure requirements for the purpose of assessing performance;
- empowering the regulator to seek independent reviews of the information disclosed by EDBs.

In principle, the Government's proposals under Option 1B are reasonable, as they help to reduce the asymmetry of information that exists between EDBs and the regulator regarding the activity of EDBs. In turn, this allows the regulator to make more informed decisions, improving regulatory outcomes and reinforcing accountability. In fact, we understand that the regulator may, in the past, have used information obtained outside formal disclosure requirements (e.g. to set the price–quality path) or sought independent audits of information provided by EDBs.

In any case, allowing the regulator to seek independent reviews of EDB information directly would complement Option 1A—which seeks to remove the legislative ban on using benchmarking to set regulatory parameters. Indeed, requiring external audits of EDB data provides assurance that benchmarking models are not compromised by flawed inputs, thereby preventing inaccurate results that would undermine the 'robust' criterion of a fit-for-purpose benchmarking analysis. In turn, this would contribute to the 'customer accountability' objective by strengthening the credibility of EDBs wherever audits conclude that audited information is robust.

However, it is important for the Government—and the regulator, if the proposal is implemented—to recognise that carrying out such audits is a potentially costly and time-consuming exercise. As a result, the regulator should consider limiting either the perimeter or the depth of independent reviews (depending on the data audited and its importance to the analysis) in order to limit the costs and resources that are committed to these audits.

When using information that is gathered outside standard disclosure requirements, the Government and regulator must account for differences in context, network comparability, and timing. Because such data may lack standardisation for like-for-like comparisons, it should ideally inform broader performance analysis or regulatory decision-making rather than serve as a direct input for quantitative benchmarking—unless it is first standardised to ensure comparability.

We consider that Option 1B—i.e. the possibility for the regulator to request information on non-regulated activities—warrants the most scrutiny from a best practice point of view.

We note that, in the consultation, the Government is referring to a similar tool that was introduced in the New Zealand water sector. However, it is important to highlight that the regulatory reforms introduced in the water sector in New Zealand were in part guided by the fact that the sector was suffering from continued underinvestment. As noted by the Government, 'a key issue in the water services sector has been the ability for local government water services suppliers to raise finance and invest in water service infrastructure'.⁷⁷

This specific context for the water sector provided the rationale for introducing the possibility for the regulator to request information on non-regulated activities—for example, to monitor how water companies allocated funding between (regulated and non-regulated) activities. It is not apparent that this latter concern applies to the electricity distribution sector in New Zealand. As a result, the relevance of this proposal to the improvement of the efficiency of EDBs' operations is not immediately apparent.

That being said, we note that, under EU law, regulators have the power to 'require any information from electricity undertakings relevant for the fulfilment of its tasks'.⁷⁸ It seems feasible that this may encompass information on non-regulated businesses, provided that such information would have direct relevance to the regulator's duties.

In line with regulatory best practice, we therefore consider that, if this new power is given to the regulator, requests for information on non-regulated activities should be kept proportionate and targeted to the information that is required for the regulator to carry out its duties. They should also be properly motivated, to ensure transparency on why the information is requested from EDBs. Lastly, we consider that the regulator should take all necessary precautions to ensure that commercially sensitive information is protected—especially as EDBs may have non-regulated activities in competitive sectors, where placing information in the public domain could harm their competitive position. We observe that this is a requirement for regulators in EU law.⁷⁹ We also

⁷⁷ Ministry of Business, Innovation & Employment (2026), 'Discussion document for the electricity distribution businesses', 19 August, p. 17.

⁷⁸ European Parliament and Council (2019), 'Directive (EU) 2019/944', Article 59(3)(c).

⁷⁹ Ibid.

note that, under the current Electricity Distribution Information Disclosure Determination of 2012, EDBs are not required to include commercially sensitive information in some of their disclosures.⁸⁰

Finally, we note that, depending on the safeguards and arrangements put in place to separate regulated and non-regulated activities (as discussed in section 2.1.3), reporting on non-regulated business lines could become unnecessary. In particular, if there is a clear separation between regulated and non-regulated activities, the need to report for regulatory purposes on non-regulated activities would be significantly reduced, as the regulated and non-regulated activities would act as two independent entities with little to no overlap. Requiring the disclosure of information on non-regulated activities would therefore amount to over-regulation.

3.4 Concluding remarks

In conclusion, we consider that carrying out regular comparative performance analysis and relying on benchmarking analysis to set key parameters of the regulatory framework constitutes good regulatory practice.

However, in order to ensure that such analyses result in good outcomes for networks and consumers, it is important to recognise their limitations and to implement reform proposals with care, in a way that does not place an unnecessarily heavy burden on EDBs. In particular, we consider that benchmarking methodologies need to be carefully designed for the EDB context in New Zealand to ensure that the regulatory settlement is robust and does not result in counterproductive outcomes, such as inefficiencies rather than efficient improvements.

We also support reinforcing the regulator's information-gathering powers to help it perform its duties, but within certain limits: the information required from EDBs, and the effort required to put it together (including requirements to have the information independently reviewed), should be proportionate to the objective that the regulator is seeking to achieve by collecting it.

Our specific recommendations on the changes proposed by the Government and assessed above are outlined in Box 3.1 below.

⁸⁰ Commerce Commission (2026), 'Current information disclosure requirements for electricity distributors', 13 August, para. 11.10.3.



Box 3.1 Recommendations regarding the use of benchmarking analysis and information-gathering powers

In order to ensure that benchmarking analysis results in positive outcomes for the sector and customers, it is recommended that:

- benchmarking methodologies satisfy four criteria (feasibility, robustness, transparency, consistency) to ensure that they are fit for purpose and do not result in counterproductive outcomes;
- the regulator uses different approaches and methodologies, recognising that each approach and methodology has its own limitations and strengths;
- the analysis does not rely exclusively on backward-looking information when forward-looking information suggests that changes are occurring in the sector with potentially significant impacts on costs;
- the implementation of benchmarking analysis is phased in in the New Zealand regulatory framework, ensuring that methodology design and implementation are adequately discussed and challenged.

Furthermore, with regard to the Government's proposals on strengthening the regulator's information-gathering powers:

- extending the scope of information to be disclosed by EDBs to non-regulated activities is not recommended, unless the information is needed to help the regulator carry out its duties. If it is, the information required should be strictly proportionate and be kept confidential;
- allowing the use of information obtained outside of formal requirements may be useful in informing the regulator's assessment of performance, provided that the regulator is wary of the fact that the information may not be sufficiently standardised to allow for relevant comparisons;
- requiring independent reviews of information provided by EDBs constitutes sound regulatory practice, but the

regulator must remain mindful of the costs and resources that such audits involve.

Source: Oxera.

4 Considerations around the remuneration of EDBs' capital

In this section, we discuss considerations around the remuneration of EDBs' capital, including in relation to reform proposals that have either been put forward by the Government or are being considered by the regulator. Specifically, we comment on the NZCC's recent decision to change the way in which it calculates the allowed rate of return of regulated infrastructure by estimating the cost of debt using a five-year trailing average,⁸¹ and on the expectation, set out in the consultation document, that such an approach could help to provide greater stability in allowed revenues and network charges. We also discuss the impact of the Government's proposal to potentially restrict the dividend payments of EDBs, before examining the relationship between this proposal and financeability testing.

We start in section 4.1 by discussing the proposed change to a trailing average to estimate the cost of debt, before discussing the impact of potential dividend restrictions in section 4.2 and considerations around financeability testing in section 4.3.

4.1 The estimation of the WACC and the trade-offs involved by the averaging window

The weighted average cost of capital ('WACC') is one of the crucial parameters of the EDBs' price-quality paths: it sets the profitability that EDBs will be able to realise if they perform in line with the regulatory parameters. The WACC is the end result of a calculation involving various financial parameters, estimated based largely on data from financial markets. Estimating each of the WACC parameters is a complex exercise involving decisions on what instruments should be used to estimate each parameter, the appropriate observation window and frequency, and other considerations.

While it does not opine on the appropriate methodology for estimating the WACC, the consultation document makes one reference to the WACC averaging period.⁸² It notes that stakeholders have asked the NZCC to change how it estimates the WACC, by adopting a 'trailing average' approach to estimate 'core components of the WACC' in order

⁸¹ Commerce Commission (2026), 'Update on Common cost of capital IM review for Fibre and Part 4 sectors', 23 September.

⁸² Ministry of Business, Innovation and Employment (2026), 'Improving the efficiency of electricity distribution businesses', 19 August, p. 20.

to smooth price changes across resets. It also notes that the regulator was reviewing its approach and expected to publish final decisions in the third quarter of 2026.⁸³ On 23 September 2026, the NZCC confirmed that it would change the way it calculates the allowed cost of capital for regulated infrastructure, with the aim of providing greater stability for consumers and businesses by reducing the impact of short-term interest rate movements on regulatory settings.⁸⁴

The current approach adopted by the NZCC uses spot evidence on current market rates at the start of the price control period to set a fixed allowance for the cost of debt over the period—specifically, setting the risk-free rate used in the calculation of the cost of debt using a three-month average of current market rates.⁸⁵ The NZCC has now decided to estimate the cost of debt using a five-year trailing average approach to estimate the annual cost of debt allowance within the WACC.⁸⁶ In this section, we discuss the issue in question and highlight the trade-offs involved in the choice of this approach.

We note that the NZCC currently estimates the risk-free rate within its cost of debt allowance using the annualised yield on New Zealand government bonds with a term to maturity equal to the length of the regulatory period—i.e. five years for EDBs and Transpower.⁸⁷ We undertake analysis of historic interest rates to assess the extent to which EDBs have been exposed to (market) interest rate volatility relative to fixed allowances over time. We use the Reserve Bank of New Zealand's published five-year secondary-market New Zealand government bond yield as the practical historical proxy.

We calculate two rolling averages (three-month and five-year), alongside the daily spot rate. The five-year average corresponds to the averaging window adopted by the NZCC from the next regulatory period onwards, while the three-month average approximates the short averaging window used under the NZCC's current approach. This analysis is presented in the figure below.

⁸³ Ministry of Business, Innovation and Employment (2026), 'Improving the efficiency of electricity distribution businesses', 19 August, p. 20.

⁸⁴ Commerce Commission (2026), 'Update on Common cost of capital IM review for Fibre and Part 4 sectors', 23 September.

⁸⁵ Commerce Commission (2026), 'Electricity Distribution Services Input Methodologies Determination', 10 September, p. 88.

⁸⁶ Commerce Commission (2026), 'Update on Common cost of capital IM review for Fibre and Part 4 sectors', 23 September, p. 1.

⁸⁷ Commerce Commission (2026), 'Electricity Distribution Services Input Methodologies Determination', 10 September, p. 88.

Figure 4.1 Five-year new Zealand government bond yield—spot rate, three-month and five-year rolling averages



Note: Oxera analysis based on five-year New Zealand Government bond yields.
Source: Oxera analysis based on data from the Reserve Bank of New Zealand, ['Wholesale interest rates \(B2\)'](#), last accessed 15 September 2026.

The historical evidence demonstrates that there has been significant volatility in spot interest rates over the past ten years. Accordingly, within past price control periods, EDBs have been exposed to a differential in market rates relative to fixed-rate allowances, over the course of a price control period.⁸⁸ Over the period shown, the spot yield ranged from around -0.1% to 5.5%, whereas the five-year average ranged from around 1.5% to 3.9%.

The analysis in the figure demonstrates what the impact of using a five-year trailing average as a basis for setting allowances would be. Specifically, it is undisputed that the use of this trailing average will smooth the path of (allowed) rates, especially as the allowance will be revised in line with the trailing average over time.

⁸⁸ Where allowances have been fixed at the start of the price control period.

At times of high interest rate volatility, the indexation mechanism transfers the risk of allowances being different from (market) financing costs from networks to consumers. To some extent, therefore, a trailing average indexation approach supports the maintenance of investment incentives. However, it is important to note that, even under the proposed trailing average approach, when investors face a higher interest rate environment than the interest rate that underpins their allowance, they face downward pressure on incentives to invest.

Specifically, a longer averaging period does not eliminate the gap between the allowed rate and prevailing market rates. At each reset, the allowance is anchored on past rather than prevailing rates. Where rates have risen over the averaging window, the allowance will tend to fall short of the rate at which new investment must be financed, and potentially leave networks bearing a shortfall relative to prevailing financing costs—which is particularly relevant at a time when significant investments need to be financed. Where rates have fallen, the allowance will tend to remain above prevailing market rates, with consumers continuing to pay charges based on an allowance above current market conditions. The resulting difference between the allowed and prevailing cost of debt therefore depends on the position in the interest-rate cycle at each reset. The impact of moving to a trailing average indexation approach therefore extends beyond the consultation document's framing of a trailing average as a way to 'smooth price changes between resets'.⁸⁹

4.2 Dividend restrictions

Under Option 2A, the Government is proposing to enable the NZCC to restrict dividends in order to achieve statutory financial principles, drawing on the water services regime.⁹⁰ Separately, under Option 3B, additional statutory financial principles for consumer-owned EDBs would be introduced, under which dividend amounts may be paid provided that they do not compromise an EDB's ability to provide electricity distribution services sustainably, and trust-owned EDBs' dividend policies would need to 'prioritise consumer rebates and affordability outcomes ahead of distributions for broader community purposes'.⁹¹

⁸⁹ Ministry of Business, Innovation and Employment (2026), 'Improving the efficiency of electricity distribution businesses', 19 August, p. 20.

⁹⁰ Ibid., p. 23.

⁹¹ Ibid., p. 31.

The consultation document defines a consumer-owned EDB as a business that is, fully or partially, owned on behalf of its consumers through a trust or cooperative.⁹² Under Option 2A, the Government asks whether these statutory financial principles, and the associated ability to restrict dividends, could be applied more broadly to all EDBs rather than being confined to consumer-owned EDBs.⁹³ Separately, in the Governance chapter, the Government asks whether the options in that chapter (including the Option 3B financial principles discussed above) should apply to consumer-owned EDBs only and, if so, whether this should extend to both wholly and partially consumer-owned EDBs.⁹⁴ Vector, which is approximately 75% owned by the consumer trust Entrust and is listed separately on the NZX,⁹⁵ falls within the consultation's own definition of a partially consumer-owned EDB.⁹⁶ This raises a question that the consultation does not resolve: how would a dividend-related financial principle, designed around a trust owner, apply to a company that also has ordinary market shareholders?

The rationale for extending this tool to EDBs does not transfer cleanly from the water sector. Financial ring-fencing, including dividend restriction, has been introduced for water services in response to a specific, evidenced problem: persistent underinvestment and a weakened ability of local government-owned water suppliers to raise finance. As set out above, the consultation does not identify an equivalent problem in electricity distribution, and acknowledges that the EDBs' long-established information disclosure regime already gives the NZCC a visibility of revenue and cost performance that the water sector lacked.⁹⁷ Therefore, without a demonstrable financing or sustainability problem that is specific to EDBs, importing a tool designed for a different sector's problem risks adding cost and regulatory uncertainty without alleviating any specific or identified concerns.

The NZCC has identified reducing dividend payments as one potential response where an EDB is facing a financeability issue.⁹⁸ The regulator's approach therefore appears to treat dividend reductions as a potential way to address a shortfall between an EDB's allowed revenues and its financing requirements. We would not consider dividend restrictions to

⁹² Ministry of Business, Innovation & Employment (2026), 'Discussion document for the electricity distribution businesses', 19 August, p. 37.

⁹³ Ibid., p. 23.

⁹⁴ Ibid., p. 33.

⁹⁵ Vector Limited (2026), '[Ownership](#)', last accessed 15 September 2026.

⁹⁶ Ministry of Business, Innovation & Employment (2026), 'Discussion document for the electricity distribution businesses', 19 August, Annex Two: Glossary of key terms, p. 37.

⁹⁷ Ibid., p. 22.

⁹⁸ Commerce Commission (2023), 'Part 4 Input Methodologies Review 2023: Final decision, Risks and Incentives topic paper', 13 December, para. 3.28.

be a sound response to financeability concerns if a cash flow shortfall has arisen due to a miscalibration in the price control parameters (e.g. inadequate cost allowances). Also, changes in dividend policy should not be seen as a costless remedy, particularly where the EDB has ordinary market shareholders, because reducing dividends may affect investor demand for utility investments and the ability of the business to attract equity capital.

Our previous analysis for the Big Six EDBs shows that reducing or limiting dividends cannot be assumed to be a costless adjustment for investors.⁹⁹ Two points are relevant here.

First, the intuition that a firm can safely substitute capital appreciation for cash distributions rests on the Modigliani–Miller dividend irrelevance theorem, which assumes no transaction costs and perfect information.¹⁰⁰ Neither assumption holds in practice, and utility investors exhibit a well-documented ‘catering’ preference for stable, fairly high dividend yields, reflecting institutional mandates, clientele effects and behavioural factors rather than tax or signalling considerations alone.¹⁰¹ The academic literature indicates that utility investors are not a general population of equity investors but a self-selected subset with a demonstrated preference for stable and relatively high dividend income.¹⁰² A reduction or prolonged deferral of dividends may therefore reduce the attractiveness of EDBs to existing and prospective equity investors, thereby contracting the pool of equity capital that is available to fund networks.¹⁰³

Second, we have undertaken empirical analysis to compare historical dividend yields for broad stock market indices and indices of utility stocks. We find that, across geographies, dividend yields for utilities are generally higher than those for the broader stock market indices. Specifically, for the New Zealand market, we observe that the level of dividend yields with or without share buybacks was consistently higher

⁹⁹ Oxera (2024), ‘Response to the New Zealand Commerce Commission consultation on the financeability of electricity distribution services in the fourth default price-quality path (DPP4), prepared for New Zealand Electricity Distribution Businesses’, 15 March, section 3, pp. 21–31.

¹⁰⁰ Miller, M.H. and Modigliani, F. (1961), ‘Dividend policy, growth, and the valuation of shares’, *The Journal of Business*, October, **34**:4, p. 412.

¹⁰¹ See, for example, Ahmeti, F. and Prenaj, B. (2015), ‘A critical review of Modigliani and Miller’s theorem of capital structure’, *International Journal of Economics, Commerce and Management*, **3**:6, p. 9.

¹⁰² Armitage, S. (2012), ‘Demand for dividends: the case of UK water companies’, *Journal of Business Finance & Accounting*, **39**:3–4, pp. 464–499.

¹⁰³ Oxera (2024), ‘Response to the New Zealand Commerce Commission consultation on the financeability of electricity distribution services in the fourth default price-quality path (DPP4), prepared for New Zealand Electricity Distribution Businesses’, 15 March, section 3.7.

for the utilities index than for the broad equity market index over the period 2016–23.¹⁰⁴ A restriction that suppresses this yield—whether imposed as a sustainability floor or as an implicit offset for an inadequate WACC—is likely to be priced by investors as a change in the risk of holding the stock, rather than absorbed without costs.

Paying an adequate and stable dividend is itself a precondition for equity investability, since institutional investors with long-dated liabilities may reduce their willingness to hold, or provide new, equity capital if dividends are curtailed. Investment is properly sustained not by suppressing shareholder returns but by ensuring that the allowed WACC is set at the right level. Treating dividend restriction as a substitute for an adequate WACC risks undermining the equity investability that the Government's electrification objectives depend on.

This distinction between targeted, difficulty-triggered intervention and a general restriction matters most for an EDB with Vector's specific capital structure and ownership profile. Vector's capital expenditure is rising, from a record NZ\$512m in FY26 to NZ\$605m–NZ\$635m in FY27, against an existing debt position of NZ\$266.2m in liabilities due within a year and NZ\$3.06bn in longer-term liabilities.¹⁰⁵

A company that is funding a rising capital programme on top of an already meaningful debt load has three practical funding levers: raise more debt, retain more earnings (i.e. cut dividends), or raise new equity from shareholders. This is exactly the mechanism through which a dividend restriction rule would bind: it would push the regulated entity towards more debt, worsening its gearing position,¹⁰⁶ or towards asking its (market) shareholders for fresh equity at precisely the moment when a restriction on shareholder returns would make that equity potentially less desirable and more expensive to raise.¹⁰⁷

¹⁰⁴ Oxera (2024), 'Response to the New Zealand Commerce Commission consultation on the financeability of electricity distribution services in the fourth default price-quality path (DPP4)', prepared for New Zealand Electricity Distribution Businesses', 15 March, section 3.2, pp. 25–31.

¹⁰⁵ NZX (2026), '[Vector delivers strong 2026 result](#)', 20 August, last accessed 15 September 2026.

¹⁰⁶ If dividend restrictions were to push the gearing of the network company up, this might in turn significant constraints on the network company's ability to maintain its actual gearing in line with the regulator's notional gearing assumption.

¹⁰⁷ If Vector needs to issue new shares to fund the increase to NZ\$605m–NZ\$635m of FY27 capital expenditure, rather than relying entirely on additional debt against an already meaningful debt burden, it needs the market to believe that Vector shares remain an attractive investment. A regulator-imposed dividend restriction, layered on top of Vector's existing debt position, signals to the market that Vector's cash returns to shareholders are now subject to regulatory override; a perception of higher regulatory risk would tend to raise the required return that investors will demand to hold the stock, or discourage them from participating in a future equity raise.

This mechanism has a direct consequence for Vector's minority shareholders that would not arise for a wholly trust-owned EDB. Vector is majority-owned by Entrust, but the remaining shares trade on the NZX and are held by ordinary investors who bought into Vector's NZ\$0.26 per share full-year dividend as part of their expected return.¹⁰⁸ If a water-sector-style dividend restriction rule, calibrated around the needs of a trust shareholder, were applied to Vector, it would directly reduce the return that NZX shareholders price into holding Vector shares.

International precedent, while not directly transferable, is instructive in showing why a general dividend restriction is not the right tool in this case. In Great Britain, Ofgem reserves the right to require an explanation of a company's dividend policy and, in some circumstances, to impose dividend restrictions, where a firm is facing genuine financial difficulty. For example, Ofgem's RIIO-3 framework includes dividend lock-up triggers as part of a wider financial resilience framework aimed at safeguarding against excessive distributions specifically where financial stability is threatened.¹⁰⁹

We consider that it is useful for the Government to be aware of this precedent, since it may be one that officials look to when considering dividend-related measures. However, we would draw two important qualifications from it.

First, the New Zealand and UK contexts are not the same: the underlying capital market conditions, ownership structures and financial resilience frameworks differ, such that a UK mechanism designed around a specific set of financial resilience triggers should not be imported wholesale without accounting for the relevant market differences.¹¹⁰

Second, and more fundamentally, the logic of the UK precedent actually supports the opposite of a general dividend restriction: intervention is reserved for cases of demonstrated financial difficulty and, in the absence of such difficulty, dividend distributions should not be restrained.¹¹¹

¹⁰⁸ Entrust (2026), '[Who We Are](#)', last accessed 23 September; Vector Limited (2026), '[Vector delivers strong 2026 result](#)', 20 August, last accessed 15 September.

¹⁰⁹ Ofgem financial resilience licence conditions introducing dividend lock-up provisions, and RIIO-3 Final Determinations, Finance Annex.

¹¹⁰ Oxera (2024), 'Response to the New Zealand Commerce Commission consultation on the financeability of electricity distribution services in the fourth default price-quality path (DPP4)', prepared for New Zealand Electricity Distribution Businesses', 15 March, section 2.2.2.

¹¹¹ Ibid., section 5.2.

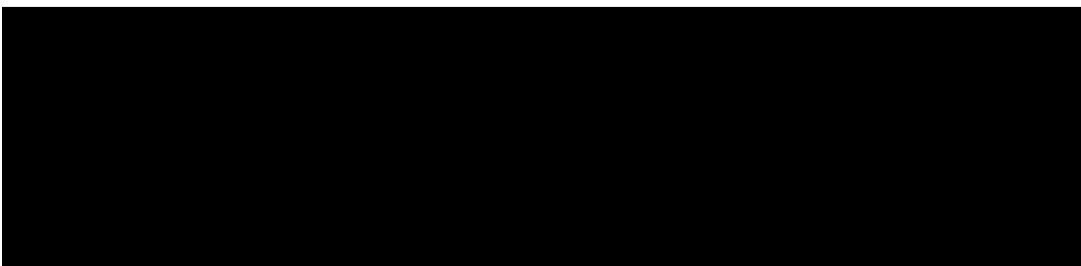
In summary, we do not consider a general dividend restriction to be an appropriate means of addressing financeability concerns. We recommend that any dividend-related tool arising from this consultation should not extend automatically to listed EDBs such as Vector, given the material difference in ownership and investor base from wholly trust-owned EDBs. Moreover, investment is properly sustained not by suppressing shareholder returns but by ensuring that the allowed WACC is set at the right level. Therefore, treating dividend restriction as a substitute for an adequate WACC risks undermining the equity investability that the Government's electrification objectives depend on.

4.3 Financeability testing

Estimating an appropriate cost of capital allowance on a bottom-up basis is not, on its own, sufficient to ensure that a price–quality path is deliverable in practice. A separate financeability test is required to assess whether a network is able to raise financing on the terms assumed by the regulator when setting its cost of capital allowances.

This test is necessary even for networks operating in a 'steady state', because financeability pressures can arise from the timing and structure of cash flows within a regulatory period, rather than solely from the adequacy of the headline allowed return. The implication is that the regulator should assess the financeability of the price–quality package as a whole, rather than treating the WACC as a sufficient indicator of whether the settlement can be delivered.

This is not a theoretical concern. Detailed financeability modelling that Oxera has previously undertaken for Vector shows that the outcome of a price–quality reset is highly sensitive to specific regulatory design choices, particularly the extent to which any 'starting price adjustment cap' limits the increase in allowed revenue at the start of a new regulatory period.¹¹²



¹¹² Oxera (2024), 'DPP4 financeability consultation response—financeability modelling analysis. Prepared for Vector Limited', 15 March. The modelling is undertaken on a stylised basis for Vector as an example of a standalone EDB, using a combination of actual and notional assumptions.

¹¹³ Ibid., p. 13.



A financeability test that examines only whether the WACC is 'sufficient' in the abstract, without testing the combined effect of these design choices on credit metrics, leverage and the ability to sustain a reasonable dividend yield, therefore risks approving a settlement that appears adequate on paper but is not deliverable in practice. The regulator should consequently test the full regulatory package under realistic financing assumptions and consider whether the resulting settlement allows an efficient network to maintain its credit quality, fund its investment programme and retain reasonable access to both debt and equity capital.

Lastly, we note that, while financeability is conventionally assessed against a single price control period, the investment and financing decisions that it is meant to underpin are rarely confined to that horizon. To reflect this, Ofgem carried out modelling of important debt-related ratios two price control periods beyond RIIO-3 to assess long-term trends.¹¹⁵ Northern Powergrid, an electricity distribution network, supported this proposal of Ofgem's, on the basis that a five-year window understates the horizon over which lenders actually commit capital.¹¹⁶ Ofgem has also separately acknowledged, in response to network companies, that short-term levers for (accelerating) the timing of cash flows between periods, such as capitalisation adjustments, 'are not necessarily effective for longer term structural changes'.¹¹⁷

For the NZCC, undertaking financeability testing over the current price control—while also using available forecast data to test the impact on credit metrics over multiple periods—could be introduced for EDBs with large, step-change investment programmes, supporting debt and equity holders by providing information for a longer effective planning horizon.

¹¹⁴ Oxera (2024), 'DPP4 financeability consultation response—financeability modelling analysis. Prepared for Vector Limited', 15 March, p. 15.

¹¹⁵ Ofgem (2025), 'RIIO-3 Final Determinations – Finance Annex', 4 December, paras 5.62–5.64.

¹¹⁶ Ibid., para. 5.43.

¹¹⁷ Ibid., para. 5.67.

5 Conclusion

In this report, we have considered the New Zealand Government's proposals for regulatory reform against its stated objective of improving the efficiency of EDBs. However, the consultation does not clearly demonstrate that inefficiencies currently exist in the New Zealand electricity distribution sector, or clarify whether the Government's objective is to improve efficiency from an already efficient baseline or to address existing inefficiencies.

Despite this limitation, we have assessed the merits of the Government's proposals on the basis of the trade-offs identified in this report, informed by the principles of regulatory economics and regulatory best practice. Our principal conclusions are as follows.

- **Ancillary investments should not be subject to blanket restrictions.** EDBs should retain the ability to invest in ancillary, non-regulated activities where those activities (have the potential to) generate economies of scope or operational synergies with their core activities of providing electricity distribution services. A blanket restriction would risk undermining, rather than improving, efficiency. Any regulatory response should be proportionate and targeted at a demonstrated risk, with more stringent restrictions applied only where less intrusive safeguards are insufficient.
- The same principle applies to governance reforms. **Governance reform should recognise the material differences between listed and wholly trust-owned EDBs.** Vector's specific status as a listed EDB, and indeed the only listed EDB in New Zealand, warrants a differentiated approach. Vector is already subject to market discipline, governance requirements and continuous disclosure obligations that provide protections—via information transparency and disclosure—that are not present in the same form for wholly trust-owned entities. Additional governance requirements should therefore recognise these existing protections. They should not duplicate them or impose requirements designed for partially or wholly trust-owned EDBs without demonstrating a corresponding gap in Vector's case. In particular, measures that impose unnecessary duplication or over-regulation, or weaken Vector's attractiveness to equity investors, could make it more difficult to raise the capital required to support electrification. A governance reform that is

intended to support investment should not inadvertently impair access to the capital needed to deliver it.

- **The introduction of benchmarking analysis is well grounded in regulatory practice, but its value will depend on how it is designed and applied.** Benchmarking analysis can, in principle, contribute to better regulatory outcomes when it is used to set key regulatory parameters. However, the methodologies used to conduct benchmarking analysis should be carefully designed and implemented to ensure that it does not produce counterproductive outcomes for EDBs and customers.
- **The proposed trailing average indexation approach does not eliminate interest rate risk.** The use of an indexed five-year trailing average to set the cost of debt allowance will smooth the path of (allowed) rates. At times of high interest rate volatility, this new approach will transfer the risk of allowances being different from (market) financing costs from networks to consumers. To some extent, therefore, the proposed trailing average indexation approach supports the maintenance of investment incentives. However, even under this approach, when investors face a higher-interest-rate environment than the interest rate that underpins their allowance, they face downward pressure on incentives to invest—which is particularly relevant at a time when significant investments need to be financed.
- **Dividend restrictions should not be used as a general substitute for sound regulatory or financial design.** Restrictions on dividend payments, such as those proposed by the Government in the consultation, may reduce the attractiveness of EDBs to equity investors. This reflects well-documented clientele effects in utility investments where investors expect stable dividend returns. This would be especially problematic at a time when EDBs such as Vector may need to raise equity in order to finance their significant investment programmes within the context of the electrification of New Zealand. A general dividend restriction could therefore increase the cost or reduce the availability of equity capital, while doing nothing to resolve the underlying cause of a financeability problem. If intervention is required, it should be triggered by a demonstrated financial-resilience concern and targeted to the circumstances giving rise to that concern.

The case for reform would be significantly strengthened if the Government were to:

- identify the specific market or regulatory failures that it is seeking to address;
- demonstrate whether, and to what extent, those failures have produced actual inefficiencies;
- assess the costs, benefits and trade-offs associated with each reform option;
- design each intervention to be proportionate and targeted; and
- provide adequate safeguards to protect financeability, investment incentives, service quality and consumer outcomes.

The scale of investment required to support New Zealand's electrification makes this discipline essential. The regulatory framework must encourage efficient investment while protecting consumers and EDBs from unnecessary costs. It must also preserve the confidence of the debt and equity investors whose capital will be needed to deliver that investment.



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