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Vector Limited
110 Carlton Gore Road
PO Box 99882
Newmarket
Auckland 1149
+64 9 978 7788 / vector.co.nz

Electrify NZ Policy

Building, Resources and Markets

Ministry of Business, Innovation and Employment

Wellington 6140

By email: Electrify@MBIE.govt.nz

Improving the efficiency of electricity distribution businesses

1. This is Vector's submission on MBIE's discussion document on *improving the efficiency of electricity distribution businesses* (EDBs).
2. We support the separate joint submission made by six EDBs.¹ That submission sets out shared positions on the broad direction of reform, including a common foundation of price-quality regulation, further development of individualised price-quality paths (IPPs), benchmarking that informs rather than replaces judgement, predictability to support long-term investment, and careful treatment of ringfencing and distribution-related reforms.
3. Our submission provides additional comments on matters that are of particular importance to Vector. These are governance and ownership settings, potential ringfencing of ancillary investments and regulation of dividends.
4. Along with this submission, we have attached MBIE's submission form with answers to MBIE's specific consultation questions as Appendix B.
5. We have also attached an expert report from Oxera Consulting. This report considers elements of the proposed reform based on their expertise in international best regulatory practice.

Executive summary

¹ Available: [jointsubmissionauroraorionpowercounisonvectorwetombie.pdf](#)

6. MBIE's review of electricity distribution business efficiency is important and timely. Distribution networks will be central to enabling electrification, supporting resilience and maintaining affordable outcomes for consumers. As New Zealand's largest urban electricity distribution network, Vector has a strong interest in ensuring any reform package is coherent, evidence-based and capable of supporting the investment, innovation and flexibility needed over the coming regulatory periods.
7. Our key message is that reform should be problem-led, evidence-based and proportionate. Where MBIE identifies a clear regulatory gap or evidence of consumer harm, Vector supports well-designed changes that improve consumer outcomes, support efficient investment and strengthen confidence in the regulatory framework. Where existing settings already provide strong incentives, scrutiny and accountability, additional intervention should be tested against its incremental benefits, regulatory cost, implementation burden and potential unintended consequences.
8. Vector supports many aspects of the proposed reforms, consistent with the positions set out in the joint submission by the six EDBs. This submission focuses on the following areas where Vector has particular concerns or considers further refinement is required. These are:

Topic	Key point
Governance and ownership reforms should distinguish between different ownership models	We support governance reforms that address identified accountability gaps, but reforms should distinguish between ownership models. Applying trust-focused governance requirements to listed EDBs, such as Vector, risks unnecessary duplication and over-regulation, given existing shareholder, director and market accountability mechanisms.
Regulation should not discourage prudent investment in ancillary services	Ancillary investments can deliver substantial consumer benefits through

	innovation, network efficiencies and energy system integration. Any regulatory response should be proportionate and targeted at demonstrated risks, as blanket restrictions could deter beneficial investment and undermine efficiency without evidence that ancillary investments are diverting resources from core network services.
Any power to regulate dividends should be reserved for cases of severe financial difficulty	Dividend restrictions are not justified for the EDB sector and could undermine financeability and investment. Unlike council-owned water entities, EDBs operate within established commercial and regulatory frameworks, and for listed companies such as Vector, dividend restrictions would directly affect shareholder returns and investor expectations. Restricting dividends could reduce investor confidence, increase the cost of equity, and make it more difficult to fund growing capital expenditure programmes, particularly where networks are already balancing debt, retained earnings and new equity requirements. If the proposal is progressed, any power to regulate dividends should be narrowly targeted and reserved for cases of severe financial difficulty.

Financeability testing could address the concerns underpinning ringfencing proposals	We recommending including financeability as an objective in the Part 4 purpose statement. This would strengthen confidence that the framework supports EDBs' ability to secure funding and deliver the substantial investment programmes required to maintain, renew and expand network infrastructure. It would also provide a practical mechanism for assessing concerns that ancillary investments could compromise core network funding, by demonstrating whether the regulated business remains financially sustainable. .
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9. We welcome the opportunity to engage further with MBIE as the evidence base, policy options and detailed design choices are developed, and would be happy to provide further information where that would assist MBIE's review.

Yours sincerely



Richard Sharp

GM Economic Regulation and Pricing

Appendix A: Vector's submission

1. In addition to the matters addressed in the Six EDB joint submission, this appendix highlights issues of additional importance to Vector.

Governance and ownership reforms should distinguish between different ownership models

2. Vector supports governance settings that strengthen accountability and consumer outcomes where MBIE identifies a clear governance gap or accountability concern, but reforms should avoid creating uncertainty for investors or interfering with legitimate commercial decision-making without clear evidence of need.
3. We consider governance reforms aimed at fully trust owned companies need to be carefully scoped so they don't create unintended consequences for different ownership models.
4. Vector is a listed company on the NZX. Our majority shareholder, Entrust, is a community trust that holds 75.1% of Vector shares. This mixed ownership model provides significant benefits. It combines private company commercial discipline with the benefits of community ownership.
5. The legal framework Vector operates under differs from fully community owned EDBs:
 - Vector is not subject to the Energy Companies Act 1992. The intended listing of Vector (then Mercury) was seen as a mechanism to promote a commercial approach making the objectives and accountability under the ECA unnecessary.
 - Vector is not a community owned EDB for the purposes of Part 4 of the Commerce Act. This means Vector has been subject to price-quality regulation since the beginning of the regime.
6. Vector's governance already involves directors' duties, minority shareholder interests and market disclosure obligations relevant for a listed company.
7. We recommend any reforms in this area distinguish between different ownership models.
8. Oxera's report explains:

"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.”²

Regulation should not discourage prudent investment in ancillary services

9. The discussion paper notes that financial ringfencing rules apply to the water services regime and seeks feedback on whether the Commission should have power to:
 - a) require that revenue collected from the electricity lines service is only spent on those services; and/or
 - b) restrict dividends to achieve statutory financial principles.
10. Our understanding is ringfencing and dividend restrictions were imposed on the water sector due to a long history of councils collecting rates that were not necessarily spent on water infrastructure. This contributed to the chronic underinvestment problems now facing that sector. The Commission's power to enforce ringfencing and restrict dividends in the water sector is to help ensure that water service providers have sufficient funding for necessary long-term investment and water organisations to not pay dividends that could compromise the organisation's ability to invest.
11. The EDB sector is significantly different to water. Issues around under-investment and under-recovery have been less of a concern. EDBs have been established as separate commercial entities for decades, and the regulatory framework for EDBs is also long established.
12. Accordingly, we consider the case for the use of water sector tools in the EDB sector is less clear. There are very different considerations for EDBs (especially privately owned or listed EDBs) compared to water services provision owned or operated by councils.

² Oxera, *Review of reform options for the New Zealand electricity distribution sector*: Prepared for Vector Limited (September 2026), page 23

13. We particularly caution against the introduction of any financial ringfencing, including the restriction of dividends. EDBs face a period of rapid growth that requires new investments. Financial ringfencing could reduce the attractiveness of EDBs to investors and therefore compromise, rather than promote, the ability of EDBs to invest in the electricity lines service.

14. As Oxera's report concludes:

"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..."

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."³

Ancillary investments by EDBs can provide significant benefit for consumers

15. The discussion acknowledges that, *"There is limited evidence that ancillary investments represent a systemic issue across the sector. In some cases, such investments have generated returns that have been used to reduce lines charges, provide consumer benefits, or support community initiatives. However, the Audit Office has also highlighted a risk that*

³ Page 48-49

investments outside core network functions could divert resources, management attention, or capital away from the delivery of electricity distribution service.”⁴

16. We consider there is a real risk of consumer harm if ring fencing is imposed in an untargeted way, particularly in the absence of evidence that ancillary investments are negatively impacting core network functions.
17. The discussion paper lists Vector's investments in a smart metering business (Bluecurrent) and ownership of a gas distribution business as examples of ancillary investments.
18. In our view, these investments have provided significant benefits for consumers:
 - Smart meters are critical for accurate billing, network visibility, low-voltage monitoring, efficient network planning and the development of flexibility services, all of which support a more efficient and affordable transition to a highly electrified energy system.
 - Vector's investment in gas infrastructure has likewise provided consumers with access to a shared energy network, supported reliable energy supply and broadened consumer choice.
19. These investments are closely connected to Vector's core energy expertise and have supported the development of capabilities that benefit consumers across the wider energy system.
20. The Government has recently loosened the restrictions on EDB involvement in network connected generation and retailing to support greater investment in the sector.
21. It is also worth noting that EDB investment in adjacent industries is very common overseas likely due to the consumer value and network efficiencies that can arise from these investments
22. In addition, the current regulatory framework already contains safeguards against regulated consumers subsidising those investments. The cost-allocation rules ensure that costs and assets associated with an ancillary service are allocated to that activity rather than the regulated network, except to the extent they are properly attributable to electricity distribution services. Related-party transaction rules provide an additional safeguard by

⁴ MBIE, *Discussion Document for the electricity distribution businesses*, page 23

requiring transactions between the regulated network and any affiliated businesses to be valued on arm's-length terms.

Any power to regulate dividends should be reserved for cases of severe financial difficulty

23. We consider regulating dividends for EDBs (especially privately owned or listed EDBs) is a very different proposition compared to water services provision owned or operated by councils. For EDBs, a restriction on dividends that applies broadly would interfere with private property rights.
24. Oxera's report highlights that stable dividends from companies like 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.
25. Oxera's report also highlights why different forms of ownership are relevant considerations in terms of regulating to restrict dividends:

"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, 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.

*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. 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."*⁵

⁵ Page 44-45

26. Accordingly, we recommend the proposal to regulate dividends is not pursued. If the proposal is progressed, any power to regulate dividends should be narrowly targeted and reserved for cases of severe financial difficulty.

Prescriptive measures should only be considered if there is clear evidence of harm

27. The ringfencing proposals appear to be driven by potential risk rather than any evidence of consumer harm. If MBIE pursues reform in this area, targeted disclosure is likely to be a more proportionate first response than any broad entity-level ringfencing or dividend restrictions.
28. We consider stronger controls should only be introduced if MBIE (or the Commerce Commission) identifies a clear problem, the conduct of concern, the entities and activities in scope, and the actual consumer harm to be addressed.

Ringfencing: start with disclosure, target only proven harms

01

Define the harm



A group structure, distribution, ancillary investment or related-party arrangement does not itself show consumer harm.

Start by defining the conduct and risk.

02

Use existing protections



ID, input methodologies, allocation rules, related-party rules, certification, audit and price-quality regulation already provide protections.

Universal price-quality regulation strengthens them.

03

Disclosure first



If visibility of distributions, financing flows or ancillary activities is the concern, expand targeted information disclosure before using hard controls.

04

Financeability test helps



Financeability assessments can identify whether distributions, group financing or other commitments risk impairing prudent regulated investment or service quality.

05

Stronger controls need evidence



Reserve restrictions for clear evidence that existing tools, targeted disclosure and financeability assessment cannot address a material consumer risk.

06

Do not block transition value



Ringfencing should not prevent efficient ancillary activity, flexibility services, batteries, EV-related demand response or customer-side technologies where costs and risks are properly allocated.



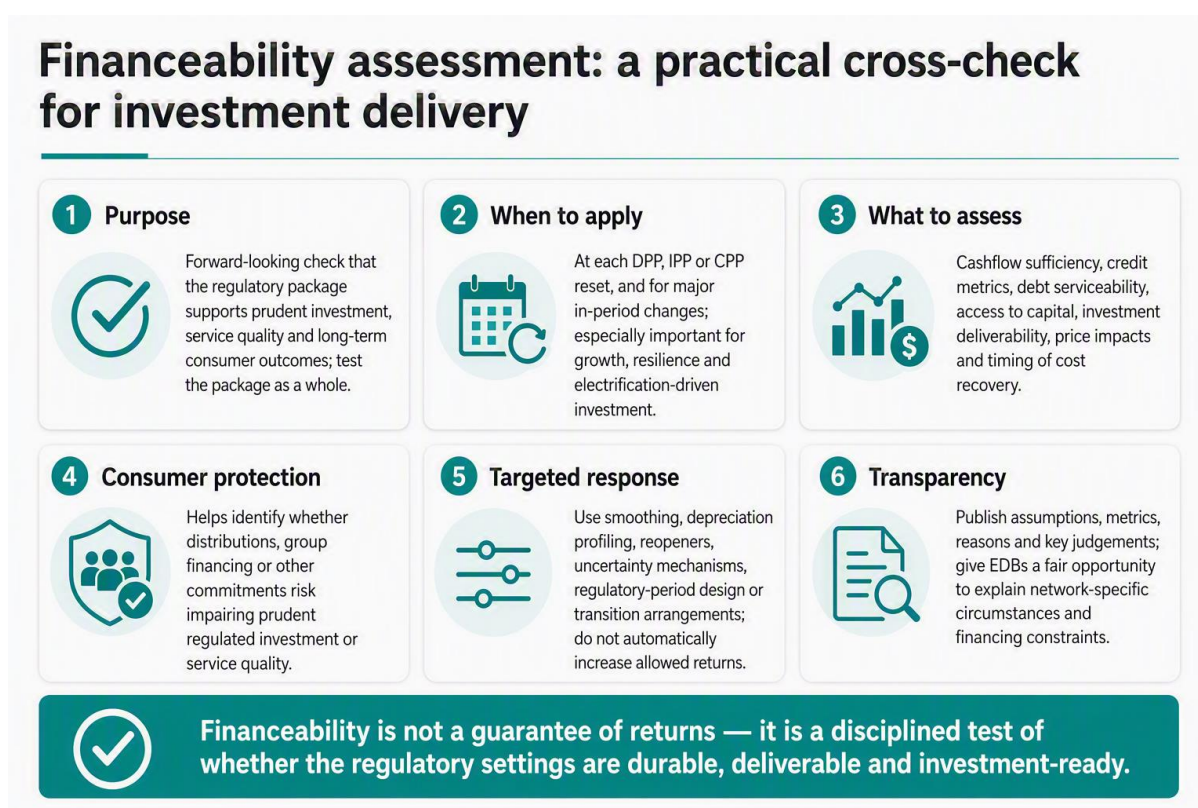
Sequence the response: disclose first, assess financeability, use existing price-quality tools, then target any proven gap.

29. This assessment would need to distinguish regulated electricity distribution revenue and expenditure, group financing arrangements, dividends and other distributions, and ancillary or complementary energy-sector investments.

30. These categories should not be conflated: regulated revenue is not the same as available cash, group financing can support efficient access to capital, and a dividend does not by itself show that network investment has been underfunded.
31. More prescriptive measures should be considered only where evidence shows that disclosure, allocation rules, related-party requirements and existing enforcement tools cannot adequately address a material risk to consumers or necessary EDB investment.
32. It is important the framework avoids discouraging prudent energy transition or complementary energy-sector investments where costs and risks are appropriately allocated and the regulated network is not compromised.

Financeability testing could address the concerns underpinning ringfencing proposals

33. We recommend introducing an explicit financeability objective for the Commerce Commission included in the Part 4 purpose.
34. The diagram below explains how financeability assessment works:



35. Oxera's report explains the need for financeability assessment as part of each price-quality decision due to the timing and structure of cashflows:

“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.”⁶

36. This would provide additional regulatory discipline to help ensure that the framework supports EDBs’ ability to finance and efficiently deliver their significant upcoming investment programmes.
37. In addition, it should alleviate any concerns about ancillary investment diverting capital away from the core network service. A financeability test would show that regulated business is financially sustainable and, if not, this would warrant further investigation by the regulator.
38. The Commerce Commission undertook a financeability assessment as part of the last regulatory reset (DPP4). We consider this was good regulatory practice by the Commission. However, there is no legislative or regulatory requirement for the Commission to assess financeability as part of each decision on the price path.

⁶ Page 47

39. We consider an explicit financeability objective in the Part 4 purpose statement would materially improve the regulatory framework by providing confidence to stakeholders that EDBs can secure the capital required to meet their significant investment needs.

Appendix B: Questions for consultation

Collaboration and standardisation to drive efficiencies of scale

Q1.How could regulatory settings be improved to better support or incentivise standardisation and collaboration, where this improves efficiency and service outcomes?

Standardisation delivers most where it reduces transaction costs at the interfaces between distributors and the parties that deal with them: connection applicants, retailers, aggregators and equipment suppliers.

In our view, the focus should be on standardising data, interfaces and processes.

The following changes could assist:

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

MBIE could ask the Commission to review whether adjustments to IRIS could be made to better support collaboration and shared services. Efficiencies arising from shared services and common systems may arise later than the IRIS carry forward period. This mismatch means an EDB investing may bear the cost in one period and not receive the benefits in the next period.

Q2.What barriers are there to standardisation and collaboration between electricity distribution businesses (EDBs?) If so, what Government action (if any) would help address these?

Competition law (or perceptions of potential competition law implications) currently act as a barrier to greater collaboration, particularly shared procurement by EDBs.

We consider the government could address this barrier either through clearer guidance or, preferably, by Commerce Act clearance as safe harbour, or a sector-specific exemption for certain collaborative activities.

Q3.What do you consider to be the likely scale of benefits from encouraging greater standardisation and collaboration between EDBs?

We have not quantified potential benefits arising from greater standardisation and collaboration but agree benefits are likely to be significant where appropriately targeted.

Monitoring performance

Q4. Does this chapter accurately describe the current situation?

We largely agree. However, we also note Information Disclosure includes disclosure requirements related to cost allocation between regulated and unregulated services.

Distributors publicly disclose the aggregate shared costs allocated between electricity distribution services and non-electricity distribution services, and provide the Commission with more detailed supporting information on costs that are not directly attributable and how those costs have been allocated (through Schedule 5d and Schedule 5f).

This means Information Disclosure does provide Commission targeted visibility where unregulated activities interact financially with the regulated network through the allocation of shared costs.

Q5. Do you support the options outlined in this chapter? Please give reasons.

Option 1A: Remove the prohibition on comparative benchmarking and require the Commission to periodically publish accessible conclusions on EDB performance

We support this option. MBIE's reforms should enable the Commission to build a transparent, credible and progressively improving benchmarking framework that supports better questions, better disclosure and better regulatory decisions.

We consider benchmarking should be used to inform (not automate) the Commission's decision making.

A staged approach would be most effective. The Commission should first publish accessible annual reporting that improves transparency and identifies areas for further enquiry. Greater regulatory weight should only be placed on benchmarking once the data, methods and interpretation have matured. This would preserve benchmarking's value as a source of insight, while reducing the risk of false precision, mechanistic allowance-setting or unintended impacts on efficient investment.

Option 1B: Expand the Commission's information-gathering powers under information disclosure regulation

We are not clear it is necessary to expand the Commission's information gathering powers to require information about non regulated services in line with the water sector. This is because:

- The Commission already has powers to gather information needed to carry out its functions through s98 and s53ZD of the Commerce Act;
- The Commission's powers in the water sector are driven by the factual context that almost all water services in New Zealand have (until very recently) been provided in-house by local authorities, rather than by separate dedicated organisations. Financing issues in the sector are therefore unique given the scale and diversity of activities local authorities undertake beyond water.
- Our understanding is the Commission's power to gather information from water services providers about non-regulated services remains confined to understanding financial sustainability concerns – ie to monitor compliance with ringfencing and the ability to raise finance for water services by assessing the overall financial position.
- Part 4 regulates services, not entities. While extending ID requirements to currently non-regulated services may sound attractive, it represents a significant step that requires careful consideration and justification to ensure that it does not unduly undermine the principle that non-regulated activities are not subject to ID regulation

We support clarifying that:

- information obtained outside formal ID requirements can be used to assess performance under ID; and
- The Commission can require independent assurance (including independent verification) of disclosed information.

Q6.What do you consider to be the costs, benefits, or unintended consequences of these options?

Option 1A:

Appropriately designed benchmarking could support greater efficiency in the sector if it is used to inform (not automate) regulatory decision making.

However, there is a risk of unintended consequences if the underlying data is not high quality or the use of benchmarking doesn't take into account different network characteristics. This could result in EDBs appearing less (or more) efficient with resulting

implications for allowances and investment. There is a real risk of consumer harm if benchmarking is not done right.

Accordingly, benchmarking should inform but not replace regulatory judgment; and appropriate design and data should be a focus.

We recommend the following to avoid the risk of unintended consequences:

- Phase the introduction of benchmarking to ensure there is time to build high quality data sets and refine the method;
- Publish benchmarking inputs and the normalisation model alongside results so third parties can test them;
- Provide recourse for EDBs to challenge if benchmarking informs revenue decisions. Input Methodologies are subject to merits review (along with judicial review) which could provide appropriate recourse; and
- Use benchmarking to inform regulatory decision making but it should not be a mechanical process.

Option 1B:

Part 4 regulates the electricity lines service rather than the entity. However, expanding information disclosure to include non-regulated services appears to move towards regulating entities rather than services. The primary risk from expanding information disclosure to non regulated services is inadvertently making a more significant change to Part 4 (i.e. moving towards regulating entities rather than services) than intended.

Q7. Are there any other options or approaches that could achieve the objective(s) outlined in this chapter? Please describe them and explain why they may be preferable.

Price-quality regulated EDBs are currently subject to IRIS as a primary tool to incentivise efficiency. It would be worth considering whether amendments to IRIS could better support efficiency and how IRIS could interact with benchmarking.

Responsive regulation under Part 4

Q8. Does this chapter accurately describe the current situation?

We agree with MBIE's characterisation of a rapidly evolving energy sector; and the need for greater flexibility to support investment balanced with certainty and predictability.

We consider the water services sector isn't easily comparable to the EDB sector. In contrast to water, EDBs are a long established regulated sector. Our understanding of the policy rationale behind regulation of the water sector, including under-investment and weakened ability of local government to raise finance, doesn't apply to the EDB sector in the same way.

Q9. Do you support the options outlined in this chapter? Please give reasons.

Option 2A: Provide the Commission with a greater range of tools to apply to all EDBs

We aren't opposed to the introduction of tools used in the water sector provided the tools are substitutes not layers of regulation.

Where an EDB is subject to price-quality regulation, tools from the water sector should not be added as an intermediate layer. This would duplicate incentives already embedded in the price path and add cost without changing behaviour.

Overall, we consider moving all EDBs to price-quality regulation would be a better approach than importing tools from the water sector.

Option 2B: Changing how further regulation is applied to consumer-owned EDBs

As set out in six EDB joint submission, we support introducing price-quality regulation for all EDBs, regardless of ownership.

Option 2C: Introduce individualised price-quality paths for EDBs

As set out in the six EDBs joint submission, we support the introduction of IPPs.

Q10. What do you consider to be the costs, benefits, or unintended consequences of these options?

Benefits include more tailored regulation, better investment support and stronger scrutiny. This could better deliver electrification and support the long term benefit of consumers.

Risks include complexity, higher compliance costs, reduced certainty and unintended limits on innovation or efficient group structures

Q11. Are there any other options or approaches that could achieve the objective(s) outlined in this chapter? Please describe them and explain why they may be preferable.

We additionally recommend introducing a financeability objective for the Commission as part of the Part 4 purpose statement.

Oxera's report explains assessing financeability as part of a price-path decision is needed to determine whether a network is able to raise financing on the terms assumed by the regulator when setting its cost of capital allowances.

A financeability assessment would support the broader reform package in three ways. First, it would help ensure that universal price-quality regulation and any future IPP pathway remain capable of supporting the step-up in investment required for electrification, resilience and growth. Secondly, it would provide an evidence-based way to consider concerns about distributions or group financing before resorting to hard ringfencing controls. Thirdly, it would improve predictability for investors and consumers by testing whether price paths are durable, deliverable and consistent with long-term consumer outcomes.

Governance

Q12. Does this chapter accurately describe the current situation?

We consider governance reforms aimed at fully trust owned companies need to be carefully scoped so they don't create unintended consequences for different ownership models.

Vector is a listed company on the NZX. Our majority shareholder, Entrust, is a community trust that holds 75.1% of Vector shares. This mixed ownership model provides significant benefits. It combines private company commercial discipline with the benefits of community ownership.

The legal framework Vector operates under differs from fully community owned EDBs:

- Vector is not subject to the Energy Companies Act 1992; and
- Vector is not a community owned EDB for the purposes of Part 4 of the Commerce Act.

Vector's governance already involves directors' duties, minority shareholder interests and market disclosure obligations relevant for a listed company.

We recommend any reforms in this area distinguish between different ownership models.

Q13. Do you support the options outlined in this chapter? Please give reasons.

Option 3A: More focused objectives for consumer-owned EDBs

Vector is not subject to the Energy Companies Act 1992 so we are unclear if the additional statutory objective proposals would impact us. We recommend this option only be considered for entities that remain in the Energy Companies Act governance and accountability framework.

Option 3B: Greater monitoring and regulation of ancillary investments

We oppose regulation of ancillary investments and dividends. This is because:

- Regulating ancillary investments in the energy sector could compromise electrification. The owners of EDBs are well placed and have appropriate competencies to invest in related services.

- Regulating dividends could impact the perception of risk for investors with implications for EDB investment and financing costs.
- Part 4 of the Commerce Act regulates services not entities. Regulating ancillary investments or dividends moves towards regulating the entity rather than the lines service.
- The cost allocation input methodology that governs how costs are allocated to the regulated service already ensures EDB consumers are not left worse off from investments into non-regulated services.
- Similarly, the related party disclosure rules require EDB transactions with related parties to be valued at no more than the arm's-length amount. Again, this helps ensure EDB consumers are not left worse off from transactions with related parties.

Our understanding is the concern is investment could divert capital or resources away from the core network. Where the issue is lack of visibility rather than demonstrated harm, targeted disclosure is likely to be a more proportionate first response than broad entity-level ringfencing or dividend restrictions.

Accordingly, more prescriptive measures should be considered only where evidence shows that disclosure, allocation rules, related-party requirements and existing enforcement tools cannot adequately address a material risk to consumers or necessary EDB investment.

Option 3C: Measures to enhance capability and governance

We consider proposals aimed at improving governance and accountability should be pursued only if a clear gap has been shown.

We recommend any reforms in this area be carefully scoped to avoid unintended consequences for different ownership models.

Applying trust-focused governance requirements to listed EDBs such as Vector risks unnecessary duplication and over-regulation, given existing shareholder, director and market accountability mechanisms.

Option 3D: Measures to review ownership models for trust-owned EDBs

In line with our comments on Option 3C, reforms in this area should be carefully scoped to avoid unintended consequences for different ownership models.

Q14. If you support the options in this paper, do you agree that they should apply to consumer-owned EDBs only? If so, should this include both wholly and partially consumer-owned EDBs? Please give reasons.

If pursued, they should not apply to partially consumer-owned EDBs such as Vector.

This is because:

- The proposals appear targeted at smaller fully consumer-owned EDBs. MBIE should avoid a broad-brush approach that captures other EDBs with different governance models.
- Vector is an NZX listed company with where directors' duties, market obligations, listing rules, minority shareholders and Entrust already shape governance. This is a different model than fully consumer-owned EDBs.
- The Part 4 Commerce Act definition of "consumer-owned" excludes EDBs such as Vector that are not 100% consumer owned.
- EDBs such as Vector are not subject to the Energy Companies Act 1992 which some of the proposals are aimed at updating. It would go beyond the original ECA and the current water legislation to impose statutory objectives on commercial entities that are not wholly owned by local authorities or trusts.

Q15. What do you consider to be the costs, benefits, or unintended consequences of these options?

Benefits include clearer accountability and stronger capability if gaps in this area are identified.

Risks include compliance cost, investor uncertainty, interference with commercial decisions, and constraints on complementary investments that support network or consumer outcomes.

Oxera's report provides further details on the risks to efficiency and efficient investment if the proposals to regulate ancillary investment and dividends are pursued.

Q16. Are there any other options or approaches that could achieve the objective(s) outlined in this chapter? Please describe them and explain why they may be preferable.

Additional ringfencing or dividend controls should be considered only where there is a clearly defined consumer or market harm that cannot be addressed through existing regulatory tools. The starting point should be targeted information disclosure, not hard restrictions on financing, ownership or investment structures.

We also recommend the policy approach take care to avoid conflating different issues. Dividends are not the same as underinvestment; group financing may support efficient access to capital; and ancillary energy-sector activities may help EDBs build capability, share costs or deliver flexibility benefits. Where concerns exist, MBIE should start with transparency and targeted disclosure, supported by financeability tests and existing price-quality tools, before considering restrictions that could undermine efficient financing structures or beneficial energy-transition investment.

Technical Amendments

Q17. Do you support the options outlined in this chapter? Please give reasons.

Yes we support all 3 technical amendments.

Q18. What do you consider to be the costs, benefits, or unintended consequences of these options?

Clarifying the existing rules will better support regulatory certainty.

We agree that removing the restriction on applying for a CPP in the last 12 months of the period will likely improve the incentives provided by the price path and reduce workload burden for the Commission and EDBs.