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Ministry of Business, Innovation and Employment
Wellington

Via email: ElectrifyNZ@mbie.govt.nz

Northpower submission – Discussion document for improving the efficiency of electricity distribution businesses

Tēnā koutou

Northpower supports the objectives of ensuring New Zealand's electricity distribution networks are efficient, resilient and able to support electrification at the lowest practicable cost to consumers.

Ensuring cost effective electricity is an essential national outcome, one that is becoming increasingly central as New Zealand reaches to unlock the economic benefits of electrification. We view effective regulation of the sector as an essential tool to enable and shape New Zealand's future economic success, rather than simply a tool to moderate or control the price of network services.

Within this context, Northpower supports regulatory reform that strengthens clarity of expectations, and creates transparency, accountability, and performance across the sector. We support a regulatory approach that is flexible, considered, proportional, and drives improvement where appropriate. Such regulatory tools should be output-based and preserve the ability of well-performing electricity distribution businesses to invest quickly and confidently in the infrastructure required for New Zealand's energy transition.

Where proportional regulation is implemented, we consider it likely that collaboration across EDBs will naturally occur where there are benefits of doing so. Our Energy Services business is a practical example of this approach; we provide \$450 million of specialist maintenance and construction services annually, across the majority of electricity distribution companies in the North Island. The arrangement provides access for those we work with to the latest work methods, scale efficiencies and new construction technology.

In relation to our network services, our team works actively with other electricity organisations across New Zealand to standardise operational systems, adopt common customer and pricing platforms, and adapt our networks to future energy market needs. By way of practical example, we support common approaches committed by the ENA, have adopted many of the systems and practices used by companies that have undertaken Customised Price Path applications, and we have benefited from working with a range of companies to deploy common systems and processes to match our systems to future network needs.

While Northpower supports appropriate scrutiny and transparency around adjacent businesses, we note that well-governed adjacent businesses can have a positive impact on the long-term price of distribution services, rather than being inherently problematic. Our

adjacent businesses now generate around half of our operating EBIT, a significant commercial contribution, and one that provides us broad capability, scale, and practical insight. With this in mind, we consider it appropriate that such businesses should be assessed according to whether they are well governed, commercially disciplined, appropriately separated and demonstrably beneficial to consumers.

We also caution against assuming there is an optimal distribution business ownership form or business strategy. Northpower is a consumer trust-owned business, with an operating model which applies commercial, regulatory and strategic disciplines comparable to those applied by larger price-quality regulated distribution businesses. We have aligned our asset management, pricing and performance assessment to reflect those price-quality regulation disciplines and successfully diversified our commercial operations into adjacent non-regulated areas. We are a practical example of the positive impact that well-governed trust-owned organisations can have in their community.

In closing, Northpower shares the objectives of the Discussion Document and supports regulatory changes that are balanced, proportionate and aligned to practical performance. We see these changes as a net positive for New Zealand in helping provide guidance and guiderails as we reach for deeper electrification of the economy. We would welcome the opportunity to continue working with MBIE, the Commerce Commission and other stakeholders on the evolution of the regulatory system to enable these outcomes.

Our detailed submission follows.

Ngā mihi



Andrew McLeod
Chief Executive
Northpower Limited

Submission on the *Discussion document for improving the efficiency of electricity distribution businesses*

1. Introduction and summary of Northpower's position

- 1.1 Northpower supports the direction of the proposed reforms in the Discussion Document, subject to the qualifications and alternative approaches identified in this submission.
- 1.2 New Zealand's electricity distribution sector must continue to improve efficiency, affordability, resilience and customer outcomes, while at the same time investing carefully at the pace required to support electrification and economic growth.
- 1.3 Securing maximum value from the sector, as it traverses the energy transition is a national imperative. Ensuring an abundant, affordable, and resilient supply of energy is foundational to New Zealand's long-term economic success, and it is vital that the entire energy system evolves to deliver strong performance across all participating organisations.
- 1.4 The regulatory framework for electricity distribution businesses (EDBs) must, in light of this wider context, create stronger performance disciplines and enable consistent and timely investment, innovation and collaboration.
- 1.5 Northpower's position is that reform should:
 - focus on measurable consumer outcomes rather than ownership form;
 - strengthen like-for-like performance benchmarking to identify what is working well;
 - apply proportionate regulatory tools according to performance and risk;
 - maintain clear incentives for efficient and timely investment;
 - support commercially grounded collaboration and shared services;
 - ensure governance capability and accountability;
 - distinguish between well-governed adjacent investment and inappropriate cross-subsidy or unmanaged risk; and
 - avoid interventions that impose cost or delay without a clear consumer benefit.
- 1.6 Northpower is not wed to the way things have been done in the past. We consider it appropriate that regulation evolves, and we see regulation as an essential tool to provide confidence in the system, appropriate guidance and guardrails, and enable deep investment to support the energy transition.
- 1.7 We already choose to operate with many of the disciplines expected under price-quality regulation, demonstrating that well-designed and targeted regulatory settings can improve confidence, performance and investment discipline across the sector, regardless of the regulatory form enacted.
- 1.8 Critically, we believe that regulation that focuses on outcomes preserves operational flexibility and operational efficiency. Reforms should recognise and preserve models

that are already delivering strong outcomes, rather than seeking to force a singular (and potentially inefficient) input or operating model outcome.

2. About Northpower

- 2.1 Northpower is a consumer trust-owned EDB serving the Whangārei and Kaipara districts. It is wholly owned by the Northpower Electric Power Trust (Trust) on behalf of electricity consumers in its network area.
- 2.2 Northpower is subject to information disclosure regulation and is one of New Zealand's larger EDBs by connected customers. We are also a key partner to other EDBs and a participant in the broader energy construction, contracting and generation sectors. We employ over 1,500 people across the North Island and have a supply chain network of over 200 subcontractor organisations.
- 2.3 The Northpower Group includes: electricity distribution networks in Whangārei and Kaipara; a large energy services business delivering electrical contracting services to other EDBs (supporting over 680,000 connections across the North Island) as well as generators and Transpower; an ultra-fast fibre network; civil construction capability; and renewable electricity generation, including hydro and solar assets. This integrated model gives Northpower direct experience as both an infrastructure owner / operator and a service provider across the electricity sector.
- 2.4 Northpower has deliberately developed complementary businesses that leverage its infrastructure capability, commercial expertise and regional position. Revenue from those adjacent businesses is intended to support long-term affordability for our consumer owners. The Group has combined revenues of over \$540 million per year, and our connected customer forward price projections put us in a comparable position to the denser, larger and primarily urban EDBs.
- 2.5 Our commercial, unregulated commercial holdings now generate around half of our operating EBIT. Northpower's strategic ambition is to grow adjacent EBIT over time and moderate distribution charges for consumers, to a level materially below what would be otherwise possible, and to a level that provides economic advantage for Northland.

3. Principles for regulatory change

Consumer value

- 3.1 The principal test for reform should be whether it is likely to improve long-term value for consumers. Value should be considered in a broad sense, to include affordability, reliability, resilience, safety, access to timely connections, support for regional growth and the ability to support the energy transition.
- 3.2 Short-term price impacts should not be assessed in isolation from the investment needed to maintain existing assets and prepare networks for increased demand, and

the complexities associated with future energy markets. Regulation must support efficient whole-of-life decisions and intergenerational equity.

Proportionate regulation

- 3.3 Regulatory intervention should be proportionate to demonstrated performance, capability and risk. High-performing commercial businesses should retain sufficient delivery flexibility to enable them to continue to reinvest and innovate. Conversely, where performance is materially below reasonable benchmarks, regulators should have effective tools to require rapid improvement and provide assurance that consumer interests are protected.

Investment certainty

- 3.4 EDBs face substantial investment requirements as electricity demand grows. Regulatory settings should provide sufficient predictability for long-term asset planning and capital investment. Reform should avoid creating uncertainty or delay given the need for EDBs to act decisively to enable both growth and electrification of the economy.

Transparency and accountability

- 3.5 Northpower supports greater transparency where information is easily comparable, useful for decision making, and focused on outcomes. Additional disclosure requirements should focus on information that allows regulators, owners, and consumers to clearly understand relative performance via benchmarking and the reasons for material differences.

4. Collaboration and standardisation to drive efficiencies of scale

- 4.1 Northpower supports the Discussion Document's proposals to encourage practical collaboration and standardisation where these deliver measurable efficiency, capability or customer benefits – Northpower is active in seeking efficiencies in this way. We note that many scale benefits can be achieved through shared services, commercial partnerships, common standards, coordinated procurement and shared technology without requiring changes in asset ownership.
- 4.2 We believe transparent and consistent benchmarking is likely to identify areas where scale benefits are practically realisable, and once known, will drive greater uptake of shared services, partnerships and operational consolidation where it can benefit consumers. The practical impacts of network density and population growth trends have been noted as key determinants of achievable outcomes and should be appropriately factored into benchmarking methods.
- 4.3 Northpower's Energy Services business demonstrates the benefits of shared services approaches in practice. As the largest New Zealand-owned electrical contracting business in the country, we provide contracting and infrastructure services to EDBs across the North Island. This enables specialist capability, people, systems, training, safety practices and equipment to be used across multiple networks. It also gives these

North Island EDBs access to capability that may not be economic to either build or maintain internally. Northpower's Energy Services' capability is available in the market to all EDBs - a practical example of leveraging scale, capability, and advanced technology across the sector.

- 4.4 Electricity Networks Aotearoa (ENA) and Electricity Engineers Association (EEA) were established to enable industry collaboration, coordination and standardisation, and have a proven track record of delivering outcomes that improve efficiency, consistency and capability across the electricity sector. Northpower supports the continued use of these industry-led mechanisms and encourages Government and regulators to reinforce, rather than duplicate, these arrangements. Regulatory settings should incentivise participation in collaborative initiatives and recognise the benefits they deliver, while preserving flexibility for EDBs to adopt the delivery models that best meet the needs of their consumers.
- 4.5 As an adjunct to the work by ENA and EEA and given the practical differences of scale and operating context between networks, Northpower also works with smaller groups of EDBs on areas of common interest. For example, we have aligned our pricing and customer facing systems with Top Energy to bring regional consistency, adopted control system configurations that are common to Orion, WEL Networks, and Top Energy to aid interoperability and resource sharing, and adopted many of the processes and systems which have been established by companies that have traversed Customised Price Path (CPP) applications. We believe that this mixed model of common industry approaches, supplemented by issues-based collaboration, provides an effective collaborative framework.

5. Monitoring and performance

- 5.1 Northpower supports the proposition that better comparative benchmarking would add value to the sector. Benchmarking, where executed appropriately, should provide a transparent way to identify differences in performance, highlight efficient practice and support informed regulatory intervention. It should also create stronger incentives for collaboration and shared services by making cost and capability gaps more visible.
- 5.2 For benchmarking to be effective, it must be genuinely like-for-like and take into account relevant differences to avoid the wrong conclusions being drawn and ensure practical efficiency opportunities are identified. Benchmarking processes should consider:
 - network geography and customer density;
 - urban and rural network composition;
 - asset age and condition;
 - exposure to severe weather and natural hazards;
 - growth and electrification forecasts;
 - service-quality requirements; and
 - historic investment.

- 5.3 Northpower cautions that a narrow comparison of headline operating costs could risk misleading conclusions, and result in inefficient long-run outcomes. A balanced framework should include measures relating to:
- total expenditure and whole-of-life cost;
 - reliability and service quality;
 - asset condition and risk;
 - delivery against asset management plans;
 - connection performance;
 - utilisation;
 - safety;
 - customer outcomes;
 - capital delivery performance; and
 - returns relative to risk and regulatory expectations.
- 5.4 Northpower would value the opportunity to work alongside the ENA and other industry participants to support policy makers in the development of an appropriate benchmarking framework for the sector, as we agree in principle that such a framework is needed.
- 5.5 Notwithstanding the above point, we are concerned that Option 1B in the Discussion Document, which proposes expanding the Commerce Commission's powers of information disclosure for any non-regulated activities of EDBs, could have some significant commercial consequences. In Northpower's case, its non-regulated businesses compete with other commercial enterprises, and these competitor businesses will not be subject to the same disclosure requirements. This could result in an unlevel playing field for EDB unregulated businesses competing with others. Any such disclosures would need to be confidential and specifically targeted.

6. Responsive regulation under part 4

- 6.1 Northpower supports Option 2A in the Discussion Document. A graduated regulatory toolkit between information disclosure and full price-quality regulation would enable the Commerce Commission to right-size the regulation for an EDB's scale and circumstance. It also allows the right tool to be used to test concerns where they are raised, and to keep any regulatory response proportionate to the level of concern once understood. A broader set of regulatory options could allow targeted intervention where performance or governance issues eventuate without automatically imposing the full cost and complexity of price-quality regulation suggested in Option 2B on every business.
- 6.2 While we support Option 2A, careful consideration should be given to whether each tool is appropriate for EDBs and consistent with the outcomes-based nature of economic regulation. Of particular concern is the proposal to enable the Commerce Commission to require specific investments. Such an approach would risk blurring the distinction between economic regulation and operational management. EDBs themselves have the greatest understanding of their asset condition, network risks, customer needs and

local operating environment and are therefore best placed to determine how outcomes are delivered. It is Northpower's view that the Commerce Commission should focus on defining desired performance outcomes and holding EDBs accountable for achieving them, rather than prescribing individual investment decisions or asset management practices.

- 6.3 Northpower suggests consideration of an additional regulatory tool requiring independent assurance for information-disclosure-only EDBs' disclosures, underlying systems, and specific approaches where the Commerce Commissions identifies concerns. A proportionate and independent review could test the robustness of an EDB's asset strategies, expenditure plans, governance processes and delivery capability, and apply a level of independence to evaluating performance and any related performance concerns.
- 6.4 Any new framework should include clear criteria for intervention and transparent pathways for escalation and de-escalation. It should recognise strong performance and avoid creating permanent additional compliance where the underlying concern has been addressed.
- 6.5 Northpower supports MBIE's preferred approach under Option 2B of removing the consumer petition requirement before applying price quality regulation to specific EDBs as it better reflects a targeted, specific intervention, rather than a blanket approach where it may not be needed.
- 6.6 Under Option 2C, Northpower supports MBIE's preferred option of the Commerce Commission using its discretion to apply individual price paths if it considers this would better promote the long-term benefit of consumers.

7. Governance

- 7.1 High-quality governance is essential given the value, complexity and strategic importance of EDB assets. Northpower supports clear expectations that all EDBs possess the relevant capability to effectively govern these businesses.
- 7.2 Any governance reform should focus on capability, accountability and clarity of purpose and should not assume a standard set of capabilities across EDBs. Quality of governance is a particular priority for Northpower, given the breadth and scale of its commercial operations.
- 7.3 Reform should not assume that a particular ownership form will produce a particular outcome. Consumer trust ownership provides Northpower with a direct line of sight to local consumers and communities, strengthening a focus on consumer value not weakening it.
- 7.4 In Northpower's view, appropriately governed, Trust/Board structures have the benefit of ensuring appropriate and consistent focus on the delivery of intergenerational

shareholder value including strong asset stewardship to balance short-term profit optimisation focus which can occur via more conventional business ownership structures.

- 7.5 Northpower's Trust deed requires that ownership arrangements are reviewed at least every five years. Northpower's own reviews are robust and are done by external independent experts. We consider periodic ownership reviews are a sensible mechanism for testing whether ownership arrangements remain fit for purpose and continue to deliver for owners.
- 7.6 In Northpower's case, our Trust owners appoint professional directors with the required degree of skill and experience to govern a blend of complex regulated and commercially facing business. A strong Board and considered operational and financial separation at management level, ensure high-quality governance for the Group as a whole.
- 7.7 Of the proposed options, Northpower supports a version of Option 3C which focuses on incorporating an independent governance review. Appointing governors with the right expertise would address the other potential governance issues that the Discussion Document raises such as distraction from core EDB activities of ancillary business investments.
- 7.8 Having targets and benchmarks alongside proportionate, targeted regulatory tools as measures of performance would ensure that an EDB's Board has the appropriate skill and capability to govern it. If there is inadequate governance, it would quickly become apparent through monitoring of business performance.
- 7.9 Interventions like including additional measures around ancillary investment oversight or changing the statutory company purpose, risks unnecessarily interfering in decision making of well-managed, efficient EDBs. It could also force an unwinding of existing business portfolios if they do not meet any new objectives or requirements despite those businesses being successful and complementary to the electricity distribution operations.
- 7.10 If there were to be any governance intervention for EDBs, they should not be limited to only trust-owned EDBs as all EDBs require directors with appropriate skills and expertise to manage them effectively.

8. Adjacent businesses and consumer value

- 8.1 Northpower recognises MBIE's concern that adjacent commercial activities could expose a regulated business or its consumers to inappropriate financial risk or cross-subsidy. Those risks should be addressed through transparency, robust governance, appropriate separation, arm's-length commercial arrangements and clear performance expectations.

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- 8.2 Robust benchmarking may well be particularly useful in this context. However, Northpower cautions against presuming that adjacent business interests are detrimental. Well-governed complementary businesses can create substantial consumer value by generating revenue that supports lower lines charges and / or consumer distributions as well as supporting regional employment and economic activity.
- 8.3 Northpower's diversified portfolio is central to its consumer-affordability strategy and in the last financial year around half of the Group's EBIT was generated from its adjacent and unregulated commercial businesses. Northpower's adjacent businesses are expected to operate commercially, generate appropriate returns commensurate with known market benchmarks, and manage their own risks. They are governed as investments that must contribute to Group strategy and long-term consumer value.
- 8.4 Any reform should distinguish disciplined adjacent investment from speculative, poorly governed or cross-subsidised activity. Where an EDB can demonstrate transparent arrangements, commercial performance, adequate commercial governance, and a clear benefit to consumers, regulation should not discourage that activity.

9. Northpower's contribution to affordability and electrification

- 9.1 Northpower's strategy is aligned with the Government's objectives for electrification, affordability, resilience and regional growth.
- 9.2 Northpower began repositioning its business several years ago in anticipation of increased electrification. It has invested in its network, expanded its national contracting capability, developed renewable generation and invested in the systems and capability needed to support distributed-energy solutions. A regulatory framework should support organisations that can demonstrate they are investing appropriately in light of future need, managing risk appropriately and delivering enduring consumer value.
- 9.3 Northpower is now well positioned to ensure that the North can benefit from the energy transition, including increased electrification, integration of consumer energy solutions, increased local generation and improved resilience. We see enhanced, tailored, and specific regulation as valuable in providing us with the regulatory certainty needed to complete this task in relation to our electricity network over the next two decades.
- 9.4 Northpower's wider operations have also been developed to support the wider industry at a time when delivery capability is critical. We have invested deeply into our delivery and construction capabilities, proven our ability to win on our merits and taken risks commensurate with highly competitive markets. Limiting the freedom to compete, or our ability to participate in these markets purely because we hold regulated assets, would seem to us to be a backwards step.

10. Implementation considerations

- 10.1 Northpower recommends that MBIE develops reform in close consultation with the Commerce Commission, the Electricity Authority, EDBs, consumer representatives and energy infrastructure owners.
- 10.2 Implementation should distinguish sector-wide issues from concerns relating to particular businesses and their operations, assess the cost and benefit of each intervention, preserve incentives for efficient investment, minimise duplication between regulators and use existing regulatory information where possible.
- 10.3 Northpower also encourages MBIE to consider whether reforms can be trialled or phased before sector-wide implementation. This would allow assumptions to be tested and unintended consequences to be identified early.

11. Conclusion

- 11.1 Northpower supports the direction of reform and shares MBIE's objective of an efficient, resilient and consumer-focused EDB sector.
- 11.2 We consider that reform should be outcomes-based and should not assume that ownership change, or structural consolidation is required to deliver improvement. The outcomes delivered by Northpower over time, demonstrate that consumer trust ownership, strong governance, regulatory discipline, commercial collaboration and well-managed adjacent businesses can work together to deliver improved affordability, resilience and electrification.
- 11.3 Northpower would value the opportunity to engage directly with MBIE, Ministers, the Commerce Commission, the Electricity Authority, Electricity Networks Aotearoa and other electricity distribution businesses on practical reform options that can improve the performance of the overall sector.

Position summary

Section	Summary of position
Collaboration and standardisation to drive efficiencies of scale	Northpower supports collaboration and standardisation.
Monitoring performance	Northpower supports like-for-like comparative benchmarking, provided it is targeted, allows for differences in network type, and focuses on the appropriate metrics.
Responsive regulation under Part 4	Northpower supports a graduated regulatory toolkit under Option 2A and proposes consideration of proportionate independent assurance.

Governance	Northpower supports stronger governance capability expectations and regular, robust ownership reviews. Northpower does not support governance interventions based solely on ownership form.
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