MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

BRIEFING

Further advice on encouraging EDB efficiency

Date:	14 June 2025	**Priority:**	Medium
Security classification:	In Confidence	**Tracking number:**	BRIEFING REQ 0015251

Action sought		
	Action sought	**Deadline**
Hon Simon Watts **Minister for Energy**	Note and agree to the recommendations in this report.	At your convenience

Contact for telephone discussion (if required)			
Name	**Position**	**Telephone**	**1st contact**
Tamara Linnhoff	Manager, Electricity Markets Policy	Privacy of natural persons	
Jamie Kerr	Policy Director	Privacy of natural persons	✓
Charlie Sheppard	Senior Policy Advisor, Electrify NZ		

The following departments/agencies have been consulted
MBIE's Competition Policy Team, Commerce Commission and Electricity Authority. We have also sought information from EDB association Electricity Networks Aotearoa (ENA).

Minister's office to complete:

- ☐ Approved
- ☐ Noted
- ☐ Seen
- ☐ See Minister's Notes
- ☐ Declined
- ☐ Needs change
- ☐ Overtaken by Events
- ☐ Withdrawn

Comments

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Purpose

This briefing responds to your request to MBIE for further advice on encouraging electricity distribution business (EDB) efficiency.

Developed in collaboration with the Commerce Commission (Commission) and the Electricity Authority (EA), this briefing provides actions to support this topic as covered in BRIEFING REQ 0013881 and BRIEFING-REQ-0014912, which sought your direction on recommendations in the draft Frontier Economics (Frontier) Review of Electricity Market Performance.

Executive summary

EDBs provide a fundamental role by delivering electricity to homes and businesses across New Zealand

1. There are 29 EDBs in New Zealand with a range of ownership models, including trust, council, private, and mixed arrangements. As natural monopolies, they are regulated by the Commerce Commission and the Electricity Authority to create incentives for efficient investment and operation that aim to be consistent with a competitive market.

There are long-standing concerns that the number and scale of EDBs in a country New Zealand's size may be limiting efficiency

2. The number of EDBs has sparked recurring debate about whether fewer, larger EDBs would perform more efficiently. Questions have also been raised about whether public ownership impacts the governance of EDBs and is in the long-term interests of customers.

3. Commentary on the potential for greater EDB efficiency is common. However, quantitative evidence is limited and inconclusive. Comparing performance is challenging due to network characteristics, which can significantly affect costs and service levels.

Innovation and increased flexibility in electricity distribution are creating opportunities to enhance efficiency

4. Although there is no robust evidence base, proactive measures are warranted. Innovation and increased flexibility can substantially enhance efficiency by optimising network use and deferring costly upgrades. Due to both capacity and capability constraints, some EDBs may be unable to capitalise on these opportunities which could ultimately leave customers worse off.

5. While structural reforms could address scale and governance challenges, forced amalgamation would face strong opposition from communities and create uncertainty for private investors. Any process to drive such fundamental change could slow or even pause innovation underway and would be a complex undertaking given the different ownership models.

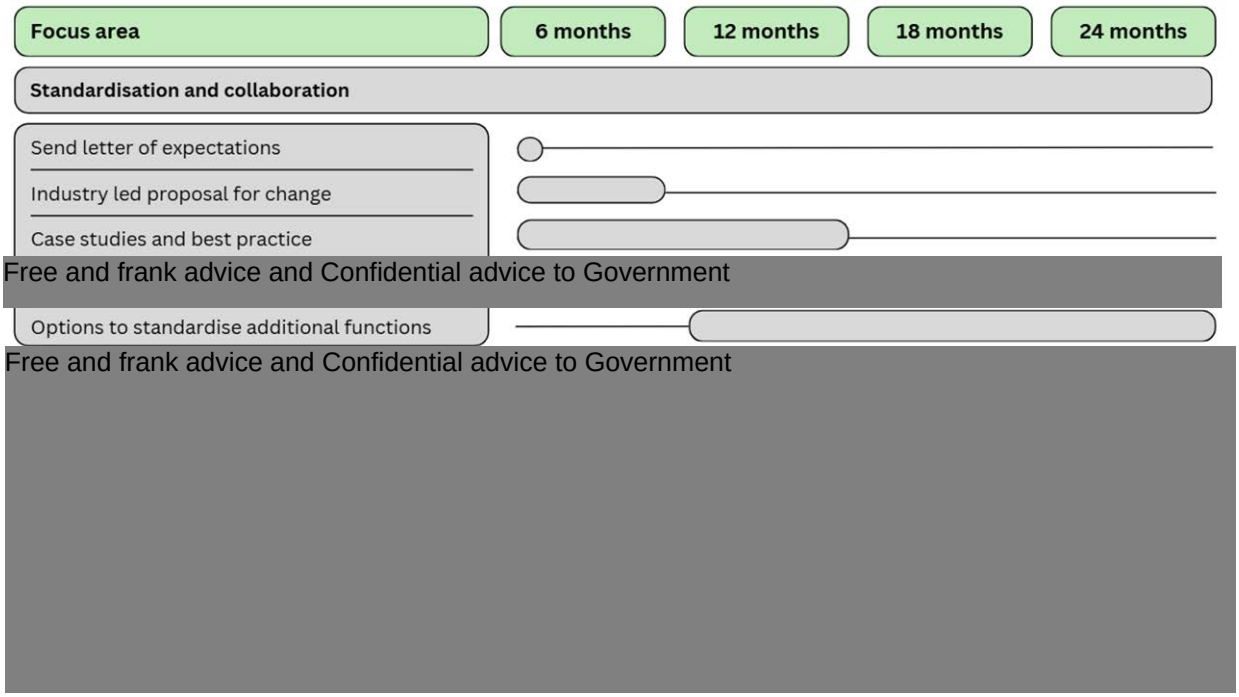
6. There are alternative, less disruptive options to enhance EDB efficiency that are less challenging to implement and could deliver benefits to consumers more quickly.

Progress low-risk, impactful actions now, while identifying where the greatest future efficiency opportunities lie

7. We recommend a multi-stage approach across three focus areas, that allows action to be taken now while undertaking work in parallel to target further opportunities to improve efficiency. Recommended actions along with high level timelines are presented in the table below. These focus on:

    - **Standardisation and collaboration:** realising the benefits associated with economies of scale by encouraging greater collaboration and standardisation across EDBs.
    - **Governance and accountability:** strengthening governance and accountability of EDBs to ensure they have the focus and capability for the future.
    - Confidential advice to Government

8. This approach would span Government and industry-led actions, with an immediate step being the industry is tasked to identify opportunities for faster and deeper collaboration and standardisation. Free and frank opinions and Confidential advice to Government



Free and frank advice and Confidential advice to Government

Free and frank advice and Confidential advice to Government

Recommended action

The Ministry of Business, Innovation and Employment recommends that you:

a **Note** that we have previously recommended against forced amalgamation of Electricity Distribution Businesses (EDBs) [BRIEFING-REQ-0014912 refers].

Noted

b **Agree** to pursue increased efficiency and productivity of EDBs through a package of actions discussed in this briefing aimed at:

    a. Standardisation and collaboration: realising the benefits associated with economies of scale by encouraging greater collaboration and standardisation across EDBs

b. Governance and accountability: strengthening governance and accountability of EDBs to ensure they have the focus and capability for the future

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Agree / Disagree

c **Agree** that MBIE develop a comprehensive work programme to progress the approach outlined in this briefing and report back to you on proposed timings by the end of August.

Agree / Disagree

d **Agree**, as part of the work programme, to write to Electricity Networks Aotearoa and individual EDBs setting out your expectations for the sector and seeking their feedback on actions to improve collaboration and standardisation.

Agree / Disagree

e Confidential advice to Government

Agree / Disagree

Tamara Linnhoff
Manager, Electricity Markets Policy
MBIE

..... / ..... / .....

Hon Simon Watts
Minister for Energy

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Background

EDBs provide a fundamental role by delivering electricity from the national grid to homes and businesses across New Zealand

9. There are 29 EDBs in New Zealand with a range of ownership models, including trust, council, private, and mixed arrangements.[1] Nineteen EDBs are considered "public energy companies" owned by consumer trusts or councils.

10. As natural monopolies, they are regulated to create the incentives consistent with a competitive market:

    - Commerce Commission (Commission): regulates EDBs under Part 4 of the Commerce Act through information disclosure which applies to all EDBs, and price-quality regulation which applies to 16 EDBs (consumer owned businesses are exempt).
    - Electricity Authority (EA): oversees EDBs' market behaviour and customer interactions including compliance with the Electricity Industry Participation Code and reforms to improve distribution pricing and access.

11. The aim of regulation is to promote fair pricing, reliable service, and long-term value for consumers.

Current regulation can help incentivise, but is not designed to create economies of scale

12. There are long-standing concerns that having 29 EDBs in a country of New Zealand's size may limit efficiency, creating debate about whether fewer, larger EDBs could perform better. Questions have also been raised about whether public ownership also impacts how efficiently EDBs operate.

13. The small scale of some of these EDBs has led to concern about their capacity and capability to efficiently perform their functions, the effectiveness of their governance as well as the risks of investment outside of their core functions. These concerns were raised by the Office of the Auditor General (OAG) in reports into the sector in 2017 and recently raised again in June 2025.[2]

14. The primary purpose of existing policy settings is not to incentivise collaboration or consolidation amongst EDBs, although they can play a contributing role. For example, the recently created Innovation and Non-Traditional Solutions Allowance (INSTA) includes a ring-fenced amount for collaborative projects for price quality regulated firms. More generally, the neutral treatment of capex and non-capex expenditure under "DPP 4" (the current price-quality period) aims to encourage EDBs to find efficient solutions, including through collaboration.

[1] EDB ownership: fully trust-owned (18), council-owned (3), ownership by other EDBs (2), mixed trust/council (2), mixed trust/listed (1), and privately owned entities (3).
[2] Office of the Auditor-General, Electricity distribution businesses: Observations from the 2023/24 audits, 23 June 2025.

Opportunity to improve efficiency

Significant future expenditure means that even modest improvements in efficiency will unlock long-term benefits for consumers

15. An estimated $22 billion in capex and opex is needed over the next decade to enable new electrification, connect new generation sources, and provide flexible capacity.[3] Innovation and increased flexibility in electricity distribution would create opportunities to improve efficiency by optimising network use and deferring costly upgrades.

16. Making the system more efficient would help reduce these costs that are ultimately passed on to customers through their power bills. Distribution charges account for around 25 percent of the average residential electricity bill, making the performance and efficiency of EDBs a key factor in overall electricity affordability.

There is a lack of clear evidence to support structural reforms

17. Very few studies have compared EDB efficiency. Those that do are noted in Annex Two, but no firm conclusions can be drawn. Collating a robust quantitative evidence base to compare EDB performance is challenging due to differences in network scale, geography, and customer density, which affect cost structures and service delivery.

18. The current restriction on using benchmarking to set default price paths has also limited sector-wide assessments. This makes it harder to identify inefficiencies and target interventions effectively. (One recommendation below - to allow benchmarking - will help improve this evidence base).

Network utilisation efficiency

19. The Electrification Policy Manifesto by Rewiring New Zealand estimates that networks operate at utilisation efficiencies of around 20 to 40 percent, intimating that this is too low. It believes that flexible energy services could increase network efficiency and has recommended setting a network utilisation target for EDBs.

20. However, the New Zealand Infrastructure Commission has found no evidence of EDB overbuild compared to similar countries.[4]

21. In addition, current utilisation rates are not well understood, especially at the low voltage level. The Commerce Commission is working to improve visibility through load mapping and heat maps and has introduced enhanced reporting that requires all EDBs to disclose network capacity and constraints.

22. The Commission has considered, but not adopted, a utilisation metric as part of setting DPP 4. The Commission has acknowledged the importance of efficient utilisation, but did not support a utilisation metric as a quality standard or performance incentive at this stage as:

    a. the link between capacity metrics and EDB performance is unclear

    b. changes in network demand and new connections influence utilisation rates, and

    c. it risks disincentivising timely capacity upgrades.

[3] The future is electric, Boston Consulting Group, October 2022, https://web-assets.bcg.com/b3/79/19665b7f40c8ba52d5b372cf7e6c/the-future-is-electric-full-report-october-2022.pdf
[4] New Zealand Infrastructure Commission. (2022). The lay of the land: Benchmarking New Zealand's infrastructure delivery costs. Wellington: New Zealand Infrastructure Commission / Te Waihanga https://media.umbraco.io/te-waihanga-30-year-strategy/dtofavg2/the-lay-of-the-land-benchmarking-new-zealands-infrastructure-delivery-costs.pdf

Policy objectives and approach

The objective is to improve efficiency across EDBs, in particular through collaboration to realise economies of scale

23. EDB efficiency gains can be achieved across the following key areas:

    - By and for the EDBs themselves:
        - Operational expenditure (opex), where there is potential to reduce costs through improved processes and asset management
        - Capital expenditure (capex), where better planning and investment decisions can deliver long-term savings.
    - By EDBs, for customers interfacing with EDBs:
        - The customer interfaces, where improvements can enhance the experience (and drive efficiencies for) customers connecting or connected to EDBs and enable greater participation in the energy system.

24. To realise the potential for efficiencies in these areas we recommend focussing on:

    - **Standardisation and collaboration:** realising the benefits associated with economies of scale by encouraging greater collaboration and standardisation across EDBs
    - **Governance and accountability:** strengthening governance and accountability of EDBs to ensure they have the focus and capability for the future, and
    - Confidential advice to Government

We recommend a multi-stage approach for improving EDB efficiency

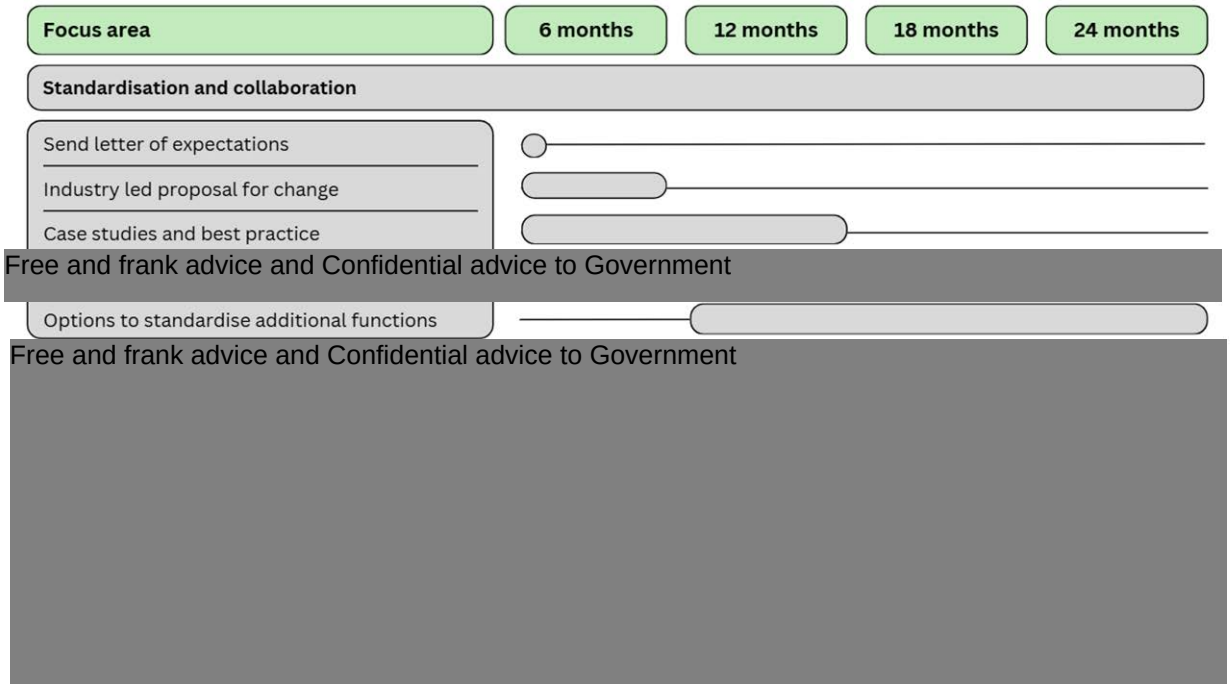
25. We recommend a multi-stage approach to allow low-risk, impactful action to be taken now, in parallel with targeted analysis to identify where the greatest efficiency opportunities lie and to develop actions, if necessary, for realising them.

26. Our recommended starting point is to signal to the sector what is expected of them and providing an opportunity for industry-led initiatives that align with these objectives. Confidential advice to Government .

27. Careful signalling to the sector will be required that balances an expectation of rapid industry-led change with the Government's preparedness to consider further regulatory options, while also reviewing existing legislation.

Recommended actions

28. The recommended interventions along with high level timelines are presented in the table below. Further information gathering and comparative analysis will be conducted as we evaluate each option to identify where intervention is most needed.



29. These options encourage EDBs to collaborate and standardise to realise economies of scale where possible, offering a potentially faster path forward than developing regulatory interventions and allowing success to be showcased across the sector.

30. The options also aim to improve EDB performance by targeting accountability and productivity. Confidential advice to Government

31. We do not recommend pursuing structural reform through ownership amalgamation at this time. As noted in BRIEFING-REQ-0014912, forced amalgamation would likely face strong opposition from communities and private companies. Any process to drive such fundamental change could slow or even pause innovation underway and would be a complex undertaking given the different ownership models.

Standardisation and collaboration

Send letters of expectation to EDBs and the ENA encouraging greater standardisation and collaboration

32. A ministerial letter of expectations could be sent to EDBs and the Electricity Networks Aotearoa (ENA) to encourage greater standardisation and collaboration by setting out the government's priorities and expectations without mandating specific actions.

33. EDBs could be given 6 months to jointly identify and design opportunities for efficiency gains through standardisation and/or collaborative initiatives. Given the number of EDBs and differences in their scale and operating context, it is unclear how fast (or how far) industry-led work may progress. Six-months is intended, however, to give MBIE time to consider mandated approaches if voluntary efforts are judged to be insufficient or too slow.

34. In addition, the letter could be used to request information on existing collaboration or shared service arrangements. This information would help send a signal to EDBs that collaboration is expected and build an evidence base to inform policy options for operational or management consolidation.

35. We recommend sending this letter after the review of electricity market performance is made public, as that report will serve as a key piece of evidence supporting the case for change.

Develop collaborative models based on case studies

36. Collaborative models aim to enable entities to work together while maintaining ownership independence. They could range from shared service agreements, operational consolidation through to management consolidation. Set out in the following table, these models present different trade-offs between the potential for greater efficiency and degree of EDB independence.

	Structure	Governance	Independence
Shared service agreements	Multiple EDBs share specific resources	Each EDB retains its own governance	High - Each EDB maintains regulatory and operational independence
Operational Consolidation	EDBs integrate key functions into a unified structure	Shared governance and systems	Moderate - EDBs retain regulatory identity but share operations
Management consolidation	EDBs align or unify executive leadership	Unified management team	Low - EDBs may maintain separate ownership but share management

37. Although some EDBs already participate in such arrangements, uptake is voluntary and inconsistent across the sector. Confidential advice to Government

38. These case studies will help identify practical pathways for collaboration by showing what works, under what conditions, and why. They will offer real-world insights into implementation, governance, and outcomes to inform guidance or frameworks for wider adoption. Learning from existing examples can reduce duplication, build confidence in collaborative approaches, and support more efficient and resilient service delivery.

Explore options to encourage Confidential advice to Government ***collaboration***

39. To support collaborative models, we propose exploring a mix of enabling and directive approaches, including:

- regulatory incentives for voluntary collaboration or consolidation (eg the recently introduced INSTA for EDB collaboration)
- legal guidance and model agreements to reduce uncertainty around joint ventures or shared governance (eg the EA's work on Distribution System Operator models)
- amendments to regulatory frameworks to require certain functions to be delivered jointly or centrally
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40. Given the differences in existing systems between EDBs, the focus of this work is likely to be collaboration into new business models and approaches, in particular for DER and flexibility.

Standardise additional sector functions

41. Standardising functions across EDBs can enhance the customer experience, ensure a consistent minimum quality standard, and reduce duplication of effort. Mandating standardisation also places pressure on smaller EDBs to collaborate.

42. The EA is currently working to harmonise contractual terms and connection pricing. Further areas with potential to be standardised are:

    - **network pricing:** development of consistent pricing methodologies and shared tools for modelling cost-reflective tariffs
    - **network planning:** central forecasts (a model which UK has moved to), shared asset management tools (eg use of satellite and other third-party imagery for assessing condition)
    - **network operations and maintenance:** the potential for joint procurement of common assets and new systems
    - **technology and innovation:** capturing and publishing utilisation data, common standards for connection of DER, interoperable smart grid standards, standardised cybersecurity and data governance frameworks.

43. There is significant variation across EDBs in terms of existing systems, asset renewal horizons and customer base. A one-size-fits-all approach may not be appropriate and could risk disrupting well-functioning models unnecessarily, potentially increasing costs.

44. For this reason, we think EDBs are best placed to identify where standardisation could drive efficiencies. Free and frank advice and Confidential advice to Government

45. We recommend giving EDBs six months to agree on priority areas for standardisation and to develop a clear plan for implementation. This expectation could be communicated through the upcoming letter of expectations.

46. Confidential advice to Government

Governance and accountability

Increase performance transparency

47. The Commission assesses the performance of each EDB and publishes the results online. They then engage with EDBs where there are areas of concern. These engagements include promoting the use of their Performance Accessibility Tool by EDB management, Boards and owners which allows them to compare performance with their peers via key metrics.

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Free and frank advice and Confidential advice to Government

51. EDBs are currently governed by different legislation, as set out in the table below. We would need to do further work to determine the best way to implement this option.

Legislation	EDBs covered	Relevant points
Energy Companies Act 1992 (ECA)	19 EDBs categorised as 'public energy companies'[5]	• Sets the statutory objective of being a "successful business" for publicly owned EDBs. • Requires the publication of statements of corporate intent and audit by the Office of the Audit General (OAG).
Trusts Act 2019	21 EDBs are wholly or partly trust owned	• Trust deeds require distributors undertake reviews every three to five years to ascertain the performance of the companies and whether ownership should be retained.
Electricity Industry Act 2010	All EDBs with specific clauses for trust owned EDBs	• Allows for regulations for the purpose of promoting the accountability of customer trusts and community trusts. • Including requiring trustees to disclose specific information to trust beneficiaries.

52. The OAG has suggested that the Energy Companies Act 1992 (ECA) should be reviewed to ensure it is fit for purpose. Confidential advice to Government

53. Confidential advice to Government

Free and frank advice and Confidential advice to Government

[5] Public energy companies have ownership structures that include a combination of consumer owned trusts and councils and have not materially changed since the corporatisation of lines companies.

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Next steps

60. We propose the following next steps:

- Send a 'letter of expectations' to EDBs and the ENA for greater collaboration and efficiency and seeking proposals for standardisation. A draft letter is in Annex Two.

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- MBIE to provide further advice on the timing and milestone of a work programme to progress the recommendations outlined in this briefing, including:
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Annexes

Annex one: Previous studies on efficiency

Annex Two: Proposed letter of expectations for you to send to EDBs

Annex one: Previous studies on efficiency

Studies on EDB productivity and opex efficiency

Two studies indicate that the productivity of NZ EDBs has been decreasing over the last 20 years. However, neither look at starting point or a detailed comparison between EDBs to better understand what the factors are.

Quantonomics was engaged by the Australian Energy Regulator (AER) to conduct a study on opex efficiency trends. Their analysis found that the operating expenditure efficiency of New Zealand EDBs has declined by an average of 2.8% per annum since 2012.

Jurisdiction	Empirical evidence
New Zealand	• Between 2006 and 2023 opex productivity fell by 2.6% p.a. on average • Between 2012 and 2023 opex productivity fell by 2.8% p.a. on average
Australia	• Between 2006 and 2023 opex productivity improved by between 0.3% and 0.4% p.a. on average • Between 2012 and 2023 opex productivity improved by between 2.5% and 2.8% p.a. on average
Ontario	• Between 2006 and 2023 opex productivity fell by 04% p.a. on average • Between 2012 and 2023 opex productivity improved by 0.3% p.a. on average

Source: Quantonomics, Electricity Distribution Opex Cost Function: Potential Misspecification Issues, 21 November 2024, section 2.1.1

In 2024, the Commerce Commission commissioned CEPA Economics to assess EDB productivity. This study evaluated both exempt and non-exempt EDBs, considering total factor productivity (TFP) as well as opex. CEPA found that between 2008 and 2023, productivity declined by an average of 1.2% per annum for non-exempt EDBs and 2.1% per annum for exempt EDBs. While these figures are lower than those reported by Quantonomics, the decline, particularly for exempt EDBs, is still significant.

For total factor productivity, CEPA reported an average annual decline of 1.3% over the same period, with only minor differences between exempt and non-exempt EDBs.

Most of the fall in the productivity index occurs between 2008 and 2014 with the productivity index only falling slowly or staying broadly constant between 2014 and 2023. The change before and after 2014 is significant because non-exempt EDBs did not have price paths set based on Part 4 input methodologies until 2013.

Measuring EDB productivity is challenging (particularly defining appropriate EDB 'outputs'), and the Commerce Commission heard from EDBs that during this period, extreme weather events increased, as well as various uncontrollable costs like increased traffic management, and health and safety.

Table 3: Summary of key results – Index-based methods, per annum.

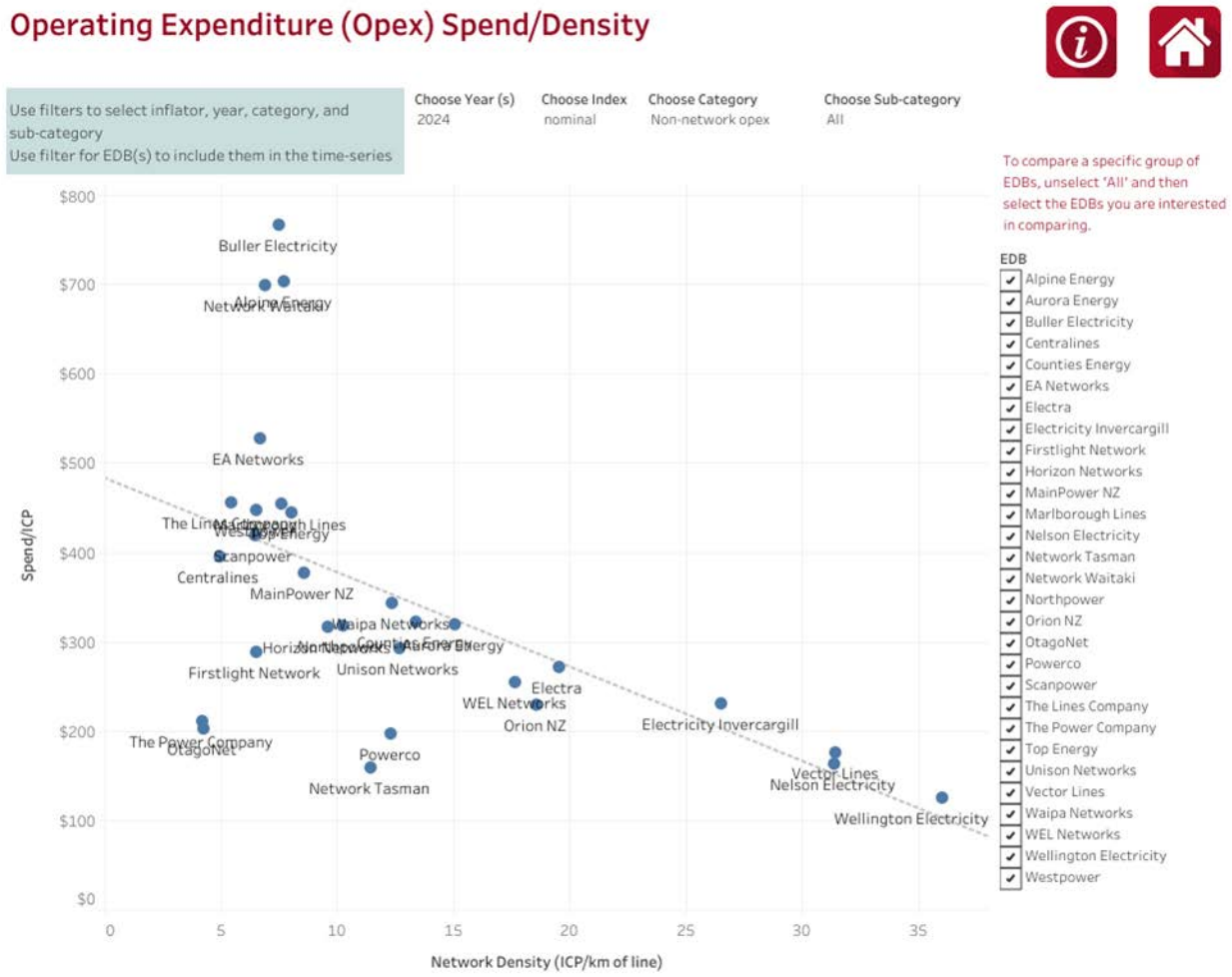
EDB type	Total factor productivity			Opex partial productivity		
	Entire period	Pre-2014	Post-2014	Entire period	Pre-2014	Post-2014
Non-exempt	-1.2%	-2.9%	-0.4%	-1.2%	-1.1%	-1.6%
Exempt	-1.4%	-2.5%	-0.7%	-2.1%	-0.2%	-3.7%
Overall	-1.3%	-2.8%	-0.5%	-1.4%	-0.9%	-2.1%

Source: CEPA analysis of Commerce Commission ID data.

Reports that conclude scale may not be a key driver of efficiency

There are a number of reports that conclude customer and energy density are more significant factors influencing EDB efficiency than scale.

Information disclosure data from the EDBs illustrates the relative importance of density. One example is below; this chart shows expenditure on non-network opex ('overheads') per connection by EDB and illustrates the strong negative correlation with network density (connections per km of line).



While customer density is clearly a major driver of opex, this does not mean that EDBs cannot achieve higher or lower efficiency within the constraints of their local connection density.

Annex Two: Proposed letter of expectations for you to send to EDBs

[Minister's Letterhead]

[Date]

To all Electricity Distribution Businesses,

I am writing to outline my expectations for the electricity distribution sector and to seek your views on how we can work together to improve outcomes for New Zealanders.

My bottom line is simple: the energy sector must improve the affordability and security of energy for households and businesses. The capability and efficiency of EDBs are central to achieving this.

The Government has already set out its statement of policy for the electricity industry. Within this context, my priority is to see greater and faster collaboration across the sector to realise efficiencies and build collective capability for the investment needed in electrification.

The stakes are high for consumers, with lines charges accounting for approximately 25 percent of the average household electricity bill

The Government is firmly committed to electrifying the economy to achieve climate goals and enhance economic resilience. An estimated $22 billion in capital and operational expenditure is anticipated over the next decade to support electrification and integrate new generation sources.[6] I am very aware of the scale of this challenge and that New Zealand must compete internationally for the necessary skills and equipment.

At the same time there is the opportunity to create a more flexible electricity system that can empower consumers and businesses, providing them with greater choice in how they produce and use electricity. EDBs play a pivotal role in enabling this transformation by supporting innovation, decentralised energy solutions, and demand-side participation.

And while most EDBs have historically met quality and reliability standards, the increasing frequency and severity of weather events pose a growing risk of outages. This highlights the need for ongoing investment in network resilience and planning for climate adaptation in a changing climate.

Responding to challenges and opportunities requires coordinated and purposeful effort

The Government is already playing its part to allow the sector to innovate and become more efficient:

- we have agreed to amend the Electricity (Hazards from Trees) Regulations 2003, reducing outage and repair costs and increasing reliability
- we are overseeing the phase-out of the Low Fixed Charge Regulations 2008, enabling more cost-reflective and efficient pricing
- the Fast-track Approvals Act 2024 is in place to support faster investment in regionally significant distribution infrastructure
- the Commerce Commission's default price-quality path for the period 2025-2030 includes an allowance for innovation and collaboration.

[6] The future is electric, Boston Consulting Group, October 2022, https://web-assets.bcg.com/b3/79/19665b7f40c8ba52d5b372cf7e6c/the-future-is-electric-full-report-october-2022.pdf

EDBs are best placed to identify opportunities for greater collaboration and standardisation

I am concerned that the current structure of the distribution sector may leave efficiency gains unrealised and limit the capability and capacity of EDBs to invest, including in the systems and practices needed for a more flexible electricity system. **[Include if sent after release of Frontier report:** These issues are highlighted in the recent Review of the NZ Electricity Market Performance undertaken by Frontier earlier this year**].**

For these reasons, I am seeking faster and deeper collaboration across the sector. I also recognise that different regions present EDBs with different challenges. For this reason, I believe EDBs themselves are best placed to identify shared issues and opportunities. The fact that many of you are already doing so suggests there are models and opportunities worth exploring.

I want to understand how the sector can work together to realise these opportunities and what barriers may exist.

As a starting point, I am particularly interested in opportunities for greater collaboration and standardisation and integration of services. I would welcome your views on specific actions you can take or accelerate to realise benefits in areas such as:

- network planning
- procurement of common infrastructure
- network operations and maintenance
- innovation and flexible energy solutions
- asset utilisation
- other relevant areas you may identify.

My officials are available to discuss this further and will keep me informed. I encourage you to engage with them directly.

[Include if sent after release of Frontier report: While my immediate focus is on improving efficiency and capability through collaboration, I am also considering the broader recommendations in the Frontier report.]

Thank you for your continued work and commitment to supporting New Zealand's energy future.

Yours sincerely

Hon Simon Watts

Minister for Energy