

# Investment Newsletter - August 2025



## In this issue

- 1 Industry and Regulatory Updates
- 2 Regional Lines Companies Developments
- 3 Debt Issuance and Capital Market Activity
- 4 Interest rate outlook
- 5 Investment outlook

## Default Price-Quality Path Reset (DPP4) In Full Swing

The Commerce Commission completed its DPP4 reset in November 2024, implementing new revenue limits for electricity distribution businesses (EDBs) effective from April 1, 2025. The reset reflects significant increases in allowable revenue due to higher interest rates, inflationary cost pressures, and increased investment requirements. Household electricity bills are expected to increase by approximately \$10 per month excluding GST (\$120 annually) to fund higher distribution and transmission costs.

Key aspects of DPP4 include smoothed revenue increases across the regulatory period to mitigate consumer price impacts, updated quality standards based on recent outage data, and new innovation allowances (INTSA) to support non-traditional solutions. The Commission has also introduced draft guidance for reopener applications and INTSA funding to provide clarity for EDBs seeking additional expenditure allowances.

## Electricity Authority Policy Changes

The Electricity Authority announced significant market rule changes in July 2025, requiring large energy retailers (those with 5%+ market share) to offer time-of-use pricing plans by June 30, 2026. The rules also mandate fair pricing for households selling surplus solar power to the grid during peak times, designed to incentivize distributed generation adoption.

More significantly for lines companies, the government is easing restrictions on electricity distribution businesses investing in generation assets. The current 250MW cap on generation connected to Transpower's grid and 50MW limit for own-network generation will be relaxed through the Energy and Electricity Security Bill, expected in the first half of 2025. This regulatory change could unlock new investment opportunities and revenue streams for EDBs

## Connection Pricing Reform

The Electricity Authority is consulting on distribution connection pricing reforms that could materially impact EDB revenues and capital expenditure forecasts. The proposed 82% reliance limit on capital contributions could require additional expenditure of \$28.25 million in maximum allowable revenue for Vector alone, translating to higher customer bills and potential financeability challenges. These changes may necessitate Commerce Commission price path reopeners and extensive regulatory coordination

## Regional Lines Companies Developments

### Major Capital Investment Programs

**Orion Group** has outlined a \$1.73 billion expenditure program for 2027-2032 as part of its proposed Customised Price-Quality Path (CPP) application. The investment focuses on asset renewals (67% capital expenditure), network expansion for growth, and resilience improvements. This represents an additional \$8 per month in distribution charges for customers from April 2027, beyond the \$16 monthly increase from DPP4.

**Transpower** submitted its RCP4 proposal forecasting \$2.25 billion in capital expenditure over 2025-2030, representing a 32% increase from the current period. The Commerce Commission approved \$392.9 million for central North Island and Wairakei projects, with conditions around the \$103 million Cook Strait HVDC investment requiring customer assurance.

**The Power Company Limited (TPCL)** plans \$731 million in expenditure over 2025-2035, driven by over 5% annual demand growth from process heat electrification in Southland's dairy processing sector. The capital program focuses on network upgrades, asset renewals, and capacity expansion to serve ongoing industrial decarbonization.

**WEL Networks** decreased its customer-initiated works forecast by \$14.0 million but increased network development spending by \$11.4 million, focusing on resilience improvements and seismic upgrades. The company continues significant non-network investment in digital transformation and asset management capabilities.

### Infrastructure Development Initiatives

The government announced a \$2 million Regional Infrastructure Fund investment to investigate upgrading Northland's electricity infrastructure as an "energy bridge" to Auckland. The project could unlock \$1 billion in private renewable energy investment and significantly improve the region's electricity resilience while potentially reducing Auckland power costs.

## Debt Issuance and Capital Market Activity

### Green Financing Framework Adoption

Powerco secured New Zealand's first Climate Bonds Initiative-certified green loan under the "Electrical Grids and Storage" criteria. The \$300 million, seven-year facility demonstrates the sector's access to sustainability-linked financing and international ESG capital. Powerco achieved programmatic CBI certification, enabling future green debt issuance.

Transpower New Zealand (National Grid) successfully completed dual green bond offerings in July 2025, achieving remarkable oversubscription levels and pricing significantly tighter than initial indicative ranges. The transaction demonstrates the robust demand for high-quality New Zealand infrastructure debt and the premium investors place on Transpower's AA-rated credit profile.

## Transaction Overview

### Retail Green Bonds (5-Year Fixed Rate)

Issue Size: NZ\$100 million (no overallotment exercised)

Final Margin: 0.67% per annum over base rate

Final Interest Rate: 4.219% per annum

Oversubscription: 5.65x covered, with orderbook exceeding NZ\$565 million

### Wholesale Green Bonds (3-Year Floating Rate)

Issue Size: NZ\$125 million

Final Margin: 0.52% per annum over floating base rate

Oversubscription: 1.24x covered, with orderbook exceeding NZ\$155 million

## Official Cash Rate and Interest Rate Outlook

The Reserve Bank held the OCR at 3.25% in July 2025, pausing the cutting cycle that began in August 2024. The RBNZ has reduced rates by 225 basis points from the 5.50% peak, with markets expecting further cuts to reach a terminal rate between 2.50%-3.00%. Current swap rates reflect expectations of continued monetary easing, with the 90-day bank bill rate at 3.15%.

Inflation remains within the RBNZ's 1-3% target band at 2.7% annually in Q2 2025, though above the 2% midpoint. Core inflation pressures continue easing, supporting the case for further OCR reductions. The central bank expects inflation to return toward 2% by early 2026 as spare economic capacity reduces domestic price pressures.

## Economic Growth and Employment

New Zealand's economy is emerging from recession, with GDP contracting 0.7% year-on-year in Q1 2025. The Treasury forecasts acceleration to 2.9% growth in 2025/26 and 3.0% in 2026/27, supported by lower interest rates and recovering business confidence. However, global trade tensions and tariff impacts are tempering the recovery outlook.

Unemployment rose to 5.2% in the June quarter, the highest level since 2020, before gradually easing. The labour market remains weak, reflecting the lagged effects of the economic downturn and indicating ongoing spare capacity in the economy. Wage growth is moderating, which supports the disinflation process but also limits household spending power.

## Wholesale Swap Rates and Funding Conditions

NZD swap rates have declined significantly through 2024-2025, reflecting expectations of continued monetary easing. The compression in swap spreads over government bonds indicates healthy bank funding conditions and demand for fixed-rate exposure from mortgage originators. This environment supports EDB refinancing activities and new debt issuance at improved terms relative to recent years.

Figure 1. Swap rates year to date

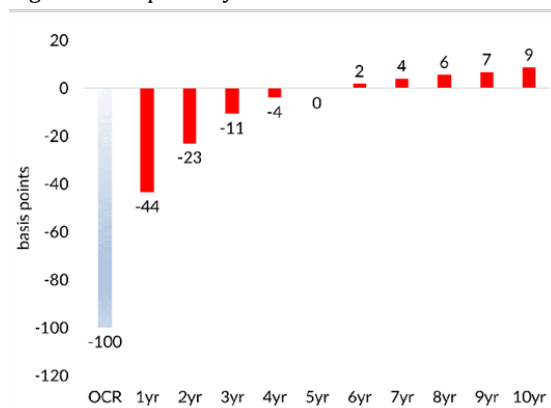
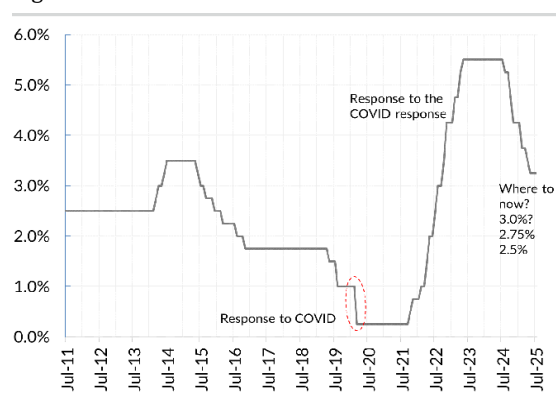


Figure 2. OCR—Where to now?



## Investment Outlook

The New Zealand electricity distribution sector presents compelling opportunities for private credit investors, underpinned by essential service provision, high degree of regulatory revenue certainty, and substantial capital investment requirements. Higher interest rates have improved returns on infrastructure debt while regulatory frameworks continue to provide stable, inflation-linked cash flows.

Key investment drivers include accelerating decarbonization requirements driving network capacity expansion, aging asset replacement programs requiring multi-billion dollar expenditure over the next decade, and evolving regulatory settings enabling EDB participation in generation assets. The sector's high capital intensity and long asset lives align well with patient capital deployment strategies.

Risk factors include regulatory uncertainty around connection pricing reforms, potential financeability challenges from rapid bill increases, and execution risks around major capital programs in constrained labor and materials markets.

## New Hire Announcement

We are delighted to announce the appointment of Dr Marco Eugster as Director, Head of Corporate Finance at Fidelity Capital. Dr Eugster will also join the Fund's Investment Committee.



Dr Eugster holds a PhD in Finance and has expertise in financial modelling, cost of capital, cost-benefit analysis, regulated industries, and infrastructure economics. He has advised a range of clients in relation to New Zealand's price-quality and information disclosure regulation, including within the electricity lines, gas pipelines, airports and fibre industries. He brings extensive consulting experience, including with KPMG in Germany and PwC in Auckland.

A CFA charterholder, Dr Eugster has taught a wide range of finance courses at the University of Auckland, including within the Master of Applied Finance, Bachelor of Commerce (BCom), BCom (Honours), and MBA programmes. He also serves as the Programme Director for the Master of Applied Finance.

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