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Dear Ben

### **Aurora's CPP to DPP4 Transition – Submission on the Open Letter**

Orion welcomes this opportunity to provide feedback on the Commerce Commission's (Commission) open letter regarding Aurora Energy's (Aurora) transition from its Customised Price-quality Path (CPP) to the fourth Default Price-quality Path (DPP4).

No part of this submission is confidential.

#### General Approach

We are in broad agreement with the Commission's proposed approach to setting Aurora's DPP4 expenditure allowances and resultant revenue path. This approach is broadly consistent with the Wellington Electricity and Powerco CPP to DPP transitions, with appropriate adjustments to accommodate the prevailing investment context and the way the DPP4 reset was determined.

When a price-quality regulated supplier applies for a CPP, there is some uncertainty (with attendant risk) surrounding the transition back to the DPP, since this occurs nearly six years into the future. We believe that a consistent approach goes a long way to resolving uncertainty, and that prospective CPP applicants can take some comfort from that consistency.

In its open letter, the Commission has moved directly to signalling its intention to set different prices<sup>1</sup>. While we don't consider the proposed approach to be unreasonable, we would have expected to see some discussion of roll-over, if only to establish why roll-over is not appropriate and to demonstrate a complete and comprehensive process.

#### Expenditure Scrutiny

We note the Commission's intended approach to expenditure scrutiny, and its plan to apply deeper scrutiny to growth projects, including an assessment of certainty and the degree to which non-network solutions (NNS) are planned or used to manage constraints.

This enhanced scrutiny is understandable, since deferral of investment can deliver real benefits to consumers through restrained pricing growth; however, deferral must be prudent and not become a barrier to economic growth and community development. We observe that:

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<sup>1</sup> s53X(2) of the Commerce Act 1986 requires that, when a regulated supplier moves off its CPP and back to a DPP, the supplier's starting prices for the DPP period are those that applied at the end of the CPP period, unless the Commission sets different prices at least 4 months before the end of the CPP period.

1. Aurora's Central Otago pricing sub-networks overlay two of New Zealand's fastest growing territorial authorities<sup>2</sup>, and we would expect growth uncertainty to be a lesser consideration than for many other Electricity Distribution Businesses (EDBs).
2. Aurora was among the first of New Zealand's EDBs to implement a flexibility solution to manage a genuine capacity and security constraint, contracting with SolarZero after seeking registrations of interest for non-network solutions in 2019. Where economic and technically feasible, we would expect Aurora's approach to innovative constraint management to continue.

While NNS are currently being used across the electricity system and, in our view, EDBs should actively and genuinely consider NNS in their 'optioneering', regulators' desire to see accelerated use must be tempered with pragmatism, owing to the nascence of the market for supply. Factors that can constrain the use and/or effectiveness of NNS, include:

- EDBs have long used ripple control for residential demand flexibility and employed commercial mechanisms to elicit a demand response from commercial and industrial customers (Orion's control period demand (CPD) pricing is an example). Growth in this flexibility segment is likely to be incremental, rather than step-change.
- At this early stage of development, NNS carry risk and EDBs must prudently balance the potential benefits of implementing a NNS against that risk. Risks include uncertainty that the flexibility market can deliver an adequate response, and failure of flexibility traders<sup>3</sup>. An unsuccessful NNS can have a significant negative effect on consumers' service experience owing to the additional time it takes to revert to more traditional lines solutions.
- While residential Distributed Energy Resource (DER) systems are no longer novel, only a small proportion (around 3.5%<sup>4</sup>) of total residential ICPs have any form of DER installed and of those, only around 13% of DER connections have a battery installed (around 0.5% of total residential connections). Positively, however, recent trends indicate that battery installation is increasing and has averaged around 29% of total new DER connections in the past nine months.

The above factors should not be construed as a negative outlook on the use of NNS – Orion considers NNS in its planning and has active projects aimed at identifying, understanding and overcoming barriers to more extensive use<sup>5</sup>. Further, we publish a [load growth map](#) which provides a 5-year forecast of load hosting capacity and indicates, at a high level, areas of the network that may become candidates for NNS, subject to other factors, like generation hosting capability.

NNS have an increasing important role to play in network management and adoption will increase in the longer-term; however, we think that there are likely to be medium-term limitations to what can be practically achieved, and that the Commission should be mindful of this as it conducts its scrutiny of Aurora's expenditure for the balance of the DPP4 period.

Yours sincerely



Alec Findlater  
Regulatory Lead – Commerce Commission

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<sup>2</sup> Statistics New Zealand's population data, for the period 2018 to 2024, ranks the Queenstown Lakes District Council as New Zealand's 2<sup>nd</sup>-fastest growing territorial authority with an annual growth rate of 3.7%, and the Central Otago District Council the 4<sup>th</sup>-fastest with 2.3% annual growth (<https://infoshare.stats.govt.nz/>).

<sup>3</sup> For example, Solar Zero's November 2024 announcement that it had gone into liquidation.

<sup>4</sup> Connections statistics are sourced from the Electricity Authority's Electricity Market Information website (<https://www.emi.ea.govt.nz/>) and are current at 30 April 2025.

<sup>5</sup> Orion's Resi-Flex project aims to incentivise flexibility from residential consumers by exploring commercial mechanisms in collaboration with flexibility stakeholders.