



20 December 2021

Andy Burgess
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Commerce Commission
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Dear Andy

Feedback on the Impact of Decarbonisation on Electricity Line Services (the Workshop)

Introduction

1. Orion welcomes the opportunity to provide feedback on the Commission's IM review workshop, held on 7 December 2021.
2. The Commission provided a Summary of Submissions received on its open letter published 29 April 2021¹.
3. The purpose of the letter was to seek views on emerging issues for electricity networks and highlighting the implications for the energy sector of the Climate Change Commission's draft advice outlining a decarbonisation pathway.
4. The Commission also sought feedback on the potential improvements to the IM's and their powers under Part 4 of the Commerce Act, to facilitate and support decarbonisation.

Summary

5. Orion welcomes the engagement by the Commission to seek regulated businesses views on the priorities for energy networks.

¹ https://comcom.govt.nz/_data/assets/pdf_file/0029/267824/Open-letter-on-priorities-for-Energy-and-Airports-Summary-of-key-themes-from-submissions-12-October-2021.pdf

6. The Commission invited submitters, including EDB's, to present their top 3 priorities for the regulatory regime at the workshop. Orion's top 3 priorities are:
- The climate change obligations need to be reflected in Part 4.
 - The regulatory regime needs a forward-looking element to Opex expenditure setting
 - A new regulatory approach to new customer connection Capex

Orion Context

7. Orion's purpose is 'Powering a cleaner and brighter future for our communities'² which is underpinned by a focus on selected United Nations sustainability goals where we believe we can provide positive outcomes through:
- Sustainable cities and communities
 - Affordable and clean energy
 - Climate action
 - Decent work and economic growth
 - Responsible consumption and economic growth
 - Partnership for the goals
 - Reduced inequalities.
8. To support our purpose, we have focussed on five strategic programmes:
- Transformation of our network for the future
 - Customer engagement
 - Tackling climate emergency and low carbon objectives
 - Optimising performance
 - Evolving industry capability.
9. Orion's commitment to sustainability includes, remaining open to using innovative ways to achieve sustainable outcomes and aspiring to be a leader for sustainability³.

Other Feedback

10. We support the feedback from the Electricity Network's Association on the workshop.

² Page 5, <https://www.oriongroup.co.nz/assets/Company/Submissions/Orion-Feedback-on-ComCom-Open-Letter-priorities-for-energy-networks-2021-Final.pdf>

³ <https://www.oriongroup.co.nz/corporate/our-sustainability-commitment/>

The Climate Act obligations need to be reflected in Part 4

11. The Commission should ensure a statutory obligation to enable exercise of its public duty under the Climate Change Response Act, Section 5ZN⁴ so they can:

- Accommodate changes in EDB's allowable revenue to address emissions from the use of their assets to deliver the regulated service
- Consider and provide regulatory flexibility for the electrification of transport and process heat, and the connection of large renewable generation primarily driven by decarbonisation. There is also an exponential increase of new and in-fill housing in cities which intensifies the connection capex to service the needs of our customers.

The regulatory regime needs a forward-looking element to Opex expenditure setting

12. Data and digitisation are key enablers for the future of our networks.

- Legacy software systems are likely to be replaced with cloud-based applications, resulting in a shift from Capex to Opex expenditure
- Dynamic control over networks is required to deliver on the network transformation roadmap, resulting in an increase in Opex expenditure. This transformation requires communication layers to enable system automation, including the proliferation of IoT devices
- Cybersecurity costs are growing exponentially to manage the operational risk as automation and cloud based, or 'software as a service' solutions become more prevalent.

13. Consequently, it is not sustainable to base Opex allowances solely on historical spending patterns. The regulatory regime needs to consider a future looking element to Opex expenditure and the related step changes, to take account of the changing environment of future technologies and risks associated with web-based data storage, automation and digitisation.

A new regulatory approach to new customer connection Capex

14. Forecasting new customer connections is challenging and is primarily driven by the need to meet growth and customer demands, including from decarbonisation activities.

⁴ <https://www.legislation.govt.nz/act/public/2002/0040/latest/LMS282052.html>

15. We propose that customer connection driven Capex is excluded from the reset process and IRIS incentives, specifically:

- Through the introduction of a dynamic WACC based allowable revenue, adjusted throughout the regulatory period based on actual annual Capex to make provision for unforeseen growth and demand
- A negative IRIS incentive (penalty) is counterproductive when responding to customer driven needs. In addition, it does not support electrification for decarbonisation, nor support the growth of new connections in a high demand environment.

Concluding Remarks

Thank you for the opportunity to provide this feedback. I do not consider any part of this feedback as confidential.

Please contact me if you have any questions on 027 399 9609 or dayle.parris@oriongroup.co.nz

Yours sincerely



Dayle Parris

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