Orion

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Electricity Authority

PO Box 10041

Wellington 6143

Submitted via email to distribution.feedback@ea.govt.nz

Feedback on *A roadmap for the future of distribution system operation in New Zealand*

Dear Electricity Authority

Orion welcomes the opportunity to provide feedback on the Electricity Authority's *A roadmap for the future of distribution system operation in New Zealand*. It is useful to have a resource which identifies the various workstreams related to enabling distribution systems operation and clearly articulates the Authority's expectations over the next 12 months.

While we support the overall direction of the roadmap, we have identified several opportunities to further strengthen the proposed approach. Our key observations and suggestions are summarised below.

Focus on DSO functions and delivery models, rather than the number of DSOs

The roadmap identifies the hybrid DSO model as the current direction of travel and notes that the Authority intends to assess in 2027 how effectively roles and responsibilities are being implemented, and whether there is evidence to support a move toward a total DSO or total TSO model.

Orion supports ongoing monitoring of DSO development. However, we consider the 2027 assessment would be most valuable if it focused on the different ways a hybrid model could be implemented in practice and how this affects the allocation of functions.

Rather than trying to specify how many DSOs New Zealand may require, we suggest framing the discussion around two related questions:

1. Which entity should be accountable for each DSO function?
2. What delivery model is most efficient for fulfilling that function?

The first question recognises that accountability for DSO functions may vary depending on how a hybrid model evolves. As the Authority develops its view of future DSO functions, it would be useful to distinguish between functions where accountability is relatively clear and those where accountability may depend on the type of hybrid model adopted. A collaborative approach to this work will be important to draw on industry expertise and operational experience.

Orion New Zealand Ltd
565 Wairakei Road
PO Box 13896
Christchurch 8141
+64 3 363 9898
oriongroup.co.nz

The second question recognises that accountability and delivery are not necessarily the same thing. Once accountability for a function is established, there could be multiple delivery models. These could include capability developed by individual distributors, shared services, joint DSO arrangements, common platforms, or contracted service providers. There are numerous examples of collaborative delivery models across EDBs in New Zealand, including the LocalFlex platform, the Upper South Island Load Management Group, and the Counties Energy and Unison strategic partnership, all of which demonstrate how capability can be developed efficiently across distributors.

We also note that functional separation between DNO and DSO activities is likely to be complex in practice. For example, UK Power Networks DNO-DSO Operational Agreement highlights the extensive operational interactions required between the DNO and DSO and overall accountability remains with one CEO. In New Zealand, separating DNO and DSO functions is likely to be even more complex due to the widespread use of existing network operating tools such as ripple hot water control and dynamic pricing arrangements.

Practical suggestions:

- We encourage the Authority to bring forward development of a high-level list of DSO functions and work with industry to assess how different hybrid models impact the allocation of functions.
- Reframe the narrative from "how many DSOs are needed" to which entity is accountable and what delivery model(s) are most efficient for fulfilling that function.

Recognise that participation and liquidity are not solely within distributor control

The roadmap identifies increased participation and liquidity in flexibility markets as part of the critical path for DSO development. Orion agrees that participation and liquidity are important, but they may not be an accurate indicator of distributor progress.

Distributors can identify network needs, provide visibility of constraints, enable participation through pricing and connection arrangements, and procure flexibility where it provides value. However, the development of a mature flexibility ecosystem depends equally on the actions of retailers, aggregators, flexibility service providers (FSPs), technology providers and customers.

Participation is influenced by flexibility service providers ability to access and combine multiple value streams. Retailers and aggregators are often best placed to access wholesale, retail, customer and network value, and to package these into customer propositions that are simple, attractive and commercially viable. They also typically hold the customer relationship and are therefore well positioned to drive customer engagement and adoption.

If retailers and aggregators do not actively develop compelling flexibility propositions that reflect underlying value streams, participation in flexibility (not just flexibility markets) may remain limited even where distributors are ready to procure services or are providing flexibility incentives through their pricing. Similarly, if customer devices are not interoperable, if data access is poor, or if customer trust is low, a distributor's willingness to use flexibility will not necessarily translate into a liquid market.

A lack of liquidity should not automatically be interpreted as a lack of distributor progress. It may instead indicate that the wider flexibility ecosystem has not yet matured sufficiently, or that the value to support investment in flexibility is either not sufficient or not accessible.

Practical suggestions:

- Recognise the role of retailers, aggregators and FSPs within the roadmap and consider success indicators related to functions they are accountable for in hybrid DSO model. For example: "Evidence that retailers, aggregators and flexibility service providers are developing scalable customer propositions that utilise multiple value streams and support investment in flexibility resources."
- Avoid using liquidity as an indicator of distributor progress and focus on distributors removing barriers to participation which are within their control.

Progress towards implementing DSO functions should consider the wider flexibility toolkit, not just local flexibility markets.

The roadmap identifies both price-led and contract-led approaches as pathways to enabling flexibility and refers to other mechanisms including dynamic operating envelopes and flexible connections. These mechanisms serve different purposes and may be implemented by distributors at different times based on network need.

Orion's preferred approach is to use pricing and connection arrangements wherever these can efficiently influence customer and market behaviour, supported by targeted flexibility procurement where additional certainty of response is required to address network constraints. This approach creates incentives more widespread and accessible incentives that enable the development of scalable customer propositions and supports investment in flexible resources ahead of using local flexibility markets to procure targeted services.

Practical suggestions:

- We suggest the Authority update its "what success looks like" to recognise that progress over the next 12 months could be through other mechanisms, not just procured flexibility services. This would provide a more balanced assessment of DSO development and avoid over-weighting flexibility procurement as the primary indicator of progress.
- We suggest the Authority review reference to “price-led versus contract-led” flexibility through the roadmap and instead adopt language that reflects the complementary role of these mechanisms as mentioned in other parts of the roadmap.

TSO–DSO coordination and visibility are foundational to a successful hybrid model

We consider that TSO–DSO visibility and coordination should be given stronger emphasis in the roadmap, as this is a foundational requirement for a successful hybrid model. As the use of distributed energy resources, flexibility services and customer-owned technologies increases, Transpower and distributors will require clearer arrangements for data exchange, visibility of constraints, operational coordination, and primacy where multiple parties may seek to utilise the same flexibility resource.

Unless a future decision is made to allocate accountability for DSO functions to a separate entity, coordination between Transpower and distributors will remain critical to integrated system planning, operational coordination, management of distribution constraints, and the effective use of flexibility across the electricity system.

Practical suggestions

- We suggest updating the 2030 expectation of "clearer coordination between transmission and distribution system operators" to "clearer coordination between Transpower and distributors".

We strongly support the focus on connectivity and interoperability

Orion strongly supports the roadmap's focus on interoperability, communication standards, data exchange and device capability as these are valuable under any DSO model.

A low-regrets action is to ensure that new DER and customer energy technologies can participate in future flexibility and coordination arrangements. This includes smart inverter capability, smart EV charging, home energy management systems, open communication standards, and standardised interfaces between distributors, retailers, aggregators and flexibility service providers.

We are pleased to see the Authority, EECA and industry active in this area. The cost and complexity of retrofitting interoperability later is likely to be materially higher than ensuring new devices can support future coordination from the outset.

We look forward to working with the Authority and other industry participants to ensure progress toward DSO functions is clearly demonstrated over the next 12 months and beyond.

Yours sincerely

Evie Trolove

Head of Market and Customer Innovation