Submission on Orion New Zealand Limited Customised Price-Quality Path 2027

To: Commerce Commission / Te Komihana Tauhokohoko

Subject: Orion CPP 2027 – Views in response to Process and Issues paper

From: Foodstuffs South Island Limited

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Redacted version

Foodstuffs South Island Limited welcomes the opportunity to comment on Orion New Zealand Limited's proposed Customised Price-Quality Path for the period 1 April 2027 to 31 March 2032.

Foodstuffs South Island is a significant commercial electricity consumer within the Orion network. Across our portfolio we have approximately **16.5 MVA of connected capacity and annual electricity consumption of approximately 50.8 GWh.** Our sites include supermarkets, distribution and logistics facilities, offices and other property assets.

We also actively participate in Orion's notified control periods and manage load in response to network peak conditions. This includes operational management of refrigeration, HVAC and other controllable loads, together with significant investment in (and the use of) standby generation and other site-based resilience measures where appropriate (roof-top solar and wind generation).

> Our submission is therefore made from the perspective of a large commercial customer that both consumes significant network capacity and actively modifies its behaviour to reduce demand during periods of network constraint.

Overall position

Foodstuffs South Island supports prudent investment in a safe, resilient and reliable Canterbury electricity network. We recognise the importance of maintaining network reliability, renewing ageing assets, strengthening resilience and providing capacity for regional population and economic growth.

We do not oppose Orion's CPP in principle.

However, we consider it important that the Commission ensures the CPP appropriately recognises the value created by large customers that actively reduce their contribution to peak demand. Customers that provide measurable demand flexibility should not simply bear a pro-rata share of the cost of network investment where their actions are helping to avoid or defer that investment.

This issue is particularly relevant given the scale of Orion's proposal. Orion is seeking approval for expenditure of approximately **$1.51 billion over five years**, around 20% above the corresponding DPP expenditure allowances.

Orion's proposed revenue path involves an initial **16.8% increase in allowable revenue**, followed by annual increases of approximately **9.7%** during the CPP period.

These increases will ultimately translate into higher electricity distribution charges for consumers. The impact on individual customers will depend on how Orion allocates its overall revenue requirement across customer groups and pricing components. The Commission itself notes that the effect on individual customers depends upon both the way revenue is recovered from different consumer groups and the amount of electricity consumed.

For large commercial consumers, this allocation methodology is therefore highly material.

1. Demand flexibility should be recognised as a network resource

Orion's CPP proposal strongly supports the use of demand-side management and non-network solutions.

Orion states that its longstanding peak-demand management has flattened its demand profile and deferred the need for growth-related network investment over several decades. Orion cites analysis estimating that peak-demand management has delivered approximately **$11 million per annum of deferred transmission investment savings since 2021 across the Upper South Island**.

Orion also explicitly includes demand-side flexibility in its forecast modelling and identifies time-of-use pricing and load control as demand-side levers that it can directly influence.

Its forecast of demand growth includes a specific allowance for **major customer control**, demonstrating that large-customer demand response is already embedded within the assumptions underpinning Orion's future network requirements.

We therefore consider there is a strong principle that should apply to the CPP:

> If Orion relies upon demand response from large customers when forecasting or avoiding network investment, its pricing and incentive structures should continue to provide those customers with a meaningful commercial reason to provide that response.

The Commission should ensure that the CPP does not inadvertently weaken incentives for customers to participate in control periods, shift consumption away from peak periods, invest in on-site generation or storage, or otherwise provide network flexibility.

2. Large-customer price impacts require greater transparency

Much of the published discussion of customer price impacts focuses on residential and small-business consumers.

That is understandable, but the impact on large industrial and commercial consumers can be materially different because of the interaction between capacity charges, demand charges, consumption and peak-period behaviour.

The Commission is already considering whether revenue impacts should be assessed on a per-ICP basis or per unit of demand.

We support that work, but consider that neither measure is sufficient for large commercial and industrial consumers.

We recommend that the Commission require Orion to publish indicative CPP impacts for representative large commercial and industrial customer profiles using measures including:

- annual network charges;
- $/MWh delivered;
- $/kW or $/kVA of capacity;
- coincident peak demand;
- contribution to Orion control-period demand; and
- the financial benefit attributable to verified load reduction during control periods.

Such analysis would make clear whether the proposed CPP and associated pricing structures properly reflect the cost drivers of the network.

3. Control-period participation should remain economically meaningful

Foodstuffs South Island currently responds to notified Orion control periods and alters site electricity demand during critical network periods.

The benefit of this activity is not simply reduced energy consumption. Its value lies in reducing the coincident network peak and therefore potentially delaying or avoiding investment in additional network capacity.

The Commission should therefore require Orion to demonstrate that the value differential between customers who contribute materially to network peaks and customers who reduce demand when requested remains economically meaningful throughout the CPP period.

If large customers are expected to respond to control periods while their network charges become increasingly disconnected from their contribution to peak demand, the incentive to participate will diminish.

That would be a perverse outcome when Orion's own CPP case relies increasingly on demand-side flexibility and non-network solutions.

4. Commercial and industrial flexibility should become a formal part of network planning

Orion proposes a new performance measure requiring it to support at least **10 commercial and industrial customers to understand their flexible capability and report on outcomes and learnings**.

We support the intent of this initiative but consider it modest relative to the scale of the CPP programme and the opportunities available.

Large commercial consumers with multiple sites can offer significant aggregated flexibility through combinations of:

- refrigeration load management;
- HVAC load shifting;
- embedded generation;
- battery storage;
- EV charging management;
- hot-water load management;
- thermal storage; and
- operating changes during notified network peaks.

Foodstuffs South Island's own portfolio illustrates this opportunity. Our assets represent approximately 16.5 MVA of connected capacity distributed across multiple network locations.

We encourage the Commission to require Orion to develop a more structured commercial and industrial demand-response programme during the CPP period, including clear arrangements for measurement, verification, commercial reward and integration into network investment decisions.

Large consumers should increasingly be viewed not only as electricity customers, but as potential providers of network flexibility.

5. Avoided network costs should be shared with flexibility providers

Where customer demand response, distributed generation, storage or operational changes enable Orion to defer or avoid reinforcement expenditure, there should be a mechanism for an appropriate portion of those avoided costs to be shared with the customers providing the flexibility.

This would create a clear economic signal and encourage customers to invest in flexible capability.

Orion's CPP proposal already contemplates batteries, demand response and other non-network solutions as alternatives to conventional network investment.

We believe this principle should extend to existing commercial customers that can provide reliable, measurable flexibility.

The Commission should therefore test whether the regulatory and pricing framework proposed under the CPP creates an appropriate mechanism for Orion to procure flexibility from customers where doing so is more efficient than network investment.

6. The Commission should test a potential inconsistency in Orion's assumptions

We ask the Commission specifically to satisfy itself that Orion's expenditure forecasts do not rely upon the continuation or expansion of major-customer demand response to reduce peak-demand forecasts while simultaneously allowing network pricing structures that reduce the commercial incentive for those same customers to participate.

In our view, that would represent an inconsistency between Orion's network planning assumptions and the behaviour its pricing arrangements encourage.

The Commission is already considering whether Orion's proposed expenditure is prudent and efficient and whether consumers risk paying upfront for expenditure that may not ultimately be required or deliverable.

Demand-side flexibility should form part of that assessment.

7. Revenue smoothing and network-charge volatility

Foodstuffs South Island has a retail electricity contract with an average wholesale and retail energy price of approximately **[$XXX/MWh through to the end of 2029].**

While retail energy pricing is outside the scope of the CPP, as acknowledged by the Commission, the commercial significance of the CPP for customers such as Foodstuffs South Island is that network charges represent a substantial remaining source of electricity cost escalation and volatility.

We therefore support the Commission carefully considering the shape of Orion's revenue path and avoiding unnecessary price shocks.

We also support the Commission's consideration of revenue movements on a per-unit-of-demand basis and recommend that this analysis be expanded to include representative large commercial and industrial customers.

Summary

Foodstuffs South Island supports the objective of maintaining a safe, reliable, resilient and future-ready Orion network.

We recognise that investment will be required to respond to population growth, asset renewal, resilience requirements and changes in the way electricity is generated and consumed.

> Our primary concern is that the CPP should reinforce, rather than weaken, the economic incentives for large electricity customers to participate actively in network demand management.

We therefore recommend that the Commission:

1. require transparent modelling of CPP price impacts on large commercial and industrial customers;

2. ensure network pricing appropriately reflects contribution to coincident peak demand;
3. preserve meaningful incentives for participation in Orion control periods;
4. strengthen Orion's proposed commercial and industrial demand-flexibility programme;
5. enable customers providing verified flexibility to share in the value of avoided network investment; and
6. ensure Orion's network investment forecasts and its customer pricing incentives are internally consistent.

Foodstuffs South Island would welcome the opportunity to engage further with the Commission or Orion on these matters and to provide practical information regarding our experience of load management and the flexibility potential within a large distributed commercial property portfolio.

Regards,

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