PUBLIC

ISBN: 978-1-997321-62-0

COMMERCE COMMISSION NEW ZEALAND
Te Komihana Tauhokohoko

Orion New Zealand Limited Customised Price-Quality Path 2027

Process & Issues paper

5 August 2026

Contents

Executive Summary

Purpose of this paper

X1 This paper sets out key issues we have identified in relation to the proposal from Orion New Zealand Limited (Orion) for a 5-year customised price-quality path (CPP).

X2 Your feedback and views on these issues will help us assess if Orion's CPP investment plans are likely to promote the long-term interests of its consumers and determine the consumer prices and quality standards we should approve for the CPP period.

X3 Submissions on this paper are due by **5pm, 26 August 2026**. We plan to publish our draft decision on Orion's proposed CPP in November 2026.

Orion's CPP proposal

X4 On 9 June 2026 Orion applied to the Commission for approval of a CPP for the 5-year period from 1 April 2027 in respect of its electricity distribution business (EDB) serving consumers in Christchurch and surrounding areas.[1]

X5 The CPP would replace Orion's default price-quality path (DPP) for DY28 to DY32.[2]

X6 Orion considers the relevant DPPs that would otherwise apply to it would not allow for the level and timing of the investment it believes is needed to meet its regulatory obligations or customers' expectations, including future network requirements.

X7 It is seeking approval for revenues sufficient to accommodate total expenditure of $1.51 billion (in DY26 constant dollars) over the CPP period – about 20% more than the corresponding expenditure allowances under the relevant DPPs. Orion largely proposes retaining its DPP4 quality standards and its other incentive settings.

X8 Alongside this paper we have published a Notice that confirms Orion's CPP application meets the requirements relating to the process for, and content of, CPP proposals and is now subject to our evaluation, including considering feedback from stakeholders.[3]

Our role and context for making decisions

X9 Our role is to provide EDBs, including Orion, with incentives to undertake activities that benefit consumers over the long-term, given the position of EDBs as monopoly suppliers of electricity lines services.

[1] Orion's CPP application and associated documents are available on our Orion CPP 2027 webpage.
[2] We use DY[XX] in this paper to mean the regulatory disclosure year ending on 31 March 20[XX]. We set DPPs every 5 years for all non-exempt electricity distribution businesses (EDBs). Orion's CPP will cover the final three years of DPP4 and the first two years of DPP5.
[3] See our Orion CPP 2027 webpage.

X10 In accordance with Part 4 of the Commerce Act 1986 (Act), we aim to promote the long-term benefit of consumers, by promoting outcomes that are consistent with those produced in competitive markets, such that EDBs:

X10.1 have incentives to innovate and to invest, including in replacement, upgraded, and new assets;

X10.2 have incentives to improve efficiency and provide services at a quality that reflects consumer demands;

X10.3 share with consumers the benefits of efficiency gains in the supply of regulated goods or services, including through lower prices; and

X10.4 are limited in their ability to extract excessive profits.

X11 Orion's CPP proposal is taking place within the wider context of New Zealand's ongoing transition to a decarbonised economy, electricity demand growth across some regions, changing technologies (eg, batteries and electric vehicle charging) and consumer preferences, network resilience needs in respect of a wider range of potential extreme events, and cost pressures (for both consumers and EDBs).

X12 This context presents both risks and opportunities to be taken into account in our assessment and decisions on Orion's CPP proposal. To that end, it is important that we thoroughly test Orion's proposed expenditure and service quality levels.

X13 We are particularly interested in whether Orion's proposal is sufficiently aspirational and flexible to best leverage Orion's position as the largest EDB in the South Island, including how possibilities for innovation, collaboration, scale efficiencies and different approaches to managing risk can be harnessed for consumers' benefit.

Key Issues

Approving prudent and efficient expenditure allowances

X14 Orion is asking us to approve revenue levels that would support much more spending on its network than it has undertaken in recent years. To ensure consumers do not pay upfront for proposed expenditure that may not be needed or is not able to be delivered, we test whether it meets the expenditure objective. In practice, this involves assessing whether the proposed spend is prudent (the right investments at the right time and able to be delivered) and efficient (at the right cost).

X15 The expenditure Orion has applied for appears generally well-justified in its CPP proposal. However, we will consider the expenditure more closely to ascertain whether approving all of the proposed investment as part of a 5-year CPP is warranted. This will include assessing whether Orion's Network Transformation programme would credibly equip it for the future, including by developing the capabilities needed to make efficient and well-timed investment decisions to respond to increasing demand variability and more decentralised electricity production.

X16 We welcome your views on Orion's proposed investment plans and on the areas we intend to focus on when assessing those plans, including deliverability and related impacts for other EDBs. We also invite feedback on any aspects of the report from the Independent Verifier (verifier), including where you think it would not be appropriate to rely on the verifier's findings.[4] Lastly, we are interested in your views on the benefits and workability of staging expenditure allowances, and whether a mechanism similar to the DPP4 Innovation and Non-Traditional Solutions Allowance (INTSA) would be beneficial.

Addressing uncertainty over forecast expenditure and investment

X17 Orion's CPP proposal highlights some uncertainty around the timing and need for some planned expenditure. To manage this uncertainty, Orion has suggested leveraging existing regulatory mechanisms—with some modifications—as an alternative to including some or all of the spend as part of the upfront allowances we are being asked to approve.

X18 We would like your views on whether Orion's proposed changes to regulatory mechanisms should be approved, or whether Orion should manage uncertainty within its upfront CPP expenditure allowances to keep prices predictable. In addition, we would like your views on our approach to identifying other changes to uncertainty mechanisms to address expenditure-related concerns we have. These include the deliverability of Orion's overall investment programme and the opportunity for Orion to develop a captive insurance company.

X19 We are also seeking your feedback on Orion's request to extend the eligibility criteria for an 'urgent project allowance' to include Orion's CPP 'ramp up' costs incurred from the start of DPP4. Our initial view is that this would not be consistent with the underlying policy intent of this allowance, and we should therefore not agree to vary the criteria as requested.

Assessing Orion's consumer consultation

X20 In evaluating Orion's CPP proposal we will assess the extent to which Orion has consulted with consumers on its CPP proposal and, where relevant, the extent to which the proposal is supported by consumers.

X21 We are seeking feedback on whether consumer views are accurately represented in Orion's CPP proposal, whether Orion appropriately considered those views, whether consultation on the CPP proposal (including on the refined CPP proposal from March 2026) was adequate, and if there were any other matters you would like us to consider.

[4] GHD "Orion's CPP verification report" (31 March 2026).

Shaping the CPP revenue path to reduce price shocks for consumers

X22 The increased expenditure allowances proposed by Orion would result in higher electricity lines charges for consumers over the CPP period. We are seeking your views on how best to manage these increases. We think that it might be possible to improve on the way Orion has proposed to shape its CPP revenue path to reduce the risk of price shocks for consumers.

Applying appropriate service quality settings

X23 Orion has met its quality standards in recent years, and has not sought a quality standard variation for the CPP period. However, it has proposed increased disclosures on a range of additional service measures against performance targets.

X24 We plan to assess whether it is appropriate to apply the same approach used to set quality standards and the quality incentive scheme in DPP4, apply the same standards and incentives as DPP4, or adopt a different approach.

X25 We note Orion has proposed additional CPP expenditure allowances that are designed to support the performance of its network. As such, we intend to request more information from Orion on possible price/quality trade-offs, while we progress our own analysis and consider the views of consumers and stakeholders.

Monitoring Orion's progress and performance during the CPP period

X26 Orion's proposed work programme is larger than it has previously delivered as part of its business-as-usual operations. If the CPP is approved as Orion proposes, Orion's progress with its planned investment should be monitored to ensure it is best positioned to deliver the anticipated benefits, and that non-delivery does not result in excessive profits.

X27 We seek your feedback on how to monitor Orion's progress and performance over the CPP period, for example, how enhanced annual information disclosures by Orion (beyond existing requirements) could be structured and what Orion should be required to report on.

Issues that are out of scope

X28 We consider the following potential areas are out of scope for this paper based on our role under Part 4 of the Act as described at Attachment A:[5]

X28.1 retail pricing of electricity;

X28.2 individual customer issues on service delivery;

X28.3 individual safety regulatory issues; and

X28.4 Transpower's transmission pricing.

[5] See, in particular, section 53M.

X29 We acknowledge consumers' general concerns about affordability in the present economic climate. We have limited ability to address affordability issues as part of the CPP process or through our wider powers under the Act. However, any increases in line charges should be easier to absorb if expenditure allowances are kept at prudent and efficient levels to provide consumers with value for money, and consumer price shocks are minimised through shaping the profile of CPP revenues.

Chapter 1 Orion's CPP proposal and how you can provide feedback

Purpose of this paper

1.1 This paper is an important step in our evaluation of Orion's proposal for a 5-year CPP commencing in DY28. It identifies the key issues we currently consider are relevant to our assessment of Orion's CPP proposal and provides an opportunity for consumers and stakeholders to help shape our thinking as we develop our draft decisions.

Orion's CPP proposal

1.2 On 9 June 2026, Orion applied to the Commission for approval of a CPP for the 5-year period from 1 April 2027 to 31 March 2032 in respect of its electricity distribution business serving consumers in Christchurch and surrounding areas.

1.3 If approved, the CPP would, in relation to Orion, replace (for DY28, DY29 and DY30) the DPP4 price-quality path which we set in 2025 for all non-exempt EDBs including Orion, and also apply for the first two years of DPP5 (DY31 and DY32) which is yet to be set.

1.4 Orion considers the DPP4 settings (and the price-quality path we set for it under DPP5) would not allow for the level and timing of the proposed step-up in investment Orion believes is needed to meet its regulatory obligations or customers' expectations, including future network requirements.

1.5 It is seeking approval for revenues sufficient to accommodate total expenditure of $1.51 billion (in DY26 constant dollars) over the CPP period – about 20% more than the corresponding expenditure allowances under the relevant DPPs (see Chapter 2). Orion largely proposes retaining its DPP4 quality standards and its other incentive settings.[6]

1.6 Preparing a CPP application requires a greater effort by a business than we require for a DPP. We acknowledge the clear and accessible nature of Orion's proposal, and the constructive way it has sought to engage with us to date.

Our role and context for our decision-making

1.7 Our role in periodically setting price-quality paths is to provide EDBs, including Orion, with the incentives to undertake activities that benefit consumers over the long-term, given the position of EDBs as monopoly suppliers of essential services.

1.8 As described in more detail in Attachment A, we aim to promote the long-term benefit of consumers in accordance with Part 4 of the Act, by promoting outcomes that are consistent with those produced in competitive markets, such that EDBs:

---

[6] We note that we previously approved a 5-year CPP for Orion for DY15 – DY19 following the 2010/11 Canterbury earthquakes, adjusting both Orion's maximum revenue allowances and required quality standards. Orion transitioned back to a DPP in DY20. See our Orion 2014-2019 CPP webpage.

1.8.1 have incentives to innovate and to invest, including in replacement, upgraded, and new assets;

1.8.2 have incentives to improve efficiency and provide services at a quality that reflects consumer demands;

1.8.3 share with consumers the benefits of efficiency gains in the supply of regulated goods or services, including through lower prices; and

1.8.4 are limited in their ability to extract excessive profits.

1.9 Orion's CPP proposal is taking place within the wider context of New Zealand's ongoing transition to a decarbonised economy, electricity demand growth across some regions, changing technologies (eg, batteries and electric vehicle charging) and consumer preferences, network resilience needs in respect of a wider range of potential extreme events, and cost pressures (for both consumers and EDBs).

1.10 This context presents both risks and opportunities to be taken into account in our assessment and decisions on Orion's forward-looking CPP proposal. To that end, it is important that we thoroughly test Orion's proposed expenditure and service quality levels under its CPP proposal to satisfy ourselves that the resulting price-quality path will be fit-for-purpose for the CPP regulatory period.

1.11 Part of our assessment will be whether Orion's proposal is sufficiently aspirational and flexible, both to respond to emerging sector-wide issues and to best leverage Orion's position as the largest EDB in the South Island.

1.12 In line with our objectives for the wider EDB sector, we are particularly interested in how emerging possibilities for innovation, collaboration, accessing scale efficiencies and different approaches to managing risk can be harnessed for consumers' benefit.

Process for our evaluation of Orion's CPP

1.13 Alongside this paper we have published a Notice that confirms Orion's CPP application meets the requirements relating to the process for, and content of, CPP proposals and is now subject to our evaluation.[7]

1.14 The process for evaluating Orion's CPP proposal includes multiple opportunities for interested parties to participate and contribute to the development of our CPP draft and final decisions.

1.15 Table 1.1 below provides an indicative timeline for the project up to the final decisions in March 2027 (including indicative consultation timeframes). We will keep interested parties informed of confirmed dates via our Orion CPP 2027 webpage and in email updates.

[7] See our Orion CPP 2027 webpage.

Table 1.1 Indicative timeline for the Orion CPP project

Date	Key process or publication	Indicative consultation dates*
August 2026	Process and Issues paper (this paper)	• Submissions are due 26 August 2026 • No cross-submissions
November 2026	Draft decision reasons paper, draft CPP determination and draft financial modelling suite	• Submissions will be due in November/December 2026 • Cross-submissions will be due in December 2026
March 2027	Final decision reasons paper, final CPP determination and final financial modelling suite	Not applicable
1 April 2027	Orion CPP regulatory period commences	Not applicable

**We will update dates for specific publications as we progress.*

We want to hear from you

1.16 Feedback we receive from you will help us assess whether Orion's CPP investment plans are likely to promote the long-term interests of its consumers, and will allow us to consider the expenditure allowances, revenue path, quality settings and other regulatory arrangements that should be applied during the CPP period.

1.17 If you would like to provide your views on any aspects of Orion's CPP proposal, any of the issues outlined in this paper, or other issues you think we should consider in setting Orion's CPP, please send a submission (preferably in publishable MS Word and a pdf document format) with your views to:

1.17.1 **Ben Woodham, EDB Manager**
c/o infrastructure.regulation@comcom.govt.nz

1.17.2 Please include "Orion CPP 2027 – Views in response to Process and Issues paper" in the subject line of your email.

1.18 Submissions are due by **5pm Wednesday 26 August 2026**.

Confidential submissions

1.19 We encourage public submissions so that all information can be tested in an open and transparent manner. We recognise that there may be cases where parties wish to provide information in confidence. We offer the following guidance:

1.19.1 if it is necessary to include confidential material in your submission, the information should be clearly marked as confidential, with reasons why that information is confidential;

1.19.2 where information is commercially sensitive, you must explain why publication of the information would be likely to unreasonably prejudice your commercial position or that of another person who is the subject of the information;

1.19.3 both confidential and public versions of the submission should be provided and clearly labelled accordingly; and

1.19.4 the responsibility for ensuring that confidential information is not included in a public version of a submission rests entirely with the party making the submission.

1.20 Please note that all submissions we receive, including any parts that we do not publish, can be requested under the Official Information Act 1982. This means we would be required to release material that we do not publish unless good reasons exist under the Official Information Act 1982 to withhold it. We would normally consult with the party that has provided the information before any disclosure is made.

1.21 We request that you provide multiple versions of your submission if it contains confidential information or if you wish for the published electronic copies to be 'locked'. This is because we intend to publish all submissions on our website. Where relevant, please provide both an 'unlocked' electronic copy of your submission, and a clearly labelled 'public' version.

Chapter 2 Approving prudent and efficient expenditure allowances

Issue summary

2.1 Orion is asking us to approve revenue levels that would support much more spending on its network than it has undertaken in recent years. To ensure consumers do not pay upfront for proposed expenditure that may not be needed or is not able to be delivered, we test whether it meets the expenditure objective.[8] In practice, this involves assessing whether the proposed spend is prudent (the right investments at the right time and able to be delivered) and efficient (at the right cost).

2.2 The expenditure Orion has applied for appears generally well-justified. However, we will consider the expenditure more closely to ascertain whether approving all of the proposed investment as part of a 5-year CPP is warranted. This will include assessing whether Orion's Network Transformation programme would credibly equip it for the future, including by developing the capabilities needed to make efficient and well-timed investment decisions to respond to increasing demand variability and more decentralised electricity production.

2.3 We welcome your views on Orion's proposed investment plans and on the areas we intend to focus on when assessing those plans, including deliverability and related impacts for other EDBs. We also invite feedback on any aspects of the verifier's report, including where you think it would not be appropriate to rely on the verifier's findings. Lastly, we are interested in your views on the benefits and workability of staging expenditure allowances, and whether a mechanism similar to the DPP4 INTSA would be beneficial.

Assessing the level of expenditure proposed by Orion

Issue description and why it matters

2.4 Orion's proposed expenditure consists of capital expenditure (capex) and operating expenditure (opex):

2.4.1 Capex usually relates to assets with long service lives which is expected to provide an enduring benefit, and is recovered via the depreciation component of revenues over those asset lifetimes, commonly 40-60 years; and

2.4.2 Opex is directed at meeting the day-to-day operating costs of Orion's business and is expected to be fully recoverable from consumers via revenues during the CPP period.

8 *Electricity Distribution Services Input Methodologies Determination 2012* [2012] NZCC 26 (as amended), cls 5.2.1(1)(d) and 1.1.4(2).

2.5 Our decisions on the appropriate levels of capex and opex for Orion are important because they feed into the level of revenue Orion is allowed to recover from its customers through lines charges on electricity bills. With consumer bills already having risen under DPP4, any additional increases in expenditure sought through Orion's CPP need to be considered carefully to ensure these represent value for money for consumers.

2.6 Orion has provided us with a detailed plan of expenditure it considers is prudent and efficient for the five-year CPP period. It is our role to assess whether this proposed expenditure is prudent and efficient, ensuring that consumers do not pay upfront for expenditure that may not be needed or unable to be delivered by Orion. We have included a separate section on deliverability in this chapter.

2.7 The overall levels of expenditure we approve determine the allowable revenues we set for Orion in our CPP decision. The allowable revenues do not specifically allocate expenditure to particular categories. Orion has the flexibility to make its own decisions during the CPP period within the overall revenue limit we set for it. This includes deciding what and how to spend and prioritise given emerging circumstances, and it can freely substitute between opex and capex.

Role of verification in our expenditure assessment process

2.8 Our review of Orion's proposed expenditure is supported by a verifier's assessment, as required under the CPP process.[9] The purpose of the verification is to improve the quality of CPP proposals and support our decision-making by independently testing the assumptions that underpin forecast or proposed expenditure and quality settings before a proposal is submitted.

2.9 The verifier assesses Orion against the framework set out in our regulatory input methodologies (IMs) using both top-down and bottom-up analysis. From a top-down perspective, the verifier assesses the suitability and maturity of Orion's business practices, policies and planning standards. From a bottom-up perspective, it tests whether those business practices, policies and planning standards are implemented in practice. Together, these assessments form the basis of the verification process.

2.10 Verification also:

2.10.1 enables us to focus our review on areas where forecast expenditures and/or quality settings are less likely to meet the expenditure objective, consistent with the proportionate scrutiny principle;

2.10.2 provides Orion with useful independent insights of potential operational improvements it could make;

2.10.3 helps mitigate the risk of any potential incentive on Orion to overstate forecast expenditure; and

[9] See Schedule G of the IMs.

2.10.4 improves scrutiny of Orion's investment proposals before submission to us, potentially resulting in more appropriate levels of forecast expenditure in its proposal.

2.11 The verifier's report is a key input into the assessment of Orion's proposed expenditure.[10] Our assessment process involves us:

2.11.1 reviewing the CPP proposal and the verification report to identify key issues. Including those highlighted by the verifier;

2.11.2 assessing the extent to which we can rely on the verifier's analysis and conclusions; and

2.11.3 publishing this paper to provide consumers and stakeholders an opportunity to comment on Orion's proposed expenditure, quality standards, and the verifier's conclusions.

2.12 Following the CPP application to us, we raise questions with Orion, and where necessary, the verifier, to seek further clarifying information. We may also request additional analysis from Orion. We undertake further analysis as necessary to form our own views and may seek external expert advice on key aspects of the proposal. Following our assessment, we will decide whether to accept or decline levels of Orion's proposed expenditure and quality settings. These key inputs inform the setting of the price-quality path.

2.13 In considering the verification report and the verifier's findings, we will consider whether:

2.13.1 the verifier's assessment is consistent with the requirements of Schedule G of the IMs;

2.13.2 the verifier has sufficiently explained the reasons for its conclusions; and

2.13.3 there are any limitations in the verifier's expertise.

2.14 The verification report helps determine both the breadth and depth of our review. It informs the breadth of our review by identifying forecast expenditure that is likely to meet the expenditure objective, as well as those that may not. It informs the depth of our review by identifying areas requiring further investigation, including where:

2.14.1 Orion did not provide sufficient information for the verifier for it to assess its proposed expenditure against the expenditure objective;

2.14.2 Orion provided sufficient information, but the verifier was still unable to come to a conclusion; and/or

2.14.3 we are not satisfied with the verifier's conclusions.

[10] GHD "Orion's CPP verification report" (31 March 2026).

2.15 Consistent with a proportionate approach, we will focus our review on these areas rather than those that have already been subject to sufficient in-depth scrutiny by the verifier and which we consider adequately addressed.

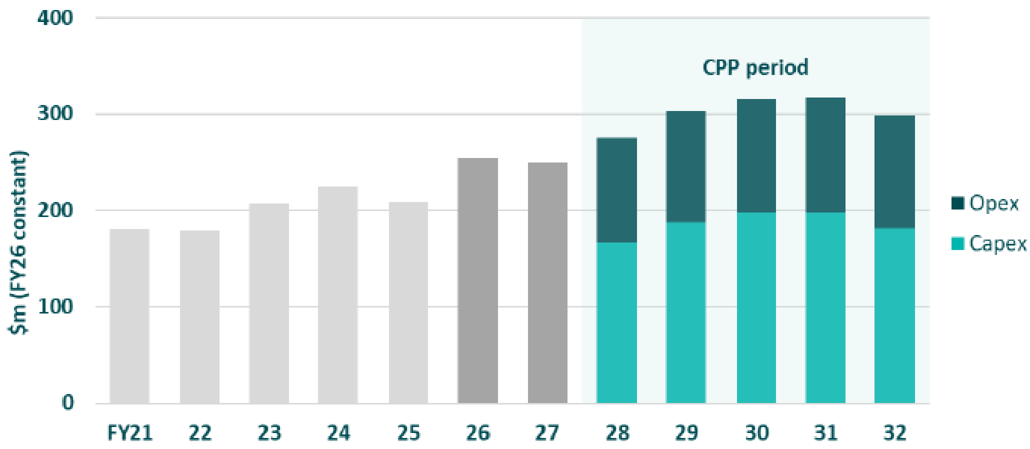
What Orion proposes

2.16 Orion is proposing to spend $1.51 billion (in DY26 constant dollars) in total expenditure over the 5-year CPP period, comprising $932 million of capex and $578 million of opex.[11] Expenditure trends are shown in Figures 2.1, 2.2 and 2.3. Orion has calculated that the total expenditure it proposes for the CPP period is about:

2.16.1 20% higher than if Orion were to stay on DPP4 for DY28, DY29 and DY30, and was subject to a new default price-quality path (DPP5) for DY31 and DY32); and

2.16.2 32% higher when compared to the previous five-year period.

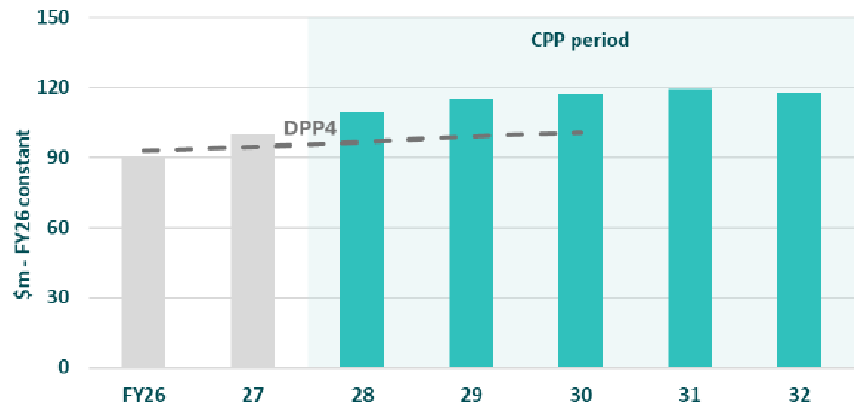
Figure 2.1 Planned total expenditure per annum (Source: Orion)[12]



[11] Orion "Customised Price-Quality Path Main Proposal" (9 June 2026), p. vii.
[12] Orion "Customised Price-Quality Path Main Proposal" (9 June 2026), p. 41.

Figure 2.2 Orion's planned capex compared with forecast capex under DPP4 (Source: Orion)[13]

Figure 2.3 Orion's planned opex compared with forecast opex under DPP4 (Source: Orion)[14]



2.17 Orion states that the key reason it is applying for a CPP is that the DPP4 expenditure settings do not adequately reflect its circumstances and provide for the level and profile of investment required for it to meet its regulatory obligations or maintain customer expectations, including future network needs.[15]

2.18 Orion explains that the key drivers for the proposed expenditure uplift include:[16]

2.18.1 maintaining safety and reliability by increasing asset renewal and maintenance activity to the levels required to manage the growing risks of its ageing assets;

2.18.2 supporting the strong population and demand growth in its network area by expanding and upgrading the network at emerging constraint points, and investing in customer connections;

[13] Orion "Customised Price-Quality Path CPP Proposal" (9 June 2026), p. vii.
[14] Orion "Customised Price-Quality Path CPP Proposal" (9 June 2026), p. vii.
[15] Orion "Customised Price-Quality Path CPP Proposal" (9 June 2026), p. i.
[16] Orion "Customised Price-Quality Path CPP Proposal" (9 June 2026), p. 8.

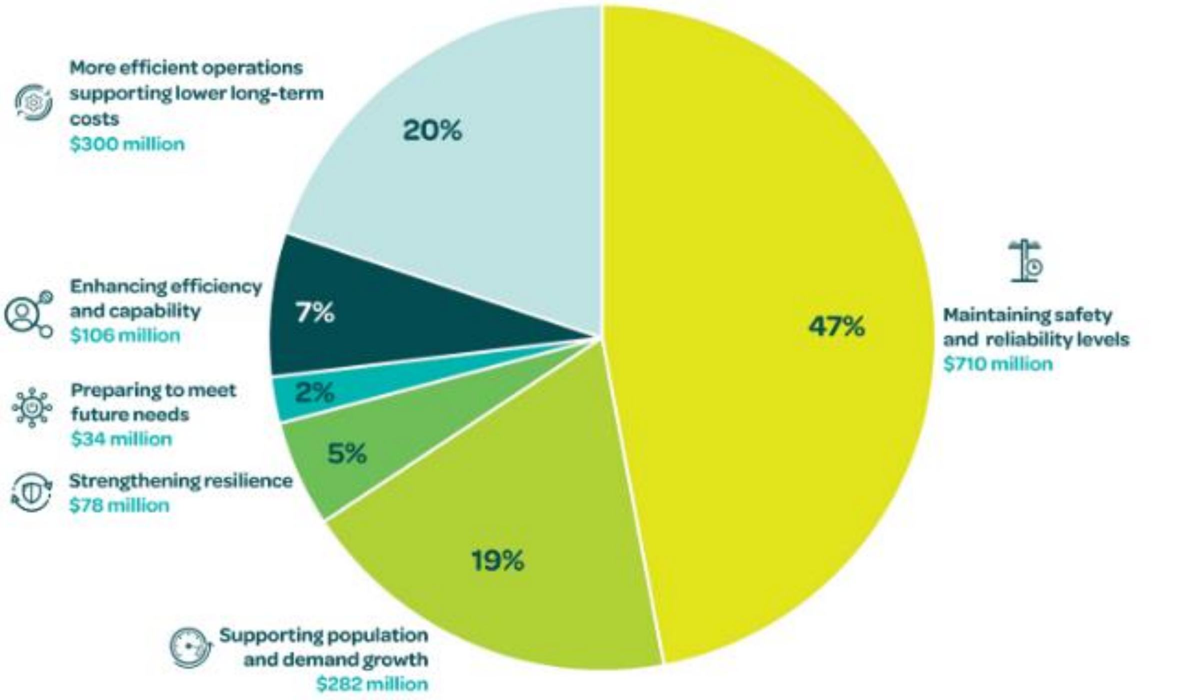
2.18.3 strengthening its network's resilience to earthquakes and increasingly severe weather events by upgrading at-risk assets and increasing vegetation management;

2.18.4 preparing for future energy needs by investigating, piloting, and implementing new assets, systems and processes to build the capabilities required to plan and operate the network in the changing energy environment; and

2.18.5 enhancing its efficiency and capability by completing the transition to a modern, resilient and fit-for-purpose information and communication technology (ICT) environment.

2.19 Figure 2.4 illustrates the proposed expenditure by key driver.

Figure 2.4 Proposed CPP expenditure by key driver (Source: Orion)[17]



2.20 Orion states that customers it engaged with during preparation of the proposal generally agreed that additional investment is needed, but affordability was their biggest concern. Orion found that the customers wanted Orion to avoid large, sudden price increases. They said they could tolerate moderate, well-signalled price increases if clear benefits were demonstrated. Customers also emphasised that investments should be prudent and not excessive and that growth should be supported without overbuilding the network. We discuss Orion's consumer engagement in more detail in Chapter 4.

[17] Orion's website. See also Orion "Customised Price-Quality Path Main Proposal" (9 June 2026), p. xi.

2.21 Orion says its proposed expenditure of $1.51 billion is $228 million (or 13%) lower than the original investment plan it proposed in its 2025 Asset Management Plan (AMP) Update.[18] Orion has stated that customer feedback resulted in it not pursuing alternative options it consulted on in its 2025 AMP Update, which included an accelerated investment option with higher price impacts, and a more limited option that came with higher long-term risks.[19] Orion says that updated inputs and analysis, internal governance reviews and independent verification resulted in a progressive reduction in planned expenditure from $1.73 billion in its 2025 AMP Update, to $1.615 billion in the draft investment plan it consulted on, and to $1.51 billion in the final investment plan in the CPP proposal.[20] [21]

Our current thinking

We have regard to the verifier's report in our CPP assessment

2.22 The verifier reviewed 73% of the proposed capex and 86% of the proposed opex. It concluded that 68% of the proposed capex and 83% of the proposed opex would meet our prudent and efficient test, accepting those amounts as 'verified'.[22] [23]

2.23 We held a workshop with the verifier on 29 July 2026 to test its approach and conclusions and clarify our technical questions to inform where we should focus our assessment. Overall, we are satisfied with the rigour of the verifier's analysis and consider its review to be thorough and undertaken to a high standard.

Areas we plan to focus on

2.24 We have taken into account the verifier's findings, together with the principle of proportionate scrutiny (which focuses our effort where it has the biggest impact for consumers), when deciding on key expenditure issues to focus on.

2.25 In coming to our draft decision, we plan to focus our assessment on three key areas as set out below.

Areas suggested by the verifier and other specific areas with variable justification

2.26 Having regard to the verifier's findings, we plan to focus on the following areas relating to the proposed expenditure:[24]

---

[18] Orion "Customised Price-Quality Path CPP Proposal" (9 June 2026), para 28.
[19] Orion "Customised Price-Quality Path CPP Proposal" (9 June 2026), para 25.
[20] Orion "Customised Price-Quality Path CPP Proposal" (9 June 2026), pp. 29-30.
[21] Orion "Customised Price-Quality Path Engagement Report" (9 June 2026), pp. 3 and 91.
[22] As a practical matter, the verifier is required to assess only a subset of Orion's proposed expenditure. Its assessment is limited to 20 identified projects or programmes that it selects as per cl D10 of the IMs. The term "review" refers to the assessment of those identified projects and programmes. The verifier determines how much of that "reviewed" expenditure to "accept" after assessing prudency and efficiency. The expenditure it "accepts" is considered to be "verified".
[23] The percentage figures in this paragraph are calculated values and are unlikely to align with the verifier report as Orion proposed higher expenditure for some categories of expenditure in its CPP proposal compared to proposed values at the time of verification.
[24] Details on these matters are covered in the Independent Verifier's report.

2.26.1 areas the verifier suggested we scrutinise further;

2.26.2 some areas not reviewed by the verifier, as they were outside the agreed scope of its review;

2.26.3 select areas which were reviewed by the verifier, but where we have further questions;

2.26.4 areas where Orion has either proposed a higher amount than reviewed by the verifier or provided more information to justify why its proposed amounts are higher than the verifier accepted;

2.26.5 whether opex efficiency improvements should be higher than that recommended by the verifier; and

2.26.6 whether further expenditure benchmarking work is necessary after we have reviewed the benchmarking that the verifier and Orion undertook.

2.27 We intend to review a sample of Orion’s investment decisions in its CPP proposal. Our focus would not be on the prudency and efficiency of these investments, but rather on the quality of the decision-making processes applied. This may include assessing how the need for the investment was established, what assumptions were made on the probability and duration of forecast constraints in establishing the need, how investment alternatives (including deferral, pricing responses, and non-network options) were identified and valued, and how the timing of the investment was determined. This will help us test whether the planning practices underpinning the CPP forecast are consistent with good industry practice and support investment that is in the long-term interest of consumers.

2.28 We also intend to undertake further targeted scrutiny on some categories of proposed expenditure with significant uplifts compared to the recent past and which have varying degrees of justification, for example:

2.28.1 renewal and replacement capex for a number of asset categories that are not supported by asset failure rate or asset condition data; and

2.28.2 preventive maintenance, vegetation management and business support opex.

2.29 Finally, we would like to ensure Orion makes the best use of its existing network capacity before committing to growth-related investments. We think there may be value in linking some growth-related expenditure to evidence of observed network or asset utilisation. Staging of expenditure allowances based on utilisation could help promote more efficient investment timing and provide greater confidence that opportunities to improve utilisation have been adequately explored. We are interested in stakeholder views on the benefits and workability of this as well as any alternative options we should consider.

Overall proposed expenditure can be tested from a top-down perspective in terms of demonstrated benefits for consumers

2.30 Viewing the proposed expenditure from a top-down perspective, we have concerns about the extent to which Orion has demonstrated the benefits for consumers compared to the existing levels of DPP4 expenditure.

2.31 While Orion describes the expected outcomes for its CPP investment plan at a high-level, it does not clearly articulate the benefits to consumers.[25] For example, Orion states that delaying investments would lead to poorer consumer outcomes but has not provided specific measurable examples of those diminished outcomes. This is particularly important given:

2.31.1 consumers expressly said to Orion that they are concerned about bill increases where they are not supported by clear benefits to the consumer; and

2.31.2 Orion has met its quality standards over the last ten years.

2.32 In this context, we intend to ask Orion to better demonstrate the consumer benefits that are expected to result from the increased investment. For example, Orion could model the impacts on consumers under a lower investment scenario to illustrate the incremental benefits of its proposed expenditure. Alternatively, Orion could consider what level of service deterioration, such as increased outage frequency or duration, consumers would need to experience, for the proposed $1.51 billion expenditure to be justified.

Assessing whether Orion is likely to continue to consider non-network solutions and other alternatives for the deferral of network investment

2.33 Orion states that the proposed expenditure in its network transformation programme will help it increase the use of demand-side flexibility, microgrids and other non-network solutions. It says that over time, these will enable more efficient use of its existing network capacity and help it defer or avoid some traditional capital-intensive investment.[26]

2.34 We recognise Orion's strong focus on learning and capability development in this evolving area. Orion has also been open in sharing its experience and insights with other sector participants, contributing to the development of knowledge and practice across the sector. This provides a useful foundation for Orion to further develop how it identifies, assesses and implements non-network solutions alongside traditional network investment. We also note that Orion's Network Transformation roadmap is aligned with the industry-wide transformation roadmap published by Electricity Networks Aotearoa.[27]

---

[25] Orion "Customised Price-Quality Path CPP Proposal" (9 June 2026), p.16, Box 2.2.
[26] Orion "Customised Price-Quality Path CPP Proposal" (June 2026) , p. iii.
[27] Electricity Networks Aotearoa *"New Zealand Electricity Distributor Network Transformation Roadmap: A three-year update"* (April 2022).

2.35 Our assessment in this area will cover the extent to which this programme and related expenditure will credibly equip Orion for the future: developing the visibility, modelling, network pricing, and flexibility capabilities needed to make efficient, well-timed investment decisions over the course of the CPP.

2.36 We also note the importance of this CPP in ensuring that Orion is equipped to operate an electricity network that is able to respond to increasing demand variability and more decentralised electricity production, consistent with the capabilities expected of a future Distribution System Operator (DSO).[28] In this context, we see Orion's proposed investments potentially setting a precedent and enabling Orion to play a key role in the future DSO model for the South Island.

2.37 Given the areas of focus outlined above, we are considering commissioning expert analysis of Orion's proposed investments in its network transformation programme to ensure Orion will be well-positioned for the future. This is to provide assurance that Orion's future investment patterns will be set to select from all available solutions and to optimise costs for consumers – and this may in turn enable a significant shift in future expenditure away from capex.

2.38 We also plan to consider how accountability by Orion for these significant investments in network transformation, and continuous improvement of its capabilities in this area, can be bolstered through regular public reporting. We discuss this further in Chapter 7.

2.39 The INTSA mechanism we introduced in DPP4[29] incentivises EDBs to trial innovative solutions, including new non-traditional solutions that benefit their customers. Prior to submitting its CPP application, Orion advised that it did not intend to include potential INTSA projects within its proposed CPP expenditure due to the uncertainty associated with such innovation-based projects. We recognise the importance of enabling Orion to continue exploring and trialling new technologies and approaches during the CPP period. We are considering whether a mechanism similar to the DPP4 INTSA would provide an appropriate incentive for innovation for Orion or if there are alternative mechanisms that may be more effective and invite views on this.

We seek your views on these issues

2.40 We welcome your views on Orion's proposed increase in network expenditure and investment, and feedback on our areas of focus for assessing the investment, including:

2.40.1 whether stakeholders think Orion may be on balance, prematurely replacing assets in the context of limited data supporting those replacement decisions.

---

[28] The EA has recently consulted on the way forward for the DSO model: *Electricity Authority "A roadmap for the future of distribution system operation in New Zealand"* (30 June 2026).

[29] See Schedule 5.3 and paragraph (5) of Schedule 2.1 of the *Electricity Distribution Services Default Price-Quality Path Determination 2025 [2024] NZCC 28*.

2.40.2 any areas of the verifier's report where you think it would not be appropriate to rely on the verifier's findings and the reasons for this.

2.40.3 the benefits and workability of staging of expenditure allowances to network or asset utilisation measures for growth-related investments, including ideas on other alternative options we should consider.

2.40.4 whether a mechanism similar to the DPP4 INTSA would incentivise Orion to continue to undertake innovative projects during the CPP period or whether there are other alternatives that may be more effective.

2.41 The main parts of Orion's CPP proposal that deal with expenditure are:

2.41.1 Orion's CPP Main Proposal, Chapter 5, 6, 8 to 13; and

2.41.2 Independent Verifier's report, Chapter 9, Chapter 10, and Chapter 11.

Deliverability

Issue description and why it matters

2.42 Assessing whether Orion's proposed expenditure is prudent and efficient as per the expenditure objective includes considering whether that expenditure can realistically be delivered. This helps ensure consumers do not pay upfront for expenditure that may be needed and well-justified but does not produce the anticipated benefits for consumers because is not delivered in the CPP period. Rather, it may result in elevated profits for Orion that do not reflect increased efficiency.

2.43 The work programme to implement the CPP investment plan proposed by Orion is significant, and larger in scale than what it has delivered previously. We are seeking views on whether Orion can deliver its proposed work programme, how we should consider deliverability risks when assessing and approving proposed expenditure, and any impacts its expanded programme may have on workforce and contractor availability for other EDBs.

The verifier's opinion on Orion's ability to deliver

2.44 Orion is confident that its proposed work programme can be delivered.

2.45 The verifier acknowledges that the CPP work programme is a large uplift relative to Orion's current expenditure. It considers that Orion can deliver its work programme based on its actions and plans around securing contractors, supply chains and workforce capacity and capability. The verifier notes that successful delivery will depend on effective implementation of those planned actions.[30]

[30] GHD "Orion's CPP verification report" (31 March 2026), p. v and Chapter 14.

Our current thinking

2.46 The level of investment for this CPP is approximately 20% above Orion's allowances for the last three years of DPP4, and Orion's estimates for the first two years of DPP5. In our view, an investment step-up of this magnitude is likely to present deliverability risks within the CPP period, particularly because the actual ramp up of capacity and capability typically lags behind that forecasted or expected.

2.47 Even with planned capability in place, delivering such a wide-ranging, diverse workplan with numerous smaller projects may be affected by the practicalities of project work in the field – with issues and problems arising that were not envisaged at the planning stage. If capital costs at this stage of planning can only be forecast to a +/- 30% level of accuracy (as Orion has acknowledged), then the time it takes to carry out the work may also be subject to a similar level of uncertainty.[31]

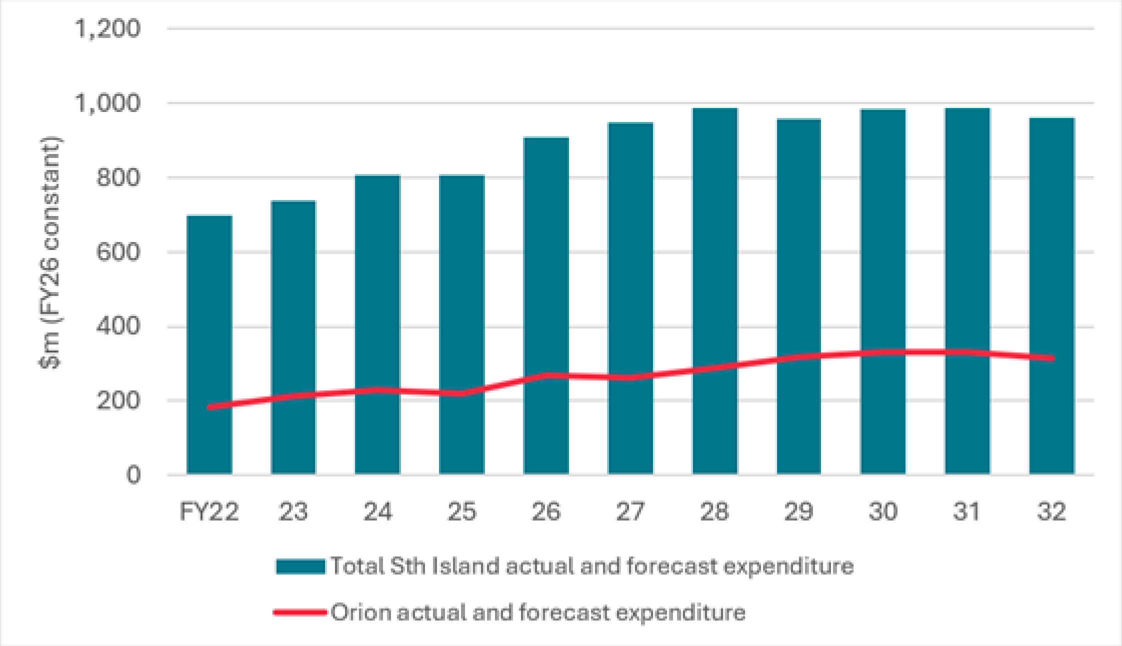
2.48 Viewing the expenditure programme as a whole, we have some concerns about the deliverability of the increased investment within the CPP period, particularly in respect of those projects or programmes of expenditure where the uplift in proposed investment is significant compared to the previous five-year period. As such, we are considering whether some categories of expenditure we allow for Orion should initially be reduced to some extent, to take into account deliverability concerns.

2.49 We are also thinking about the role of other regulatory mechanisms that would allow Orion to access/retain an appropriate level of cost-recovery after the CPP has been set if it can demonstrate its ability to deliver its proposed programme of work (eg, based on annual progress). A multi-year mechanism would need careful design to ensure the right overall incentives are created across the period for Orion in order to benefit consumers, including within the existing incentive mechanisms (eg, IRIS). Ideally, such a regulatory mechanism would be cost-effective and simple to implement. We are also mindful that adjustments to an EDB's in-period revenue allowances involve a trade-off between keeping prices predictable for consumers and enabling new information to be accounted for (Chapter 3).

2.50 We are also concerned that the scale of Orion's proposed work programme could adversely affect workforce availability across the region, with consequences for consumers in nearby networks. Figure 2.5 illustrates the scale of likely work programmes for both Orion and other South Island EDBs based on total forecast expenditure.

[31] GHD "Orion's CPP verification report" (31 March 2026), p. 57.

Figure 2.5 Total forecast expenditure for Orion and other South Island EDBs[32]



2.51 A step increase in Orion's activity may draw resources away from other EDBs and increase wage rates and other costs, potentially affecting those EDBs' abilities to efficiently deliver their own work programmes. Evidence of sector-wide proactive workforce planning, recruitment, training and development by Orion and its service delivery providers including an assessment of the associated risks, would provide assurance that these concerns have been adequately considered and appropriately managed.

We seek your views on this issue

2.52 We are interested to hear your views on whether you think Orion will be able to deliver its proposed work programme.

2.53 Please tell us whether you think we should consider other regulatory mechanisms to account for deliverability risks, which would allow Orion to either access or retain an appropriate level of cost-recovery after the CPP has been set.

2.54 We are also interested in hearing from other EDBs, and South Island EDBs in particular, on what impacts, if any, they expect Orion's expanded work programme to have on the availability of workforce and contractor resources needed to deliver their own work programmes. We are keen to hear if South Island EDBs have considered those delivery risks from a sector-wide perspective rather than individually.

2.55 The main parts of Orion's CPP proposal that deal with deliverability are:

2.55.1 Orion's CPP Main Proposal, Chapter 4; and

2.55.2 Independent verifier's report, Chapter 14.

[32] The data is sourced from publicly-available information disclosures by the relevant EDBs.

Chapter 3 Addressing uncertainty over forecast expenditure and investment

Issue summary

3.1 Orion's CPP proposal highlights some uncertainty around the timing and need for some of its planned expenditure. To manage this uncertainty, Orion has suggested leveraging existing regulatory mechanisms—with some modifications—as an alternative to including some or all of the spend as part of the upfront allowances we are being asked to approve.

3.2 We would like your views on whether Orion's proposed changes to regulatory mechanisms should be approved, or whether Orion should manage uncertainty within its upfront CPP allowances to keep prices predictable. In addition, we would like your views on our approach to identifying other changes to uncertainty mechanisms to address expenditure-related concerns we have. These include the deliverability of Orion's overall investment programme and the opportunity for Orion to develop a captive insurance company.

3.3 Lastly, we are seeking your feedback on Orion's request to extend the eligibility criteria for an 'urgent project allowance' to include Orion's CPP 'ramp up' costs incurred from the start of DPP4. Our initial view is that this would not be consistent with the underlying policy intent of this allowance, and we should therefore not agree to vary the criteria as requested.

Context/background

Issue description and why it matters

3.4 Orion has identified some uncertainty over the need, scope, cost, timing or eligibility of some proposed expenditure and investment for the CPP period.

3.5 If we include uncertain proposed spend in the upfront CPP price path allowances we approve for Orion, which will increase allowable revenues, then consumers risk either paying too much in lines charges during the CPP period (eg, if the expenditure need does not materialise) or too little (eg, if additional scope for the need is identified).

3.6 The IMs that apply to CPPs contain various tools for addressing uncertainty over expenditure allowances, including:

3.6.1 Price path reopeners: these permit uncertain forecast expenditure to be excluded from the upfront CPP allowances we approve, but allow CPP revenues (and/or quality settings) to be reconsidered by us during the CPP period if information becomes available to resolve the uncertainty and supports approval of the additional expenditure. Use of reopeners incentivises efficient in-period investment and decision-making by Orion.

3.6.2 Recoverable cost allowances: these are designed to allow certain categories of uncertain costs to be recovered once they are incurred and the amount of the cost is known. One type of recoverable cost is an 'urgent project allowance' intended for the recovery of prudently incurred net costs in responding to an urgent project occurring after the submission of a CPP proposal but before the determination of the CPP by us.

What Orion proposes

3.7 To address forecasting uncertainties, Orion has proposed changes to the existing suite of CPP price path reopeners, to be implemented by agreed variations to the IMs.[33] It has also proposed that the IM criteria around 'urgent project' recoverable costs be varied to allow recovery of some already-incurred expenditure above its DPP4 allowances. Figure 3.1 lists these proposals.

Figure 3.1 Orion's proposed variations to input methodologies for CPP reopeners and recoverable cost allowances (Source: Orion)[34]

Issue	Relevant clause	Variation requested
Contingent projects	5.6.10	Reduction of the financial threshold for contingent projects
Unforeseen projects	5.6.11	Reduction of the financial threshold for unforeseen projects
Listed projects	5.6.10A (new)	Creation of a new, listed project reopener (prospective)
Capacity event	5.6.11A (new)	Creation of a new, capacity event reopener (prospective)
Capacity event	5.6.11A (new)	Creation of a new, capacity event reopener (responsive)
Urgent project allowance	3.1.3	A varied urgent project allowance to permit Orion's prudently incurred 'ramp-up' costs

3.8 Orion considers the proposed IM variations will incentivise appropriate investment and contribute to better consumer outcomes. In relation to its proposed changes to reopeners, we note:

3.8.1 Orion is proposing that the materiality thresholds are lowered for existing project-based reopeners (contingent and unforeseen projects) as it considers that only exceptionally large projects would otherwise qualify.

[33] See s 53V(2)(c) of the Act.
[34] Orion "Customised Price-Quality Path CPP Application" (9 June 2026), p. 24.

3.8.2 Orion is also suggesting two new reopeners (listed projects and capacity event) as it perceives there is a gap in the suite of available CPP reopeners for currently foreseeable but uncertain projects which may become certain during the CPP period, and additional network capacity projects that may be required due to unforeseen demand. The proposed listed project reopener would operate in a similar way to Transpower's IPP listed projects mechanism, except it would target major system growth projects rather than asset renewal expenditure. The proposed capacity event reopener is a variation on the Aurora Energy (Aurora) CPP capacity event reopener. Orion considers that without these proposed changes, Orion would not have enough flexibility to respond to changing circumstances within the CPP period, and this would then impact on its ability to meet consumer demand for its services.

3.8.3 Orion's proposal provides details of its proposed contingent projects (the Lower Selwyn growth stage 1 project – capex of $3.6m) and proposed listed projects (major system growth projects – capex of between $45m and $107m in total).[35] Orion is also proposing that listed projects could be reclassified to contingent projects on application during the CPP period if sufficient certainty over the project parameters (other than a defined trigger event) can be established.

3.9 The variation Orion is seeking to the IMs definition of the urgent project allowance recoverable cost would allow recovery of its expenditure exceeding its DPP4 allowances in years 1 and 2 of DPP4 leading up to the CPP period. Specifically, it has asked to extend the timeframe for recovering costs, so that costs can be recovered from the start of DPP4 on 1 April 2025 rather than from 9 June 2026 as currently allowed by our IMs. Orion says because the overspend is driven by a need to ramp up field work and ensure deliverability of its CPP, that recovery is justified and Orion should not incur penalties under the IRIS expenditure incentive scheme from its apparent 'overspending'. The proposed changes would apply to Orion only.

3.10 The verifier is not required to opine on changes proposed to uncertainty mechanisms.

Our current thinking

Reopeners should be targeted to circumstances where they improve outcomes

3.11 We most recently considered the in-period adjustment mechanisms available to EDBs for CPPs and DPPs as part of our 7-yearly review of IMs, completed in 2023.[36]

[35] Orion "Customised Price-Quality Path CPP Proposal" (June 2026), pp. 127-129. Not all of the values mentioned above will be directly reflected in increases in revenues for the CPP period, as the recovery of costs of longer-life assets that result from the capex are in effect apportioned over multiple regulatory periods via depreciation allowances.
[36] Commerce Commission "Part 4 Input Methodologies Review 2023 – Final decision – CPP and in-period adjustment mechanisms topic paper" (13 December 2023).

3.12 Reopeners can improve regulatory incentives faced by businesses to operate and invest efficiently, and innovate, for the long-term benefit of consumers by re-allocating forecasting risk for uncertain spend between consumers and regulated businesses.

3.13 However, it is not appropriate for all uncertainties or circumstances to be covered by in-period uncertainty mechanisms.

3.13.1 Reopeners involve an implicit trade-off between keeping prices predictable for consumers and enabling businesses to respond to new information and changed circumstances.

3.13.2 We expect EDBs to exercise diligence in forecasting efficient expenditure and to provide forecasts that are as accurate as reasonably possible.

3.13.3 EDBs will be best placed in many cases to manage the risk of future uncertainties themselves through risk management and appropriate prioritisation of expenditure under the expenditure allowances and overall revenue envelope provided under a CPP or DPP.

3.14 Also, some uncertainty mechanisms may provide limited benefit because the time and effort required by EDBs to prepare and consult on applications, and for us to assess these, can weigh against the value of the uncertain expenditure being addressed.

3.15 We intend to examine the likely effects of Orion's proposed changes to the existing suite of CPP uncertainty mechanisms on regulatory incentives and consumer outcomes. We would then decide which of them are likely to add material value through promoting the long-term interests of consumers or other regulatory objectives, and/or whether other existing mechanisms or approaches could be more appropriately employed.

We will consider whether other uncertainty mechanisms may be required

3.16 We also plan to consider whether other uncertainty mechanisms additional to, or variations of, those Orion proposed are appropriate for other areas of expenditure uncertainty identified during our evaluation. Ideally, these mechanisms would be cost-effective and simple to implement.

3.17 For instance, in Chapter 2 we explain that we are interested in exploring the use of a regulatory mechanism that would allow Orion to access/retain an appropriate level of cost-recovery after the CPP has been set if it can demonstrate its ability to deliver its proposed programme of work (eg, based on annual progress). We note that this, or any alternative mechanism, would need careful design to ensure the right overall incentives are created across the period for Orion in order to benefit consumers.

3.18 Similarly, a reopener mechanism to allow for implementation of captive insurance arrangements (if these were to benefit consumers) may allow the costs of responding to and recovering from a major event, such as an earthquake or severe weather event, to be shared more equitably between current and future consumers.

3.18.1 If catastrophic events of this nature occur, Orion could apply through the existing catastrophic event reopener for approval of additional revenues to cover its response and recovery costs. Under that approach, consumers that exist at the time when the reopener is invoked would be exposed to paying the costs through higher bills.

3.18.2 An alternative is for Orion to set up self-insurance arrangements through a captive insurance company to protect against this risk of these events.[37] This would allow Orion to access funds accumulated over time when a catastrophic event occurs, effectively spreading costs across consumers over a longer time frame. Setting up a captive insurer can involve significant upfront and ongoing operating costs however, including meeting regulatory and capital requirements.

Our initial view is that the eligibility criteria for the urgent project allowance should not be varied for Orion so as to include Orion's CPP 'ramp up' costs incurred during DPP4

3.19 The 'urgent project allowance' recoverable cost contained in the IMs allows CPP applicants to recover costs associated with urgent and prudent works that are undertaken in the period between when a CPP application is submitted to us and its determination. It applies where the expenditure is not provided for in a previous DPP or CPP and is not otherwise recoverable. As set out above, Orion has requested that we vary the criteria relating to the urgent project allowance to allow costs incurred in DPP4 before the time of Orion's submission of its CPP proposal to be eligible.[38]

3.20 Our initial view is that we will not vary the IMs for Orion in the way it has requested. The reopener was introduced in the 2016 IM Review to incentivise investment where urgent work is needed while CPP proposals are being assessed.[39] During that review, stakeholder submissions proposed extending the allowance to permit recovery of costs incurred up to 24 months before a CPP application is submitted. Our view at that time was that permitting such recovery for up to 24 months before a CPP application would weaken incentives for timely CPP proposals and increase the extent of expenditure approved retrospectively, which would be undesirable for policy reasons.

3.21 As such, based on the information currently available, we are unlikely to accept Orion's request to vary the criteria for the urgent project allowance. Our position on extending the timeframes for eligible costs is unchanged from that adopted in the 2016 IM Review. Furthermore, we note that Orion has not demonstrated that its 'ramp up' expenditure was incurred in responding to an "urgent project".

[37] A captive insurance company is a wholly owned subsidiary company created to insure its parent company's risks and exposures.

[38] Electricity Distribution Services Input Methodologies Determination 2012 [2012] NZCC 26 (as amended), cl 3.1.3(8).

[39] Commerce Commission "Input methodologies review decisions – Topic paper 2: CPP requirements" (20 December 2016), paras 112-116.

We seek your views on this issue

3.22 We are interested to hear your views on whether we should consider varying the IM provisions for Orion for reopeners and recoverable costs to allow Orion access to additional expenditure allowances and recoverable costs during the CPP period.

3.23 For example:

3.23.1 Do you think that Orion's proposed reopener changes could provide benefits for consumers in terms of its ability to invest appropriately and meet consumer demand, despite the possibility of higher and more unpredictable consumer bill increases during the CPP period?

3.23.2 Alternatively, do you think that Orion should be best placed to manage uncertainty within its overall CPP allowances? Do you have a view on the scope which might exist to accommodate uncertain projects within upfront allowances (eg, through reprioritisation) particularly given some uncertain projects may be relatively small in size?

3.23.3 What is your view on possible uncertainty mechanisms addressing deliverability of Orion's planned investment programme and/or for implementing possible captive insurance arrangements during the CPP period?

3.23.4 With respect to our initial view on Orion's proposal for the 'urgent project allowance', are there any other factors that we should consider that are relevant to maintaining the policy position we adopted in the 2016 IM review or that are specific to Orion circumstances?

3.24 For reference, the main parts of Orion's CPP proposal that deal with uncertainty are:

3.24.1 Orion's CPP Application, Appendix I, pp. 84-92; and

3.24.2 Orion's CPP Main Proposal, Table 7.3 and Table 7.4, pp. 127-129.

Chapter 4 Assessing Orion's consumer consultation

Issue summary

4.1 In evaluating Orion's CPP proposal we will assess the extent to which Orion has consulted with consumers on its CPP proposal and, where relevant, the extent to which the proposal is supported by consumers.

4.2 We are seeking feedback on whether consumer views are accurately represented in Orion's CPP proposal, whether Orion appropriately considered those views, whether consultation on the CPP proposal (including on the refined CPP proposal from March 2026) was adequate, and if there were any other matters you would like us to consider.

Background/context

Orion must consult with its consumers in preparing its CPP proposal

4.3 A key part of evaluating a CPP proposal is assessing how the applicant has accounted for the needs of its consumers. To this end, the IMs provide that we must assess the extent to which Orion has consulted with consumers on its CPP proposal and the extent to which the CPP proposal is supported by consumers, where relevant.[40]

4.4 Detailed requirements to be met by the CPP applicant in respect of consumer consultation are set out in the IMs.

4.4.1 The CPP proposal must include a description of how the specific consumer consultation requirements prescribed in the IMs have been met, a list of those who participated in the consultation, a description of all issues (and summary of arguments) raised by participants, and an explanation as to whether the CPP proposal accommodates the arguments referred to and, if so, how and if not, why not.[41]

4.4.2 As part of the consultation, Orion needs to have adequately notified its consumers of:

4.4.2.1 it intends to make a CPP proposal;

4.4.2.2 the expected effect on the revenue and quality of its electricity distribution services if the Commission were to determine a CPP entirely in accordance with the intended CPP proposal;

[40] *Electricity Distribution Services Input Methodologies Determination 2012* [2012] NZCC 26 (as amended), cl 5.2.1(f).
[41] *Electricity Distribution Services Input Methodologies Determination 2012* [2012] NZCC 26 (as amended), cl 5.1.2.

4.4.2.3 of the price versus quality trade-offs made in the expenditure alternatives considered in the CPP proposal, where these are directly associated with the rationale for seeking the CPP proposal; and

4.4.2.4 if it intends to propose a variation to the quality standard that will apply, why the proposed quality standard variation has been chosen over alternative quality standard.

4.4.3 Orion must have also adequately notified its consumers of where and how further information in respect of the CPP proposal may be obtained, how to make submissions to it on the intended CPP proposal, and of their opportunity to participate in the Commission's consultation process as part of the Commission's CPP evaluation.[42]

What Orion says it did

4.5 Orion's CPP proposal summarises its consumer consultation process undertaken from August 2024 to April 2026, setting out how consumers and other stakeholders were consulted, the feedback received, and how this informed its CPP proposal.[43]

4.6 Orion states that it undertook an extensive consumer engagement and communication programme to inform the development of its CPP proposal, and to ensure the proposal reflects customer and stakeholder priorities, preferences and expectations.[44] It states that its approach built on its existing engagement programme and drew on the IAP2 Spectrum of Public Participation, and insights from regulatory processes in New Zealand and Australia.[45]

4.7 Orion stated that its consultation occurred in four-phases (Table 4.1).

Table 4.1 Summary of Orion's stated four-phase consultation

Phase	What Orion consulted on	Summary of what Orion said they heard from consumers
Phase 1: Early engagement (August 2024 – March 2025)	Initial investment approach	Customers' priorities include a safe and reliable power supply (and satisfaction with current reliability levels is high), a resilient network that can withstand major damage after natural hazards and be quickly repaired after such events, sufficient capacity on the network and it should be future proofed to remain reliable and accommodate new technologies/customer choice[46]

[42] *Electricity Distribution Services Input Methodologies Determination 2012* [2012] NZCC 26 (as amended), cl 5.5.1.
[43] Orion "Customised Price-Quality Path CPP Proposal" (9 June 2026), pp. 19-30 and Orion's "Customised Price-Quality Path Engagement Report" (9 June 2026).
[44] Orion "Customised Price-Quality Path CPP Proposal" (9 June 2026), pp. 19-20.
[45] Orion "Customised Price-Quality Path CPP Proposal" (9 June 2026), pp. 19-20; See IAP2's website.
[46] Orion "Customised Price-Quality Path CPP Proposal" (9 June 2026), pp. 21-22.

Phase	What Orion consulted on	Summary of what Orion said they heard from consumers
Phase 2: Consultation on initial investment approach (April – October 2025)	Consulted on 2025 Asset Management Plan	Most consumers supported Orion's preferred balanced investment approach over the high and low investment alternatives, with consumers' top priorities being safety, reliability, and resilience to earthquakes and severe weather events. Orion found satisfaction with current reliability was high and most customers are not willing to accept increase in unplanned outages; strong support for improving network resilience and rapid restoration post event; expectation network keeps pace with growth/prepared for the future; affordability is a major concern but most customers indicated willingness to pay a modest amount and prefer price increases to be smoothed over time[47]
Phase 3 (November 2025 – April 2026)	Consulted on draft CPP proposal	Customers broadly demonstrated an understanding of a need for increased investment to maintain network performance over the long-term, prioritising safety, reliability and resilience. However, affordability was their primary concern. Orion notes that "community stakeholders emphasised the importance of keeping pace with strong regional growth without overbuilding"[48]
Phase 4: (starting March 2026)	Consult on refined CPP proposal	See below paragraphs at 4.8-4.9

4.8 Orion stated that the final CPP proposal it submitted to us reflects what customers told Orion matters most: maintaining safety and reliability levels, strengthening resilience to mitigate the risk of prolonged outages after events, keeping pace with growth to support regional development without overbuilding, preparing for the future while avoiding the risks around early adoption, while focusing on efficiency to keep prices as low as possible.

4.9 Orion also states that it adjusted its scope and timing of selected investment in its plan to reflect improved modelling inputs, updated analysis, verifier views and input from Orion's Board and management. As discussed in Chapter 2, Orion stated that it has progressively reduced its total forecast expenditure under the CPP plan relative to the initial investment approach by $228 million or 13%.[49]

[47] Orion "Customised Price-Quality Path CPP Proposal" (9 June 2026), p. 22.
[48] Orion "Customised Price-Quality Path CPP Proposal" (9 June 2026), p. 27.
[49] Orion "Customised Price-Quality Path CPP Proposal" (9 June 2026), pp. v-vi; Orion noted that customer feedback, internal governance reviews and independent verification resulted in a progressive reduction in planned expenditure from $1.73 billion in its 2025 AMP Update to $1.615 billion in the draft investment plan it consulted on, and to $1.51 billion in the investment plan in the CPP proposal.

Verifier's report

4.10 The verifier concluded that Orion's consultation plan and engagement activities up to when it completed its verification review met the IMs criteria for consumer consultation.[50] It noted that "Orion's approach to consumer consultation is in accordance with their knowledge of other New Zealand EDBs (Aurora) and network businesses in Australia (Ausgrid)."[51] It also set out its conclusion, in detail, against the assessment criteria under the IMs.[52]

4.11 The verifier was generally satisfied that Orion had appropriately considered feedback received from consumers during the consultation process. It provided a few examples where Orion had made refinements in response to feedback. For example, in considering consumer sensitivity to the impact on lines charges, the CPP period total expenditure was generally refined from the level proposed in an update to its 2025 AMP.[53]

Our current thinking

4.12 We will take Orion's description of consumer consultation in the CPP proposal and the verifier's conclusions into account as part of our CPP evaluation.

4.13 However, we note there are some limitations the verifier noted about its assessment of Orion's consumer consultation:

4.13.1 the verifier's report only covered Orion's consumer consultation to 31 March 2026 when the verifier finalised its report; and

4.13.2 the verifier recommended that we test that 'expenditure versus risk versus cost' impact arguments are appropriately presented to consumers and check new feedback from consumers is duly considered and incorporated.[54]

4.14 Our assessment will also be informed through consumers' feedback on this Process and Issues paper, as well as targeted engagement we intend to hold with consumers and/or consumer groups in the Canterbury region prior to our draft decision in November 2026.

We seek your views on this area

4.15 We are interested to hear about whether consumer views are accurately represented in Orion's CPP proposal for the purposes of our evaluation, and if there is anything you feel Orion did not appropriately consider as part of its CPP proposal.

---

[50] GHD "Orion's CPP verification report" (31 March 2026), p. 80.
[51] GHD "Orion's CPP verification report" (31 March 2026), p. 85.
[52] GHD "Orion's CPP verification report" (31 March 2026), p. 86.
[53] GHD "Orion's CPP verification report" (31 March 2026), p. 85.
[54] GHD "Orion's CPP verification report" (31 March 2026), p. 356.[55] For a 'CPI-X' revenue path, re-profiling is achieved by adjusting the P_0 (the level of allowable revenues in the initial year of the period) and X-factor (annual real rate of change in revenues for remaining years).

4.16 We are also specifically seeking views on whether the consumer consultation undertaken by Orion, including on its refined CPP proposal from March 2026 (see Table 4.1 and paragraph 4.13.1 above), was adequate.

4.17 Lastly, we want to know if consumer views have changed since the consultation was undertaken or if there were any other matters you would like us to consider.

Relevant links on this issue

4.18 The main parts of Orion's CPP proposal that deal with consumer engagement are:

4.18.1 Orion's CPP Main Proposal, Chapter 3;

4.18.2 Orion's CPP Engagement Report; and

4.18.3 Independent Verifier's report, Chapter 7.

Chapter 5 Shaping the CPP revenue path to reduce price shocks for consumers

Issue summary

5.1 The increased expenditure allowances proposed by Orion would result in higher electricity lines charges for consumers over the CPP period. We are seeking your views on how best to manage these increases. We think that it might be possible to improve on the way Orion has proposed to shape its CPP revenue path to reduce the risk of price shocks for consumers.

Background/context

Issue description and why it matters

5.2 Orion proposes that its CPP expenditure and investment plans be funded through annual increases in electricity lines charges from DY28 through to DY32. The total increases over the CPP period are relatively large (compared to past periods) and follow on from the recent annual increases we approved for Orion as part of DPP4.

5.3 Consumers can have difficulty in absorbing price increases that occur too sharply. However, adjusting the profile of Orion's allowable revenues over the CPP period to smooth price changes gives consumers an opportunity to better adapt their behaviour and consumption, maximising their collective willingness and ability to pay over time.

5.4 The main tool we rely on to reduce the risk of unmanageable price shocks for consumers is shifting some of a regulated firm's overall allowable revenues between different years within a regulatory period. This reprofiling exercise is done in a present-value equivalent way, with respect to the firm's regulatory cost of capital.[55]

5.5 This still means consumers pay the total required revenues over the regulatory period, together with an additional 'time value of money' charge for any in-period deferral resulting from smoothing. The benefit, however, is that consumers face smoother and more predictable price changes, allowing for improved budgeting and decision-making.

5.6 We acknowledge consumers' general concerns about affordability in the present economic climate. We have limited ability to address affordability issues as part of the CPP process. However, any increases in line charges should be easier to absorb through a combination of ensuring expenditure allowances are kept at prudent and efficient levels to provide consumers with value for money (Chapter 2), and consumer price shocks are minimised through shaping the profile of CPP revenues.

[55] For a 'CPI-X' revenue path, re-profiling is achieved by adjusting the P_0 (the level of allowable revenues in the initial year of the period) and X-factor (annual real rate of change in revenues for remaining years).

Orion has proposed a step-up in network revenues in DY28 followed by year-on-year increases for the following four years

5.7 Orion has proposed a smoothed ('CPI-X') revenue path that avoids having a step-up in allowable revenues occurring all in the first year of the CPP period. It allows for:[56]

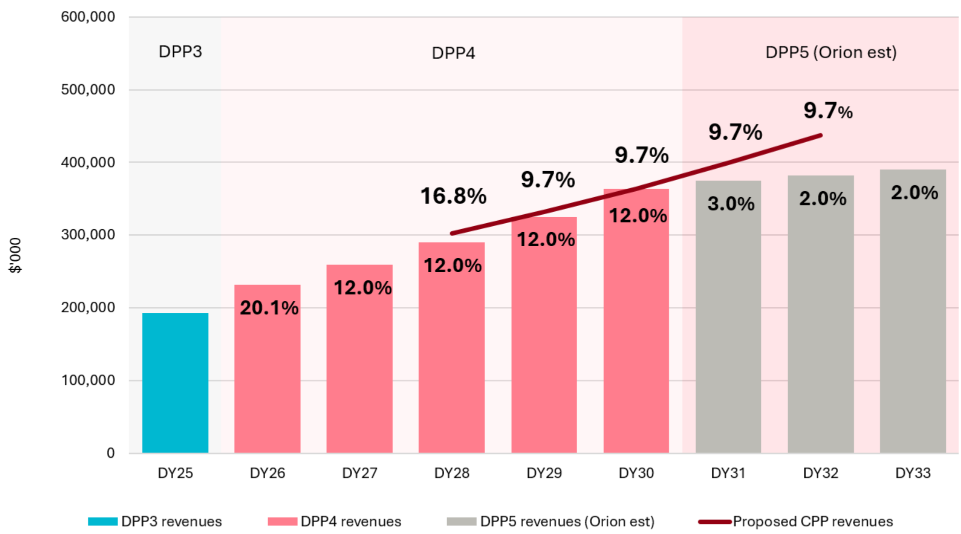
5.7.1 a partial increase in its forecast net allowable revenues at the start of the CPP period of 16.8% (14.5% in DY26 constant dollars); and

5.7.2 further year-on-year increases in each of the 4 remaining years of 9.7% (7.5% in DY26 constant dollars).

5.8 As mentioned above, these increases would follow on from the increases we already approved for Orion as part of the DPP4 reset for DY26 of 20.1% (17.2% in DY26 constant dollars) and for DY27 of 12.0% (9.5% in DY26 constant dollars).

5.9 Orion's proposed smoothed CPP price path is shown in Figure 5.1, which also shows comparable DPP revenues (and percentage annual revenue changes for both the CPP and DPPs) that Orion has estimated would otherwise apply.[57]

Figure 5.1 Orion's proposed CPP revenue path profile relative to DPPs



5.10 Orion stated in its proposal that "we consider the price impacts of our final CPP plan are broadly consistent with customers' willingness to pay" and that customers, in their feedback on early versions of Orion's expenditure and investment plan, "expressed a strong preference for smooth price increases that avoid price shocks, and we have smoothed our planned revenue over the CPP period to reflect this preference."[58]

[56] Orion "Customised Price-Quality Path CPP Proposal" (9 June 2026), pp. 213-215.
[57] The DPP5 counterfactual estimated by Orion assumes the step-up in expenditure proposed under the CPP for DY28-DY30 does not occur, and DPP5 is based on a similar expenditure forecasting methodology as applied for DPP4, so would not accommodate the increased expenditure under the CPP proposal.
[58] Orion "Customised Price-Quality Path CPP Proposal" (9 June 2026), p. viii.

5.11 How this smoothed revenue translates into higher lines charges for individual customers depends on how Orion will recover its overall revenues from different consumer groups in any particular year and how much electricity a consumer uses.

5.12 However, Orion estimates that, compared with the DPP prices that would otherwise apply, a typical residential or small business customer will pay more than under a DPP in DY28 ($4 to $5 per month), slightly less by DY30 (-$1 per month), and significantly more by DY32 ($9 to $11 per month).[59]

5.13 It is important to note that electricity distribution lines charges are only one component of a consumer's overall electricity bill. The other components include the costs of electricity generation, transmission and retail costs. Typically, Orion's distribution charges make up around a quarter of the average residential consumer's electricity bill (excluding GST).[60] The figures discussed in the section above do not take into account any changes in those other components during the CPP period.

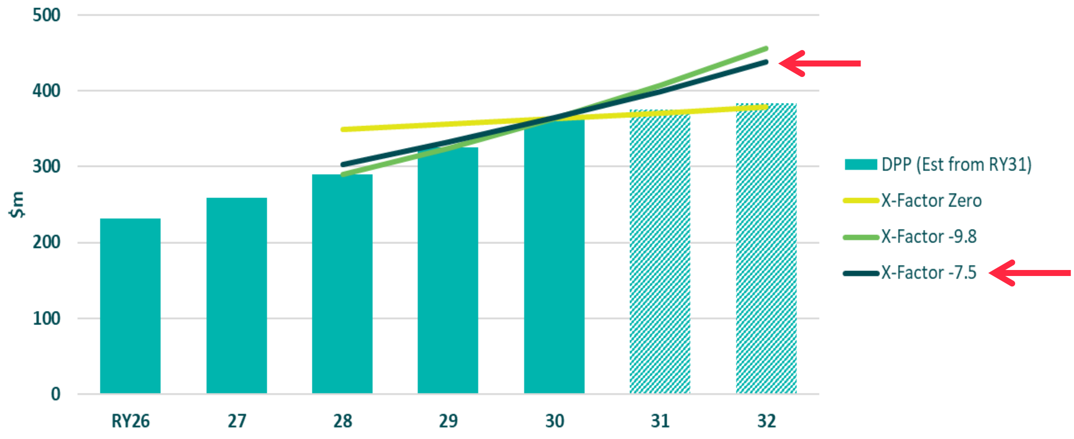
Orion considered alternative options for smoothing its revenue path

5.14 Orion stated in its CPP proposal that it had considered alternative options for revenue path smoothing to reduce potentially sharp year-on-year changes for consumers.

5.15 These were a CPI-X smoothing profile using three alternative X-factor settings: 0%, -7.5% and -9.8%. It has proposed adopting the middle factor (-7.5%) in this range since it "reduces the risk of price shocks while enabling timely recovery of efficient costs, and results in a more even distribution of price impacts across the CPP period".[61]

5.16 These options are shown in Figure 5.2. We note that Orion did not raise any concerns about its financeability in respect of adjustments under any of the smoothing options.

Figure 5.2 Orion's proposed CPP revenue path profile (Source: Orion)[62]



[59] Orion "Customised Price-Quality Path CPP Proposal" (9 June 2026), p. 212.
[60] See the Electricity Authority's website.
[61] Orion "Customised Price-Quality Path CPP Proposal" (9 June 2026), pp. 213-215.
[62] Orion "Customised Price-Quality Path CPP Proposal" (9 June 2026), p. 214. We have added the red arrows to Orion's chart to indicate the option proposed by Orion (ie, an X-factor of -7.5%).

Our emerging view

Orion's proposal is reasonable but better options may exist to minimise price shocks

5.17 Our current view is that Orion's proposal for a smoothed CPI-X price path constitutes a reasonable attempt to reduce the potential for price shocks for consumers because it limits real increases in aggregate revenues to less than 10% per annum for four of the five years in the CPP period (Figure 5.1).[63]

5.18 However, we consider that taking account of some further factors when assessing options for CPP profiling could be beneficial, particularly once a better sense of the likely level of total CPP revenue increases at our draft decision stage is gained.[64] The additional factors include:

5.18.1 assessing annual revenue changes—both in respect of the P_0 and X-factor in later CPP years—on a 'per installation control point (ICP)' or 'per unit of demand' basis. As Orion's customer base is forecast to grow, consumers could be expected to have an increasing ability to absorb network costs in the latter stages of the CPP period; and

5.18.2 Considering applying different X-factors at various points during the CPP period to achieve a more desirable profile (as there is no statutory or other constraint technically preventing different X-factors being applied for different years during a CPP).[65]

5.19 Where smoothing cannot avoid total forecast net revenue increases of more than 10% per annum in any of the years in the CPP period, then other factors may also be relevant to setting a smoothed profile. For example:

5.19.1 assessing the cumulative impact on consumers of the recent increases in DPP4 allowable revenues. Since those increases were relatively large (reflecting the circumstances EDBs faced at the DPP4 reset) this suggests limiting the extent of increases occurring early in the CPP period, all else equal;

5.19.2 the desirability of more closely aligning CPP allowable revenues with those for Orion as part of DPP5 at the CPP 'step-off' point (ie, DY33). This requires estimation of the DPP5 settings at the point of transition; and

[63] The 10% threshold can be seen as an approximate indication of whether changes in revenues, at an aggregate level, may cause consumers to experience a price shock. In the particular circumstances of DPP4, a starting price (P_0) change above 20% was adopted as a reference level.
[64] The level of CPP revenues will ultimately depend on the expenditure allowances and other forecast 'building blocks' costs we determine as part of our CPP evaluation.
[65] See s 53P(8) and (9) of the Act. There is no technical requirement in the Act or the IMs that requires a 'CPI-X' revenue profile to be adopted for a CPP.

5.19.3 assessing the changes in forecast distribution revenues at a 'gross' level – that is, after pass-through and recoverable cost entitlements are added to net allowable revenues. The reason for this is that Orion's consumers will also be exposed to price movements from these components, which can be material and variable within period. Further, as unexpected changes in pass-through or recoverable costs may introduce price volatility at the level of gross revenues which consumers are exposed to through prices, we suggest retaining the secondary 10% per annum revenue smoothing limit which takes account of changes in recoverable costs.[66] Orion has not proposed to amend (or remove) this limit for its CPP.

5.20 Past experience with setting price-quality paths suggests we should not seek to spread the recovery of building block costs or other revenue entitlements across more than one regulatory period (eg, into the remaining years of DPP5, by, for example, forcing wash-up accruals) unless there are compelling reasons for doing so.

5.21 Deliberately spreading revenue into future periods risks there being insufficient 'headroom' to accommodate deferred amounts being available in the next regulatory period without causing undue price shocks, and can place financial stress on a supplier which negatively affects incentives under our price-quality regime, eg, for investment and innovation. As mentioned above, we are not aware of any financeability or financial hardship concerns for Orion as a result of reprofiling revenues between different years within the CPP period.

5.22 Lastly, uncertainty mechanisms (such as expenditure reopeners) that are effectively substituted for upfront expenditure approvals (see Chapter 3) have the advantage of lowering overall upfront estimates of lines charges and therefore making prices potentially more manageable for consumers. However, reopeners introduce the prospect of volatility in prices when they are triggered and may still need to be factored into price path smoothing decisions (eg, to retain some ability to accommodate additional reopener revenues without causing undue price shocks).

Flexibility for Orion to alter its in-period collection of revenues should be retained

5.23 We note that in practice Orion has flexibility under DPP4 to shape the in-period revenues it collects from customer to respond to emergent circumstances and the needs of its consumers. For example, it can choose to set its lines charges at levels below forecast allowable revenue (up to 10% below) or to delay DPP3 wash-up draw downs. Our view is that this flexibility should be retained for the CPP.

We seek your views on this issue

5.24 We are interested to hear what you think of the options for minimising price shocks for Orion's consumers through shaping the CPP revenue path.

[66] Commerce Commission "Default price-quality paths for electricity distribution businesses from 1 April 2025 – final decision reasons paper" (20 November 2024), paras 4.70-4.76.

5.25 In particular:

5.25.1 what tolerance consumers have for year-on-year increases in lines charges to obtain the benefit of the additional investment under the CPP proposal, and whether consumers are willing to pay an additional 'time value of money' charge to obtain a smoother profile of lines charges over the CPP period;

5.25.2 whether real (ie, constant dollar) percentage changes 'per ICP' or 'per unit of demand' in allowable revenues is an appropriate measure for assessing potential consumer price shocks; and

5.25.3 whether we should have regard to past and likely future revenue requirements, and pass-through and recoverable components of prices, when considering shaping CPP revenues, but not seek to defer recovery to future periods.

Relevant links on this issue

5.26 The main part of Orion's CPP proposal that deals with revenue path profiling is:

5.26.1 Orion's CPP Main Proposal, Chapter 14 – particularly section 14.3.

Chapter 6 Applying appropriate service quality settings

Issue summary

6.1 Orion has met its quality standards in recent years, and has not sought a quality standard variation for the CPP period. However, it has proposed increased disclosures on a range of additional service measures against performance targets.

6.2 We plan to assess whether it is appropriate to apply the same approach used to set quality standards and the quality incentive scheme in DPP4, apply the same standards and quality incentives as DPP4, or adopt a different approach.

6.3 We note Orion has proposed additional CPP expenditure allowances that are designed to support the performance of its network.[67] As such, we intend to request more information from Orion on possible price/quality trade-offs, while we progress our own analysis and consider the views of consumers and stakeholders.

Background/context

Issue description and why it matters

6.4 Quality standards and the quality incentive scheme are key aspects of a price-quality path. Setting quality standards and implementing a quality incentive scheme help ensure EDBs, such as Orion, are not motivated to underinvest in the network, and provide services at a quality that reflect consumer demands.

6.5 For EDBs, we have three quality standards focused on the reliability of supply:

6.5.1 limits for planned interruptions (SAIDI and SAIFI)[68] assessed across the full regulatory period;

6.5.2 limits for unplanned interruptions (SAIDI and SAIFI) assessed each year; and

6.5.3 an extreme event standard.

6.6 The quality standards we set for Orion for DPP4 were calculated based on statistical analysis of its historical performance. To date, the principle of 'no material deterioration' in reliability has been the starting point for our approach to quality at each reset for EDBs.[69]

[67] Orion "Customised Price-Quality Path CPP Proposal" (9 June 2026), para 127.
[68] SAIDI (System Average Interruption Duration Index) is a measure of how long the average customer is without power, and SAIFI (System Average Interruption Frequency Index) is a measure of how often the average customer loses power.
[69] Commerce Commission "Default price-quality paths for electricity distribution businesses from 1 April 2025 – final decision reasons paper" (20 November 2024), p. 74.

6.7 In DPP4, we chose to carry over the quality standards and quality incentive scheme for EDBs that we implemented in DPP3. The incentive scheme rewards or penalises firms for actual performance against the standards we set to encourage EDBs to make appropriate trade-offs about the level of quality they deliver.[70]

6.8 The DPP4 quality standards for Orion are set out in Table 6.1.

Table 6.1: Orion DPP4 quality standards[71]

Unplanned SAIDI (1-year)	Unplanned SAIFI (1-year)	Planned SAIDI (5-year)	Planned SAIFI (5-year)	Extreme outage (per event)
80.47	0.9819	218.24	0.7399	6m CIM

What Orion has proposed

6.9 Orion has not proposed a quality standard variation for the CPP period.[72] As it is not requesting a quality standard variation, Orion is not required to provide information in its CPP proposal about its realistically achievable performance over the CPP period, or the trade-offs that it considers could be made between levels of proposed expenditure and the standards of service quality that could be attained.

6.10 However, Orion notes in its CPP proposal that its operating environment is becoming more complex and customer expectations are changing.[73] It says that it also faces ongoing seismic risk and increasing exposure to severe weather events. Without additional investment, Orion says it expects that over time:

6.10.1 there would be a decline in reliability outcomes, leading to more frequent and longer unplanned outages, and safety risk to its service delivery partners and the public; and

6.10.2 resilience would not improve, leaving the risk of prolonged and widespread outages during and after natural disasters, unmitigated.[74]

6.11 Orion also outlines that forecasting unplanned reliability performance is a complex process and it considers it does not "currently have sufficiently robust, granular data to be confident that forecast modelling can accurately reflect reasonably achievable future performance."[75]

[70] Commerce Commission "Default price-quality paths for electricity distribution businesses from 1 April 2025 – final decision reasons paper" (20 November 2024), p. 84.
[71] Commerce Commission "Default price-quality paths for electricity distribution businesses from 1 April 2025 – final decision reasons paper" (20 November 2024), p. 81, Table 3.2.
[72] Orion "Customised Price-Quality Path CPP Proposal" (9 June 2026), p. 221.
[73] Orion "Customised Price-Quality Path CPP Proposal" (9 June 2026), p. ii.
[74] Orion "Customised Price-Quality Path CPP Proposal" (9 June 2026), p. 16.
[75] Orion "Customised Price-Quality Path CPP Proposal" (9 June 2026), p. 222.

6.12 Orion discussed some options for updating the underlying calculations used to derive the respective DPP4 SAIDI and SAIFI limits, eg, by updating the DPP4 standards by incorporating its actual performance for DY25 and DY26.[76] Orion has not discussed the DPP4 quality incentive scheme in its proposal.

Orion expects additional CPP expenditure to support network performance

6.13 Orion's CPP expenditure proposal provides 47% ($710m) for maintaining safety and reliability levels, and 5% ($78m) for strengthening resilience (see Figure 2.4).

6.14 Orion states that:

6.14.1 the $710m will lift asset renewals to address ageing fleets and past deferrals, expand preventive and corrective maintenance and target local safety and supply quality risks. It maintains this will result in reliable supply with outages maintained at current levels and a reduced risk of major outages with improved reliability of supply in localised areas.[77]

6.14.2 the $78m will strengthen resilience and mean faster restoration following disruptions, reducing the risk of widespread outages and improving performance during extreme weather events.[78]

Proposed service measure reporting

6.15 Lastly, Orion proposes to report in their annual AMP on twenty-six service measures which span "key service attributes, including reliability and resilience, safety, customer service, power quality, environmental impact, efficiency and network planning, and support for the energy transition. These comprise 13 established measures as well as 13 new measures that extend performance monitoring into areas of increasing importance to customers."[79]

6.16 These are not quality standards but would provide additional information about network performance under its CPP.

Our current thinking

6.17 The main issues we have identified are whether the quality standards and quality incentive scheme settings we set for DPP4 (either the methodology or specific settings) should be applied for the CPP period and whether the additional disclosures Orion has proposed are robust and provide appropriate visibility of the outcomes of its expenditure programme.

[76] Orion "Customised Price-Quality Path CPP Proposal" (9 June 2026), pp. 222-223.
[77] Orion "Customised Price-Quality Path CPP Proposal" (9 June 2026), p. xi.
[78] Orion "Customised Price-Quality Path CPP Proposal" (9 June 2026), p. xi.
[79] Orion "Customised Price-Quality Path CPP Proposal" (June 2026), p. ix. See also GHD "Orion's CPP verification report" (31 March 2026), pp. 335-344.

Orion's compliance with quality standards

6.18 Orion has complied with its quality standards over the last ten years.[80] With regard to performance, we note:

6.18.1 Orion had low levels of unplanned outages, when compared to other larger electricity distribution network companies (Vector, Wellington Electricity, and WEL Networks). Outages appear to be caused mainly by defective equipment.

6.18.2 Orion had the second lowest SAIDI for planned outages when compared against other larger EDBs (Vector, Wellington Electricity, and WEL Networks). However, its planned interruptions have been slightly higher in recent years.

Proposal to maintain existing service quality is out of scope for the verifier

6.19 The verifier has not verified the suitability of the quality standards for the CPP, as it is only required to review these if Orion proposes a quality standard variation.[81]

Our emerging view is that further examination of price and quality trade-offs is desirable

6.20 The data appear to establish that the principle of "no material deterioration" has been achieved (and may be likely to continue over the 5-year CPP period), but it does not tell us whether appropriate trade-offs are being considered by Orion between investment levels and the level of quality consumers expect.

6.21 Our emerging view is that we should examine the potential trade-offs between prices and quality. For example, whether Orion's quality standards or the quality incentive scheme should be amended for the CPP given the nature and level of its proposed spend. We intend to request more information from Orion on possible price/quality trade-offs, while we progress our own analysis and consider the views of consumers and stakeholders.

6.22 One way of testing the appropriateness of the proposed spend is to consider the impact on consumers of potential interruptions if the spend is not made. It is not clear from the CPP proposal whether Orion has modelled this.[82] We discuss ways that benefits of proposed expenditure can be demonstrated in Chapter 2.

---

[80] Orion has complied with quality standards for the last ten years of available information, up to the year ending 31 March 2025. Information representing performance for the year ended 31 March 2026 will be publicly disclosed by Orion before 31 August 2026.
[81] Electricity Distribution Services Input Methodologies Determination 2012 [2012] NZCC 26 (as amended), cl G3(2).
[82] Orion "Customised Price-Quality Path CPP Proposal" (June 2026), p. xi. A suitable measure might be an estimate of the Value of Lost Load (VOLL).

We are interested in whether quality standards or incentives should be tightened

6.23 In its proposal, Orion says that its customers have expressed high satisfaction with the current levels of safety and reliability and identified maintaining these levels is a top priority, particularly in the context of growth, electrification, and increasing climate and natural-hazard risks. Strengthening network resilience was also said to be a key priority, with strong support for targeted investment in high-risk assets.[83]

6.24 The existing DPP4 quality standards and quality incentive scheme, which Orion has not proposed to change, only apply at an aggregate network level. However, within that context we expect EDBs to consider the needs and expectations of different consumers and consumer groups when making trade-offs about quality on different parts of their networks.

6.25 In the absence of more disaggregated standards or incentives, the impacts of increased expenditure programmes would normally be expected to be visible in improved reliability performance. This may mean incentive settings or the quality standards themselves may be best set with an adjustment to reflect an improvement on the level of historical performance.

6.26 On the other hand, we acknowledge the following factors:

6.26.1 Orion's CPP investment is not primarily motivated by the need to address reliability concerns;

6.26.2 Orion's renewal and maintenance investments are designed to maintain rather than improve reliability performance; and

6.26.3 Orion's view that customers have indicated an unwillingness to fund additional investments to improve reliability performance.

We seek your views on this issue

6.27 We are interested in your feedback on:

6.27.1 whether maintaining the same (or similar) settings for quality standards and the quality incentive scheme as applied in DPP4 is appropriate; and

6.27.2 the appropriateness of Orion's proposed suite of service reporting measures and whether there are other material aspects of service performance which are not appropriately addressed by existing and proposed disclosures, including potentially more disaggregated disclosures.

Relevant links on this issue

6.28 The main parts of Orion's CPP proposal that deal with network service quality are:

6.28.1 Orion's Main Proposal, Chapter 15, pp. 217-223 and p. 225;

[83] Orion "Customised Price-Quality Path CPP Proposal" (9 June 2026), p. v.

6.28.2 Orion's 2026 Asset Management Plan, Chapter 5, pp. 39-53; and

6.28.3 Independent Verifier's report, Chapter 13, pp. 335-344.

6.29 In addition, Orion's DPP4 quality standards and incentives are discussed in DPP4 final decision, Attachment E on Quality.

Chapter 7 Monitoring Orion’s progress and performance during the CPP period

Issue summary

7.1 Orion’s proposed work programme is larger than it has previously delivered as part of its business-as-usual operations. If the CPP is approved as Orion proposes, Orion’s progress with its planned investment should be monitored to ensure it is best positioned to deliver the anticipated benefits, and that non-delivery does not result in excessive profits.

7.2 We seek your feedback on how to monitor Orion’s progress and performance over the CPP period, for example, how enhanced annual information disclosures by Orion (beyond existing requirements) could be structured and what Orion should be required to report on.

Context/background

7.3 In recent years, we have placed enhanced information disclosure requirements on EDBs who apply for a CPP (Powerco and Aurora) given the significant increases in expenditure allowances and line charges. These additional disclosure requirements have enabled us, consumers and other stakeholders to assess during the CPP period if and how commitments under the CPP are being delivered.

7.4 Additional disclosure requirements have included requiring Powerco and Aurora to publish an Annual Delivery Report (ADR) during the CPP period, and conduct public stakeholder engagement and hold annual meetings to discuss progress and support our evidence gathering for assessment and public reporting on the EDB’s progress.[84] [85] [86]

Keeping track of Orion’s progress

Issue description and why it matters

7.5 Orion’s proposed work programme is large in scale and would involve a significant uplift in expenditure for asset replacement and network upgrade activities. In considering Orion’s CPP proposal we will consider how it plans to deliver the increased investment, otherwise consumers may be negatively impacted over the longer term. In particular, anticipated customer benefits may not be realised and/or non-delivery may result in elevated profits for Orion where planned expenditures are not made.

[84] Commerce Commission “Section 53ZD notice – Annual Delivery Report requirements for Powerco's customised price-quality path” (23 July 2019).
[85] Commerce Commission “Aurora Energy Limited – Additional Information Disclosure Requirements-Reasons paper (31 August 2021).
[86] Commerce Commission “Enhanced information disclosure requirements for Aurora Energy – Infographic” (31 August 2021).

7.6 While accountability and monitoring mechanisms do not directly address the risk that non-delivery results in unrealised benefits or elevated profits, increased visibility and transparency of work programme delivery affect incentives and may reduce the likelihood of these outcomes. In particular, accountability and monitoring mechanisms work as a reputational driver for Orion to deliver on investments they have been funded for and allow us to consider options for intervention if satisfactory progress is not being made.

What Orion has proposed

7.7 Orion has proposed that an ADR (similar to the ADR for Powerco and Aurora) would be the primary mechanism for reporting on the delivery of the CPP plan over the regulatory period – bringing together information on expenditure, outputs and outcomes in an accessible format to complement existing information disclosures.[87]

7.8 Orion proposes to report on key CPP programme and project expenditure, including explaining material variances from planned expenditure where these affect delivery of customer preferences and strategic priorities. Orion has proposed high-level and outcome-focused ADR measures that it considers will enable clear visibility of delivery while maintaining flexibility to respond to changing conditions over the CPP period.[88] It notes that it will support the ADR with stakeholder engagement and communication under its customer engagement programme.[89]

7.9 While the verifier is not required to opine on accountability and monitoring mechanisms, it did suggest that Orion report annually on how workforce needs are being met, the impact of labour shortfall on programme delivery and mitigation actions being taken to address issues.[90]

Our emerging view

7.10 We consider that placing enhanced information disclosure requirements on Orion during the CPP period could help consumers and stakeholders monitor Orion's progress and hold it accountable for delivering its proposed work programme and anticipated benefits.

7.11 We agree with Orion that the enhanced information disclosure requirements could be similar to those implemented for Powerco and Aurora, but customised to suit Orion's CPP context.[91] We envisage that the process for setting the requirements would incorporate the 'lessons learned' that we identify in respect of the Powerco and Aurora CPP processes.

[87] Orion "Customised Price-Quality Path CPP Proposal" (June 2026), p. 225.
[88] Orion "Customised Price-Quality Path CPP Proposal" (June 2026), pp. 225-226.
[89] Orion "Customised Price-Quality Path CPP Proposal" (June 2026), p. 225.
[90] GHD "Orion's CPP verification report" (31 March 2026), p. v.
[91] See Commerce Commission webpage on Powerco CPP and Commerce Commission webpage on Aurora Energy CPP.

7.12 Orion has proposed significant investment in areas like network transformation. This should result in Orion becoming a leading EDB in terms of capability, systems and practices needed to respond to changing customer, technological and network needs while continuing to maintain a safe, reliable and resilient network. We also see a role for Orion in improving sector-wide and regional outcomes through collaboration and sharing of its knowledge and innovative practices with other EDBs.

7.13 In this context, our initial view is that Orion's ADR should not only include reporting on delivery of its proposed work programme[92] but also include reporting on progress in specific areas we have in mind for Orion to improve on and mature in, aligned with where we expect it to be by the end of the CPP period. For example:

7.13.1 improvements in asset management practices;

7.13.2 improvements in data collection and data quality practices;

7.13.3 changes in risk profile and improvements in risk management practices; and

7.13.4 how it compares (eg, expenditure category ratios) to other large EDBs.

7.14 Use of specific reporting requirements such as these could help incentivise capability and capacity being built to ensure ongoing performance and allow for knowledge and expertise to be shared (eg, with other EDBs) to help deliver greater consumer benefits overall.

7.15 One other option that we are exploring ahead of our draft decision is whether ADR measures should be tailored for the outcomes of different expenditure categories. For example, where Orion proposes investing in capacity, then capacity could be measured; where assets are being replaced due to age, age of that asset class could be monitored.

7.16 Lastly, Aurora was required to prepare 'project and programme development plans' in respect of its work programme which focused it on planning and provided a base for monitoring against. Such planning documents could also provide wider benefits for consumers or developers – for instance, in knowing which areas are intended for upgrade and when.

7.17 We are mindful of introducing ongoing compliance costs that may negatively impact businesses and consumers. We therefore consider that, at this stage, enhanced information disclosure requirements would apply only during the CPP period. We would then expect to undertake a future information disclosure review of these requirements to assess any ongoing need beyond the CPP and the impact of this (and would consult separately on those at that stage).

[92] Annual reporting (eg, against forecast cost and volumes (PxQ) for particular categories of proposed spend) could complement any uncertainty mechanism we implement that deals with concerns over overall deliverability of Orion's work programme (see Chapters 2 and 3). We also plan to consider the verifier's suggestion that Orion report annually on how workforce needs are being met, the impact of labour shortfall on delivery and mitigation actions taken to address issues.

We seek your views on this issue

7.18 We are interested in your views on how Orion's progress against anticipated outcomes and benefits of its proposed CPP investment and work programme are best monitored.

7.19 Specifically, we are interested in your feedback on Orion's proposals for enhanced information disclosure requirements via ADR reporting, and our early thinking on the specifics it could include – including whether ADR measures or outcomes should be linked to specific areas to improve on, or specific investment spend areas, and whether there are benefits to requiring development plans to also be prepared.

7.20 We are interested to hear if you think there are any other monitoring and reporting mechanisms we should consider.

7.21 Please provide your reasons and, if you would like to suggest further information disclosure requirements, please outline your suggestions.

Relevant links on this issue

7.22 The main parts of Orion's CPP proposal that cover this issue are:

7.22.1 Orion's CPP Main Proposal, Chapters 4, 15 and 16; and

7.22.2 Independent Verifier's Report, Chapter13.

Attachment A Regulatory framework for setting the CPP

Purpose of this attachment

A1 The purpose of this attachment is to describe the high-level framework that we will apply in setting a CPP for Orion.

What we are required to do under the Commerce Act 1986

A2 The Act provides us with our purpose in making our decisions. It directs us to set out processes and rules up front that we will use to provide certainty on what CPP applicants must do to apply and how we should go about making our CPP decisions.

A3 Our starting point for our decisions on Orion's CPP is the purpose of Part 4 of the Act set out in Figure A1 – to promote the long-term benefit of consumers.

Figure A1 Purpose of Part 4

The purpose of Part 4 of the Commerce Act

52A purpose of Part 4

(1) The purpose of Part 4 is to promote the long-term benefit of consumers in markets referred to in section 52 by promoting outcomes that are consistent with outcomes produced in competitive markets such that suppliers of regulated goods or services—

(a) have incentives to innovate and to invest, including in replacement, upgraded, and new assets; and

(b) have incentives to improve efficiency and provide services at a quality that reflects consumer demands; and

(c) share with consumers the benefits of efficiency gains in the supply of the regulated goods or services, including through lower prices; and

(d) are limited in their ability to extract excessive profits.

A4 The Act requires us to set rules and processes for CPPs (IMs). These establish the key rules, requirements and processes that must be met by the CPP applicant for information, verification, audit and consumer consultation, as well as the criteria that we must use to evaluate a CPP proposal.

Assessing Orion's CPP proposal

A5 We must apply the evaluation criteria set out in Figure A2 to assess Orion's proposal:

Figure A2 CPP evaluation criteria

Evaluation criteria for customised price-quality path proposals

The Commission will use the following evaluation criteria to assess each CPP proposal:

a) whether the proposal is consistent with the input methodologies;

b) the extent to which the proposal promotes the purpose of Part 4 of the Act;

c) whether data, analysis, and assumptions underpinning the proposal are fit for the purpose of determining a CPP;

d) whether the proposed capital and operating expenditure meet the expenditure objective;

e) the extent to which any proposed changes to quality standards reflect what the applicant can realistically achieve taking into account statistical analysis of past SAIDI and SAIFI performance; and/or (ii) the level of investment provided for in proposed; and

f) the extent to which the CPP applicant has consulted with consumers on its CPP proposal; and the proposal is supported by consumers, where relevant.

A6 We expand on each of these below.

Whether the CPP proposal is consistent with the input methodologies

A7 Our evaluation of Orion's proposal is required to assess whether it is consistent with the IMs. Prior to accepting Orion's CPP proposal for our evaluation, we assessed whether the proposal meets the CPP process requirements,[93] and we will also now assess whether it meets the substantive IMs for determining a CPP.

The extent to which the proposal promotes the purpose of Part 4 of the Act

A8 We will assess whether the proposal promotes the long-term benefit of consumers and reflects key areas of supplier performance that we would expect in markets that have workable competition.

Whether the data, analysis and assumptions underpinning the proposal are fit for determining a CPP

A9 We will assess whether the information in Orion's proposal is sufficient in detail and quality to allow us to undertake our assessment, and whether the assumptions used are sufficiently robust. Where further information is required to establish that information in the CPP proposal is fit-for-purpose, we may request this from Orion, from the verifier or from other experts. Where we do not accept the robustness of an assumption, we may seek further explanation for the assumption, or we may apply a different assumption.

---

[93] See our [Orion CPP 2027 webpage](#).

Whether the proposed capital expenditure and operating expenditure meet the expenditure objective evaluation criteria in the IMs

A10 The IM expenditure objective requires us to assess Orion's proposed capital expenditure and operating expenditure on the basis that it reflects the efficient costs that a prudent supplier subject to price-quality regulation would require to:

A10.1 meet or manage the expected demand for electricity distribution services, at appropriate service standards, during the CPP period and over the longer term; and

A10.2 comply with applicable regulatory obligations associated with those services.

A11 The assessment of forecast expenditure is not a mechanistic process. It necessarily involves the exercise of our judgement, supported by the verification report and possibly supported by further expert advice.

The extent to which proposed quality standard variations are realistically achievable

A12 The evaluation criteria in the IMs require us to assess the extent to which any proposed quality standard variation in the CPP proposal better reflects the realistically achievable performance of Orion over the CPP period than the quality standards under the DPP.

A13 This will be done through statistical analysis of Orion's historical reliability performance and/or by considering the level of investment provided for in the CPP period.

The extent to which Orion has consulted with its customers on its CPP proposal, and the degree of support from its customers

A14 Orion is required to consult with its customers in advance of submitting its CPP proposal. This has the benefit of gauging what its customers value, such as the trade-offs they are prepared to make between the price they will pay and the quality of services they will receive from Orion.

A15 In making our decisions on the CPP, we will consider the extent to which Orion has consulted with its customers and the extent to which those customers support the CPP proposal. We will also take into account feedback we receive on the issues we expect to raise in our own consultation with customers and other stakeholders.