

17 June 2024

Scott Scrimgeour, Commercial and Regulatory Manager, Wellington Electricity
Kelly Chapman, Regulatory Lead, Orion

By email only

Dear Scott and Kelly,

RE: Approval of Orion and Wellington Electricity's Resi-Flex application for the Innovation Project Allowance

This letter approves Orion and Wellington Electricity's (WE*) application for the innovation project allowance: Resi-Flex – incentivising flexibility with residential consumers by exploring commercial mechanisms in collaboration with flexibility stakeholders.

Orion and WE* submitted an innovation project application in May 2024 in accordance with the Default Price-Quality Path Determination (Determination).¹ The application seeks approval from the Commerce Commission (Commission) to draw down some of each of their innovation project allowances, with any such draw down constituting a recoverable cost.

Innovation allowance incentivises distributors to innovate

Innovation and efficiency have a significant role in the transition to increased electrification, to help reduce costs and deliver value for money to consumers. The ability for distributors to draw down on an innovation allowance was included in the regime to improve the incentives distributors have to innovate.

Orion and WE* Resi-Flex project

Orion and WE*'s application relates to their Resi-Flex project. The project is three phases and involves developing residential flexibility services; from exploring user requirements in phase one to implementing trials for phase three.

You have told us that the project aims to reduce costs to consumers by aiming to incentivise demand-side flexibility from residential consumers by exploring commercial mechanisms.

¹ *Electricity Distribution Services Default Price-Quality Path Determination 2020* [2019] NZCC 21, Schedule 5.3.

Development and trial of flexibility services as result of Resi-Flex should help allow EDBs to deliver more electricity from their existing networks and avoid expensive network upgrades.

For Orion, the IPA application is for \$50,175 which is 50% of its total project costs of \$100,350. For WE*, the IPA application is for \$15,891 which is 50% of its total project costs of \$31,782. As required under clause (4) of Schedule 5.3, we approve the proportion of operational expenditure (opex) in the drawdown amount is \$50,175 for Orion and \$15,891 for WE* (all of the project's cost are opex).

Commission approves Orion and WE* Resi-Flex project application

The Commission may approve an innovation project allowance application if the applicant satisfies the Commission that the criteria set out in clause (2) of Schedule 5.3 of the Default Price-Quality Path Determination (the *innovation project allowance criteria*) have been met.

This letter confirms that the Commission:

- is satisfied the innovation project allowance criteria have been met; and
- approves the innovation project application for \$66,066 draw down as a recoverable cost (\$50,175 for Orion and \$15,891 for WE*).

With the innovation project application now approved, Orion and WE* are required, in accordance with clause (5) of Schedule 5.3, within 50 working days of completing the innovation project to submit a report (or reports) to the Commission that outlines the key findings of the project and make the report publicly available on its website.

We would like to thank Orion and WE* for this application to the innovation project allowance. We will publish your application and this letter on our website.

Yours sincerely

Vhari McWha
Commissioner