

28 August 2024

Ben Woodham
Electricity Distribution Manager
Commerce Commission
Wellington 6140
New Zealand City

Dear Ben,

Submission on EDB DPP4 innovation and non-traditional solutions workshop – implementation design

Electricity Networks Aotearoa (ENA) appreciates the opportunity to provide our views on questions asked at the Commerce Commission's (Commission's) workshop and other matters relevant to the implementation, design and application process for the draft innovation and non-traditional solutions allowance (INTSA).

ENA is the industry membership body that represents the 29 electricity distribution businesses (EDBs) that take power from the national grid and deliver it to homes and businesses. ENA harnesses members' collective expertise to promote safe, reliable and affordable power for our members' customers.

ENA supports the Commission's engagement on implementation matters for the INTSA mechanism. Innovation and adoption of non-traditional solutions are vital for the electricity industry to deliver on customer needs. The ENA and its members are aware of the important role line businesses have in meeting the future needs of electricity consumers and we welcome the Commission delivering on the purpose of Part 4 by ensuring our members, as suppliers of regulated services, have appropriate incentives to innovate and invest.¹

Clear and reasonable processes

While the INTSA mechanism is a welcomed development to incentivise innovation and investment, for it to be effective the Commission will need to ensure associated processes are clear and not overly burdensome for EDBs.

We acknowledge the need for processes to provide consumers with confidence that investments are aligned to consumer needs and are reasonable. However, as could be argued in relation to the DPP3 innovation allowance, the associated processes should not be so unclear or overly burdensome that they counteract or even negate the intended incentive.

A balanced approach is needed, and we encourage the Commission to ensure all INTSA processes are necessary, efficient and will deliver a net benefit to consumers. This should consider all costs, including the cost to consumers if EDBs are restricted in their ability to innovate because the processes are overly burdensome.

¹ Section 52A of the Commerce Act 1986 provides that suppliers of regulated goods or services have incentives to innovate and to invest.

ENA supports the use of guidance

The use of guidance over detailed requirements within a determination is supported by the ENA. Guidance provides clarity and confidence for EDBs to invest. It also has value in being easier to adjust than formal determinations.

INTSA criteria

ENA supports the INTSA mechanism criteria other than the use of the term 'riskier than business as usual'. ENA's submission on the Commission's DPP4 draft decision sets out our views on this.²

This section of the submission relates to the implementation of the INTSA criteria. ENA submits that the following matters will more likely facilitate an effective INTSA criteria. Noting that upfront guidance will reduce the need and unnecessary costs associated with EDBs testing the criteria through trial and error.

1. **Boost to the allowance where there is collaboration with other EDBs** – the Commission has requested feedback on '*increasing the maximum permissible expenditure from 0.6% (e.g. to 1.0%) – but ring-fencing this increase in the cap for projects involving more than one EDB.*'³ ENA supports the maximum permissible expenditure being increased to 1% but believes the industry is best positioned to determine the appropriate level of collaboration rather than it being driven by an upfront arbitrary assumption. Ring-fencing the increase may encourage more collaboration, but it may also restrict the ability for projects to be delivered that aren't best suited to collaboration. Ring-fencing will also likely add complexity for little value.
2. **Upfront guidance on allowed costs** – will provide EDBs confidence in what projects and project costs will be accepted which in turn will provide confidence for EDBs to make investments in the longer-term resources, such as programme coordinators, required to deliver on initiatives. Areas where guidance is sought includes third party costs, internal staff costs, value of in-kind work, compensation for participation, allowances for risk and costs to coordinate initiatives and share findings. Examples in the guidance on what costs fall in or out of scope is recommended.
3. **Clarity on permissible benefits** – will provide EDBs confidence in what projects are acceptable. Guidance, by way of examples, on the benefits that are in or out of scope are recommended. Areas where guidance is sought includes whether all electricity consumer benefits and whole of energy system costs are in scope, such as the benefits to transmission congestion.

Application, approval and reporting process

A successful INTSA mechanism will need to be supported by balanced processes. ENA recommends the Commission be prudent by creating processes that support and not disrupt innovation. The cost to consumers of restricting innovation can quickly and easily outweigh any benefits of targeted certainty in a process that by its nature is uncertain.

Set out below are recommendations for how the INTSA mechanism processes could better support EDBs to deliver innovation for the long-term benefit of consumers.

² [1495 \(ena.org.nz\)](https://ena.org.nz), page 13.

³ [EDB DPP4 - Innovation 'INTSA' Implementation workshop slides](#), slide 9.

4. **Projects should not be restricted to DPP periods** – The need for innovation and implementation of non-traditional solutions is on-going and does not always fit within regulatory periods, accordingly the approval process should not require it. A better outcome for consumers is to only reference the DPP4 period in relation to when INTSA funding can be recovered, rather than a reference to when costs can be incurred. The current implication that an initiative cannot straddle a regulatory period is not consistent with outcomes produced in competitive markets and therefore not consistent with the Part 4 purpose.
5. **Projects should not be required to pause for approval** – Innovation and implementation of new processes are better implemented with momentum. The current implication that an EDB would need to pause work between the initial planning and incurring costs is challenging for two reasons:
 - a. a project commences and starts incurring costs at the beginning of the planning phase not the start of the implementation phase; and
 - b. requiring an EDB to pause between planning and initiation is disruptive, adds cost to a project and works against project momentum.

ENA strongly recommends costs incurred prior to approval are allowed to be recovered. The risk of the project not being approved should be a sufficient deterrent to an EDB incurring unreasonable levels of costs before the project is approved.

6. **In-period variations** – Risky projects, which INTSA is designed to fund, rarely go according to plan. The ability to seek approval from the Commission to alter outputs, timeframes or costs to accommodate this risk is recommended.
 7. **Success criteria rather than outputs** – Outputs may not be quantifiable at the start of the project. Similarly, the output may change if the project evolves over time. Application for and approval of success criteria, which may include outputs, will allow necessary flexibility where appropriate.
 8. **Approval for forecast costs, but recovery of actual costs** – ENA supports recovering actual costs rather than forecast costs. An in-period variation would allow approved overspend to be recovered and recovery of only actual spend would remove incentives for EDBs to ‘spend to budget’ when there may be better consumer outcomes that could be met by spending to need.
 9. **Ability to agree timeframes for closeout reports** – The current proposed 50 business day timeframe for close-out reports may be too short or too long depending on the project. Given the projects require approval, the approval process should include the ability to agree a variation to the close-out report timeframe and scope.
 10. **Ability to ‘phase’ large innovation projects** – An innovation project may span multiple years. It would make sense to allow single applications to have multiple milestones to recover costs as elements of the project are completed, rather than waiting until the end of a project.
 11. **Projects that flow into DPP5** – Clarity is required on how the Commission will treat projects that flow into DPP5 or projects that incur costs in DPP4 but not able to be recovered in DPP4 due to the timing of the project.
-

Coordination and sharing of information

Sharing of learnings to maximise benefit to all electricity consumers will be an important aspect of the INTSA mechanism. ENA assumes the Commission will establish its own processes to publish applications, approvals and final reports but only to meet procedural requirements.

ENA can coordinate and maximise the benefits of innovation. ENA already has processes in place, such as the Future Networks Forum (FNF), and can leverage and super charge these processes for the increased activity from the INTSA mechanism. The UK ENA's role is a great working example of how ENA could further support the innovation process.⁴

The below table sets out the activities currently undertaken by ENA and potential future activities ENA could, with appropriate funding, undertake to support and maximise the value of INTSA initiatives.

CURRENT ACTIVITY	POTENTIAL FUTURE ACTIVITY
<p>Collaboration</p> <ul style="list-style-type: none">- FNF identifies opportunities where EDBs can align	<ul style="list-style-type: none">- Coordinate collaboration of innovation- Industry innovation strategy- Establish innovation processes
<p>Sharing of information</p> <ul style="list-style-type: none">- Innovation forum- Newsletters- Webinars	<ul style="list-style-type: none">- Portal to share information on<ul style="list-style-type: none">o INTSA projectso Other innovation or collaboration projects- Innovation conference

Set out below are ENA recommendations for how the Commission's processes can add value to the coordination and sharing of information.

- 12. Cost to coordinate and share information** – To maximise the value of innovation, learnings need to be shared widely and in a coordinated manner, which can be done more effectively by a coordinating organisation such as the ENA. Early confirmation from the Commission that EDBs will be able to include in project costs, the cost of coordination and sharing information incurred by a third party, will provide the ENA the ability to invest in the necessary systems to support this important part of the process. Recovery of ENA costs through the INTSA allowance would be consistent with the Ofgem approach.⁵
- 13. Notifications and updates** - A platform for notifications and updates would make it easier for interested parties to find information on INTSA projects rather than emails from Commission staff. The fast follower EDBs see benefit in easy and seamless access to information.

⁴ [ENA Innovation Portal \(energynetworks.org\)](http://energynetworks.org)

⁵ Refer [RIIO-2 NIA Governance Document \(ofgem.gov.uk\)](http://ofgem.gov.uk).

If you have any questions about ENA's submission please contact Hamish Groves, Regulatory Manager (Acting) (Hamish@electricity.org.nz).

Yours sincerely,

Hamish Groves
Regulatory Manager (Acting)
