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28 August 2024

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Vector feedback on the innovation and non-traditional solutions allowance (INTSA) workshop held on 14 August

1. This is Vector's ('our,' 'we,' 'us') feedback on the Commerce Commission's (Commission) workshop for the proposed INTSA for the default price-quality path (DPP) reset. No part of this submission is confidential, and it can be published on the Commission's website.
2. We thank the Commission for their engagement on this topic, and while it would have been beneficial to have a discussion on the scope and criteria of the INTSA at the workshop, instead we have added our comments at the end of our submission which supplement those made in response to the draft decision.

Application process

3. The Commission has outlined a robust process for INTSA applications – we have feedback on four aspects:
 - a. Timescales to approve - we were comforted by discussions in the workshop on the Commission setting themselves short timescales to approve applications. Electricity distribution businesses (EDBs) need to set expectations around project start times to ensure resource readiness for INTSA projects. We understand that more complex INTSA projects may need additional time to be scrutinised and would expect EDBs to be pro-active in providing more detailed project eligibility assessments (PEAs), to aid the Commission in maintaining swift approvals. Our concern comes from our innovation project allowance (IPA) application taking over six months to approve. With the INTSA switching to an ex-ante approval EDBs should not have to wait more than eight weeks.

- b. Cost recovery upon completion – the INTSA process and guidelines should be explicit on EDBs' ability to phase projects. Vector believes that if the Commission approves a phased project with clear milestones, then cost recovery should happen at each milestone to avoid cashflow issues if the project spans multiple years.
- c. Forecast costs vs actual costs – the INTSA ex-ante approval process involves submitting forecast project costs, but very often forecasting can under or overestimate the actual costs of the project. Will the Commission entertain a revised submission of costs when the actual costs are under/ over a certain threshold (for e.g., 20%). This would work both in favour of consumers (over forecast) and EDBs (under forecast) which would still only be compensated to their cap limit.
- d. Engagement with the Commission ahead of submission – although we are not advocating to add a mandatory process step into the INTSA application framework, Vector found great value in discussing our IPA application ahead of submitting. The Commission was very receptive to questions which made the new process easier to navigate.

Collaboration

- 4. Vector believes that the INTSA enables collaboration across the sector with other EDBs, retailers, third party innovators and consultancies alike. We understand the cost recovery of this collaboration will work as follows:
 - a. With other EDBs – outline the EDB cost split in the INTSA application and if successful the EDBs will each recover their share – similar to the way Orion and Wellington Electricity's IPA application worked. We expect that if the Commission only allowed 60% of the INTSA costs proposed, then each EDB would only recover 60% of their split.
 - b. With retailers, innovators, consultancies and other third parties – EDBs should outline the (opex) expenditure they forecast for their services in their INTSA project application, and if successful the EDB will pay for those services during the delivery of the INTSA project and recover those costs at the end of the project.
- 5. It would be great to get some clarity on more complicated scenarios when INTSA caps bind in the recovery of project costs for EDB collaboration projects.
- 6. For example, if Vector (\$21.5m cap) collaborates with The Lines Company (\$1.7m cap) and Top Energy (\$2.2m cap), on a \$6m INTSA project and wanted to split the costs equally at \$2m each. Would The Lines Company have to fund the difference between their split and their cap (\$0.3m) themselves? (Assuming each EDBs' consumers would benefit in equal measure and/or the project was a trial involving the same number of participants for each EDB).

7. Finally, Vector questions the need to ringfence INTSA funding for collaborative projects between EDBs. There is no need to limit innovative ideas just because the idea does not result in the development of a collaborative INTSA project. As mentioned earlier the INTSA already enables and facilitates collaboration, there is no need to further incentivise this by adding a hurdle to non-collaborative ideas.

Transitions between regulatory periods

8. At Vector we have already started to develop INTSA project ideas, and subject to the Commission's final decision later this year, we are keen to apply for funding as soon as reasonably practical which in our view is 1 April 2025. We would therefore encourage the Commission to finalise the PEA and guidelines earlier than 1 April 2025 as suggested in the workshop slides. We suggest that the Commission should publish these documents by 31 January 2025 at the latest.
9. Our other concern regarding transitions between regulatory periods is in respect of projects which carry over into DPP5, and unspent INTSA funds from DPP4.
10. The DPP determination must allow for INTSA forecast costs to be recoverable in DPP5. An innovation project should not be discouraged purely because the idea came to fruition in the last year of DPP4 because there is no facility or mechanism to recover those costs in DPP5.
11. Meanwhile, Vector believes that events can happen that derail or deprioritise EDBs from applying for their INTSA funding (such as a severe weather event). It is therefore reasonable that unclaimed INTSA funding for DPP4 should be carried over into the first year of DPP5. There is precedence of this occurring in the UK with the Carry-over Network Innovation Allowance.¹ EDBs should not lose out on their allocated funding and the opportunity to innovate, especially if INTSA is altered or removed in DPP5.

Guidelines and scope

12. Vector suggests that the finalised INTSA guidelines include examples of projects which fall in and out of scope along with brief reasonings explaining why.

¹ The 'Carry-over Network Innovation Allowance' (the CNIA) is a licence condition included in the RIIO-2 licences which allows electricity transmission, gas transmission, and gas distribution licence holders to carry any unspent 2020-2021 RIIO-1 NIA allowance over into the first year of RIIO-2 in 2021/2022. The CNIA licence condition in the Electricity Distribution licence allows licence holders to carry forward unspent 2022/23 RIIO-ED1 NIA funds into 2023/24 (the first year of RIIO-ED2) - <https://www.ofgem.gov.uk/publications/riio-1-nia-guidance-documents-revision-additional-requirements-riio-2-cnial>

13. To assist the Commission, over the next month or so, the Big Six EDBs will provide a list of examples based on our current understanding of the INTSA rules (draft decision) with a view of revising the list in December once the final decision has been published.

INTSA criteria

Riskier than business as usual (BAU)

14. We repeat our call for caution around the INTSA criteria “riskier than BAU”. Vector remains concerned that procuring flexibility services (which may optimise demand-side management in DPP4) may be available only once per EDB under the current proposed INTSA criteria. Proving the risks and benefits on the network (and on different locations of the network) may take different types of projects and programmes of work. The outcome should be that similar projects progressed in different circumstances can qualify for funding.

Promotes the Part 4 purpose of the Act

15. In its final decision, the Commission must clarify whether the following project outputs meet the INTSA criterion “promotes the Part 4 purpose of the Act”:
 - a. The INTSA project reduces carbon emissions – Vector argues that this output does meet the Part 4 purpose given the permit given in the IM review framework providing permissive consideration to s 5ZN of the Climate Change Response Act (CCRA)²:

“[the Commission] may take into account the s 5ZN of the Climate Change Response Act 2002 considerations³ provided they are relevant and that doing so does not compromise our achievement of the s 52A purpose of Part 4”
 - b. The INTSA project reduces the overall costs to consumers but not the distribution element of the cost – Vector argues that this whole of energy system cost (WESC) approach meets the Part 4 purpose and therefore the INTSA outputs would meet this criterion.
16. We look forward to receiving clarification on those points in the Commission’s final decision.

Yours sincerely

² Commerce Commission, *Note of clarification – our part 4 input methodologies review 2023 framework paper* (21 December 2022)

³ s 5ZN refers to the 2050 target and emissions budget are permissive considerations: if they think fit, a person or body may, in exercising or performing a public function, power, or duty conferred on that person or body by or under law, take into account— (a) the 2050 target; or (b) an emissions budget; or (c) an emissions reduction plan.



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