# Project eligibility assessment (PEA) and guidance for applying for the Innovation and non-traditional solutions allowance (INTSA)

Please note when reading this document:

* We are still considering submissions and cross-submissions on our draft decision and determination for the default price-quality path for electricity distribution businesses (EDBs) from 1 April 2025 (DPP4), including in relation to the draft INTSA. This means that this guidance (and PEA template) is based on the draft INTSA requirements and may be subject to change if submissions and/or cross-submissions prompt us to change the draft INTSA.
* This document provides guidance only. It is not intended to be definitive and should not be used in place of legal advice.

## Background

1. This document is intended for the use of EDBs who are price-quality regulated under Part 4 of the Commerce Act (Act). It would provide guidance and a voluntary template for EDBs to use if they were to apply for the draft INTSA during the DPP4 regulatory period.
2. This document is split into three sections:
   1. The first is **background**, including an explanation of what a PEA is.
   2. The second is [**Guidance for applying for the INTSA**](#_Guidance_for_applying)
   3. The third is the draft [**PEA template**](#_PEA_template)

### What is a PEA?

1. A PEA is a document that an EDB may use to demonstrate how the EDB’s project or programme is eligible for us to approve the recovery of some or all of the forecast costs from the EDB’s INTSA under Schedule 5.3 of the DPP4 determination.
2. The PEA template would be filled out by the EDB applying for the INTSA and submitted to the Commerce Commission (the Commission) as part of its INTSA proposal.[[1]](#footnote-2)
3. If we finalise our draft decision on the draft INTSA under the DPP4 determination, we intend to publish final INTSA guidance, and a PEA template (similar to this document) before the start of the DPP4 regulatory period on 1 April 2025. The template would be entirely voluntary. EDBs applying for the INTSA would not be required to complete it and could choose to provide evidence of their project or programme’s eligibility via an alternative method.
4. Our draft PEA aims to cover the key areas of the project and enable an EDB to demonstrate:
   1. how the project meets the eligibility requirements in paragraph (5) of the draft DPP4 determination; and
   2. the required information listed in paragraph (3) of the draft DPP4 determination**.**
5. **Stages 1-2** of the ‘**Guidance for applying for the INTSA**’ of this document contains detailed breakdown of these information fields.

### Why choose to publish a PEA and guidance?

1. Stakeholders told us that they were put off from using the Innovation Project Allowance in DPP3 because:
   1. it imposed high administrative costs relative to the size of the allowance; and
   2. there was high uncertainty about whether a project was eligible for cost recovery until after costs had been incurred and the project was completed.
2. We consider that providing guidance and a PEA should give EDBs clarity and help them to self-assess projects when applying for the INTSA, help to lower administration costs (for us and EDBs), and help enable a consistent approval process. Should the draft INTSA be implemented in the final DPP4 decision, the Commission is open to holding informal engagement with EDBs who wish to discuss projects before applying.
3. The publication of a PEA would also keep consumers (and other interested stakeholders) up to date about the kinds of INTSA projects that are underway and share learning.

### Why not make the PEA a legal requirement?

1. There are challenges with incorporating such a document either by reference or into the determination. We consider that it would be advantageous to include a PEA as a voluntary template, giving EDBs flexibility in how they choose to apply for an INTSA. It also gives us flexibility to easily update the PEA/guidance if necessary, including after consultation with EDBs or other stakeholders, where we consider it appropriate.

# Guidance for applying for the INTSA

Note: The guidance (or PEA, as applicable) applies to an INTSA proposal for a project or a programme, but for simplicity, only refers to ‘project’.

## Stage 1: Eligibility criteria

Under paragraph (5) of Schedule 5.3 of the draft DPP4 determination, for the purposes of our decision on whether to approve an EDB’s INTSA proposal, the eligibility criteria are that a project or programme for an INTSA proposal:

1. relates to the supply of electricity distribution services;
2. promotes the purpose of Part 4 of the Act; and
3. is riskier than ‘business as usual’ for the EDB, such that the EDB would not carry out the project or programme if it could not recover some or all of the forecast costs of the project or programme from the EDB’s INTSA.

Where an EDB wishes to seek more than 75% and up to 100% of total project costs, it **must also** demonstrate how its project or programme is unlikely to otherwise result in any financial benefits to the EDB.

Paragraph (3)(i) of Schedule 5.3 requires an EDB’s proposal to include sufficient information on the above matters to enable us to make our decision on whether to approve an INTSA proposal.

|  |  |
| --- | --- |
| Information required | Guidance |
| Relates to the supply of electricity distribution services[[2]](#footnote-3) | Details and justification of how the project relates to the supply of ‘electricity distribution services’ as defined in the draft DPP4 determination. |
| Promotes the purpose of Part 4 of the Act | Details and justification of how the project promotes the purpose under s 52A(1) of the Act. |
| Is riskier than business as usual | Details and justification for how the project is riskier than business as usual for the EDB. |

1. These are the primary, mandatory requirements for an EDB to meet in their INTSA proposal.
2. They are tied to stage 2 of this document (see below), which requires ‘sufficient information’ to help demonstrate how a project (a) meets the eligibility criteria and (b) whether the project or programme is unlikely to otherwise result in any financial benefits to the EDB.

### Riskier than BAU

1. We would consider that riskier than business as usual is likely to differ for each EDB, and we consider that each EDB is therefore best placed to demonstrate and quantify the commercial and non-commercial risks to the EDB that the INTSA project funding offsets.
2. A project that is riskier than BAU means it would not be undertaken if not for the INTSA, because an EDB has deemed the project as too financially risky. This might be because the benefits are too uncertain, that the cost of the project is therefore not worth investing in – which the INTSA helps to balance. With this criterion, an EDB should explain this balance of risk versus benefits to us, in the context of its network and why the INTSA offsets the risk. We would expect clear justification for how this is so.
3. Demonstrating how something is riskier than business as usual could be aidedby a director’s certificate/sign-off that this project would not otherwise happen. We consider that in meeting this criterion, an EDB could demonstrate, evaluate and quantify at least one of the following risks that, but for the INTSA, would mean the EDB does not undertake the project:
   1. Financial;[[3]](#footnote-4)
   2. Reputational;
   3. Operational; and/or
   4. Quality.
4. Specifically, this could be shown, for example, by:
   1. in the case of a financial risk, demonstration of the financial risk of this project versus a more traditional or proven strategy/technology. As above, the explanation would need to justify how and why the INTSA offsets this risk.
   2. in the case of a quality risk, explanation of how the project tests/trials/implements something that is new to the EDB’s network and therefore presents a risk to quality of service. The explanation would need to justify how and why the INTSA offsets this risk.

### Unlikely to otherwise result in any financial benefits

1. Where an EDB wishes to seek more than 75% of its project costs recovered (to 100% of project costs), it must demonstrate that its project is unlikely to otherwise result in any financial benefits to the EDB.
2. The above requirement provides for situations where an EDB is otherwise disincentivised to undertake a project because the resulting efficiency gain/output of that project is not one that will yield a financial benefit. For instance – where its consumers or third parties will reap all the benefits of that efficiency gain/output and the EDB none, and therefore may be disincentivised to undertake the project. To meet this requirement, the EDB would need to demonstrate, evaluate and quantify how the project would be unlikely to otherwise result in financial benefits to the EDB. We explore this more in the example below.

### High-level examples

1. We offer some high-level hypothetical examples for how an EDB might meet the eligibility criteria (including the requirement for an EDB seeking recovery of more than 75% of its project costs to demonstrate how a project is unlikely to otherwise result in financial benefits).
2. To illustrate the first two eligibility criteria, we use as an example a simple, hypothetical flexibility technology solution project: where an EDB may apply for the INTSA to recover operating expenditure to procure demand management flexibility services to manage load on part of its network and efficiently defer capex.
3. We use a variety of hypothetical prompts to discuss the ‘riskier than BAU’ and ‘project is unlikely to result in any financial benefits’ requirements at a higher level. We consider that EDBs are best placed to describe their projects in detail, and demonstrate the specific rationale for their eligibility.
4. The light level of detail provided for each of the different examples is indicative only, and in and of itself may not be sufficient to form a satisfactory answer to the information that would be required by the relevant criteria in each case.

|  |  |
| --- | --- |
| Information required | Evidence |
| Relates to the supply of electricity distribution services | Flexibility project example:This project relates to the supply of electricity distribution services because it will help manage load on the EDB’s network by shifting the demand profile for electricity conveyed by the existing infrastructure within the network. |
| Promotes the Part 4 Purpose of the Act | Flexibility project example:This project promotes the s 52A(1)(b) and (c) limbs of the Part 4 purpose of the Act by:   * enabling efficiency gains related to better asset management practices from delaying the need for expenditure on network upgrades. * enabling consumers to benefit by lower costs overall and/or better quality of service if the project would result in widespread roll-out of this technology and efficient delay of multiple traditional infrastructure upgrades, and potentially reduce outages as a result of increased peak demand. |
| Is riskier than business as usual | Explain why, but for the INTSA, one or more of the following various risks would mean the EDB does not undertake the project.  *Financial*  EDB could provide a description, quantification and assessment of the financial risk to the EDB.  *Reputational*  EDB could assess and quantify the level of reputational risk to the business of not undertaking the innovation and how the innovation will reduce or enhance the EDB’s reputation.  *Operational; and/or Quality*  EDB could detail, assess and quantify the current risks to the business and the level of exposure. E.g., the failure accounts for X% of failures and the probability if increase is X% over the next 5 / 10 years, this results in an increase of SAIDI and SAIFI of X. |
| For an EDB seeking recovery of more than 75% of its project costs: the project is unlikely to otherwise result in any financial benefits | As outlined above, we consider there may be situations where an EDB is disincentivised to undertake a project because the resulting efficiency gain/output of that project is not one that will yield financial return. We consider this most likely to be in scenarios where consumers or third parties reap the full benefits of the project.  For instance, an EDB may wish to undertake a project which it has not forecasted, that may test new technology. This project may result in improved quality of service to its consumers, but with no financial benefits to the EDB. |

## Stage 2: Project-specific information under paragraph (3) of Schedule 5.3

1. After stage 1, there are secondary, mandatory information requirements under paragraph (3) of Schedule 5.3 of the draft DPP4 determination that must be met.
2. These are the essential project-specific information categories that explain to us what the project is, its forecast costs, and what benefits it could provide. We provide some guidance in the table below.

|  |  |
| --- | --- |
| Information required | Guidance |
| *The project’s purpose AND the EDB’s intended steps to achieve that purpose* | Outline the project’s purpose and the steps the EDB intends to take to achieve that purpose. The purpose might have multiple aspects to it. |
| *INTSA outputs and expected benefits of the project for consumers* | What are the outputs to be delivered in the supply of electricity distribution services by the project, and how will consumers benefit from those outputs? This might be through reduced costs, improved quality of service, or other means. |
| *Estimated delivery date for outputs* | The date by which the EDB expects to have delivered INTSA outputs. |
| *Estimated annual forecast project costs* | A forecast of total project costs for each disclosure year until the date by which the EDB expects to have delivered the outputs. This could include working and breakdown of individual costs. |
| *Proportion of forecast costs that EDB wishes to recover* | Between 1% and 100% of project costs. If the EDB wishes to recover more than 75% of the project costs, the EDB should demonstrate why the project is unlikely to otherwise provide any financial benefits to the EDB. |
| *Any anticipated SAIDI and SAIFI values for interruptions* *directly associated with the project (‘SAIDI/ SAIFI INTSA values’)* | Outline any anticipated SAIDI INTSA values and SAIFI INTSA values. |
| *Cause or causes of the interruptions for any anticipated SAIDI INTSA values and SAIFI INTSA values* | Outline the cause or causes of the interruptions for any anticipated SAIDI INTSA values and SAIFI INTSA values. The cause of each such interruption must be directly  associated with the project or programme for the INTSA proposal. |
| *Steps taken, or proposing to take, to reduce likelihood or impact on consumers of interruptions for any anticipated SAIDI INTSA values and SAIFI INTSA values* | How has the EDB considered the impact on consumers of anticipated interruptions, and how does the EDB intend to reduce the likelihood or impact of the interruptions? |

## Voluntary information

1. Alongside the information that is required as set out in stages 1 and 2, EDBs may wish to supplement their applications with further voluntary information to provide further context and assist the Commission in understanding the INTSA project.
2. We provide examples of this kind of information in the table below, noting that this would all be voluntary. We would encourage EDBs to provide as much information/evidence as they can, including but not limited to:

|  |  |
| --- | --- |
| Voluntary information type | Guidance |
| Scope | Details of the subject area or extent that the project will cover. |
| Scale | What is the scale of the project with reference to size of the network. |
| Geographical area | What is the area or zone that the project will cover (if any). |
| How does project build on prior learning | Is there any prior learning or similar experience that informs this work. |
| Potential for new learning | Details for how project could result in or provide new learning. |
| Collaboration and/or partners | Details of partners and respective roles. |
| Alignment to sector programmes | This might include work with or alignment to work undertaken by programmes such as flex-forum, etc. |
| Replicable in New Zealand | Explanation for how project would be replicable for other networks in NZ. |

## Stage 3: Submission of application

When you consider that you have the necessary information/evidence to demonstrate your project’s eligibility, you can submit your application to the Commission via the email [infrastructure.regulation@comcom.govt.nz](mailto:infrastructure.regulation@comcom.govt.nz) email inbox.

# PEA template

## 1: voluntary administrative information

|  |  |
| --- | --- |
| Information type | EDB to complete |
| Name of organisation |  |
| Name of given project key contact |  |
| Key contact’s role |  |
| Key contact’s email |  |

## 2: Eligibility criteria

### Relates to the supply of electricity distribution services

Explain how your project relates to the supply of electricity distribution services:

### Promotes the Part 4 Purpose of the Act

Explain how your project promotes the purpose of Part 4 under s 52A(1) of the Commerce Act:

### Is riskier than business as usual

Explain how your project is riskier than business as usual, such that you would not carry out the project or programme if you could not recover some or all of the forecast costs of the project or programme from your INTSA:

## 3: Project-specific information

### The project’s purpose AND EDB’s intended steps to achieve that purpose

Describe the project’s purpose, giving as much detail as possible. Explain the steps you intend to take in order to achieve that purpose:

### INTSA outputs and expected benefits of the project for consumers

Outline the outputs to be delivered in the supply of electricity distribution services by the project, and the expected benefits for consumers:

### Estimated delivery date for outputs

Provide the date by which you expect to have delivered the INTSA outputs:

### Estimated annual forecast costs of project

Set out the forecast project costs on an annual basis until the date by which you expect to have delivered the project outputs:

### Proportion of forecast costs that EDB wishes to recover

Set out the proportion of the forecast project costs that you wish to recover. If the proportion is greater than 75%, explain why the project is unlikely to otherwise provide any financial benefits to the EDB:

### Any anticipated SAIDI INTSA values and SAIFI INSTA values

Outline any anticipated SAIDI and SAIFI values for interruptions directly associated with the project (‘SAIDI/ SAIFI INTSA values’):

### Cause or causes of the anticipated interruptions on SAIDI or SAIFI values

Outline the cause or causes of the interruptions for any anticipated SAIDI INTSA values and SAIFI INTSA values, where the cause of each such interruption is directly

associated with the project or programme for the INTSA proposal:

*Steps taken, or proposing to take, to reduce likelihood or impact on consumers of interruptions*

Outline the steps you’ve taken, or are proposing to take, to reduce the likelihood or impact on consumers of interruptions for any anticipated SAIDI INTSA values and SAIFI INTSA values

## 4: Voluntary information

*Note while other sufficient information is a requirement set in the determination, these information categories are not individually required; EDBs can choose to provide other information/evidence if they wish.*

|  |  |  |
| --- | --- | --- |
| Voluntary Information type | Guidance | Information (EDB to complete) |
| Scope | Details of the subject area or extent that the project will cover |  |
| Scale | What is the scale of the project with reference to size of the network |  |
| Geographical area | What is the area or zone that the project will cover (if any) |  |
| How does project build on prior learning | Is there any prior learning or similar experience that informs this work |  |
| Potential for new learning | Details for how project could result in or provide new learning |  |
| Collaboration and/or partners | Details of partners and respective roles |  |
| Alignment to sector programmes | This might include work with or alignment to work undertaken by programmes such as flex-forum, etc. |  |
| Replicable in New Zealand | Explanation for how project would be replicable for other networks in NZ |  |

1. See the bottom of this document for a draft PEA template [↑](#footnote-ref-2)
2. Under the EDB IMs and draft DPP4 determination:

   ‘electricity distribution services’ means all electricity lines services, other than those supplied by Transpower or any subsidiary of, or successor to Transpower; and

   ‘electricity lines services’ has the same meaning as defined in s 54C of the Act. We have previously published guidance on the s 54C definition of ‘electricity lines services’ – most recently [here](https://comcom.govt.nz/__data/assets/pdf_file/0032/279725/Commission-response-to-OrionE28099s-November-2021-letter-21-December-2021.pdf). [↑](#footnote-ref-3)
3. Note that given the function that an INTSA would serve, we consider every INTSA project **must** pose a financial risk to the EDB in the first instance. [↑](#footnote-ref-4)