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Submitted via: Email to infrastructure.regulation@comcom.govt.nz

Submission on EDB DPP4 innovation and non-traditional solutions workshop

Introduction

1. Thank you for the opportunity to submit on the Submission questions raised during the innovation and non-traditional solutions Workshop.
2. For DPP3, the Commission introduced an innovation allowance capped at the higher of 0.1% of revenue and \$150,000. In addition, on application the non-exempt EDB was required to have already incurred an amount of costs on the innovation project that is at least equivalent to 200% of the proposed drawdown amount.
3. The Commissions March workshop covered;
 - The purpose of the workshop
 - Opportunities and role of innovation
 - Principles for innovation and non-traditional solutions
 - Additionality
 - Risk allocation
 - Proportionate scrutiny
 - Incentives for efficient expenditure
 - Relatively low cost
 - Characteristics for a scheme under DPP4 such as
 - what the project is for
 - approval timing
 - expenditure approved
 - share of expenditure approved (%)
 - when and on what conditions (if any) approved expenditure is received
 - maximum expenditure permissible (\$ and/or %)
 - supporting evidence
 - penalty/reward mechanism
4. An illustrative range of options with criteria
 - project type
 - permissible expenditure
 - % share of recoverable costs for EDBs
 - supporting evidence
 - receipt of expenditure and conditions

Orion Summary Points

5. Orion has developed an innovation strategy and roadmap that provides a framework for Orion employees to engage with and contribute to innovation within our business- [Innovation » Orion \(oriongroup.co.nz\)](https://oriongroup.co.nz)
6. At Orion we define innovation as “the amplification of successful exploration”.
7. At Orion we consider innovation to be “the process and outcome of creating something new, which is also of value” and we consider learning and validation through pilots or prototypes an important qualifying activity which helps to mitigate risk from our exploration.
8. Our guiding principles to enable innovation within the innovation strategy are
 - Collaborate and co-create
 - Act now
 - Prioritise learning
 - Keep options broad
9. From 1 April 2024, our wider innovation practices (including innovation projects as defined by the Commission) have been reported on with line of sight to our business strategy focus areas, strategic priorities and innovation priorities.

Orion Strategic Focus Area	Facilitating decarbonisation and hosting capacity at lowest cost		Investing to maintain a safe, reliable, resilient network at lowest total lifecycle cost		Being a force for good in the community we serve, enabling the equitable transition to a net zero, resilient future		Creating the preferred workplace
Strategic Priorities	Maximise the use of the existing network with smart technologies and better data	Maximise the scope for customer participation through 'flexibility' and other market-based solutions	Drive cost efficiency and continuous improvement across our end to end asset management life cycle	Co-creating energy resilient and equitable solutions with our community, leading to a more energy efficient, clean and affordable local energy system.	Play a proactive role, to identify, engage and understand our C&I customers' plans and expectations, support them to efficiently access the energy services they need and to equitably participate in and benefit from the transition.	Understanding the capability needs for the future and developing our talent profile to meet the needs of tomorrow's workforce	
Innovation Priorities	Network Visibility and Insights	Flexibility and Market Development	Operational Efficiency and Improvements	Household and Community Energy Services	Commercial and Industrial Customer Services		Building Our Workforce

10. Orion is heavily involved in the Electricity Network Aotearoa Future Network Forum and participating in regular Innovation Forums with other EDBs and other energy sector stakeholders. We recognise that
 - in practice, there is an opportunity for EDBs, through the ENA, to voluntarily share plans for and learnings from innovation projects. For example, the Future Network Forum has several working groups addressing innovation challenges and holds regular Innovation Forums which provide an opportunity to collaborate on projects and share learnings.
 - there could be an industry led approach which would better identify innovation challenges common to multiple EDBs, encourage EDBs to collaborate on innovation projects or increase awareness of planned innovation projects which are eligible for innovation funding/allowance.
 - to facilitate collaboration by EDBs with each other and third parties, the Commission should allow for joint application by collaborating parties to improve efficiency and pool funds toward joined up outcomes.
11. We submit that the Commission consider how recognition of quality impacts, especially from trials and pilots, can be excluded from reliability reporting.
12. We submit that the current delayed recovery of innovation and non-traditional allowance, of up to two years, through prices from customers must be reviewed. We submit for the ability to recovery expenditure annually through prices for innovation and non-traditional spend in the previous year (including open and closed projects). This could be done on an ex ante preliminary approval for prices basis. This will enable better use of the fund across regulatory periods and address cash flow issues.
13. We submit that there needs to be a clear mechanism for innovation and non-traditional funding when the project and expenditures go across regulatory periods.

14. Orion submits that the following table depicts our view of what would constitute a good INSTA design.

Option	A	B	C	D
Project Type	R&D or Feasibility	Trial or Pilot	Solution implementation	Section 54Q and Procured Flexibility
Project Definition	Seek to resolve an industry uncertainty through investigative process	Investigation, discovery and co-design to find out if an intervention works or not, and/or measure actual consumer behaviour	Implementation of an idea or previous work from an R&D investigation, trial or pilot	Demand management including procured flexibility payments or energy efficiency initiative
Qualifying Conditions Permissible expenditure	Small Higher of \$350k or 0.2% MAR over DPP	Medium Higher of \$600k or 0.3% of MAR over DPP	Large Lessor of \$2.5m or 1% of MAR over DPP	Small-Medium Higher of \$600k or 0.3% of MAR over DPP
Supporting evidence (ex ante)	Project eligibility assessment (PEA) signed off by CEO or EDB's authorised representative	PEA signed off by CEO and independent expert or EDB's authorised representative or industry body	PEA signed off by EDB CEO or EDB's authorised representative and independent expert or industry body	Project eligibility assessment (PEA) signed off by CEO or EDB's authorised representative Procured flexibility evidence by contract with third party(s)
Supporting evidence (ex post)	Report in annual compliance statement	Costs approved subject to audit demonstrating costs spent correctly At a maximum of 110% of forecast	Full costs approved subject to progress reports, close off report including learnings and consumer outcomes	Report in annual compliance statement
Financial guiderails % share of recoverable costs	High (90%)	Medium (90%)	High (90%)	High- procured flexibility (100%) Low- any other project (50%)
Risk burden for consumers	Limited because of scale	Greater risk mitigated by supporting evidence and conditions	Small risk mitigated by receipt of expenditure on delivery of project	Limited because of scale and/or contractual non-traditional procured flexibility

15. Orion submits our answers to your specific questions in the attachment Annexure A.

Concluding Remarks

16. Thank you for the opportunity to provide feedback. We do not consider any part of this feedback is confidential.

17. If you have any questions or queries or aspects of the submission which you would like to discuss, please contact us on 03 363 9898.

Yours sincerely



Dayle Parris

Head of Regulatory and Commercial



Annexure A- Orion New Zealand Limited

Session 2: discussion topics & questions

Q1. Conditions: e.g., Conditions EDBs must meet to fulfil INTSA scheme requirements, e.g., project closure reports - sharing the learning from projects and the expected benefits for consumers

We submit both overarching conditions and conditions specific to each project type for the INSTA;

- Overarching conditions
 - ensure visibility of innovation projects from start to end through publicly available project registration documents and progress/closedown updates shared annually in line with existing Information Disclosure requirements related to innovation practices (clause 17.6 and 17.7).
 - in respect of sharing, we submit that the Commission may need to consider if there are any matters pertaining to Intellectual Property law that could be included in the INSTA design to make this easier for applicants to deliver on. This may also be pertinent to protecting customers from paying excessively for products or approaches which they have contributed to the cost of development.
 - provision of template or required fields indicating the Commission’s desired content for a case study report would be useful for EDBs to ensure the right content is covered and that we report in a standardised and thereby accessible way.
- Project type specific conditions
 - We submit suggested conditions of permissible expenditure by type of project in the table below. We believe this strikes the right balance between different sized EDBs, and the different stages and type of project

Project Type	R&D or Feasibility	Trial or Pilot	Solution implementation	Section 54Q and Procured Flexibility
Qualifying Conditions	Small	Medium	Large	Small-Medium
Permissible expenditure	Higher of \$350k or 0.2% MAR over DPP	Higher of \$600k or 0.3% of MAR over DPP	Lessor of \$2.5m or 1% of MAR over DPP	Higher of \$600k or 0.3% of MAR over DPP

Session 2: discussion topics & questions

Q2. Project type definition: e.g., Would it be better for the project type definition to be specific for certainty or general to allow greater accessibility?

We submit our preference is for a level of certainty around project types and descriptions in order to right size the conditions mentioned in our answer to question Q1 above. We submit our preferred project types and definitions in the following table.

Project Type	R&D or Feasibility	Trial or Pilot	Solution implementation	Section 54Q and Procured Flexibility
Project Definition	Seek to resolve an industry uncertainty through investigative process	Investigation, discovery and co-design to find out if an intervention works or not, and/or measure actual consumer behaviour	Implementation of an idea or previous work from an R&D investigation, trial or pilot	Demand management including procured flexibility payments or energy efficiency initiative

We submit that if non-traditional solutions are to be given the appropriate attention by EDBs then procured flexibility payments should be called out in a project type and description. As procured flexibility is a non-traditional means of addressing demand management, we see an important alignment to the Commission’s obligations under Section 54 Q which says;

“54Q Energy efficiency

The Commission must promote incentives, and must avoid imposing disincentives, for suppliers of electricity lines services to invest in energy efficiency and demand side management, and to reduce energy losses, when applying this Part in relation to electricity lines services.”

Session 2: discussion topics & questions

Q3. Share of recoverable expenditure: e.g., What share of potential project costs should be recoverable under an INTSA scheme?

We submit that we generally agree with the Commission’s workshop suggestions for sharing of recoverable costs for option A through C however for simplicity we recommend aligning the Trial and Pilot % share of recoverable costs with option A and B.

We submit that should the Commission adopt our suggested additional project type- Section 54Q and Procured Flexibility- that the % share of recoverable costs be 100% for procured flexibility, with supporting evidence ex ante of contractual arrangements with a third party for flexibility services. Any other project under this type could remain at the Commission’s suggested 50% sharing level.

We submit our preferred share of recoverable expenditure by project types in the following table.

	A	B	C	D
Project Type	R&D or Feasibility	Trial or Pilot	Solution implementation	Section 54Q and Procured Flexibility
Financial guiderails % share of recoverable costs	High (90%)	Medium (90%)	High (90%)	High- procured flexibility (100%) Low- any other project (50%)

We submit that the % share of recoverable costs applied for by an EDB should be net of third-party funds e.g., EECA or Callaghan.

We submit that the % share of recoverable costs applied for by an EDB in partnership with another EDB(s) should remain equivalent between EDB partners e.g., the % share is applied as if one EDB is applying but funds available across EDBs is in accordance with the permissible expenditure per EDB.

We submit that the current delayed recovery of innovation and non-traditional allowance, of up to two years, through prices from customers must be reviewed. We submit for the ability to recovery expenditure annually through prices for innovation and non-traditional spend in the previous year (including open and closed projects). This could be done on an ex ante preliminary approval for prices basis. This will enable better use of the fund across regulatory periods and address cash flow issues.

We submit that the Commission should clarify if internal resources can be charged to an allowance application or not. We submit in favour of internal costs covered where it is common practice for the business to charge across business units e.g. IT input to a project would be an example.

We submit that the Commission should clarify if contracted consultancy can be charged to an allowance application or not.

Session 2: discussion topics & questions

Q4. Supporting evidence: e.g., What type of supporting evidence should be required to ensure an INTSA is workable for EDBs, but protects consumers?

We submit that the Commission’s workshop suggestion of sign off at director level is too high a bar. EDBs have internal delegated authority rules that determine the level at which budgeted and unbudgeted expenditure sign off occurs. We submit that the Commission should on balance be satisfied with CEO or EDB’s authorised representative sign off on the assumption that internal sign off processes have been concluded.

We submit that the Commission will need to provide transparency on what an auditor is signing off against now that the information disclosure definition of innovation allowance is removed.

We submit our supporting evidence by project types in the following table.

Project Type	R&D or Feasibility	Trial or Pilot	Solution implementation	Section 54Q and Procured Flexibility
Supporting evidence (ex ante)	Project eligibility assessment (PEA) signed off by CEO or EDBs authorised representative	PEA signed off by CEO or EDBs authorised representative and independent expert or industry body	PEA signed off by EDB CEO or EDBs authorised representative and independent expert or industry body	Project eligibility assessment (PEA) signed off by CEO or EDBs authorised representative Procured flexibility evidenced by contract with third party

Session 3: discussion topics & questions

Q5. Types of projects: e.g., How would EDBs want to use the INTSA in DPP4; would that be different in the DPP5 period? Are there projects EDBs consider could be accommodated under these illustrative options?

We submit our high-level project type headers in the following table.

	A	B	C	D
Project Type	R&D or Feasibility	Trial or Pilot	Solution implementation	Section 54Q and Procured Flexibility

Orion has grouped its broad innovation priorities under the following headings;

Network Visibility and Insights	Flexibility and Market Development	Operational Efficiency and Improvements	Household and Community Energy Services	Commercial and Industrial Customer Services	Building Our Workforce
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We consider that these priorities can be accommodated under the project types proposed above, and that if the design is carefully considered for DPP4 it should endure and be fit for purpose into DPP5.

We submit that Orion is looking at projects that;

- are targeted at benefiting specific customer segments e.g., household flexibility, industrial decarbonisation, community resilience. This means not all innovation projects will benefit all customers equally or at the same time
- focus on reducing costs or improving customer quality outcomes based on better incorporating or managing certain customer technologies e.g., renewables, EVs, storage
- look at improving EDB’s internal systems and processes and doing things that will save staff time and therefore indirectly reduce costs to all customers e.g., use of drones for lines inspection
- substitute capital expenditure on traditional network build for operational expenditure through payment to third party providers for procured flexibility e.g., Lincoln Flex¹
- trialling new ways to optimise the energy system through prices and technology e.g., Resiflex

Session 3: discussion topics & questions

Q6. Other challenges: e.g., what internal hurdles do you see with undertaking innovation and non-traditional solutions? How could an INTSA help to overcome those challenges?

We submit that internal challenges around innovation can include;

- substituting opex for capex. The opex impact of going over our allowance and attracting an IRIS penalty is seen as more impactful than capex overruns due to the immediate impact on cashflow on a dollar-for-dollar basis
- mobilising a focus on innovation over and above business as usual activities
- perceptions that EDB innovations will be deemed competitive and therefore unable to be realised in full by the EDB
- cultural resistance to labelling continuous improvement and new ways as innovative given it’s ‘just what we do’
- concern about funding new ways of doing things
- determining the line between regulated and unregulated activity
- acceptance of high-risk activity in a traditionally conservative part of the sector
- sizing projects correctly to get value but reduce risk
- having the right governance structure to support innovation
- sufficient opex to support innovation activity on an FTE basis

We submit that INSTA would help to overcome the above challenges by;

- providing a framework for eligible innovation within a regulated entity
- requiring reporting and sharing of innovation by EDBs so it can be recognised and acknowledged
- providing targeted funding
- legitimising innovation activity and encouraging EDBs and third parties to work collaboratively
- mitigating risk from innovation activity
- encouraging a focus on value and customer outcomes
- creating an environment where innovation is prioritised alongside BAU activity

¹ <https://www.oriongroup.co.nz/corporate/corporate-publications/lincolnflexibilitytrial/>

Session 3: discussion topics & questions

Q7. Safeguards for consumers: e.g., How can we design the INTSA so that it manages the risk burden for consumers?

We submit that the design of the INSTA should incorporate the following matters to manage the risk burden for consumers;

- applications should require an articulation of what value will be derived from the activity for consumers, either directly or indirectly
- require good progress and close down reports
- require an estimated timeframe for any outcomes from the project e.g. Now (1-2 years), Then (2-5 years), Future (5years+)
- identify which arms of the energy trilemma are being addressed
- identify if the innovation will benefit the whole of system and how

Session 3: discussion topics & questions

Q8. Designing INTSA scheme accessibility: e.g., How can we design a user-friendly INTSA scheme so EDBs can part-fund and deliver innovative projects and nontraditional solutions?

We submit that the design of the INSTA would be user-friendly if;

- a template for project registration is used, which captures the scope and demonstrates compliance with eligibility criteria (e.g. Ofgem NIA Project Eligibility Assessment). Optional assessment by industry expert
- industry expert reports are only required for high value project types
- approval is streamlined and project registration is allowed at any time
- Commission approval focuses on compliance concerns and occurs at pace e.g., there's a commitment to a fast turn around
- voluntary peer review of applications by another EDB or industry body helps to fast-track Commission approval
- there is a clear mechanism for innovation and non-traditional funding when the project and expenditures go across regulatory periods