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Commerce Commission New Zealand
Te Komihana Tauhokohoko

Innovation and Non-Traditional Solutions Allowance for DPP4

Tēnā koe Ben

1. Unison Networks Limited (**Unison**) appreciates the online workshop held to discuss the emerging views of the Commission's staff relating to the innovation and non-traditional solutions allowance (**INTSA**) for DPP4.

2. The recognition of the limited utility of the innovation project allowance in DPP3 is appreciated. We support the Commission's focus on broadening the mechanism and providing different processes to achieve different levels of funding. **Appendix One** provides feedback on the questions provided. We support Electricity Networks Aotearoa's submission.

3. To promote sections 52A and 54Q with genuine incentives to invest (including in energy efficiency, and demand-side management), the proposed INTSA must re-balance the disincentives that otherwise sit within the regime.[1] As submitted in the consultations on the Input Methodologies and DPP4 Reset Issues Paper, that is no small task.

4. Genuine incentives to invest in innovation and non-traditional solutions would result from:
   a) cash-flow provided in the short-term to fund the operating expenditure (opex) requirement;
   b) a certain, simple, and quick flexibility payment process that ensures 100% recovery;
   c) irrespective of the overall recovery for the project cost, 100% recovery of the Commission's process requirements as part of any application, including:
      i. independent expert evidence; and
      ii. consumer engagement; and
   d) clear guidance and application frameworks/steps.

Energy efficiency and demand side management

5. We acknowledge the staff view that this is not an energy efficiency scheme. That, however, seems an artificial distinction that will unnecessarily narrow its impact to the benefit of consumers and non-exempt EDBs.

6. Energy efficiency and demand side management must be incentivised by s 54Q and cannot be disincentivised.[2] Under-recovery of the prudent and efficient costs of business through DPP3 have compromised the available cashflow for many non-exempt EDBs. The regime can re-balance that outcome with uncertainty mechanisms that restore cash-flow quickly for justified new projects that will undoubtedly benefit the consumer.

[1] That is on the basis the Commission is not otherwise providing a mechanism to incentivise s 54Q, which it has not indicated it will.
[2] Commerce Act 1986, s 54Q *"…must avoid disincentives…"*.

7. Demand side management is inherently one tool delivering energy efficiency (that is, *"a change to energy use that results in an increase in net benefits per unit of energy"*).[3] Optimising consumer demand to reduce cost and load constraints comes at a "net benefit" to the consumer, the EDB and more broadly society through emissions reduction.

8. Without new mechanisms, the default-price path set will very likely disincentivise investment in energy efficiency and demand side management. The Commission must look for an uncertainty mechanism consistent with s 54Q that promotes energy efficiency. This is justified by the context of demonstrably necessary network growth, severely constrained opex, and financeability concerns (including high debt requirements driven by previous underfunding of the regime potentially continued through DPP4). That should extend beyond "innovation and non-traditional solutions" to additional projects that will produce "net benefits".

9. Without understanding the full scope intended for "innovation and non-traditional solutions" it is challenging to gauge its utility in total to promote s 54Q. Our current view is that another mechanism is needed to provide incentives to invest in traditional solutions to energy efficiency in addition to incentives to invest in innovative and non-traditional solutions.

Flexibility payments accessible through INTSA

10. A certain, simple and quick funding mechanism for flexibility payments is required to promote sections 52A and 54Q. As a result of constrained opex, 100% recoverability is required to support the spend.

11. EDBs have been unable to reliably forecast flexibility payments into DPP4. This gap needs to be efficiently filled by a fit-for-purpose recovery mechanism to restore the benefit to the consumer that would have resulted from that forecasting certainty. Any mismatch between the residual opex need and the alternative capex solution may act as a disincentive on energy efficiency and demand side management.

12. Our preference remains for a Use it or Lose it Allowance or pass-through cost that would otherwise remove the risk to EDBs for adopting a flexibility solution. Flexibility is tried and tested in other markets to the benefit of the consumer. As New Zealand is not a novel user, we consider this well-informed risk can appropriately be transferred to the consumer in full.

13. We look forward to the Draft DPP Decision and understanding the Commission's considerations in more detail.

Ngā mihi

Rachael Balasingam
Regulatory Manager

[3] Energy Efficiency and Conservation Act 2000, s 3 *"energy efficiency"*.

Appendix A: INTSA Workshop questions

<table>
<tr><th>Questions</th><th>Feedback</th></tr>
<tr><td>1. Conditions</td><td>While sharing lessons learned will come as a natural benefit of more innovation in the sector, some projects may be long-term or be phased such that sharing lessons to secure funding may impact the incentive to apply or third-party intellectual property rights. This could be a flexible criterion that pre-engagement on an application may resolve early in the process.</td></tr>
<tr><td>2. Project type definition</td><td>If no other mechanism for flexibility payments is to be provided, a certain, simple and quick flexibility payment project type is required with 100% recoverability (a Category D).</td></tr>
<tr><td>3. Share of recoverable expenditure</td><td>We support the approach outlined in the illustrative range of options with the following suggestions for practicality and appropriateness:

Sign off should be consistent with internal delegation policies or at least at a CEO or executive management level. Director certification is disproportionate to smaller applications and may cause time delays (noting Board timetables).
Costs of preparing the application, for example engineering assessment and consumer engagement should be recoverable in full in all categories (limiting disincentives to proceed based on the opex absorbed to apply).
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<tr><td>4. Supporting evidence</td><td>We support the Commission giving guidance on the type of evidence it considers is appropriate for each project type.

For higher value projects (noting the level of evidence must be on a <u>proportionate scrutiny</u> basis):

Board Report
Business case, may include:

Risk assessment
Cost benefit analysis, including industry wide calculators that quantify the benefit
Quotes/project plans
External experiences of costs (i.e. as part of lessons learned of other projects or other EDBs projects)
Social Impact Assessments (expert evidence relating to the positive social impacts on beneficiaries)
Independent economic evidence

Need/demand assessment:

Load constraints (information disclosure)
Council planning documents (justifying growth / upcoming constraints)
NZ or International data sources
Consumer survey / community meeting minutes

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Questions	Feedback
	○ Stakeholder requests / internal business cases ○ Independent consultancy reports including on energy transition opportunities. Other: Independent engineering assessments Stakeholder meeting minutes / other records Letters from stakeholders / partners / suppliers / participants Contractor confirmation Draft contracts with third party partners
5. Types of projects	The current pressing need for an additional mechanism to incentivise flexibility is that the market is in its infancy in New Zealand and EDBs have been unable to reliably forecast it for this DPP reset. Flexibility may be a more certain and predictable market in DPP5.
6. Other challenges	-
7. Safeguards for consumers	If the Commission's perspective is consumer engagement is required for large applications (that would have a larger potential price impact on the consumer), consumer perspectives should be influenced by tolerance to absorb any greater cost; and that will naturally feed into the application process. An objective calculator approach comparing a capex solution with a flexibility solution should present adequate evidence to manage the risk to the consumer.
8. Designing INTSA scheme accessibility	• Guidance or prescribed processes will be critical to EDB usability and success in DPP4. Internal processes require certainty and the ability to mobilise different business units to meet the Commission's evidence need. • Flexibility payments need efficiency and convenience from the outset to balance the current disincentives to add more pressure to severely constrained opex allowances. • Unison supports the ability for some projects to be progressed jointly by multiple EDBs where that is best for the consumer (including in respect of preserving the right market outcome for competition).