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Infrastructure Regulation Branch
Commerce Commission
Level 9, 44 The Terrace
Wellington 6011

Cc: infrastructure.regulation@comcom.govt.nz

To: Ben Woodham, Electricity Distribution Manager

Designing an Innovation and Non-Traditional Solutions Allowance (INTSA) – Workshop

Electra Limited (Electra) values the opportunity to provide feedback on the significant issues discussed during the online Designing an Innovation and Non-Traditional Solutions Allowance (INTSA) Workshop for the DPP4 reset held on 4 March 2024. This submission is not confidential and reflects our keen interest in the workshop's outcomes.

As the owners and operators of the electricity lines and assets in the Kāpiti Coast and Horowhenua districts, serving over 46,300 connected customers (consumers), Electra Limited (Electra) plays a crucial role in the local economy. We are 100% locally owned by the Electra Trust for the benefit of local consumers. Consequently, we are an exempt electricity distribution business (an exempt EDB) under s54G(2) of the Commerce Act 1986 (the Act).

While our exempt status means we are not bound by price-quality regulation, we are acutely interested in the Commission's application of the allowance to non-exempt EDBs. It's crucial to emphasise that New Zealand's decarbonisation journey is a shared effort, requiring the active participation of all EDBs, particularly the non-exempt EDBs that serve 81% of New Zealand's consumers. This shared responsibility underscores the importance of the INTSA and the potential impact it can have on our collective progress, in which the Commission plays a significant role.

The participation of all EDBs affords New Zealand consumers a wealth of experience, skills, and operational circumstances, representing a knowledgeable collective. Collaboration (but not collusion) would support EDBs in developing more efficient electricity distribution services. This potential for innovation and improvement, which we believe EDBs contribute significantly, should inspire optimism about the deliverability of New Zealand's decarbonised future.

Our exempt status does not grant us a position of privilege where we can innovate as we please just because we are not bound by price-quality regulation. Like all businesses, we operate within the boundaries of resource limitations, including capital and expertise. Innovation must be funded either through higher prices or lower consumer discounts. Either way, it is consumers who fund innovation.

Collaboration supports a least-cost approach by sharing the costs of innovation across multiple parties. In seeking a least-cost approach on behalf of our consumers, our innovation choices are heavily influenced by the ready participation of our EDB peers.

The INTSA represents a significant stride towards supporting innovation by non-exempt EDBs. However, the Commission's ex-post approval requirement needs to be revised in the recovery of innovation expenditures, posing a substantial hurdle to innovation efforts and potentially impacting the way we deliver our services.

The uncertainty of the INTSA's recovery poses a significant risk to the extent that the allowance will promote innovation, potentially hindering the Commission's vision. Discussion at the workshop indicated that New Zealand is well behind its peers when it comes to innovation. The lack of tangible support under the DPP could be a reason for this apparent lag in innovation by EDBs when compared to our peers in other jurisdictions who operate under more certain regulatory incentives.

While the inclusion of the INTSA gives non-exempt EDBs permission to innovate and the potential to access essential funding, that funding is not guaranteed. The risk remains with the non-exempt EDB that its innovative or non-traditional solution will not meet the Commission's expectations, and the expenditure will not be recoverable. This inherent risk is likely to hamper participation by non-exempt EDBs in innovation and non-traditional solutions. In turn, this reduces the expertise pool that the industry has available to it.

A way to reduce this uncertainty is for the Commission to release a process or guideline as to how it intends to assess applications made by non-exempt EDBs under the INTSA. We did not get the impression at the workshop that the Commission intends to release either. Rather, applications will be assessed on a case-by-case basis, with the process becoming established over time.

Such an approach might be appropriate in circumstances where the EDBs themselves already have entrenched innovation expenditure approval processes, which the Commission could leverage with some confidence. However, we believe that this is not the case, and many EDBs, exempt and non-exempt alike, are looking to the Commission for direction. An INTSA process or guideline could provide EDBs with that much-needed direction. We encourage the Commission to release an innovation and non-traditional solutions allowance process or guide as part of the DPP4 reset.

The INTSA workshop raised the concept of an '[innovation sandbox](#)' where stakeholders can submit ideas and recycle them through autonomous participation and bottom-up innovation. The Commission noted that there is scope within the DPP4 reset for the Commission to support or even promote an innovation sandbox.

Exempt EDBs would also benefit from an innovation sandbox, even though not subject to price-quality regulation. As previously raised, there is a general misconception that exempt EDBs are 'free to spend without constraint'; this perception is concerning and not true. We must justify our expenditures to our consumers. Participation through a Commission-led sandbox would give our consumers comfort that investing in innovation is justifiable and in their long-term best interests.

We recommend the Commission explore an innovation sandbox further as part of the DPP4 reset. Though the sandbox would be an aspect of price-quality regulation, we recommend that participation be open to all EDBs and other third parties (i.e., non-EDBs).

We hope the Commission finds our submission useful in reaching its final decision on the INTSA. We would be pleased to answer any questions and discuss further the views conveyed in this submission with the Commission at any time.

Yours Sincerely

Sara Carter, Acting Regulatory and Pricing Manager