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12 August 2026

Irene Clarke,
Policy Manager,
Powerco.

Via email: [redacted]

Tēnā koe Irene,

Approval of Powerco's application for Innovation and Non-traditional Solutions Allowance

This letter sets out our decision to approve Powerco's application to recover $8,357,325, which represents up to 75% of forecast costs of its 'Powerco as a DSO' programme, from the Innovation and Non-traditional Solutions Allowance (INTSA).

Powerco's Application

Powerco submitted its initial INTSA application in May 2026. The application sought approval to recover $8,357,325, which represents up to 75% of forecast programme costs. The total forecast programme costs stated are $11,143,100.

The programme covers Phase One of Powerco's long-term strategy to transform into a Distributed System Operator (DSO). The programme is expected to run until the end of DY28. The programme targets the development and/or improvement of 'enabling' capabilities required for early-stage DSO operation.

The workstreams covered in the application can be grouped into three portfolios:

- developing a deeper network and customer understanding to enable optimal decision-making.
- enabling and supporting the development of new products.
- developing markets that allow customers to define their energy relationships in new ways while supporting a dynamically operated, stable and reliable network.

Commission's assessment of Powerco's application

To be eligible for INTSA funding, a project/programme must meet the eligibility criteria found in clause (6) of Schedule 5.3 of the DPP determination, including one (or both) of 6(c)(i) and 6(c)(ii) relating to financial benefits and uncertainty.

Powerco stated it might have some financial benefits within 5 years of completion and therefore did not meet the 6(c)(i) criteria. However, we consider that the programme meets all the other eligibility criteria, including 6(c)(ii). Our assessment of the relevant criteria is set out below.

Assessment of the eligibility criteria

(6)(a) – project relates to the supply of electricity distribution services

We consider that the programme covered by the Powerco application meets the definition of Electricity Distribution services. The workstreams contained in the application aim to improve core capabilities that all EDBs will need as distributed energy resources (DER) become more common.

(6)(b) – project or programme promotes the purpose of Part 4 of the Act

We consider the programme promotes s52A(1)(b) and s52A(1)(c) of the Act through the following initiatives covered in the programme:

- The DSO network model facilitates better network planning and constraint management which has potential to reduce costs by better reducing the risk of over-investment or under-investment (s52A(1)(b)).

- The programme will enable Powerco to improve reliability and connections processes which will benefit all the consumers on Powerco's network, regardless of whether they have DER installed (s52A(1)(c)).

(6)(c)(ii) – the benefits of the project or programme are sufficiently uncertain that the non-exempt 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 non-exempt EDB's INTSA allowance:

This criterion outlines the eligibility for recovery of 75% forecast costs. We consider Powerco's INTSA application "Powerco as a DSO" satisfies this requirement.

Powerco stated that the development and implementation of DSO programme involved significant uncertainty and areas of work that are novel to both Powerco and the wider EDB sector in New Zealand industry.

We accept Powerco's position that the benefits of the programme are sufficiently uncertain. While DER uptake is increasing, there remains uncertainty about when EDBs will require the capability to actively manage resources on their network. The extent and timing of any customer benefits will also depend heavily on how quickly Powerco develops and implements the DSO capabilities contemplated by the programme.

In the context of this uncertainty, we agree that, without INTSA funding, Powerco is unlikely to undertake the experimentation needed to identify the optimal DSO model for its network and customers.

Powerco is therefore eligible to recover up to 75% of the programme costs.

Next Steps

With the INTSA application now approved, Powerco is eligible to draw down up to $8,357,325 upon completion of Phase One of 'Powerco as a DSO'.

Should circumstances change, Powerco may apply to us for permission to amend the forecast costs or outputs of the programme.

Powerco must submit a closeout report to the Commission that meets the requirements in paragraph (14) of Schedule 5.3 of the Determination within 50 working days of completing the Phase One of the programme.

We will publish this approval letter on our website.

Nāku iti nei, nā

Ben Woodham
Acting Head of Energy and Airports