

19 May 2025

Irene Clarke, Policy Manager, Powerco

Via email: [REDACTED]

Tēnā koe Irene,

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

This letter sets out our decision to approve Powerco's application to recover 100% of its \$280,000 forecast costs for the *development and rollout of a local flexibility market* (Project) from the Innovation and Non-traditional Solutions Allowance (INTSA).¹

Powerco's application

Powerco submitted its INTSA application in April 2025.² The application sought our approval to recover 100% of the forecast Project costs of \$280,000 from its INTSA allowance, at the completion of the Project.

Powerco's Project is a collaboration with Vector, Alpine Energy and Our Energy. Our Energy is an energy technology company that will provide the platform via its relationship with an international platform provider. The platform is intended to enable EDBs to broadcast requirements and procure local flexibility services, as well as allow flexibility service providers (FSPs) to register their flexible distributed energy resources.

Distributed energy resources and flexibility services are a non-traditional approach of reducing or shifting peak demand to meet network capacity needs when compared to conventional network reinforcement. If successfully deployed, Powerco hopes that the platform will encourage the development of sufficient flexibility services to defer capex, leading to lower costs for consumers.

¹ INTSA is provided for under the *Electricity Distribution Services Default Price-Quality Path Determination 2025 [2024] NZCC 28, Schedule 5.3 (the Determination)*.

² The INTSA application requirements can be found in Schedule 5.3 of the Determination.

Following its application, we requested additional information from Powerco regarding project costs and future access to the platform. That letter and Powerco's reply are available on our website.

Commission assessment of Powerco application

We have assessed Powerco's application and approve Powerco's application to recover 100% of the \$280,000 forecast costs at the completion of the local flexibility market platform rollout.

To be eligible for INTSA funding a project must meet the eligibility criteria set out in paragraph (6) of Schedule 5.3 of the Determination. A project must meet (6)(a), (6)(b) and at least one of (6)(c)(i) or (6)(c)(ii) – as set out in the section below.

Separate to the eligibility criteria, we have confirmed that:

- Powerco intends to collaborate with other EDBs on the project;
- The project costs Powerco has forecast do not relate to costs already covered by other funding arrangements; and
- Other EDBs can join the rollout stage of the platform and the intention is that after this stage is completed, more EDBs will use the platform's commercial offering.

Assessment of eligibility criteria

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

We consider that the project relates to the supply of electricity distribution services as it is "a tool for managing network capacity needs for the EDB's lines services, with flexibility services offering a potential direct substitution or deferral of network investments otherwise required".

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

We consider the project promotes the purpose of Part 4, and in particular the s 52A(1)(b) and (c) limbs of the Part 4 purpose, by:

- Enabling EDBs to procure flexibility services, which could allow for efficient deferral or avoidance of investment in assets, resulting in lower consumer bills; and
- Potentially assisting EDBs to maintain general supply during emergency conditions by reducing non-essential electricity demand or procuring additional capacity

(6)(c)(i) – project is unlikely to otherwise result in any financial benefits to the EDB in the five disclosure years after expected delivery date

The project represents a step toward enabling the use of flexibility services to regularly defer capex expenditure to lower the overall cost to the consumer. It is not yet clear that there are sufficient flexibility services available to regularly defer capex expenditure in the

short term, and both Powerco and Our Energy have indicated that they expect the market to be sub-scale initially. It is hoped that development of the local market platform will encourage the flexibility services market to develop to the scale required to regularly defer capex. Powerco will not own the platform and there is expected to be an ongoing cost of access.

On balance, we consider it unlikely that Powerco will benefit financially from this project, by being able to reduce distribution costs, within the 5-year timeframe.³

By meeting this criterion (together with the criteria above), Powerco is eligible for 100% recovery of the forecast costs of the Project (\$280,000).

(6)(c)(ii) - the benefits of the project or programme are sufficiently uncertain that the EDB would not carry out it out without the INTSA

We consider that Powerco also meets this criterion. Core to this assessment is that we consider that the potential benefits from the New Zealand flexibility market are not yet certain. While proven overseas, some flexibility trials run in New Zealand have not yet resulted in significant deferral of forecast capex. It is not clear that there is sufficient penetration of flexibility services such that Powerco would carry out the Project without the INTSA.

Next steps

With the INTSA application now approved, Powerco is eligible to draw down the forecast project costs of \$280,000 on its completion. The outputs Powerco has specified it will provide to mark completion are:

- an interim project report on progress and early findings in December 2025,
- a local flexibility market with clear commercial offerings is in place in November 2026, and
- a final project report in November 2026.

Should circumstances change, including if Powerco's funding requirements reduce due to a change in the number of participating EDBs in the rollout stage, Powerco may apply to us for permission to amend either the forecast costs, or the outputs of the Project.

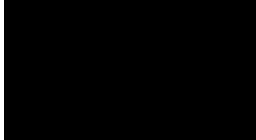
If Powerco does collaborate with other EDBs, it may drawdown the forecast costs from the 25% of its \$20.1 million allowance set aside for collaborative projects.

³ In addition, there is the known disincentive introduced by the regulatory construct where EDBs may be financially disincentivised to defer capex in future periods due to IRIS. INTSA exists in part to offset this disincentive.

Additionally, Powerco must submit a closeout report to the Commission that meets the requirements found in paragraph (14) of Schedule 5.3, within 50 working days of completing the Project.

We will publish this approval letter on our website, along with the follow-up letter and Powerco's reply that were sent while considering this application.

Nāku iti noa, nā



Vhari McWha
Commissioner