

## Media Release

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### Network innovation: new report confirms ambition, but barriers exist

**10 October 2017:** A new report released today confirms the urgent need for electricity networks to innovate in order to meet customer needs into the future.

Deloitte's **Innovation in Electricity Networks** report assesses the state of innovation within Australian electricity networks based on a survey of 17 electricity network businesses.

The report has identified a need for greater investment in transformational innovation, including distributed energy resources, battery storage, multi-flow networks, demand and energy management, and advanced data analytics and automation.

Innovation for network businesses is viewed as a developing capability says power sector specialist and Deloitte National Leader, Energy and Resources, Michael Rath.

"Most survey respondents recognise the need to take advantage of changes in technology, however over half of them acknowledged they lack the capability to act upon their innovation ambitions.

"Businesses need to have a bold, clear innovation strategy with tangible targets and expected outcomes, freeing people up to innovate in a disciplined way that embraces risk, and accepting potential failure in the pursuit of positive and sustainable results."

The study finds that today network businesses' focus on the improvement of core business processes and assets, but that the most important innovation is in channels to market, brand and consumer engagement.

The survey results suggest few businesses are putting in effort to innovate in these areas, accounting for some of the lowest levels of innovation taking place – only 8% of the innovation budget.

Andrew Dillon, Interim Chief Executive Officer, Energy Networks Australia, said a key part of network businesses' response to risks and opportunities presented by disruption is a focus on becoming more innovative.

"The Finkel Review highlighted an urgent need to ensure market rules and frameworks enable the introduction of emerging technologies and the ability to test them," Mr Dillon said.

"The best outcomes for Australian electricity consumers will come from a regulatory framework which fosters innovation - not only in new energy markets but within network services.

"Nobody knows exactly what the grid of the future will look like. We need our regulatory framework to encourage trials and pilots of various technologies to determine what can deliver for the consumers of tomorrow."

Other key findings from the study include:

- **Electricity networks have big ambitions for innovation in their businesses.** They see the need to direct a greater proportion of investment to transformational innovation in new products and markets. Today, 17% of networks' innovation investment is directed toward game-changing, transformational innovations. In five years, networks want 24% of innovation investments to have a transformational ambition
- **Network businesses need to create the right environment for innovation to deliver on their ambitions.** 61% say they do not effectively measure innovation progress or outcomes to identify when they've done it successfully or poorly. Only 11% of businesses think they are effectively recognising and rewarding staff contribution to innovation

- **Networks' ability to innovate is constrained by their appetite for risk and the regulatory environment in which they operate.** Australia's regulatory framework defines areas in which regulated network activity can occur, including the types of activities that can be undertaken. In addition to regulatory requirements, businesses acknowledge a lack of appetite for risky investments. Many of the more innovative network businesses are more motivated to pursue higher risk opportunities where and when needed
- **Network businesses are highly specialised and focus their innovation investment on core assets and business processes.** 63% of networks' innovation investment is in core business. The challenge is to expand innovation effort into areas they find less comfortable in order to overcome the difficult structural changes needed and access opportunities to create value for consumers
- **Some network businesses have well-defined and understood innovation strategies, but many also identify issues within their strategy or their ability to execute.** Strategies may articulate the networks' ambition, but many are not clearly laying out the actions, roles and responsibilities needed to deliver. Our analysis found no correlation between businesses' innovation ambitions and their ability to execute. The barriers to innovate may be significant enough to prevent the delivery of new ideas and value creation.

## Where to from here?

"The way we produce and use electricity is changing," says Mr Rath. "It is essential that network businesses navigate this change and deliver the benefits of innovation to customers. Their ability to lead will influence Australia's ability to address the energy trilemma – cleaner, affordable, and reliable electricity."

## ENDS

### About the report

[Innovation in Electricity Networks](#) has been developed by Deloitte with support from [Energy Networks Australia](#). The study assesses the state of innovation within the Australian electricity network businesses. It brings results from an innovation diagnostic survey of 114 people from more than 17 participating network business in Australia followed up with face-to-face interviews.



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