



MAJOR ELECTRICITY USERS' GROUP

16 November 2009

Kate Hudson
Electricity Commission
By email to submissions@electricitycommission.govt.nz

Dear Kate

Submission on Dispatchable demand options

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Electricity Commission consultation paper "Dispatchable demand: options", published 25th September 2009¹. Some MEUG members are making separate submissions advising the Commission of potential dispatchable demand opportunities.
2. MEUG agrees with the draft recommendation in the Ministerial Review that to improve wholesale and retail competition and help restrain prices the following policy be adopted²:

"To facilitate greater demand-side participation in the wholesale market, including providing for ... demand response to be dispatched in the same way as generation."
3. The consultation paper is a useful step towards implementing that draft recommendation.
4. Increasing demand-side participation will improve the overall efficiency of the wholesale market and provide some countervailing power for consumers to the dominance of suppliers when supply is tight. Work on demand-side improvements to date has included more accurate forecasting of spot prices, closer to real-time prices and shortening gate closure for changes to demand bids and supply offers.
5. Little work has been undertaken to date on dispatchable demand because implementation is not trivial. The consultation paper sets out high level options that could be considered for further investigation. MEUG supports the view of the Commission that:
 - a) The regime should be optional (paragraph 5.1.1 of the consultation paper); and
 - b) Further work is undertaken on options 1 and 2 and not on options 3 and 4.
6. The possibility of a Technical Advisory Group was noted at the Commission workshop on the Market Development Programme on 29th October. MEUG supports this proposal because implementation is not straightforward. For example:
 - a) The consultation paper discussion on possible constrained on and off payments for dispatchable demand fitted the purpose of an initial high level analysis. More detailed analysis of various scenarios will be needed in the next round of analysis including

¹ Refer <http://www.electricitycommission.govt.nz/consultation/dispatchable-demand/view>

² Electricity Technical Advisory Group and MED, A preliminary report to the Ministerial Review of the Electricity Market Performance, August 2009, draft recommendation 19.3.

consideration of the symmetry between supply and demand, eg are there cases where generators should be given a constrained off payment?

- b) The consultation paper evaluation of the high level options excluded consideration of ancillary services. In the next step more detailed analysis will be needed, eg demand could be offered in the instantaneous reserves market and dispatchable demand in the energy market but not dispatched for both.

7. Responses and comments to the consultation paper questions follow:

Question	Response	Comment
1. Which, if any, of the high level options for dispatchable demand warrants further development or consideration? Please provide detailed reasons to support your view.	Options 1 and 2.	MEUG does not, at this stage, support further work on options 3 and 4 because the use of side-payments would be a significant change to the market design. Options 1 and 2 appear to have opportunities to increase demand side participation without under-mining the overall market design. If other policies to mitigate exercise of market power do not materialise, then further work on options 3 and 4 may be justified.
2. To what extent would your organisation participate in each of the four different kinds of dispatchable demand regime outlined in this paper?	Individual end users will respond to the Commission.	Responses from individual users' are likely to be based on existing plant and therefore represent a lower bound estimate. If a dispatchable demand regime were in place then plant upgrades and new investments would be designed and built taking into accounts benefits that would arise with greater managed flexibility in demand.
3. Are there different high level designs for a dispatchable demand regime that have not been considered in this paper?	Not aware of any.	
4. If further work is warranted on at least one of the high level options for a dispatchable demand regime, what priority should the Commission give to this work?	This work should be highest tier priority.	In parallel the Commission should continue other work to improve demand side participation (refer paragraph 4 on first page of this submission).

8. In summary MEUG supports further work being undertaken on options 1 and 2, suggests this be accorded a high priority and proposes a Technical Advisory Group being formed to assist the Commission work through implementation details and develop a cost-benefit-analysis.

Yours sincerely



Ralph Matthes
Executive Director