

13 October 2023

Chris Otton
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Sent via email: OperationsConsult@ea.govt.nz

Dear Chris

Dispatch notification enhancement and clarifications

1. This is a cross-submission from the Major Electricity Users' Group (MEUG) on the Electricity Authority's (Authority) consultation paper "*Dispatch notification enhancement and clarifications*"¹ published for consultation on 1 September 2023.
2. MEUG members have been consulted on this cross-submission. Members may lodge separate cross-submissions. This cross-submission does not contain any confidential information and can be published on the Authority's website unaltered.

Support Enel X comments about demand flexibility

3. Enel X New Zealand makes several useful observations about the role of dispatch notification and dispatchable demand mechanisms in other jurisdictions, and whether they are the most effective mechanism for incentivising participation in the electricity market:

*".....demand bidding mechanisms have failed to see any meaningful uptake. This is because the benefits rarely outweigh the costs, complexity, and risks of participating.....In Enel X's view, there are other, more effective ways to bring demand flexibility into the energy market."*²

4. MEUG supports the observations and views raised in this submission. As outlined in the Market Development Advisory Group's (MDAG) report,³ there is a broad set of benefits possible from demand-side response partaking in the electricity market:

"For example, if an additional 5-6% of system load was responsive (as per the enhanced demand flexibility case) that would save around \$120 to \$170 million

¹ https://www.ea.govt.nz/documents/3652/Dispatch_notification_enhancement_and_clarifications_-_consultation_paper.pdf

² https://www.ea.govt.nz/documents/3848/Enel_X_submission_-_Dispatch_notification_enhancement_and.pdf

³ Paragraph 9.7, *Price discovery in a renewables-based electricity system – Options paper*, Market Development Advisory Group, 6 December 2022, https://www.ea.govt.nz/documents/1006/MDAG_-_Price_discovery_in_a_renewables-based_electricity_system_-_options_paper.pdf

*per year in generation system costs (i.e., excludes any additional savings from reduced network costs).*⁴

5. However, we do not believe that the market mechanisms currently in place are sufficient to incentivise large-scale participation by businesses and consumers. We consider that demand-side participants should be able to receive a form of payment that reflects the full benefits of the service provided and reflects the costs to the participant (i.e., lost production). This could be equivalent to the spot market electricity price for the volume participants have bid into the price stack at the final settlement price by the System Operator (i.e., the same as a generator). We believe that this would allow clearer price discovery in the electricity market.
6. MEUG will expand on this point in our submission on the Ministry of Business, Innovation and Employment's (MBIE) energy consultation package.⁵ We look forward to future discussions on arrangements for demand response, given its importance to the electricity market.

Ensuring workability of the mechanism

7. At a principled level, we support the proposal to enable *“load aggregators with resources spread across several locations (grid exit points or GXPs) to apply to the system operator to bid an aggregate of their resources at a single GXP”*. This seems a pragmatic way to roll-out the mechanism and encourage participation. However, we would have concerns with this proposal should more participants start to utilise this mechanism.
8. We believe that Transpower⁶ has set out clear evidence on the potential issues that could manifest with this proposal, by diverting away from a nodal energy market. Transpower also notes that it may need to restrict levels of participation, if it impacts on system security (which is counter to what the Authority is seeking). MEUG recommends that these concerns are discussed further with the System Operator to find a way forward and /or to understand when a change in approach would be required (i.e., the level of participants impacting on what level of GXPs to trigger a change).
9. Electricity Networks Aotearoa (ENA)⁷ sets out why distributors need visibility of the individual resources participating in the dispatch notification process, their location on the network and the aggregator that controls the resources. It sets out the issue of DER “herding” and how this may impact the safe operation of the distribution network. ENA also suggests two potential options to address these concerns. We would encourage the Authority to consider these options and report back to the electricity sector on the best way forward to provide distributors with visibility of this resource on their distribution networks.

⁴ Paragraph 7.90, page 88, *Price discovery under 100% renewable electricity supply: Issues discussion paper*, 2 February 2022, Market Development Advisory Group, <https://www.ea.govt.nz/documents/1005/01-100-Renewable-Electricity-Supply-MDAG-Issues-Discussion-Paper-1341719-v2.4.pdf>

⁵ <https://www.mbie.govt.nz/have-your-say/consultation-on-advancing-new-zealands-energy-transition/>

⁶ https://www.ea.govt.nz/documents/3847/TP_Sub_Dispatch_Notification_Enhancements_29Sept2023.pdf

⁷ https://www.ea.govt.nz/documents/3843/ENA_submission_on_dispatchable_load_enhancement.pdf

10. If you have any questions regarding our submission, please contact MEUG on 027 472 7798 or via email at karen@meug.co.nz.

Yours sincerely



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