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Submissions
Electricity Authority
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Driving efficient solutions to promote consumer interests through winter 2023

The Electricity Authority is to be commended for moving proactively to reduce the risk of supply shortages during demand peaks in winter 2023. Given New Zealand's increasing reliance on electricity as an energy source, consumer confidence in the reliability of the system has arguably never been more important.

There is a risk this confidence has been damaged and could be materially eroded if supply interruptions occur this coming winter. The widespread disconnections on 9 August 2021, during New Zealand's highest ever peak up to that point and on the coldest night of the year, is the highest profile example of 'getting it wrong' with respect to peak demand. But as the Authority highlights, there have been numerous other low residual situations and grid emergencies in the past two years. While these situations have not resulted in disruptive load shedding, Genesis considers they are a symptom of a security margin that most New Zealanders would consider to be unacceptably fine.

The Authority's paper outlines factors that contribute to tightening winter supply margins in recent years, and the misaligned incentives and information gaps that exacerbate these. It also proposes a range of measures; some to be progressed immediately in time for next winter and others that the Authority does not consider can be introduced in time.

The 'most attractive' options¹ identified by the Authority are worth exploring and may improve the quality of information upon which participants make decisions. But Genesis considers that the most effective measure available, which could be ready to make a contribution by next winter, would be to

¹ Provide better information headroom in supply stack, provide forecast spot prices under demand sensitivity cases, System Operator review of wind offers based on external forecast, clarify availability and use of 'discretionary demand' control

introduce a multi-hour winter peak ancillary service product that enables dispatchable generation or demand response to be triggered when security margins become too narrow.

Genesis has been closely involved with the work of the CEO Forum and Sapere on the design of such a product ("**CEO Forum proposal**"). We are supportive of the proposal, and of the call for the Authority to pass an urgent Code change to enable the product's further development and introduction without delay.

Genesis supports the CEO Forum submission on this paper.

The CEO Forum proposal is not without cost and, as the Authority notes, there is a risk that the costs outweigh the consumer benefits. However, Genesis considers that this risk is overstated when considered against the risk of supply interruptions, particularly when one considers the potential costs of even relatively short duration shortfalls.

In this context, 'costs' refers both to the immediate financial harm that would arise through a serious outage, and the likely political and reputational consequences for the market and its participants were this to occur.

Furthermore, even if it eventuates that the costs of the CEO Forum proposal do outweigh the benefits, this harm would be short-lived (in force through one winter) and we consider it likely consumers would be prepared to face this (likely modest) cost to insure against interruptions to their energy supply.

While it is to be expected that a combination of new generation capacity and emerging technological solutions (demand response, grid scale batteries etc.) will alleviate winter peak demand pressures in future, a new ancillary service like the one proposed would be an invaluable tool in bridging the gap until these options become available at scale.

My team is happy to assist if you have any further questions.

Yours faithfully



Pauline Martin
Chief Trading Officer