

March 2023

Submissions

Electricity Authority

PO Box 10041

Wellington 6143

## **Consultation on Price discovery in a renewables based electricity system - MDAG Issues Discussion Paper - Supplementary Submission**

This letter is a supplementary submission on the above topic. It is further to my February submission and is being submitted after the original closing date for submissions. I hope you are prepared to consider this late submission. It adds to a minor point in my earlier submission.

No part of this supplementary submission is confidential and I am happy for all of it to be published.

This supplementary submission

- Notes the challenges of cost allocation for the proposed firming ancillary service;
- Notes the firming ancillary service would be in competition with retailers contracting directly with Demand-side flexibility in the energy market:
- Suggests this competitive price tension is a good thing; and
- Proposes this competitive tension be maintained by ensuring firming service cost allocation allows some level of exemption for retailers who have directly contracted DSF and where the DSF responds within the dispatch time frame.

### **Previous Submission - Encourage Firming Ancillary Service but Noted Cost Allocation Issues**

In my previous submission I strongly endorsed the proposed new firming ancillary service and supported a trial of this arrangement. However, I did note that the cost allocation for this service would be controversial.

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In this supplementary submission I suggest the cost allocation provides a way of promoting healthy competition on price for access to DSF. The competition would be between retailers wanting to procure DSF services to manage their energy price exposure and the SO who would be procuring the firming service on behalf of any residual load.

## **Healthy Competition for Hot Water Load Control DSF Between Retailers and SO**

In the case of hot water controllable load this can be controlled by the existing ripple control enmasse or, increasingly, via ICP addressable control systems. Such as Vector Metering's smart metering system (and other providers and means).

The ICP addressable system allows retailers to contract for this load to be controlled in response to energy price signals and provides the retailer with some level of hedge against price spikes and 'firms' their contracted intermittent renewable supply.

The remaining, non-ICP addressable load, via ripple, would still be suitable for participating in the firming ancillary service (option A4 in consultation document). It could then be procured by the SO, on behalf of any parties who have not contracted such firming services themselves. As a back-up service, to avoid scarcity prices.

Having both the SO and retailers competing for access to HWLC as a firming service provides healthy competitive tension and recognises the different trade offs for different technologies in controlling this load.

## **Cost Allocation for Firming Service (A4) - Exemptions for Contracted Retailers**

To maintain this healthy competition for access to the HWLC the retailers who contract for its use in the energy market should get some level of exemption from allocation of the firming ancillary service (A4) costs. That is provided they can show that their contracted load acted in the energy market before the firming ancillary service load was dispatched then they should get some level of exemption from the allocation of any cost, to the extent those costs are allocated to retailers.

I acknowledge this may be complicated to implement and there will be tradeoff between implementation costs and theoretical economic efficiency. And that a debate over causer pays (where costs might be allocated to generators who fail to deliver dispatched energy) and beneficiary pays (where uncontracted retailers may have costs allocated). But to the extent it can practically be implemented, some level of beneficiary pays cost allocation, such as suggested above, would be helpful.

Thank you again for the opportunity to submit and I hope you will consider this supplementary submission and that it is helpful.

Regards

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Managing Director