



1 March 2024

Electricity Authority
Wellington
New Zealand

Email: OperationsConsult@ea.govt.nz

Submission – Potential solutions for peak electricity capacity issues


1. Thank you for the opportunity to submit on the Consultation Paper *Potential solutions for peak electricity capacity issues*¹.
2. The proposal seeks feedback on proposed interim and long-term solutions to manage peak demand periods and the need for increased flexibility.
3. As a distributor, we do not participate in the wholesale market but we have considered the issues raised in this consultation paper and we wanted to provide some short comments on some of the issues raised. Our comments are set out in the table below.
4. We do not consider any part of this feedback as confidential.
5. If you have any questions or queries or aspects of the submission which you would like to discuss, please contact me on 03 363 9898.

Yours sincerely

Vivienne Wilson

Policy Lead

¹ See <https://www.ea.govt.nz/projects/all/managing-peak-electricity-demand/consultation/potential-solutions-for-peak-electricity-capacity-issues/>
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Questions	Comment
<p>Q1: Do you agree with the principle that the winter capacity margin should be based on the trade-off between the cost of the hours of reserve or energy shortfall and the cost of the peaking generation needed to mitigate it? Do you have any other suggestions on factors the Authority should consider and why?</p>	<p>Yes, we agree with this principle. It's the most economically efficient approach.</p>
<p>Q2: Do you agree with our assessment of the incentives for demand response? If not, what is your view? Are there other criteria that the Authority should consider?</p>	<p>No view.</p>
<p>Q3: Other than financial incentives, what are the other barriers to entry for demand response participation in the wholesale market that you have identified?</p>	<p>We had identified reconciliation barriers, particularly for aggregators. However, we note the Authority is amending the Electricity Industry Participation Code 2010 to enhance the dispatch notification product and clarify the requirements for participants.</p>
<p>Q4: Do you agree that the Authority should focus its resources on identifying and lowering barriers for BESS and demand side flexibility to participate in the wholesale and ancillary services markets? If so, where do you think the Authority should focus first?</p>	<p>Yes, we agree that the Authority should focus its resources on identifying and lowering barriers for BESS and demand side flexibility to participate in the wholesale and ancillary services markets future. Some clarification may be needed to the use of the term BESS. (Is the Authority focusing on BESS specifically or ESS in general?) In its Consultation Paper, the Authority has identified various projects that might smooth the way. To some extent, ancillary services as demand management already exists via some hot water control and emerging response through aggregation. BESS will follow, especially if the Authority simplifies the offer and process requirements (see paras 4.23 to 4.26).</p>

Questions	Comment
<p>Q5: Do you agree that any solutions should satisfy these principles? If not, what is your view and why? Are there other principles that the Authority should consider?</p>	<p>We agree with the principles that are stated but we wonder whether they could be better expressed to give some confidence in the short to medium term that thermal plants are still available for scheduling. In other words, the principles need to be able to express that all available generation is available in the case of peaking.</p>
<p>Q6: Do you agree that a standard product for financial ‘super peak’ hedges is required?</p>	<p>Yes, we agree in principle.</p>
<p>Q7: What factors do you think we should consider in the design of such a product?</p>	<p>No view.</p>
<p>Q8: Do you agree with our assessment of the risk for the medium to long term?</p>	<p>Yes, we agree with this assessment. We agree that the winter peak capacity coordination issue is a characteristic of the transition to a low-emissions economy and is unlikely to persist long term due to investments in generation, storage, and load management, and an increased understanding of market operations in a highly-renewable power system.</p>
<p>Q9: Do you think it would be beneficial to create a new integrated standby ancillary service? What is your view and why?</p>	<p>In principle, we do not believe it would be beneficial. We are concerned about the costs to establish this service. We note the Authority’s comment that ultimately consumers will likely bear the costs through direct allocation of the costs or indirectly as a pass-through cost from retailers.</p>
<p>Q10: How should the costs for a standby ancillary service be allocated?</p>	<p>No view.</p>
<p>Q11: How should the residual requirement be set? Should it be an operational setting or dynamically calculated? If it is dynamically calculated, what factors should</p>	<p>Our view is that it should be dynamically calculated. Although, we do not have a view as to what factors should be considered in the calculation.</p>

Questions	Comment
be considered in the calculation?	
Q12: How should deficit (scarcity) standby residual be priced in relation to scarcity energy and scarcity reserve prices?	The price should be set at such an amount to trigger the switching on of thermal plants.
Q13: Do you agree with our assessment of the issues associated with procuring additional resource out of market? If not, what is your view and why?	Yes, we agree with the Authority's assessment.
Q14: Do you think it would be beneficial to create an out-of-market tender for emergency demand response? If not, what is your view and why?	No, we do not agree with this approach. As the Consultation paper notes at paragraph 8.32, it is still highly distortionary. We would prefer for this to be housed within the market.
Q15: Do you think it would be beneficial to provide payments to resource providers for any uncleared generation and/or dispatchable demand? If not, what is your view and why?	No view.
Q16: What do you consider to be an appropriate scaling factor to determine the price for residual and why?	No view.
Q17: What is your view on the factors the Authority should consider when valuing the costs associated with a standby ancillary service?	No view.

Questions	Comment
Q18: What other options should be considered to better manage residual supply risk for winter 2024?	No view.
Q19: Do you have information on any other international standby ancillary services and their positive impacts? If yes, please share your information.	No view.