

Board paper: EAAG Independent advice summary

Paper Title:	EAAG advice re: virtual disaggregation proposal
Author:	Jamie Silk, on behalf of the <i>Virtual Disaggregation</i> subgroup
Refers:	ECTF 1C: Approval to release outline paper for feedback: virtual disaggregation of flexible generation base
Board meeting date:	16 December 2024
Action:	To inform Board decision-making, alongside ECTF-1C paper from Authority staff.

Summary of independent advice regarding virtual disaggregation proposal.

Prepared by Jamie Silk on behalf of the EAAG subgroup.

Refers: *ECTF 1C: Approval to release outline paper for feedback: virtual disaggregation of flexible generation base*

Introduction

I am pleased to deliver the report on the work of the Virtual Disaggregation Subgroup of the Electricity Authority Advisory Group (EAAG). The Virtual Disaggregation subgroup is a working group of the EAAG that first met late November 2024 with reporting early December 2024. This is the second report under the Authority's new Advisory Group structure as we evolve how the Authority and Advisory Group iterate to develop well-informed regulation, quickly and robustly.

In delivering this, we have worked closely with the Authority team in their pre-consultation framing to balance the opportunities to 1) work with agility, efficiency and a tight scope and 2) independently provide an appropriate level of expert advice to the staff and the Authority within this scope.

In section 2 we outline the context, scope and limitations to the work and advice we are able to provide through this limited scope. We specifically note that the scope and cadence of our work means we have had to formulate our advice without access to the level of analysis (problem definition, root cause analysis, option analysis etc) appropriate to robust, expert advice for a proposed intervention of this level of significance. The level of assurance with this advice is commensurate to this scope (e.g. low) .

While the focus of our work has been the specifics of the virtual disaggregation initiative as relayed by the EA policy team, the subgroup identified concerns and risks beyond the proposed solution. We detail these in section 1 of the report for the consideration of the Authority Board. Of particular note in our view is that virtual disaggregation is such a significant market intervention by the Authority, that a much more appropriate starting point for this work and the engagement with stakeholders (including the EAAG) should be with the problem statement and then assessing the full range of options that might address this problem. Our engagement with the Authority on the virtual disaggregation work however focused on one specific solution to the issue of the potential abuse of market power. We note concerns that the urgency of the work (which is of real importance to consumers and some market participants) risks creating avoidable unintended outcomes by not performing this step, not engaging appropriately on it with stakeholders and/ or not completing the rigorous robust analysis an intervention with these consequences requires.

As a result of the very tight timeframe the Authority is working to, 1) our report is prepared before access to the Authority proposals, 2) we have not had the capacity to work through areas of differences of opinion and deliver consensus and 3) have not had access to additional or independent analysis.

Accordingly we report on material matters:

- that arose during our three workshops and
- only indicate the relative level of alignment of member opinions with these material matters

Whilst noting the above, we recognise the Authority is pioneering practice that is different to recent Advisory Groups, making risk-reward trade-offs as it changes the pace of activities and seeks to engage earlier and more often. We acknowledge this short, light touch engagement, may be fit for the Authority's specific purpose at this stage of this project. To facilitate the evolution of this new practice, we have prepared a separate letter for

management on our insights following this engagement and look forward to continuing to refine our approach to most effectively engage together across the Authority's work programme.

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1. Key Messages

1.1. What we are reporting on

This report covers the material matters identified in our engagement with Authority staff during their preparation for draft consultation proposals on an outline for the implementation of virtual disaggregation measures in the Code.

We report on our discussions with Authority staff with a focus on addressing risks of abuse of market power as detailed in the MDAG report. This letter was prepared before receiving the proposal by Authority staff. However following sighting of that report we note that the scope of the report to the Authority differs from the focus of our discussions – and our understanding of the MDAG recommendation focus - in so far as it proposes a measure to address price discovery, market liquidity and competition issues in one intervention. Section 1.4B discusses further the basis for and significance of our focus on market power.

1.2. Agile approach balances rewards and risks

- A. It has been an important opportunity working with the EA team on this high cadence project to progress ways to improve market performance and the Market Development Advisory Group (MDAG) recommendation at pace. We recognise the benefits that stakeholders bring to early analysis and how this can assist in 1) understanding risk-reward trade-offs to action measures with agility and/ or 2) test and adapt early proposals.
- B. In Section 2 we detail the eight-business day, 3 on-line meetings limited scope applied in this work, what this report is not and limitations to the work and advice we are able to provide. We specifically note that with this scope our advice is not robustly based on analysis and deep engagement and comes with the level of assurance commensurate with that engagement.

1.3. We acknowledge the pace at which the Authority is now progressing Virtual Disaggregation outline.

We note the urgency of the work (which is of real importance to consumers and some market participants) should not create avoidable risk by either not performing this step or not engaging appropriately.

Our opinion is that virtual disaggregation is such a significant market intervention by the Authority, that a much more appropriate starting point for this work and the engagement with stakeholders is with the problem statement and then assessing the full range of options that might address this problem.

Our engagement with the Authority on the virtual disaggregation work focused however on one specific solution to the issue of the potential abuse of market power rather than with this important context.

1.4. Key in scope observations

- A. **Our report is prepared before we have access to the Authority papers and so does not comment on if or how the material matters are reflected in the**

proposal(s). We thank the team for their level of engagement through this iterative process.

B. We have concerns with the clarity of how the work has been scoped within the context of the MDAG report. Members close to the MDAG reporting and/ or discussions note that the intent of the MDAG report was to evidence the need to tackle specific issues and illustrate some credible options to address these. MDAG did not suggest that they had evaluated or assessed these options as the best or the only ones for consideration. We understand that the expectation was that as further work progressed it would be supported by appropriate options screening.

MDAG's advice was to provide for virtual disaggregation as a "backstop competition measure": the credible threat of extreme regulatory intervention to change industry structure when market facilitation and Code amendment measures fail:

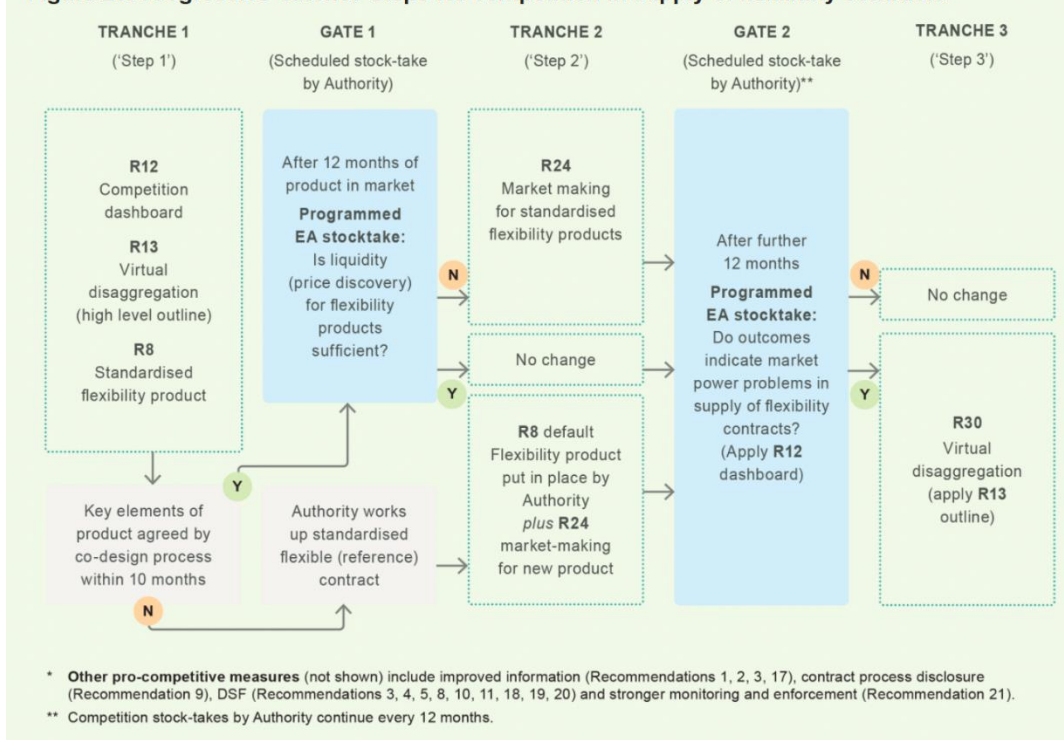
D.47 We think it likely that a combination of industry co-design activities and (if necessary) Code-based support measures should be sufficient to ensure adequate competition for flexibility contracts. However, there is a chance that these actions may not be sufficient and that a competition backstop could be required.

D.48 If such a backstop option is needed, it will likely be due to very high concentration of control of flexibility resources in the hands of very few parties, with little or no prospect that new entry or other market processes will alter that market structure in an acceptable timeframe. Put simply, it is possible that supplier concentration for longer-duration flexibility could be so great that market-making (and other tools in Tranche 2) are insufficient to address the underlying structural market power. In that case, it would be necessary to consider structural solutions to reduce that market power at its source.¹

MDAG intended virtual disaggregation as part of a staged programme of 'ratchet steps' for competition in supply in flexibility contracts.

¹ Price discovery in a renewables-based electricity system, MDAG, December 2023. p. 166. Emphasis added.

Figure 23: Progressive 'ratchet' steps for competition in supply of flexibility contracts



While the triggers for the introduction of virtual disaggregation were intended to be related to the standardised flexibility product in tranche 1 and market made in tranche 2, MDAG did not suggest that the virtual disaggregation instrument be identical or even related to the standardised flexibility product rather that some disaggregation of the² longer term storage in major hydro schemes would be required³

It is important that work is progressed with a clear framing that this is to address risks of market power and that whilst 1) it follows standardised flexibility products and 2) the test to trigger further intervention will reference the market in these products, the further interventions to address market power may be very different to these products. Without this clarity on addressing the risk of market power as the core problem to address, we are concerned the focus may shift to addressing the concentration of flex generation and/ or increasing the availability of flex products and drive the wrong outcomes.

Whilst the group acknowledges the urgency with which the Authority proposes to progress the virtual disaggregation outline and the expected market certainty and focus implementing this brings, the Authority work needs a robust analysis of the different instruments or pathways that can address the targeted market power risks that virtual disaggregation is one potential solution for. These need to be considered and consulted on in the context of the current environment (that differs from the specific challenge MDAG was focused on), and the sequencing of measures with other Authority work. Some members noted that there is sufficient time before the measures will need to be triggered to break the work in to more than one scope/ consultation (e.g. code specific changes first) to support deeper and better stakeholder

³ Ibid. P.167. Emphasis added

engagement and management of the risk. This will provide the evidence needed to address the types of material differences of opinion seen within the subgroup and detailed below.

C. There were strong differences of opinion over potential material concerns that design may not remove incentives for market participants to influence spot market volatility and so drive high prices in derivatives.

- The group agreed with the critical focus to tackle the risks of the exercise of market power influencing spot and derivative prices.
- Concerns were expressed that a solution could be implemented where the parties with market power received the proceeds from the derivative product in a form that reflected the value of the derivative market. In this case, those participants would still have an incentive to raise spot market volatility as it would increase pricing for future allocations/auctions and undermine the effectiveness of the intervention. For instance, if the proceeds from an auction for the financial rights of a flexibility resource was paid to the party with market power, then they have an incentive to raise spot volatility to influence auction prices.
- The group was strongly divided on this risk with a contra view that 1) MDAG had reached the conclusion that a liquid forward market reduces market power in the spot market, 2) the Trading Conduct rules provide the Authority with a strong mechanism, and market participants with an appropriate risk of penalties, to mitigate this risk in the spot market, 3) the view that the more volume is contracted in to the derivatives market, the less incentive to influence the spot market and 4) other measures that may come in to effect from the Task Force 1D level playing field work.
- Mitigating actions include:
 - *noting that the Virtual Disaggregation team will work with the market monitoring team for further insight on this;*
 - *ensuring strong market monitoring and conduct performance actions (acknowledging it is better to prevent rather than detect perceived abuse);*
 - *designing market mechanisms in a way that ensures that no successful auction participant has market power. Reference was made to the work of [Prof Grant Read in the NZ Battery Project](#) and to precedents from the auction of other public goods such as wireless spectrum, as to the design and duration of the process;*
 - *highlighting these matters for consultation questions.*

D. There were strong differences of opinion over the benefits and risks of financial risk management contracts or the allocation of dispatch or offer rights as solutions.

- The group recognises the simplicity of financial risk management products and some members were confident a solution could be effective in conjunction with other actions by the Authority discussed in 1.4C above.
- Members had divergent views on financial risk management products and the potential allocation of capacity (dispatch or offer rights). Concerns included:
 - standard financial risk management products would not effectively manage the risks of exerting market power discussed in 1.4C above as this would require changes to the decision rights over the use of the generation plant. Allocation of dispatch or offer rights were viewed as more effective;
 - the difficulty with which dispatch or offer rights could be integrated with the market. Dispatch is a function performed by the system operator, based on

supply and demand, with generation offers having a number of constraints. Some members questioned whether this concept was practical.

- In this regard, alternative approaches were raised:
 - qualifying hydro generators being required to sell a percentage of their flexible hydro schemes as a PPA. The generator still operates the asset to the needs of its own portfolio including seasonal and dry year impacts. The PPA holder disaggregates and repackages to the market to maximise flexibility value;
 - generators being required to sell variable volume swaptions, whereby the purchaser nominates a volume for each trading period (between 0 and the contracted capacity), which is settled at the contract strike price. This would continue to give the generator the ability to manage generation within operational constraints while providing certainty for the purchaser;
 - there is a large array of financial risk management products and applicable terms that will have materially different impacts on, and attractiveness to, participants. At the current level of detail and framing the group are unable to give specific advice.
- Material complexities in managing water use and dispatch across a water catchment area, and interactions with other stakeholders including iwi, were noted as a risk with dispatch rights.
 - These are just two of the potential intervention approaches with additional insights possible as noted in 1.4C above. In 1.4G we discuss the implications of this with regard to timing and resourcing.
 - Resolving these different views and seeking consensus requires significant work and resources that are out of the scope of this engagement. These are important matters presenting material risks if work is not done robustly and with appropriate timing and resources.

E. There was strong consensus that the trigger test for action, and the supporting information for the market, needs to be as clear and transparent as practicable

- The group acknowledges MDAG recommended a single objective primary trigger test based on Open Interest and the basis and precedent for doing this. We understand how a single KPI/ trigger can focus market attention. There was a strong body of opinion that a single test that forms a safe harbour if it is met, would be a strong motivator.
- On balance though the majority of the group favoured a dashboard that reported additional objective measures that captured the multiple criteria to indicate risks of market power being exercised.
- The group supported that the Authority would monitor additional measures that required further investigation on a periodic basis and that the Authority's review of these measures should not be dependent on the core KPI.
- Measures will have more influence on the market and generate more confidence where the Authority sets out in advance its expectations for the outcomes for these measures. Whilst actual outcomes and trigger levels will need to be calibrated to market conditions, this provides helpful transparency.
- With not all measures readily trackable and the very significant implications of the trigger, the transparency in how the Authority will calculate and assess measures is extremely important to the effectiveness of and confidence in this process. It also minimises the risk of stakeholders seeking to influence the process.

- Suggested criteria include trading volume, trading participants, terms and maturities, a wide definition of trading to recognise the multiple ways flexibility may be placed in to or acquired and the pricing “benchmark” (see next bullet).
- The group did not reach a consensus on the pricing benchmark methodology for the test. There was some support for a broad market referenced measure (e.g. a situational adjusted premium over baseload or a HHI index for flexible resources) on the basis that the test of exercising market power should consider prevailing market conditions. There was also support for anchoring this assessment of value against market conditions by a reference value such as to a reference technology (e.g. the cost of alternative generation or other flexibility investment). Another perspective highlighted that as the primary test is about market power, the key test needs to assess whether the buyers in the market are “willing” at the contracted prices.
- With this context, the group recommends that the naming convention of these tests does not imply that one is dependent on the other e.g. primary and secondary test, as this may lead to unintended expectations.

F. For certainty and confidence in the market there was a broad consensus that should the trigger test be failed then the Code provisions would apply automatically and be implemented with certainty and reasonable speed. The majority opinion supported the following:

- This means that the Code changes should be clear as to how virtual disaggregation would be implemented, the form it would take and the implementation timing so as to minimise the needed consultation, and length/contestability of processes once the trigger is activated.
- The details to be settled once the trigger is activated should be those that are dependent on market conditions and participants at the time.
- There should be no second review of the trigger test once invoked as this may be a less compelling an incentive to a market participant and may lead to repeated cycles of minimal response: the trigger activated, market conditions improve as participants respond to the threat, action is no longer ‘triggered,’ and then conditions reverse until the cycle begins again.
- Having this certainty creates a credible risk to participants with market power. This is expected to drive actions that means the trigger is much less likely to be activated and competitive outcomes achieved more quickly and at less cost.

G. There were strong differences of opinion on the appropriate urgency of the timing of the work and options for the Authority

- There was broad consensus that this is a very significant change to the market and that the case is strong for progressing the Authority’s work to understand and address the targeted market risks with urgency is important. As noted above virtual disaggregation is one option that would be assessed in this work.
- Strong opinions highlighted that the market significance and complexity of this work means that it must not be done with “haste”. This presents significant risk to market and investor confidence and the efficacy of any measure (which can have unintended consequences on participants and New Zealand businesses and consumers). Work requires robust resourcing, analysis and design with appropriate scheduling for the Authority and all stakeholders to have capacity for

this process. This view was supported by a perspective that it will take time for trading to develop in standard and other flexibility products with most participants books currently managed. Accordingly it will be some time before market monitoring establishes a case that market power is being exercised and triggers to be a reliable tool to activate further steps. This view considers that appropriate sequencing of work by the Authority can provide for a schedule supporting this robust analysis and decision making.

- In the context of the above market complexity and possible consequences of a triggered intervention, we recommend Authority team need to be well resourced for this analysis including the use of external economists for the appropriate modelling of both the market and the pathways that can deliver flexibility. Our reference to flexibility pathway modelling refers to modelling that informs on the potential technology investment or behaviour change pathways that will deliver medium/ long duration flexibility, noting the informing MDAG modelling focused on the market scenarios. This will be of value to market participants.
- A contra view held that the existing evidence of the concentration of market power and market issues will be having a material impact on investor confidence and New Zealand businesses and consumers (including independent retailers and generators) today. Action needs to progress at pace without risking the appropriate rigorous, robust and well-resourced work needed to withstand potential delays from external challenges or costs of unintended market consequences/ ineffective outcomes. Implementing changes that present a credible deterrent to exercise market power can take place in parallel with other work that address other market needs.
- A view was expressed that an option to deliver a credible threat to a market participant that may exercise market power quickly and set market expectations is to progress at pace a codified commitment / obligation for the Authority to commence a process to design and implement some form of Virtual Disaggregation once triggers are met. The Code could say what a good process would look like, e.g. consultation steps, cost benefit analysis of options, timeframes to codification, etc all with clarity the Authority will implement an option and not revisit the trigger to act. A variant on this is to still progress the design work for further Code updates, but with more appropriate timing for the magnitude of this change.
- With the time, information and resources available, the subgroup could not resolve these differences.

H. There was universal support for design features that recognise generators existing commitments in the market that support liquidity in flexibility/ shaped products and evidence that market power is not exercised

- This acts as a strong incentive for market participants to deliver the required behaviour in the market and ongoing new investments.
- Some members specifically noted that fixing the allocations based on current flexible generation capacity would be an effective way of not discouraging new investment, especially under an approach that meant all generators with potential for market power (regardless of any evidence of that specific generator exercising control) were included in a triggered virtual disaggregation intervention. A common view across the group was not reached reflecting the level of information and time available.

- *This is a relevant matter for consultation questions.*

I. There was a strong opinion that design needs to protect against those with market power influencing the “auction” or other market process

- We understand in the design that market participants required to offer flexibility will not have their commitment level reduced for internal trades. This means they will need to participate in the market to cover their positions and have an incentive to support a functioning market.
- *We note however that safeguards will be needed that these participants cannot adversely influence the auctions under virtual disaggregation measures. For instance they could be excluded from these auctions and cover their positions on a (post intervention) more liquid secondary market.*

J. There was broad support in favour of a phased termination of an intervention

- This was seen as particularly valuable to enable the Authority to monitor participants to affirm that the established new market behaviours were continuing at the required level of participation and market settings.
- If there is then evidence that market power is being asserted, the phased termination can be stopped and other market participants protected.
- The ability to quickly take this step provides stronger incentives for participants with market power to continue to offer appropriate products.
- *We understand the proposal will recommend phased termination over a hard termination but consider this a relevant matter for consultation.*

K. The group support the Code virtual disaggregation clauses being enduring

- This retains the incentive to not assert market power.

1.5. Key out of scope or observations of significance but not passing the materiality test

A. Considerations in regard to market making

- The group acknowledges that the MDAG recommends a move to market making if liquidity in the market is not sufficient (and the costs are acceptable to participants).
- As virtual disaggregation is designed to tackle one or more participants exercising market power, the virtual disaggregation trigger test will be different from the market making trigger test.
- This means the Authority planning for virtual disaggregation should consider a market where there is no market making or market making is being introduced at or around the same time.
- This may for instance need a different calibration of the trigger tests.
- Opinions were also expressed that there were risks of triggering virtual disaggregation before a move to mandatory market making, that regulated (spreads and volume) market making is a more proportionate next step that could be designed to reduce market power and a lack of (initial) market making volumes was not necessarily a problem with significant volume transacted/committed

elsewhere. The Subgroup had strongly opposing views on whether market making should be a required step before moving to virtual disaggregation with those opposing this highlighting that if there is a need to address exercise of market power issues that may need to be progressed before market making can be implemented and assessed as a success.

- Opinions were expressed that virtual disaggregation is a very significant market intervention with the potential for significant implications beyond the electricity market and so it is important that the appropriate other market steps are taken, and time planned for those steps to be effective, before this intervention.
- *How virtual disaggregation fits and sequences with other measures is an important matters for consultation questions.*

B. Term of contracts

- The group were broadly satisfied that consulting around forward dates out to 3 years with rolling contracts is appropriate considering the nature of the intervention and needs of the current market.
- We note the MDAG suggested a 3-4 year period.
- Developers are likely to be significantly influenced by the term of their bank project finance and the consultation process can help uncover if a moderately longer maturity is of material value.
- *This is an important matter for consultation questions.*

C. The group was split on whether the “capacity” that a generator must provide should consider the generator’s non shaped product (e.g. baseload) commitments

- There was a concern that doing this may unfairly force generators to the market to cover a formerly balanced portfolio (especially if it impacted the capacity the generator needed to meet obligations).
- There was value seen by others in having the large generators active as buyers as well as sellers in the market and it was considered important to ensure that a generator’s book could not be designed to avoid it being allocated an appropriate allocation where it was not offering sufficient shaped products. However please also refer to our comments in 1.4H in managing risks of their participation.
- It was noted discussions focused on hydro scenarios, but measures should cover thermal (or other flexible generation) where there is sufficient scale.
- The allocation mechanism must consider the complexities of daily management of generation capacity (e.g. planned maintenance, outage, seasonal and dry year needs).
- The allocations mechanism must be clear on the interactions between the volume duration of instrument and available capacity over time.
- *This is an important matter for consultation questions.*

1.6. Other matters

To facilitate the evolution of new practice and more efficient, robust engagement, we have prepared a separate letter for management on our insights following this engagement.

2. Context to and scope of our work

This is the second report of the new EAAG established to contribute to how the Authority works differently alongside diverse groups of stakeholders to develop well-informed regulation, quickly and robustly. In this engagement pioneered new practice to deliver a balance between 1) robust independent expert analysis and recommendations and 2) agile, quick and efficient delivery. We provide more background to the role of the EAAG in Appendix 2 as this is important to the context of our work.

The Chair acknowledges the role of the Authority staff and subgroup members in pioneering new practice and their work in its delivery.

With our limited high cadence work scope, this report is an independent summary to the Authority under the following provisions.

We report on material matters:

- that arose during our three workshops, and
- only indicate the relative level of alignment of member opinions with these material matters.

We also provide comment on substantive matters that arose in our discussions but are out of the current scope of work.

2.1. Technical/ subject/ project scope

The virtual disaggregation engagement covered our work with Authority staff during their preparation for draft consultation proposals on an outline for the implementation of virtual disaggregation measures in the Code.

2.2. Scale/ maturity of work

The engagement was with the Authority staff as they developed a design proposed by the MDAG. The scope and framing of requirements was therefore mature.

2.3. Timeline and resources

This was a short agile project sprint with three one-one and half hour workshops over 8 business days providing input and 2 business days from receiving the Authority report to the work group reporting.

All analysis was directed and managed by the Authority staff with no independent analysis commissioned.

2.4. Reporting on material matters only

This letter reports on matters the group assess as material for the intended user for the purpose of this scope.

Reflecting 1) the scope of the work and 2) the uncertain, dynamic nature of market participant response to this proposal and other measures the Authority are taking, determining materiality is a subjective professional judgement.

2.5. What this engagement and report is not

As outlined in the scope above and the short, verbal nature of our work below, this engagement does not provide robust expert advice based on analysis, access to robust research or substantive discussion of issues and different opinions.

No independent work has been commissioned or provided, or was able to be accessed and reviewed in the course of the short windows and virtual meetings.

Accordingly, our work does not provide for independent analytical review, research, investigation or solutioning steps that a longer and more deeply resourced programme may include.

2.6. Composition of the subgroup

The subgroup was selected in accordance with the Terms of Reference and a specific focus on having the required stakeholder insights and expertise within a small team to support agile work. The subgroup is not a proportionally representative group of stakeholders and so any reference to majority or minority opinions does not infer proportionality.

3. Approach to and nature of our work

- A. In performing our work we have relied on discussions with Authority staff and limited extracts from the MDAG recommendations provided by Authority staff. The work has been staged so that the Authority staff can consider our discussions in their work as it is progressed.
- B. Our contribution is based on member experience and knowledge with time and confidentiality constraints limiting wider stakeholder input. This scope did not provide for modelling, research or other analysis independently of the Authority workstream.
- C. The approach was to provide collective expert advice with independent thinking through three short meeting that targeted specific questions and needs identified by the Authority staff.
- D. With a short window and high cadence to the work and the expectation that Authority staff would further analyse this input as they progressed toward consultation documents, discussion focused on the diverse inputs of members rather than work through to a single collective voice or opinion (on a more limited range of matters).
- E. The subgroup has considered where there are collective, majority and minority perspectives and key drivers on material matters to this report. However, there was not the time, analysis nor resources provided for in this cadence of work to address different perspectives of members.
- F. With a short window for preparing this work and limited advance notice for booking meetings in the calendars of part-time advisory group members, not all members have been able to participate fully in all meetings.
- G. The Authority Representative has provided secretariat resource to capture the record of our discussions and for the preparation of this letter, alongside the Chair.

4. Reporting party

The Virtual Disaggregation subgroup of the EAAG is providing this report in accordance with the request from the Authority to report to the Authority.

This is a stand-alone project and not part of the wider work plan of the EAAG.

A handwritten signature in blue ink, appearing to read 'Jamie Silk', with a long horizontal flourish above the name.

Jamie Silk

Chair of Measures To Improve Price Signals For Distributed Energy Resources Sub Group

Appendices

Appendix 1: Members

The subgroup was comprised of the following members, selected as per the EAAG Terms of Reference:

- Jamie Silk (Chair)
- Darren Gilchrist
- Fiona Wiseman
- John Hancock
- Margaret Cooney
- Paul Baker
- Pauline Martin
- Sam Fleming
- Tui Gilling

Note: given the short timeframes, not all members were able to engage equally. Discussions were recorded and recordings circulated so all participants could keep up to speed with the flow of conversation.

Tui Gilling participated in the first two discussions but did not engage in the third workshop or the preparation of this letter as the more technical focus of later discussions was less relevant to Tui's end-consumer experience and expertise.

Appendix 2 Introduction to EAAG and the subgroup

The EAAG was formed in June 2024 by the Electricity Authority (Authority). Under its terms of reference, the EAAG is expected to use its knowledge and expertise to investigate, analyse, and make recommendations to the Authority on matters included in its work plan as appropriate to the work plan item.

The work plan is 1) primarily developed for the group to provide advice on Authority project work and consultation papers before public release, and, as appropriate, to assist in considering and reconciling views presented in submissions, 2) developed with regard to the Authority's budget, 3) part of the Authority's overall work programme, priorities and timeframes and 4) can be updated to account for developments that occur in the course of the Authority's overall work programme.

A key role of the EAAG is to use its collective knowledge and experience when considering the matters before it. The EAAG's advice to the Authority must be independent, considered, and supported by robust analysis. The quality of the advice must be sufficient to enable the Authority to make well-informed decisions.

The EAAG was formed as the Authority wants and needs to work differently to provide the regulation needed for the systems transition through:

- working more closely and transparently with the sector and consumers;
- covering a wide range of topics across technical areas, consumer interest and future perspectives;
- using an advisory group early and often in our decision-making processes.

The form and function of the advisory group contributes to how the Authority works differently – specifically alongside diverse groups of stakeholders to develop well-informed regulation, quickly and robustly.

This context is important to understanding the nature of this engagement and the intended use of this report and how it differs very materially from the reports of recent Advisory Groups.