1 July 2025

Energy Competition Taskforce
c/o Electricity Authority
By email: taskforce@ea.govt.nz

Tēnā koe,

Rewarding industrial demand flexibility – Issues and options paper

We welcome the opportunity to respond to the Competition Taskforce (**Taskforce**)'s issues and options paper on rewarding industrial demand flexibility.

Delivering a least-cost and secure transition[1] will require efficient participation from all forms of demand and supply flexibility. While industrial demand flexibility is one way of achieving this, the Taskforce should be interested in efficient flexibility markets and incentivising all flexibility, not picking 'winners' by solely focusing on industrial demand flexibility. The question is why industrial demand isn't responding to high electricity prices. Without evidence of the actual problems/barriers the Taskforce is trying to fix, and the quantified cost and benefits of resolving them, there is real risk that its proposals will result in inefficient outcomes and market distortions.

In our submission we suggest how the Taskforce can ensure interventions are proportionate to the harm they are trying to fix, to limit unintended consequences. Our summary observations are:

"Flexibility" is not just using less electricity

- Flexibility in an electricity system is adjusting power generation, storage and consumption in response to signals
- "Demand-side flexibility" means adjusting demand from a network in response to external signals but this could be because the consumer is substituting networked electricity with local generation, storage or other energy sources
- If "industrial demand flexibility" means large consumers using less power in response to price, it must be efficient in the context of other forms of flexibility

Industrial flexibility needs to be efficient to benefit all consumers

- Focusing on industrial flexibility alone is distortionary: if the cost of efficient industrial demand flexibility is higher than the benefit to the industrial consumer, they won't respond to signals
- This could be because consumers don't receive the full benefit of responding or equally that the costs of responding are too high
- A proportionate response requires evidence of what the problem is and the benefit to all consumers of resolving it with identified proposals

[1] *October 2024 Statement of Government Policy to the Electricity Authority*, Minister for Energy. Paragraph 2

Additional payments for industrial flexibility aren't necessary and risk inefficiency

- Paying to reduce industrial demand additional to avoided energy costs will only be efficient if all other flexibility options compete for that payment
- Focusing on removing frictions e.g. search, coordination and transaction costs, to all forms of flexibility will be cheaper and faster than additional payments and does not risk major market inefficiency
- It is not necessary for the Taskforce to make additional payments to reduce industrial demand if it focuses on removing frictions to existing price response and making additional reserve products available to any flexibility resource

We address these three considerations in sections 1 to 3 below and link these to the Taskforce's questions in section 4.

We are always keen to meet with the Taskforce to discuss and develop the ideas in our submissions. In the meantime, if you have any questions or would like to talk further on the points we have raised, please contact Emma Wilson ([redacted]).

Nāku noa, nā,

[redacted]

Emma Wilson
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POWERCO

1. Flexibility is more than using less power

1.1 Flexibility in a systems view

In the context of electricity markets, "flexibility" refers to altering consumption or production (whether from generation or storage) in response to an external signal. Simplistically, demand reduction is identical to supply injection in the same place. This is important because "demand flexibility" in the Taskforce's sense does not necessarily mean using less energy and can come with direct costs of local alternatives (fuel, generation or storage), not just the opportunity costs of lost production that the Taskforce discusses. It's important to ensure common terminology across all stakeholders, to limit the risk of unintended consequences:

- In their supporting report, Sense Partners use the term "demand response" as a synonym for "demand flexibility.[2]
- MDAG define "demand-side flexibility" as "where consumers shift their demand in time or alter their total demand.[3]
- Transpower's demand response programme in RCP2 *reflects a transmission grid owner view of "demand" being "demand on the transmission system"* (even if caused by local generation export)[4]
- The Taskforce's issues and options paper also uses "demand flexibility" as a synonym for "demand response" and defines it as *adjusting electricity demand (consumption) in response to market and network conditions. Generally, this involves reducing demand in response to high wholesale prices or congestion in the electricity network.*[5]

Sense Partners and the Taskforce also distinguish between 'types' of demand flexibility, when consumers adjust their consumption in response to price signals and when consumers reduce their consumption by a defined amount in response to an instruction from a supplier or the system operator in return for an agreed payment. In our experience the distinction is less about whether the flexibility is "explicit" or "implicit" than whether it is firm or not. For certain purposes, firm flexibility is more valuable, but firm flexibility contracts can preclude the use of that flexibility resource for other purposes, which may be inefficient.

Flexibility, whether firm or intermittent, should be allocated to the highest value use. This can be achieved with markets provided that all buyers operate on level terms. The Taskforce proposal to make additional payments to industrial consumers to encourage them to use less power when the energy market is stressed, is contrary to Government policy which states

> *(t)he rules of the market do not favour one technology or solution over any other and (i)t is not the Electricity Authority's role to prefer one form of supply over any other* (GPS)[6].

There are three problems with additional payments for industrial demand as a spot market alternative:

- It picks industrial flexibility as a winner over other types of flexibility offerings

[2] *Industrial demand flexibility. Sizing the potential of useful demand response*, Sense Partners, March 2025
[3] *Price discovery in a renewables-based electricity system*, MDAG, December 2023. 1.59
[4] *IPAG review of the Transpower Demand Response programme*, Electricity Authority Innovation and Participation Advisory Group, July 2021. p. 4
[5] *Rewarding industrial demand flexibility - Issues and options paper*, Electricity Authority, May 2025. p. 10
[6] *Statement of Government Policy to the Electricity Authority*, Minister for Energy, October 2024. Paras 29e and 31d

- It makes other forms of flexibility less competitive as spot market alternatives, and these may then be more expensive for consumers
- By subsidising industrial demand flexibility for use in the spot market, it removes it as a potentially low-cost option for non-network alternatives, making the latter more expensive.

There may be a case for an Emergency Reserve Scheme (ERS)[7] however, payments in this scheme should be contestable and available to all flexibility providers. We already have provisions for shedding industrial load in a Grid Emergency and while it may seem expedient to switch off industrial load as a "last resort mechanism" in preference to using other flexibility services, they all come with a cost and new storage and generation assets may be quicker to commission, cheaper or more reliable than industrial demand response.

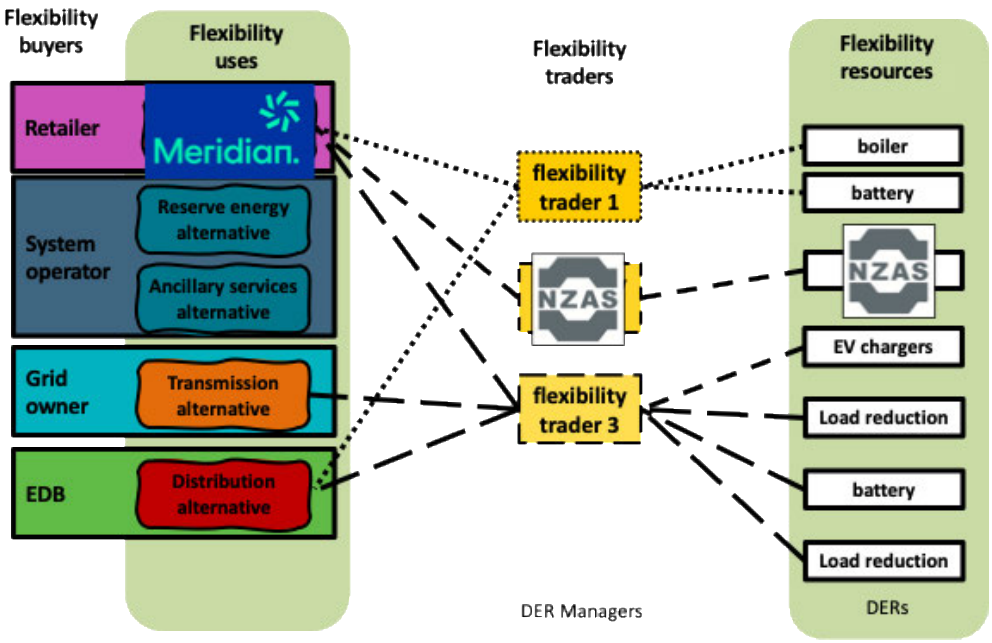
The ERS is intended to *minimise the likelihood and extent of uneconomic load shedding during periods of peak electricity demand* – the ERS mechanism (or any other additional payment) should not pick winners.

1.2 Roles and incentives in flexibility service markets

Before intervening, we suggest the Taskforce considers examples where flexible demand is responding to wholesale prices. Below we set out some examples of industrial flexibility using the open access framework developed by IPAG, which clarifies roles and incentives in flexibility services markets.

Meridian Energy has agreed terms with the New Zealand Aluminium Smelter (NZAS) who will provide 50MW per hour of demand response for winter 2025, which we have coped in Figure 1[8].

Figure 1 Meridian-NZAS roles in demand response example



[7] *Rewarding industrial demand flexibility - Issues and options paper*, Electricity Authority, May 2025. Para 7.9-7.27
[8] https://www.meridianenergy.co.nz/news-and-events/meridian-and-nzas-agree-50mw-reduction-for-winter-2025

In this example NZAS is the flexibility trader – they control the smelter and respond to instructions from Meridian, primarily based on spot prices.

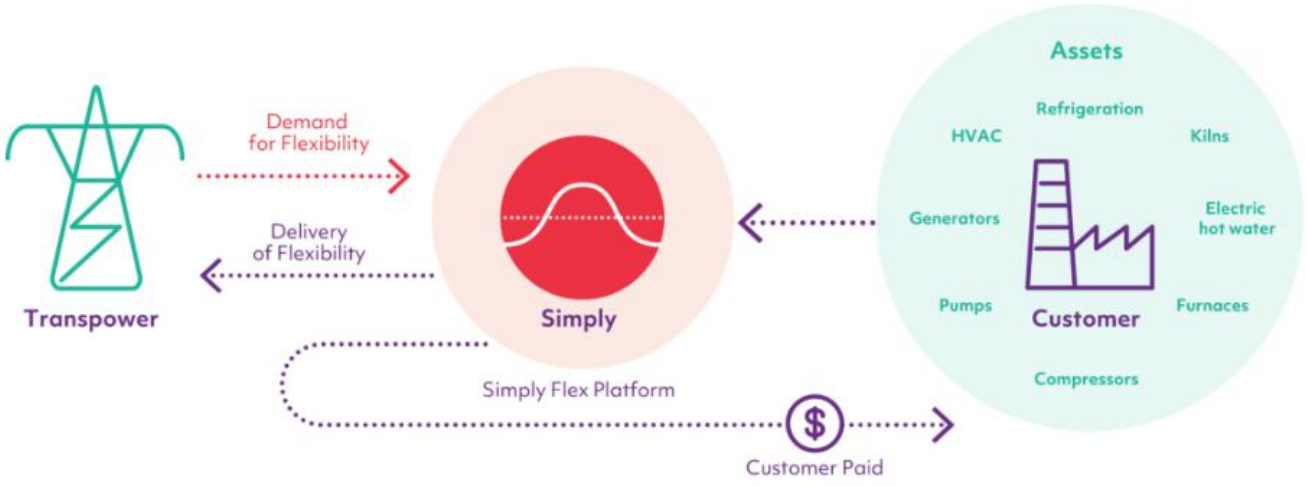
Open Country's large electric boiler at Awarua in Southland was, at the time of commissioning, the largest electrode boiler in the Southern Hemisphere[9]. It was cheaper for Open Country to retain their existing coal boilers as backup than building N-1 redundancy for electrical connections to the new boiler. This also meant that they can switch from electricity to coal without having to reduce production

Open Country work with Contact Energy's subsidiary Simply Energy, an active flexibility trader, using their "Simply Flex" platform to operate the electric boiler automatically in response to wholesale electricity prices.

> *Part of the set-up includes a commercial arrangement to enable Open Country to access low wholesale market prices, increase its electricity use and mitigate the risk of exposure to high wholesale prices – using flexibility as an additional mitigation measure.*[10]

This is "demand flexibility" in the sense of the Taskforce's issues and options paper. Contact Energy is exposed to wholesale spot prices. Simply Energy sells flexibility services to Contact and other buyers who manage the complexity of forecasting and interacting with the electricity market. Simply Energy's platform manages the electrode boiler in response to instructions from Open Country who manage the plant and the coal boilers. Importantly Open Country aren't exposed to spot prices, don't have to deal with the complexity of the market or controlling their electrical plant.

Figure 2 Simply Energy platform

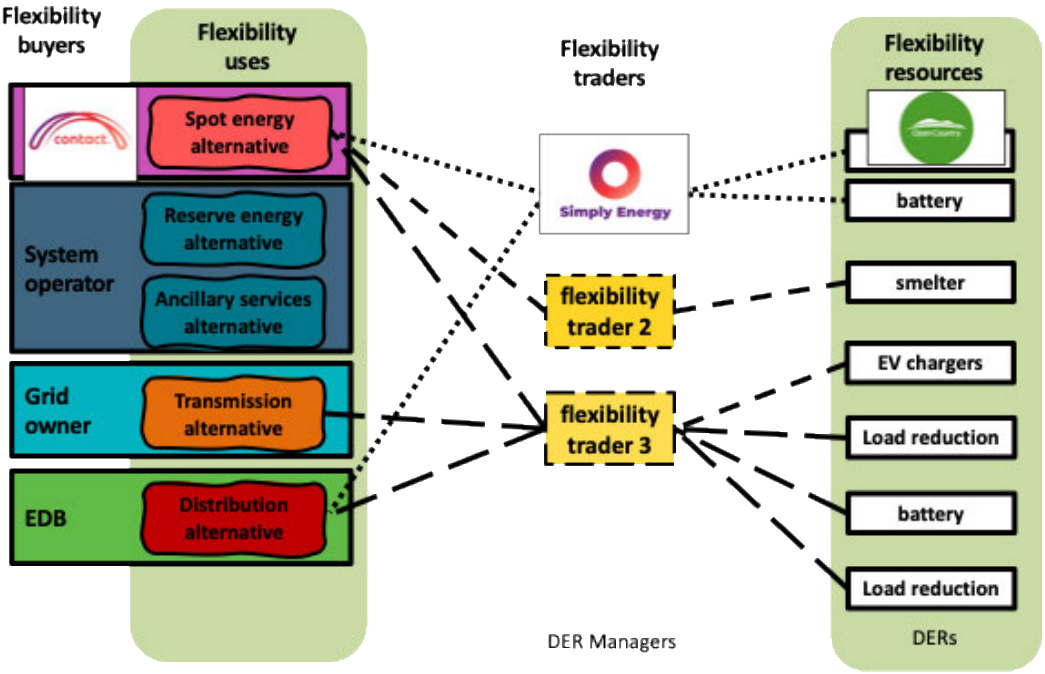


At Awarua, Contact is the spot energy-exposed retailer, Simply Energy is the flexibility trader and Open Country is the flexibility resource owner, as shown in Figure 3. Simply Energy also manage other flexibility resources owned by

[9] https://www.eeca.govt.nz/insights/case-studies-and-articles/open-country-achieves-a-world-first-in-dairy/
[10] *How Simply Flex is helping Open Country to displace coal and reduce emissions*, Simply Energy.

other parties and sell flexibility to other flexibility buyers. Because this is complex and requires scale and resources, it's unlikely that it would be efficient for any but the very largest industrial consumers to do this themselves.

Figure 3 Simply Energy–Open Country roles in flexibility example



In other scenarios, parties play multiple roles, the flexibility trader may be a retailer or a flexibility resource owner like NZAS. Powerco is currently tendering for flexibility services as distribution alternatives. We have received offers from many entities but our role as a flexibility buyer and theirs is as flexibility traders managing portfolios of resources to meet contractual commitments to us. Optimal use of flexibility resources across our and others' uses is a source of competitive advantage between traders.

2. The question is whether industrial demand flexibility is inefficient and if so, why

2.1 A clear problem definition is the basis for acting

The issues and options paper opens

> *One of the ways to help manage our electricity supply for the long-term benefit of consumers is to lower demand for power at peak times, when it is scarce and expensive. For example, industrial plants (industrials) that use a lot of electricity can choose to use less electricity at peak times in a controllable way.*

This is an aspiration but not a problem definition. The paper notes

Many in the sector are of the view that industrial demand flexibility is underutilised – and that New Zealand is missing out on the benefit of this flexibility, either due to barriers in the system or missing (efficient) incentives

This is the hypothesis for the problem definition. Much of the paper discusses the importance that demand response is efficient. Given that there are two possible reasons for inefficiency, firstly frictions ("barriers in the system") and secondly, insufficient incentives, it's important to find evidence of the actual problem before proposing remedies. Acting without evidenced problem definition risks exacerbating inefficiency not reducing it.

To be explicit, the Authority's proposal to make additional payments solely to industrial users to reduce demand which when spot prices are high will remove a low-cost option from the market for non-network alternatives to transmission and distribution, increasing network costs, and increase reserve costs to other electricity consumers without providing any benefit.

2.2 Powerco's experience with incentives and demand response

Our experience with retailer load control trials at Powerco suggest that there are adequate incentives for efficient demand response. If the signals aren't getting through, the problem isn't that spot prices are too low, it's that the cost of responding to any energy price signals is high.

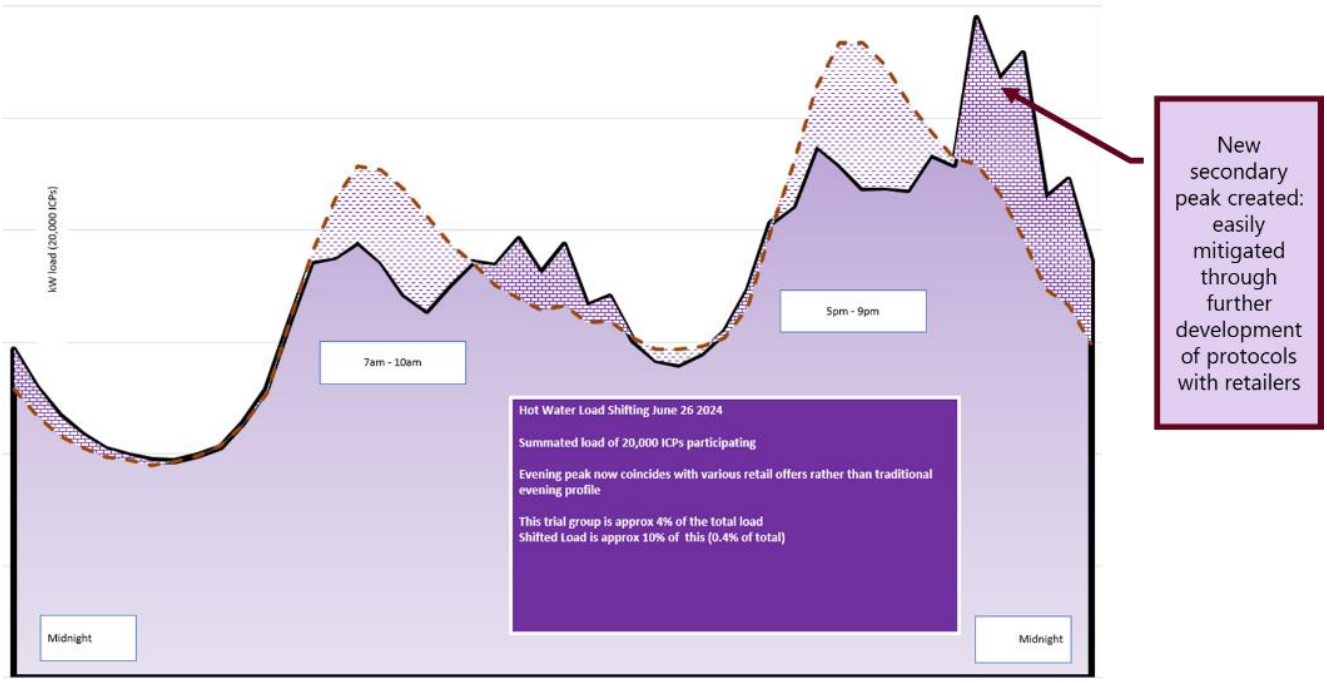
Like all electricity distribution businesses in New Zealand, Powerco offers "controlled" tariffs to customers whose hot water cylinders (and certain other loads) are attached to a dedicated circuit which they allow us to turn on and off (within limits to make sure we don't make their showers cold!).

This technology has been valuable as a way of reducing load during local and national system emergencies for decades. It is a broad-based solution – we send signals along our power lines to switch all the hot water cylinders the same part of the network on and off together.

Modern smart meters can send and receive instructions and information over the internet at an ICP-level. Many ripple-controlled circuits are now directly addressable using this technology which means each hot water circuit can be controlled individually. This means that larger more modern cylinders can be switched off for longer than smaller, older ones without the risk that anyone has a cold shower. Under ripple control we have to limit operation for every cylinder to make sure water stays hot in the smallest, worst insulated ones.

During winter 2024, we ran a trial with several retailers where they agreed operating procedures for hot water heating with their customers directly. We retained the ability to override retailer instructions in the event of a local or national system emergency. It has been very popular with over 30,000 customers signed up in the first year. Our early experience is that retailers switching off individual hot water cylinders during the morning peak in the electricity spot market (dashed line in the graph below) has taken nearly 10% off the peak load that we would otherwise have experienced but without having to turn every single cylinder off (refer Figure 4).

Figure 4 Powerco-retailer trial - hot water load shifting



Over time, we expect to see an increasing proportion of load on our network controlled by retailers and other parties rather than us directly.

It is retailers who participate in the trial, not consumers. The reason that this never used to happen is because ripple control is not granular enough to control at individual ICPs. Now smart meters have been configured so that the control circuit for each household with ripple-controlled hot water cylinders can be dispatched separately, each with a unique operating protocol that reflects the affected consumer's preferences given the size and capability of their cylinder.

As these smart meters have this capability, the incremental cost of implementing ICP-level load control is low, however installing the smart meters for the sole purpose of ICP-level load control would not have been cost-effective.

2.3 Portfolio risk management

Anecdotally the introduction of real time pricing in the spot market has created a stronger incentive for retailers to explore dispatchable demand of the sort in the hot water trial. Administered scarcity prices are set *ex ante*. Any net retailer who is exposed to those prices has a strong[11] incentive to minimise demand during those periods.

The Taskforce notes MDAG's observation that[12] *in some situations, gentailers do not face adequate incentives to buy or offer flexibility services, as doing so may reduce the overall profitability of their portfolio*, explaining *reducing demand at a time when a gentailer is a net seller in the market can result in overall lower profits for the gentailer*.

[11] The incentive to respond to scarcity prices is very strong. Administered prices are deliberately much higher than normal spot prices – up to VoLL ($20,000/MWh) where average spot prices are in the hundreds of dollars/MWh

[12] *Rewarding Industrial Flexibility*, Electricity Authority, 28 May 2025, para 5,17.

It is not for Powerco to explain the portfolio risk management strategies of gentailers but we observe that there are incentives at play:

- When scarcity prices bind there is no more generation available in the market – a net seller will make more money by reducing demand given their generation production in that period because they are generating at maximum output and reducing the amount their customers use in that period, increases their net surplus position into the spot market
- New Zealand's market can both be energy and capacity constrained. Particularly during extended dry spells, the opportunity cost of a net seller foregoing a premium from generating during periods of moderate spot prices may be lower than the premium gained from flexible generation during periods of high spot prices using the scarce fuel that has been conserved for this opportunity.
- There is real competition between retailers for individualised hot water control plans on Powerco's network – net sellers must match the offers of net buyers.

While these observations relate to demand flexibility for small consumers, the incentives on retailers to pursue industrial demand flexibility are identical. With no evidence that existing incentives are insufficient, there is no case that additional payments specifically for industrial demand flexibility are necessary. Further, such payments would be distortionary and potentially set precedent across a range of system settings.

3. Addressing frictions is more efficient and may mean additional payments for industrial flexibility isn't necessary

Making payments to industrial demand response in addition to avoided energy costs such as the proposed Emergency Reserve Scheme will only be efficient if all other flexibility options compete for the same payment.

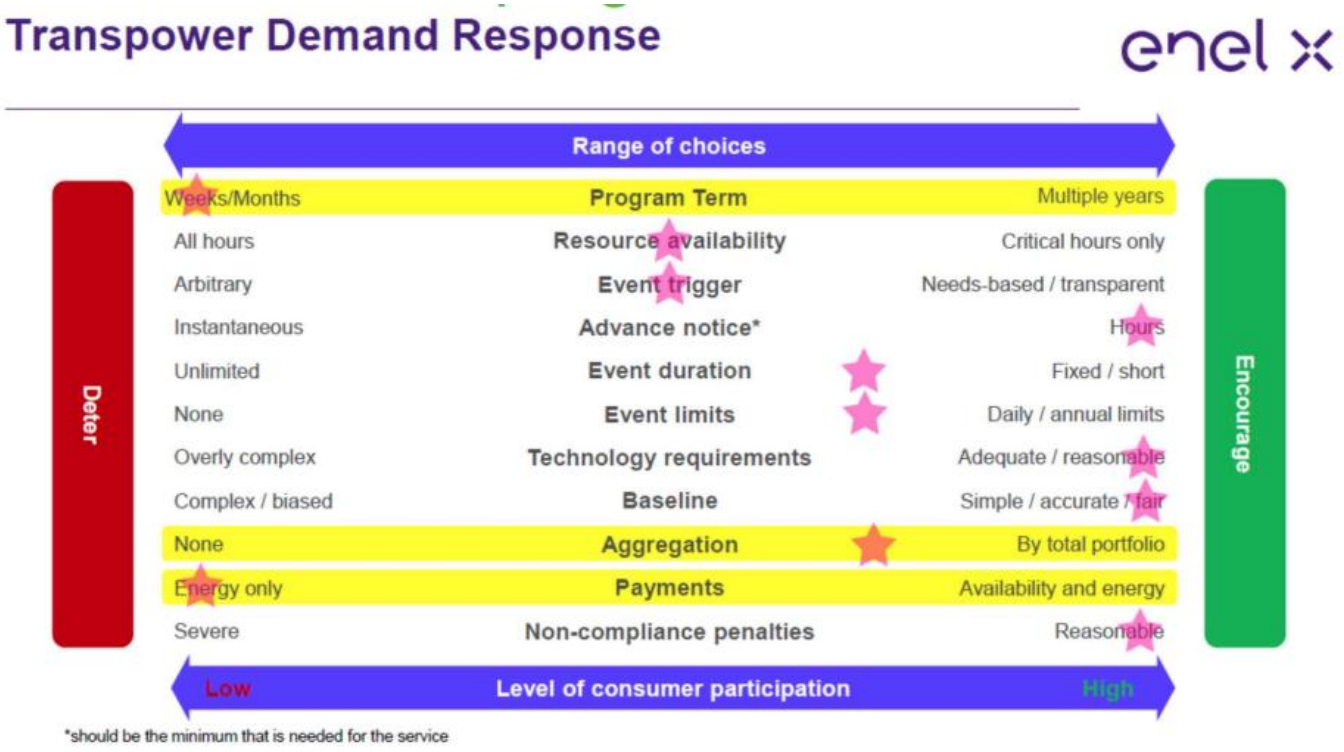
Focusing on removing frictions such as search, coordination and transaction costs, will be cheaper and faster and does not risk major inefficiency or market distortions.

3.1 The form of contracts for firm flexibility matters

We note above that the distinction between "explicit" and "implicit" flexibility highlights the relative benefits of flexibility which is firm.

IPAG's review of Transpower's RCP2 Demand Response Programme included evidence from Enel X who were, at the time, the largest flexibility trader in the world and operated in New Zealand. Enel X's business is to build portfolios of flexibility resources (generally owned by others) in response to calls from flexibility buyers. Despite their clear capability, Enel X chose not to participate in the Transpower DR programme. Their reasons are instructive.

Figure 5 IPAG review of Transpower's RCP2 demand response programme



The key concerns that IPAG has with the design of Transpower's DR programme based on Enel X's assessment are that:

- *the duration is too short, leading to a lack of surety for flexibility traders and flexibility owners. This means that flexibility traders are not encouraged to develop flexibility portfolios and flexibility owners are not encouraged to invest in flexibility resources*
- *a lack of an availability payment which does not encourage flexibility traders to develop flexibility portfolios and flexibility owners to invest in flexibility resources. This means that while Transpower's DR programme does a good job at tapping into existing flexibility resources it does not encourage investment in new flexibility resources.*[13]

Enel X's concern was not about additional payments, it was the form of those payments.

The case studies of Open Country Dairy and Powerco's hot water trial (refer section 2 above) both show when an investment has been made in flexibility resources for other reasons (smart meters to reduce the cost of billing and installing electrode boilers in addition to coal ones to reduce emissions), it is possible to dispatch demand at low incremental cost. Where flexibility resources don't exist, flexibility traders will need to confident that it's worth investing in them.

Spot prices are like the RCP2 Transpower Demand Response programme, people only get paid when they are called on. Again, it's not for Powerco to talk to the investment strategies of flexibility traders but the opportunity cost of lost production combined with the cost of investing in dispatchable demand response given uncertainty about the frequency and level of high spot prices would explain why industrial demand response has been limited to date.

[13] https://www.ea.govt.nz/documents/528/IPAG_review_of_Transpower_DR_programme_-_slide_pack.pdf slides 65 and 66

This is instructive for the procurement of all forms of firm flexibility – including for network alternatives[14] and in an Emergency Reserve Scheme, provided that it is open to all firm flexibility resources and not just limited to industrial demand response.

3.2 Consumers do not need to participate in the spot market to resolve their "muted incentives" for flexible demand response

The Taskforce's issues and options paper identifies that *potential barriers to greater use of demand flexibility generally relate to:*

- *insufficient incentives for its provision, or purchase*
- *impediments to its transaction such as the absence of trading platforms, limitations on participation, insufficient information, and the need to overcome technical participation challenges such as measurement.*[15]

The following section then suggests that

> *current pricing arrangements do not provide sufficient incentives* because *many industrials (and other consumers) are supplied under arrangements in which they are partially or fully hedged against volatility in the spot market … this inevitably mutes the incentives they have to provide demand flexibility under existing settings and is likely to reduce its potential.*[16]

This is a similar confusion to the argument that retailers need to pass distribution prices through to end consumers directly in order for them to be effective. In our submission[17] and cross-submission[18] on the Taskforce's February consultation on Task Force initiative 2A (Requiring distributors to pay a rebate when consumers supply electricity at peak times) we quote the Authority's clarification that distribution prices do not need to be passed through directly to end-customers to be effective[19]:

> *The Authority's view is that to achieve efficient outcomes, it is not necessary for retailers to pass through distribution price structures to end consumers. Our view is if a retailer faces cost-reflective distribution prices, its incentive will be to respond efficiently (as that will help to manage the retailer's input costs and reduce its risk exposure). An efficient response by a retailer could take various forms including providing information to its customers; procuring or managing embedded flexibility resources on behalf of its customers; and/or adopting non-uniform usage charges or rebates.*[20]

The same is true for industrial demand flexibility and the spot price.

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[14] In 2021 we ran a tendering process for network support to the Coromandel Region. SolarZero was awarded a contract to provide 1MW of network support during peak consumption times. Although this contract has been suspended as a result of their liquidation, it provided availability payments and a multi-year term. We are considering similar mechanisms in our evaluation of flexibility offers https://www.powerco.co.nz/our-partners/flex-solutions

[15] *Rewarding industrial demand flexibility - Issues and options paper*, Electricity Authority, May 2025. p. 25

[16] *Rewarding industrial demand flexibility - Issues and options paper*, Electricity Authority, May 2025. 5.5

[17] https://www.ea.govt.nz/documents/6795/D_Powerco_2A_submission_2025.pdf

[18] https://www.ea.govt.nz/documents/7095/Powerco_2A_X-submission_2025.pdf

[19] https://www.ea.govt.nz/documents/4821/Distribution_Pricing_Reform_-_Next_steps.pdf, at 5.11

[20] *Distribution Pricing Reform: Next steps*, Electricity Authority, May 2024

While it is true that a very small number of industrial consumers manage complex, varied and volatile wholesale electricity input costs directly themselves (including spot prices), the opportunity cost of doing this is too high for most consumers, who would rather someone else does it for them. Retailers are exposed to all these wholesale input costs and, as the Taskforce notes offer supply under arrangements in which consumers are partially or fully hedged against volatility in the spot market.

The Taskforce's footnote[21] assumes that greater demand flexibility requires the consumer to engage with the electricity market, however, this is not the case. It is not necessary for retailers to pass through spot prices to end consumers. If a retailer faces spot prices, its incentive will be to respond efficiently (as that will help to manage the retailer's input costs and reduce its risk exposure). An efficient response by a retailer could take various forms including procuring or managing embedded flexibility resources on behalf of its customers.

3.3 The Taskforce identifies non-price barriers to realising industrial demand flexibility

The Taskforce has identified specific non-price barriers to efficient operation of flexibility markets.[22] :

- Coordination across multiple uses of the same flexibility resource
- Lack of standard contracts and terms for flexibility
- Immaturity in potential buyers of flexibility
- Requirement to be a Code market participant for some roles
- Compliance immaturity and
- Anxiety from buyers about non-traditional solutions.

When the Authority has identified non-price barriers to realising more flexibility, it seems counterintuitive to pursue additional and potentially inefficient side-payments which won't address these barriers. The Taskforce should remove non-price barriers first and only then consider, if necessary, proportionate and non-distortionary additional payments.

3.4 Where regulators have stepped in to regulate the outcomes they want to see, things haven't always gone well

The Authority admits that the Taskforce's proposal to make *payments to industrial demand flexibility providers, additional to avoided energy costs* is a change in its thinking about how best to reward demand flexibility. The Taskforce also notes that *international experience has shown that mechanisms need to be carefully considered in order not to distort the market* and that it needs *to take care to ensure the electricity system does not drive behaviours that undermine economic activity and export earnings*.

Former Director General of Electricity Supply for England and Wales, Professor Stephen Littlechild's, submission to the 2018 Electricity Price Review reflected on Ofgem's unsuccessful attempts to regulate the outcomes it wanted to see in the retail market:

[21] *Rewarding industrial demand flexibility - Issues and options paper*, Electricity Authority, May 2025. Footnote 24
[22] *Rewarding industrial demand flexibility - Issues and options paper*, Electricity Authority, May 2025. Para 5.21 to 5.27

> *Ofgem intervened extensively in the retail market between 2008 and 2014. In the face of increasing political pressure, Ofgem repeatedly felt the need to Do Something … Quite simply, most of these regulatory interventions did not work. Indeed, the (UK Competition and Markets Authority) found that they had unintended and adverse consequences for competition and customers, and should be repealed. So the second lesson is that UK experience suggests great caution in proposing further regulatory interventions in New Zealand or, for that matter, in the UK or elsewhere.*[23]

The Taskforce is clearly alert to the risks of adverse unintended consequences from interventions such as Ofgem's. With the perils of adverse unintended consequences in mind, it is still possible for the Taskforce to take action in support of more flexibility including from industrial demand, by lowering the cost of participation.

Given the Taskforce's assessment that there are non-price barriers to efficient industrial demand response, focusing on them may mean that it is not necessary to make additional payments at all, avoiding the risks of adverse unintended consequences.

If the opportunity cost of engaging with the market is too high for some customers to respond to efficient price signals, the appropriate regulatory response is to lower the cost of engagement not to make the prices inefficiently high.

[23] *Retail Lessons for New Zealand from UK regulation and the CMA's Energy Market Investigation, including a critique of Professor Cave's analysis*, Stephen Littlechild for Meridian Energy. October 2018.

4. Responses to the Taskforce's questions

Questions	Comments
Q1. Do you agree with our approach of focusing on industrial demand flexibility as an early initiative to enable demand flexibility more broadly? Why/Why not? Do you have any information to indicate that demand flexibility from other consumer types may be more readily accessed?	Partially. We support finding evidence for inefficiencies in industrial demand response and proportionate responses to that evidence. Section 20 shows how looking at examples of successful demand response using a consistent framework is instructive in identifying barriers.
Q2. Do you agree with our estimates of the potential industrial demand flexibility capacity available in New Zealand currently and into the future? Why/why not? Do you have any evidence to support a materially different estimate?	No comment
Q3. Do you agree with our focus on intra-day demand flexibility for this initiative? Why/why not? What other approach would you suggest?	Yes
Q4. Are there any other ways that currently enable industrial demand flexibility in New Zealand?	Section 3.3 discusses remedies to the non-price barriers to demand flexibility that the Taskforce identifies.
Q5. Do you agree with our description of the barriers affecting the provision of industrial demand flexibility? Why/why not? Are any other barriers relevant to the provision of demand flexibility from other consumer types?	We don't agree that it makes sense to look at industrial demand flexibility in isolation from all other forms of flexibility. This is picking winners and risks being inefficient.
Q6. Do you agree that existing incentives and contracts for demand flexibility are resulting in inefficiently low levels of demand flexibility?	No. Section 2 0 suggests the opposite.
Q7. Are you aware of any additional barriers to enabling more industrial demand flexibility?	Yes. Section 3.3 discusses remedies to the non-price barriers to demand flexibility that the Taskforce identifies.

Questions	Comments
Q8. Do you agree with our vision for industrial demand flexibility? Why/why not?	Yes but it would be better to express it as a vision for flexibility (of all sorts) so as not to tilt the playing field in the direction of any particular resource: *To enable efficient flexibility ~~through industrial demand flexibility~~ so it achieves long-term benefit for consumers by promoting a competitive, reliable, and efficient electricity industry*.
Q9. Do you believe that this vision is applicable to other forms of demand flexibility, or to flexibility more generally?	Yes. The fewer restrictions, the less likely the distortions.
Q10. Do you agree with our view that demand flexibility providers should be able to receive payment for providing flexibility services that exceeds avoided energy costs, provided the demand flexibility is efficient (as defined)? Why/why not?	Not as expressed. The narrative in the document is that the payments should be related to the opportunity cost of lost industrial production. Government policy is *(t)he rules of the market do not favour one technology or solution over any other* and *(i)t is not the Electricity Authority's role to prefer one form of supply over any other*[24] . There may be a case for an Emergency Reserve Scheme of the sort described in paragraphs 7.9 to 7.27. Payments in this scheme should be contestable and available to all flexibility providers. While it may seem expedient to switch off industrial load as a "last resort mechanism" in preference to using other flexibility services, they all come with a cost and new storage and generation assets may be quicker to commission, cheaper or more reliable than industrial demand response. The ERS is intended to *minimise the likelihood and extent of uneconomic load shedding during periods of peak electricity demand*. We already have provisions for shedding industrial load in a Grid Emergency – the ERS mechanism (or any other additional payment) should not pick winners.
Q11. Do you believe that a different level of payment would be appropriate than what we have defined as efficient? Why/why not?	Yes. One that doesn't pick winners – see Q10 above
Q12. Do you agree with our proposed guiding principles? Why/why not? Are other specific considerations which you believe should be included in the evaluation framework?	No, because they are limited to "industrial demand flexibility" which is potentially distortionary and inefficient. We support the principles if changed simply to refer to "~~industrial demand~~ flexibility"

[24] *Statement of Government Policy to the Electricity Authority*, Minister for Energy, October 2024. Paras 29e and 31d

Questions	Comments
Q13. Do you agree with our view that there is currently insufficient potential industrial demand flexibility to justify the establishment of new market mechanisms or platforms other than the proposed ERS and standardised demand flexibility product?	No – as outlined in section 3.3, the Authority has identified 6 non-price barriers to realising more flexibility. It seems counterintuitive to pursue additional and potentially inefficient side-payments which won't address these barriers. The Taskforce should remove non-price barriers first and only then consider, if necessary, proportionate and non-distortionary additional payments.
Q14. Do you consider there are other cost-effective measures that can be implemented urgently to enable industrial demand flexibility to support reliability and efficient in the wholesale market?	Yes – remove 6 non-price barriers to realising more flexibility outlined in section 3.3.
Q15. Do you agree with our proposal to establish an ERS? Why/why not?	Yes – provided that all forms of flexibility can compete for the scheme.
Q16. For demand flexibility providers – do you consider it likely that you could make demand flexibility capacity available for an ERS in time for Winter 2026?	NA
Q17. Do you agree with our proposal to investigate a standardised demand flexibility product? Why/why not?	Yes
Q18. Do you support our other proposed roadmap actions? Why/why not?	No, because it refers to "industrial demand flexibility" which is potentially distortionary and inefficient. We support the roadmap if references are changed simply to refer to "~~industrial demand~~ flexibility"
Q19. Do you believe there are other actions that we should consider in the roadmap? If so, please outline the actions and rationale	No
Q20. Do you support the proposed sequence and timing of actions in our proposed roadmap? Why/why not?	No, because it refers to "industrial demand flexibility" which is potentially distortionary and inefficient. We support the proposed sequence and timing of actions in the roadmap if references are changed simply to refer to "~~industrial demand~~ flexibility"
Q21. Is there anything else relevant to this issue that the Authority should consider? If so, please provide any relevant information to support the Authority's consideration	No