7 July 2025

Energy Competition Task Force
c/- Electricity Authority
PO Box 10041
Wellington 6143

Via email: taskforce@ea.govt.nz

Consultation Paper – Rewarding Industrial Demand Flexibility

The WEL Networks appreciates the opportunity to provide feedback on the Electricity Authority's (EA) vision industrial demand flexibility.

WEL Networks (WEL) is New Zealand's sixth largest electricity distribution company and is 100% owned by our community through our sole shareholder WEL Energy Trust. Our guiding statement of strategic intent is to be leading Waikato's energy future, and we work to ensure that our customers have access to reliable, affordable, and environmentally sustainable energy.

In general WEL supports the EA's plan for encouraging industrial demand flexibility as part of New Zealand energy future. While the economic feasibility for large commercial and industrial consumers is on paper attractive, care should be taken over the expectation of real world uptake by consumers, and while not a direct correlation to this consultations proposals, we recommend that the EA heed studies undertaken by PwC around the value of lost load (VoLL) assigned by industrial consumers.

These studies highlight that there is a large disparity between the theoretical value the consumers could place on lost load and what they are prepared to pay in the real world to avoid such loss. This disparity creates a real world barrier to consumers in taking up flex products, which we understand has led to lacklustre utilisation by consumers of current commercial demand offerings.

Some of this consumer hesitancy could be explained by; fixed price contracts which shield customers from spot price signals, lack of financial incentives, perceived negative impact on operations of response, high setup costs, and the absence of a viable market platform for offering flexible load, all of which will have an impact on the uptake of any demand flexibility scheme.

WEL agrees with the focus on intra-day flexibility, as we find longer-term reductions are impractical for most businesses. It should be also noted that proactive involvement by EDBs at the time of connection (either new or increasing load), to mitigate connection costs and demand increase may mean consumers have already made concessions that mean further demand flexibility is not practicable.

WEL supports the proposed Emergency Response Service (ERS) and a standardized demand flexibility product, provided there is further consultation to ensure mutual value. We believe a two-part compensation model - availability payments and event-based fees - tailored to individual providers based on $/MWh offers, would be the most economically efficient approach.

Our responses to the specific questions sought by the Authority are attached and should you require clarification on any part of this submission, please do not hesitate to contact me.

Yours sincerely

[redacted]

Andrew Maseyk
Regulatory Specialist
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Submitter	WEL Networks

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 response from other consumer types may be more readily accessed?	Yes, the economics make sense for larger loads available from commercial/industrial customers. There is a need to ensure that market setup does not inadvertently exclude aggregators to supply in flexible loads from other customers.
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?	Agree. Longer flexibility would have significant impact to customers so very few customers could reduce load over long term. Long term situations are best handled by bi-lateral agreements such as the Methanex gas arrangement.
Q4. Are there any other ways that currently enable industrial demand flexibility in New Zealand?	Existing flexibility is mostly driven by Type 1 demand as defined in this paper due to customers being on hedged contracts and not impacted by short term spot prices. There needs to be a way to pass on the savings for avoiding high spot prices to hedged customers.
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	Agree there are multiple barriers around demand flexibility: • Most customers are on fixed price agreements do not see spot prices and there is no incentive to reduce load when these are high

provision of demand flexibility from other consumer types?	• Cost of setup. There will be a capital cost to setting up their business to offer loads into the market. There needs to be a way to re-coup these costs. • Lack of market to offer into. There needs to be a cost effective way to offer this load into the market Any reward for a customer reducing load needs to be of a level that exceeds their costs for doing so, but not greater than the value of the response to the industry as a whole. This is where VoLL disparities may become a significant barrier.
Q6. Do you agree that existing incentives and contracts for demand flexibility are resulting in inefficiently low levels of demand flexibility?	Yes, for reasons as stated above.
Q7. Are you aware of any additional barriers to enabling more industrial demand flexibility?	As above
Q8. Do you agree with our vision for industrial demand flexibility? Why/why not?	Yes, as one part of the solving the future New Zealand energy trilemma.
Q9. Do you believe that this vision is applicable to other forms of demand flexibility, or to flexibility more generally?	Yes, including comments as above
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 response is efficient (as defined)? Why/why not?	Yes, this should include an availability payment to cover the mostly fixed cost of participation (investment in the system that allow the demand response and recovery of the cost for system require to offer the service and be dispatched) , and an event fee to reward the provider for actual demand response. The availability fee could be set at a fixed payment if that allowed the market to be stood up quicker. Long term it should be based on individual offer prices.

	It would be an efficient economic outcome if the industrial event fee rewarded the provider at a level in line with their direct cost of the demand reduction as the availability payment has covered or covered most of their other cost. Industrial demand reduction will come in may flavours and levels of costs, therefore further consideration should be given as to whether the event fee should be the same for all participants. The offer should be for a given volume for a given time based on a $/MWh offer price the such as with other NZ electricity markets. IN this way the most economically efficient options will be presented to the System .
Q11. Do you believe that a different level of payment would be appropriate? Why/why not?	As 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?	Yes
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?	This will be dependent on the outcome of the ERS and standardised demand flexibility products.
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?	No

Q15. Do you agree with our proposal to establish an ERS? Why/why not?	Agree with proposal, though further consultation on final details to ensure that it adds value to both customers providing demand response and the overall market
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?	Yes
Q17. Do you agree with our proposal to investigate a standardised demand flexibility product? Why/why not?	Agree with proposal, but further consultation needed on details to ensure that it adds value to both customers providing demand response and the overall market
Q18. Do you support our other proposed roadmap actions? Why/why not?	Actions 3,5 – Need consideration of commercial sensitivity of data Action 4, 6-9 - Agree
Q19. Do you believe there are other actions that we should consider in the roadmap? If so, please outline the actions and rationale.	No comment
Q20. Do you support the proposed sequence and timing of actions in our proposed roadmap? Why/why not?	No comment
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.	As highlighted in this document, there needs to be a way to value stack offerings to multiple byers of flexibility (5.21) and a way for non-retailers to realise the full value of demand response (5.25)