

Submission by



to the

Electricity Authority

on

Establishing an Emergency Reserve Scheme

28th of August 2025

Establishing an Emergency Reserve Scheme

– SUBMISSION BY BUSINESSNZ ENERGY COUNCIL –

Introduction

1. BusinessNZ Energy Council (BEC)¹ is pleased to have the opportunity to provide feedback on the Electricity Authorities (EAs) consultation titled 'Establishing an Emergency Reserve Scheme'.
2. BEC represents a diverse array of leading energy-sector businesses, government bodies, and research organisations dedicated to creating a sustainable, equitable, and secure energy future.
3. As a brand of BusinessNZ, New Zealand's largest business advocacy organisation, we represent the World Energy Council in New Zealand, aiming to shape better outcomes for our wider energy system both locally and globally.
4. With this consultation the EA is building upon its consultation titled 'rewarding industrial demand flexibility', beginning work on the roadmap provided in that consultation.
5. Specifically, the EA is considering establishing an emergency reserve scheme (ERS) to enhance the reliability of New Zealand's electricity system and support security of supply. It is intended to act as a penultimate resort before load shedding takes place.

Key Recommendations for the EA and the Government

- BEC supports the EA in its work to establish an emergency reserve scheme as a way to reduce the risk of uneconomic load shedding.
- BEC supports the proposed design of the emergency reserve scheme with one exception outlined below.
- BEC recommends a reconsideration of the use of exclusion of penalties from the scheme. The firm quantity procurement that the EA sets out is good because it locks in a set amount of supply ahead of time. Without penalties this is not locked in eroding the reliability of the scheme.

General discussion

6. The EA outlined in its consultation paper 'rewarding industrial demand flexibility' its proposed vision for industrial demand flexibility which was

To enable efficient industrial demand flexibility so it achieves long-term benefit for consumers by promoting a competitive, reliable and efficient electricity industry.

¹ More about BEC in APPENDIX One

Reflecting this vision, they identified 11 potential actions with the first of those actions to establish an emergency reserve scheme (ERS). Stating that

Enabling industrial demand flexibility to provide emergency reserves may unlock greater potential for the provision of short-term flexibility services, if the scheme is able to cover some or all of the upfront costs of enabling this flexibility.

7. Consultation on said ERS aims to highlight why an ERS is needed, what it aims to achieve and the design for it.

Rational behind establishing an ERS

8. The EA has identified the primary purpose for an ERS is to enhance the reliability of New Zealand's electricity system and support security of supply. While also addressing the risk of 'uneconomic' involuntary load shedding.
9. BEC supports this purpose, ensuring that electricity supply can meet essential demand is crucial for the ongoing economic and social activity of New Zealand.
10. BEC also supports actions that seek to address the risk of 'uneconomic' involuntary load shedding. Currently it is hard for the system operator (Transpower) to see who values electricity the most, an ERS would help provide some visibility which would help to shift from 'uneconomic' to 'economic' load shedding.
11. Ideally load shedding should never occur but BEC acknowledges that in 'perfect storm' scenarios it may be unavoidable.
12. It is reassuring to see the EA suggests that load shedding only occur when absolutely necessary. To this end BEC supports the use of the ERS as a penultimate resort ahead of involuntary load shedding.
13. BEC agrees with the EA and Transpower that looking forward to the coming years managing peak demand will remain an issue. The percentage of intermittent generation in the system is expected to increase – especially with the current gas supply situation.
14. BEC agrees that an ERS could provide Transpower with an additional tool to balance supply and demand during 'perfect storm' scenarios of low supply and high demand.
15. BEC agrees that an ERS could unlock latent demand flexibility that currently faces insufficient market incentives.

Risks on 'rewarding industrial demand flexibility'

16. Within our submission on 'rewarding industrial demand flexibility' we identified several risks that an ERS and other additional demand response mechanisms should seek to mitigate. They are as follows:
17. The potential to disincentivise alternative flexibility solutions like battery storage, distort market competition, and increasing transition costs for consumers.

18. If rewards disproportionately target industrial demand response without allowing all flexibility resources to compete on equal terms, it represents a situation where the Authority is picking winners.
19. A narrowly focused industrial rewards system could reduce the economic viability of batteries by redirecting revenue streams towards industrial load reduction, slowing deployment of these assets despite their long-term value for grid resilience.
20. Side payments not integrated into real time pricing may create out of market costs that are ultimately passed onto consumers. If rewards overcompensate industrial participants or ignore cheaper flexibility options, overall transition costs could rise unnecessarily.
21. Favouring industrial demand response risks violating technology neutral principles emphasised in the GPS. This could crowd out other high-value flexibility sources, reducing efficiency and innovation.
22. Poorly designed rewards might replicate existing market failures by incentivising only large industrials with simple curtailment options, while smaller or more complex operations (24/7) remain excluded, limiting overall flexibility gains.
23. This submission will assess the design of the proposed ERS against these identified risks.

ERS design

24. The EA proposes that any source of demand flexibility should be eligible to provide ERS, provided it can meet the relevant service requirements and would not already have been contracted or otherwise used before ERS is activated. This includes industrials and aggregations of smaller commercials and residential.
25. BEC agrees with this proposal regarding eligibility to participate. The availability for participation across industrial, commercial and residential consumers means that the risks identified under paragraphs 18 and 21 are mitigated.
26. BEC also notes that limiting participation to demand flexibility that is not already part of a demand response system also mitigates the risk identified under paragraph 17. This ensures that the ERS provides additionality rather than shifting existing demand response mechanisms around.
27. However, BEC does not see why participants within existing demand response mechanisms could not just leave those mechanisms – provided they are not contractually obligated – and shift into an ERS.
28. The EA has excluded both market and off-market generation and batteries from the ERS under the assumption that market generation and batteries already have incentives to operate in the spot market. While off-market generation and batteries are likely to already be used in emergency events and may not offer additionality.
29. BEC supports the exclusion of both market and off-market generation and batteries for participation in the ERS, provided there is still assurance that adequate incentives still exist for batteries to take part in other flexibility programmes.

30. The EA suggests that the service should be procured through the use of a competitive tender process run by Transpower, likely on a firm quantity procurement basis.
31. BEC agrees with this as it will lock in a set amount of supply ahead of time, rather than relying on 'as-needed' voluntary offers. However, with the EA not wanting to use any penalties for non-performance this supply may not be locked in at all. This erodes the reliability of the scheme.
32. The ERS would be activated as a penultimate resort mechanism, after all other market and contractual mechanisms, including EDB controllable load, have been exhausted. Involuntary load shedding remains the last resort.
33. BEC supports the use of the ERS as the penultimate measure. This will allow for the continuation of other flexibility solutions to continue to function. Mitigating the risks outlined in paragraphs 17 and 18.
34. The EA also outlines that the activation of the ERS should not dilute scarcity pricing signals and that any demand reduced due to ERS activation should be added back into load schedules. This way spot prices reflect what they would have been in the absence of the scheme.
35. BEC supports this as it will maintain investment signals that otherwise would have been dampened.
36. BEC supports the statement that the system operator should make reasonable endeavours to ensure the unit cost of ERS provision is not greater than the value of lost load (VoLL). This will avoid overcompensation that would distort the market.
37. The costs of the ERS, the EA proposes, would be allocated to loads. Pre-event costs would be allocated based on monthly metered consumption, while costs associated with the scarcity event would be allocated based on consumption during activation events. These costs would be socialised across the country.
38. BEC supports the separation of pre-event and event costs and generally supports the share of costs amongst consumers. This is based on the fact that most consumers should be able to participate in the scheme if they wanted to.
39. The EA is proposing that ERS service providers who fail to satisfy their performance requirements in an activation event (without genuine reasons) will forfeit their activation and availability payments for the relevant period. The EA does not propose to use additional penalties for non-performance.
40. While this is likely to lower the barrier to entry for participants BEC does not agree with the exclusion of additional penalties for non-performance. As covered above 'locked in participants (supply)' that then is not actually provided undermines and erodes the reliability of the scheme.
41. BEC agrees that sensitive information should be provided to the EA but not published in detail. This is consistent with international best practice.

APPENDIX ONE – BACKGROUND INFORMATION ON THE BUSINESSNZ ENERGY COUNCIL

The [BusinessNZ Energy Council \(BEC\)](#) is a group of leading energy-sector business, government and research organisations taking a leading role in creating a sustainable, equitable and secure energy future.

BEC is a brand of BusinessNZ and represents the [World Energy Council](#) in New Zealand. Together with its members, BEC is shaping the energy agenda for New Zealand and globally.



BusinessNZ is New Zealand’s largest business advocacy body, representing:

- Regional business groups: [EMA](#), [Business Central](#), [Canterbury Employers’ Chamber of Commerce](#), and [Business South](#)
- [Major Companies Group](#) of New Zealand’s largest businesses
- [Gold Group](#) of medium sized businesses
- [Affiliated Industries Group](#) of national industry associations
- [ExportNZ](#) representing New Zealand exporting enterprises
- [ManufacturingNZ](#) representing New Zealand manufacturing enterprises
- [Sustainable Business Council](#) of enterprises leading sustainable business practice
- [BusinessNZ Energy Council](#) of enterprises leading sustainable energy production and use
- [Buy NZ Made](#) representing producers, retailers, consumers of NZ-made goods

BusinessNZ is able to tap into the views of over 76,000 employers and businesses, ranging from the smallest to the largest and reflecting the make-up of the New Zealand economy.

In addition to advocacy and services for enterprise, BusinessNZ contributes to Government, tripartite working parties and international bodies including the International Labour Organisation ([ILO](#)), the International Organisation of Employers ([IOE](#)) and the Business and Industry Advisory Council ([BIAC](#)) to the Organisation for Economic Cooperation and Development ([OECD](#)).

