28 Aug 2025

Electricity Authority
By email to: fsr@ea.govt.nz

Tēnā koutou,

Consultation on 'Establishing an emergency reserve scheme'

Thank you for the opportunity to provide feedback on the consultation paper.

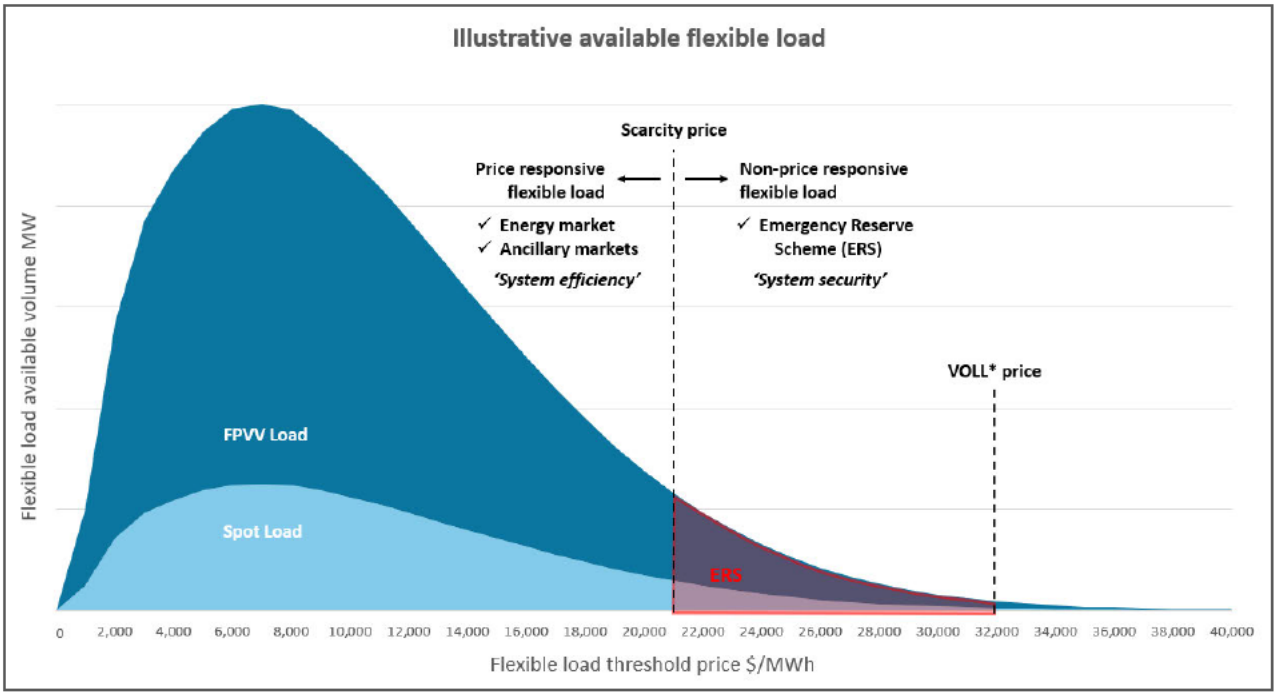
Contact Energy, together with our commercial and industrial energy supply and solutions business Simply Energy, has extensive experience developing flexibility solutions with residential and business customers. We recognise the importance of developing wholesale market settings which optimise the role flexibility can play supporting an affordable, reliable and sustainable energy market for consumers.

We commend the Authority for exploring the role which flexible demand can play supporting system security. We commented on the proposed Emergency Reserve Scheme (ERS) in our 'Rewarding industrial demand flexibility' submission, and ask the Authority to consider our prior comments. This submission includes further comments relating to the prioritisation of an ERS and the focus on additionality of response. We also discuss limiting DER participation to certain load types to minimise the unintended consequences of an ERS, and the potential for the ERS to be further developed as a market integrated mechanism to support system efficiency.

Prioritisation

We remain concerned that the Authority has chosen to deprioritise work to unlock price responsive demand response. The Authority has acknowledged the scarcity of flexible capacity as one of the core underlying challenges of the market. Yet it is choosing to ignore one of the few levers it has to address this issue. The Authority must reconsider this decision in light of its statutory objectives.

We included the chart below in our prior submission, highlighting the limited role of an ERS to support system security, and the far larger 'prize' being unlocking price-responsive load to support system efficiency. Many other submitters on the 'Rewarding industrial demand flexibility' paper from a range of industry areas (including Counties, ERANZ, FlexForum, Meridian and MEUG) shared this view.



We are concerned that progressing an ERS could come at the expense of the Authority unlocking market activated DR. Currently the Authority's flexibility roadmap proposes no actions to unlock market activated DR until a potential review in 2029. This is in stark contrast to other jurisdictions like the UK and Australia. The recent draft NEM review[1] had a strong focus on the importance of visible and dispatchable flexible load, and a growing role for the Wholesale Demand Response Mechanism (WDRM) and Dispatch Mode (like Dispatchable Demand / DD) schemes which incentivise market participation.

The Authority has recognised that many consumers, even if spot exposed, are not responding to spot prices due to challenges including the variance between forecast and real-time pricing and volatile 5 minute pricing. We understand part of the rationale for the ERS is to develop participation requirements which better suit the operations of industrial sites, including more advance notice of an event, longer dispatch blocks for an event, and a more guaranteed return for participating. While we commend the Authority for recognising some of the barriers to flexible load participation in the market, we believe the focus should be on removing these barriers to support market activated DR. We encourage the Authority to reconsider its flexibility roadmap, including reviewing whether updates to existing mechanisms like DD can incentivise market participation and deliver significant benefits for the system and consumers.

Additionality

Our prior submission highlighted concerns with the ERS having distortionary impacts on the market, which has been a long-held concern of the Authority. Many other submitters on the prior consultation (including Counties, Enel X, ERANZ, Mercury and Meridian) expressed similar concerns. Whilst the ERS proposal limits participation to load to reduce and/or manage market distortions, the consultation paper is not clear on how '*price sensitive load which would otherwise be used in absence of an ERS*', and '*any other demand flexibility which would be activated prior to or in response to a grid emergency*' would be excluded from the ERS.

In our experience, many plants within large spot-exposed industrial sites respond to spot prices at <$5,000/MWh. The SO does not have visibility of individual plant areas within industrial sites to know which

[1] https://www.dcceew.gov.au/energy/markets/nem-wms-review

plants have been price responsive in the past. Additionally, scarcity prices have only just been increased to $21,000/MWh, so past behaviour cannot help assess what loads within industrial sites will respond at near scarcity prices.

This highlights the challenge facing the Authority / SO in determining whether a load is suitable for the ERS and whether its response would be 'additional to BAU'. Implementing the ERS, before any in-market DR initiatives, creates an incentive for load to with-hold flexible capacity from the day-to-day operations of the market. If loads, which could potentially respond below scarcity, choose to contract in the ERS, it will result in those loads not being available to respond to high spot price events, effectively quarantining capacity so it is available for the ERS. Compared to the status quo, this risks increasing spot prices, and increasing the likelihood of an ERS event being called. The ERS provider will need to be remunerated through availability, pre-activation and activation payments at a level which compensates them for them loss of flexibility to respond to high spot prices when the load may be called by the ERS. And these payments will be completed out-of-market, with load purchasers paying for ERS costs as well as for (potentially higher) spot costs.

The SO also faces a challenge in determining when to call an ERS event. The consultation paper proposes that ERS is activated if the NRSS residuals are less than zero. This relies on the SO's load forecasts. Ahead of time, in the absence of any WDRM and/or DD schemes which incentivise flexible load to participate in the market (as opposed to just reacting to forecast and real-time spot prices) the SO doesn't have visibility of how flexible load is going to respond at near scarcity prices, which increases the likelihood of an ERS event being called.

In our view this challenge reinforces MDAG's recommendation to focus on unlocking market activated DR first before resorting to an ERS[2]. In recommendation 30 on an ERS type scheme, MDAG noted *'if a vibrant DSF market emerges, and is signalled to the System Operator via bids, formal procurement of 'last resort' demand response is unlikely to be net beneficial.'* We encourage the Authority to give further consideration to this area, including the role of market activated DR signalled to the SO via bids. This would significantly support the SO's management of the power system, and ensure the ERS is only called in genuine emergencies.

Participation

We support the Authority's approach to limit ERS participation to assets which are least likely to have significant distortionary impacts on the market. However we recognise that a wide range of submissions on the prior consultation paper called for a broader range of assets to be eligible for the ERS. This highlights that there is significant flexibility in the marketplace looking for ways to access value in the wholesale market if suitable mechanisms can be developed. As such, we believe the Authority needs to carefully consider any unintended consequences.

EDBs have noted that regulated network assets (for example ripple hot water and gensets) don't get rewarded for supporting the spot market currently, and could be used to participate in the ERS. There are a number of considerations for this position:

- Both gensets and hot water should be considered price-responsive below scarcity and if included in an ERS would manifest the distortionary risks identified above.
- Whilst gensets and hot water could potentially pass the Authority's "additionality test" (depending on the status of the EDB's position on allowing retailer use of hot water on their network), it should be noted that retailers are actively looking to use that load flexibly on a daily basis, which will accrue far better outcomes for all consumers than having that load participating in an ERS.

[2] https://www.ea.govt.nz/documents/4335/Appendix_A2_-_Final_recommendations_report.pdf

- Enabling regulated assets to participate in the ERS puts networks in a 'value stacker' position. We agree with prior comments by the AEMC that the 'optimising service' should be separate from the provision of regulated services, as if the network favours a particular value stream when providing the optimising service, consumers 'cannot switch to another network'. [3]
- Using the regulated assets of a monopoly to participate in national markets would be double dipping on the revenue allowance already provided for these assets, and may incentivise networks to 'self-source' flexibility needs rather than develop a neutral DSO model and flexibility markets.

The Authority has produced draft 'guidance for distributor involvement in the flexibility services market' that covers these issues very well, and we encourage the Authority to ensure the ERS participation rules consider the principles outlined in the draft guidelines, as well as finalising and implementing the guidelines.

A final concern is around potential use of the ERS for non-wholesale market purposes. If, for example, Transpower was able to use the ERS directly for transmission support, Transpower may be less likely to engage with third parties on Non-Transmission Solutions (NTS), which would have a detrimental impact on the development of competitive markets. Whilst we are supportive of Transpower exploring NTS options, if ERS loads can support Transpower, Transpower should contract those loads directly or through a service / flexibility provider (who can value stack across services), rather than accessing the ERS loads via the SO.

We encourage the Authority to carefully consider these elements when progressing the ERS design.

Market integration

The consultation paper notes one of the two main objectives of the ERS is to build consumer capability to provide demand flexibility, and the Authority expects that the ERS will provide a stepping stone for ERS providers to '*transition into other mechanisms as demand flexibility matures over time*'. This highlights that many of the expected ERS loads will not truly be 'non-price sensitive' (resulting in the distortionary impacts discussed above), and the ERS scheme will operate more as an out of market capacity / standby reserve mechanism, designed to support the market when residuals are forecast to be very tight.

While the Authority's proposed out of market ERS approach is a practical way to operationalise the ERS for winter 2026, the plan from the outset should be to integrate the ERS mechanism into the wholesale market as soon as possible. The potential advantages of this approach include:

- Co-optimisation with energy and reserve markets, to support the efficient use of flexible assets, avoid market distortions and reduce costs to consumers
- Enable a broader range of assets to participate, capitalising on the significant interest shown through the prior consultation from a range of consumer and technology types
- Enable the mechanism to play a more valuable role supporting the variability of intermittent renewable energy and low residuals in the market, rather than just when residuals are forecast to be less than zero (noting this aligns with MDAG recommendation 6 on a new co-optimised reserve product which was a tranche 1 priority, whereas the ERS was a contingent tranche 3 priority)

We believe it is important for the Authority to consider the ongoing role of the ERS at this point as it will signal which loads are most suitable to participate, and support consumers and service providers to assess the potential value of participating in the scheme relative to setup and ongoing participation costs.

[3] https://www.aemc.gov.au/sites/default/files/content/fcde7ff0-bf70-4d3f-bb09-610ecb59556b/Final-distribution-market-model-report-v2.PDF

Summary

We recognise the Authority plans to progress the development of an ERS, and our submission has raised potential areas to improve the role of an ERS delivering on the Authority's affordability, reliability and sustainability objectives for consumers.

Our submission (and prior submission) has also highlighted the importance of developing 'market activated' DR which is signalled to the SO via bids, which would support the efficient operation of the ERS. We strongly encourage the Authority to reconsider its flexibility roadmap, and we would welcome the opportunity to contribute towards the Authority progressing a market integrated ERS to support tight residual situations, as well as incentivising flexible load to be visible and dispatchable so it can best support the market day to day and overall system efficiency.

Please contact [redacted] or [redacted] if you wish to discuss further.

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