



## Electricity Authority Advisory Group

### EAAG Subgroup Meetings: Standard Flexibility Products Co-design

The subgroup was made up of the following EAAG members:

- Jamie Silk (Chair)
- Darren Gilchrist
- Rebecca Mehrtens
- John Hancock,
- Fiona Wiseman
- Pauline Martin

**External attendees included:**

- Shaun Goldsbury (Chair, Co-Design Group)
- Craig Schubauer

**The group met five times between:** 9 October and 4 December 2024.

The following is a summary of the meeting of the minutes of each meeting.

The groups' insights and feedback informed the [set of recommendation](#) made to the Electricity Authority by the [Standardised Flexibility Products Co-design group](#) on 18 December.

#### Context for the EAAG Subgroup

The EAAG was established to provide independent advice on the Authority's work programme.

Its members were selected in an independent capacity based on their expertise and experience.

The Electricity Authority and Commerce Commission jointly established the Energy Competition Task Force (Task Force) to investigate ways to improve the performance of the electricity market in September 2024.

The Task Force's work programme focuses on two overarching outcomes:

- enabling new generators and independent retailers to enter, and better compete in the market
- providing more options for consumers.

The introduction of standardised flexibility products was a key priority for the Electricity Authority. The Task Force had included this project as a key measure to enable new generators and retailers to enter and compete in the market.

In September 2024 the Authority appointed eight industry experts to a co-design group to develop new Standardised Flexibility Products.

To gain independent advice and feedback on the Standardised Flexibility Products being developed, the EAAG subgroup was engaged bi-weekly with the co-design group.

The EEAG subgroup's role was to review the work undertaken by the Standardised Flexibility Product Co-design Group and provided feedback on their product recommendations.

The group operated under the following provisos:

- Any information or discussion regarding the work and progress of the co-design group were considered privileged and to remain confidential.
- Discussions regarding the topic (standardised flex in general, as well as potential responses, products, discussion of challenges and opportunities etc) were open and sharing for wider input and feedback was encouraged.

### **Summary minutes from 9 October Discussion**

**Purpose:** The group discussed problem definitions, assessed the progress of the co-design group and discussed success factors for standardised flexibility products.

#### **Key Discussion Points**

##### Scope clarification

- The group asked for clarification on the scope of the work.
- Authority staff clarified how the work stemmed from MDAG recommendations and the Competition Task Force's response to recent energy events (mild 10 & August 9), which had accelerated the need for flexibility solutions.
- The aim was to facilitate new market entrants by enabling firming of supply, primarily through hydro, but also encouraging other forms of flexibility.

##### Problem definition

- Broadly market structure and hedging options discourage investment in flexible assets.
- Segmentation of buyer/seller needs was needed to tailor solutions.
- Key issues identified:
  - Managing intermittency
  - Smoothing daily energy profiles
  - Incentivising early thermal generation
  - Reducing uncertainty for investors

- Testing and iterating products before scale-up
- The group questioned whether lack of capacity was the issue, or how spare capacity was prioritised.

#### ASX product as a case study

- The group identified that this could be a potential starting point if trading volume and design were sufficient, which could also help identify barriers and inform product development.
- Concerns were raised about limited usefulness beyond retailers and high participation costs.

#### Co-design process

- The co-design group outlined how they worked through problem prioritisation across themes:
  - Intermittency
  - Peak product price discovery
  - Demand-side flexibility
  - Inter-seasonal and dry-year firming
  - Load certainty
- The subgroup noted that challenges vary by generation type (wind, solar, hydro).
- They also noted the need for emphasis on enabling competition and new entrants, not just incumbents.

#### Success factors for a flexibility product

- The discussion concluded that a successful product should have:
  - Be simple and easily understood.
  - Achieve sufficient market liquidity to support PV and wind investment.
  - Addressed near-term market needs.
  - Supported iterative learning and evolution.
  - Met credit, counterparty, and security requirements.
  - Liquidity was key to enabling market interaction.
- Comparisons made between ASX, EMS Tradepoint, Aotearoa Energy Prompt Platform, and Transpower's PPAs.

- It was acknowledged that no product would suit all parties; starting with an imperfect but widely usable hedge was pragmatic.

### **Summary minutes from 23 October Discussion**

**Purpose:** The discussion was to refine problem definitions, gather feedback on draft success criteria, and explore risks, opportunities, and design considerations for standardised flexibility products.

#### **Key Discussion Points**

##### Problem definition

The discussion covered key issues including:

- Segmented needs: Emphasis on understanding diverse participant needs (e.g. industrials, independent retailers).
- Barriers to trading: Retailer dependency and lack of multi-trader relationships limit flexibility product uptake.
- Urgency misalignment: Concern that some urgent market needs (e.g. load/generation uncertainty) were under-prioritised.
- Demand response: Further investigation recommended into demand-side participation and value-sharing mechanisms.

##### Success criteria

The discussion also expanded on success criteria, including:

- Simplicity & usability: Products had to be easy to manage and understand, especially for intermediaries.
- Price discovery: Essential for market function; criteria should have explicitly supported this.
- Product evolution: needed for a framework that supported continuous learning and adaptation.
- Standardisation: could reduce complexity and improve accessibility.
- Inclusivity: Risk that peak products might only benefit a minority; broader applicability was needed.

##### Risks & opportunities

In terms of risks and opportunities the discussion outlined the following:

- Framework vs. Product: considered designing mechanisms/platforms rather than a single product.
- Market Entry: New entrants face challenges due to thin balance sheets and lack of integration.
- Prudential Barriers: ASX requirements were prohibitive; EMS platform seen as more accessible.
- Future-Dated Products: Needed to support uptake beyond current hedging horizons.

#### Product development suggestions

The discussion progressed to:

- explore a super peak, capped, and non-standard products via standard mechanisms.
- addressed three core areas:
  - Product design
  - Platform functionality
  - Prudential/credit/settlement solutions

#### Additional considerations

The group also discussed additional considerations as follows:

- Representation gaps: Lack of large industrial voices in technical group.
- Time horizon: Focus should be on near-term needs; long-term compatibility was secondary.
- ASX limitations: No prudential offsetting; high margins made peak products unviable.
- PPA constraints: Load-following products not covered under current hedge agreements.
- Relevant insights: Wholesale Advisory Group's work on prudential cost optimisation could be useful.

### Summary minutes from 6 November Discussion

**Purpose:** To review success criteria, consider longlist product options and discussed the separation of platform and product development.

#### Key Discussion Points

Progress update

- The Authority confirmed the decision to separate product and platform development, allowing focused consideration of each.
- Product discussions centred on:
  - Existing peak product
  - Potential super peak product
  - A capped product alternative
- The Authority highlighted the intent to launched a tradeable product by Q1 2025.

#### Success criteria review

The Authority staff outlined the key factors they had identified as:

- Price discovery visibility
- Flexibility across customer types
- Transparency and trust
- Speed to market
- Accessibility, including transaction costs and prudentials
- Volume traded, excluding gentailer internal trades, as a success indicator

#### Longlist product review

Authority staff outlined the workings of the longlist product review including:

- A fixed price–fixed volume product, based on averaging the eight highest daily spot prices.
- Benefits included compatibility with various generation types (wind, solar, battery) and flexibility in baseload supported.
- Concerns raised about product complexity and unfamiliar terms, especially for foreign investors.
- Emphasis fell on narrowing the list to simple, tradeable, and Q1-ready options.
- Noting that longer-term options might evolve from OTC contracts to broader market instruments.

#### Design considerations

The group highlighted:

- Products had to reflect the specific needs of different buyer/seller segments.
- Retailers expected to manage product complexity for consumers.

- Peak and super peak products suit batteries and hydro; less so for gas due to prior commitments.
- Suggestion was to filter the longlist by:
  - needed addressed (short vs long-term flexibility)
  - Speed to market

#### Risks & market dynamics

In discussing risks and market dynamics the group highlighted:

- Allocation of risk had to be carefully considered, especially for small volumes.
- Force majeure clauses needed to be addressing for standardisation.
- Hydro's dominant position requires market settings that encouraged offering flexibility to the market.
- Need for empirical evidence on buyer/seller preferences to inform design.

#### Liquidity & product simplification

In discussing liquidity specifically, it was suggested:

- Simpler products (price, term, quantity) were more attractive.
- Battery storage could help convert uncertain products into more stable baseload offerings.
- Concepts like fractional liquidity and solar shape hedging were discussed to improve product certainty.

#### Voluntary price disclosure

The discussion called for:

- support for anonymised price sharing to aid price discovery.
- noting the risks of data misuse noted; bilateral conversations encouraged.

#### Platform development

The group discussed the trade-offs between platforms:

- ASX: fast price discovery, high prudential costs
- OTC/Bulletin Board: slower, more accessible

- Prudential design should have minimise exposure and costs for participants.
- Platform selection criteria could included:
  - Price visibility
  - Accessibility and transaction cost
  - Transparency and liquidity pathway
  - Flexibility and product maturity
  - Speed to market

### **Summary minutes from 20 November Discussion**

**Purpose:** Consider the update from the Co-Design Group Chair and discuss the recommendations on product development, trading arrangements and market dynamics.

#### **Key Discussion Points**

##### Co-design update

- The Chair of the co-design group outlined how the scope and criteria were defined, leaving the group to focus on products that could begin trading by January 2025.
- The co-design group excluded tech-specific, complex, or new-technology incentivising products due to time constraints.
- The preferred shortlisted products included:
  - ASX Peak Product (business day 15–44 type)
  - Super Peak Product (morning and evening peaks)
- The trading platforms separately being considered:
  - OTC, as preferred for launched
  - Bulletin Board to follow
  - The ASX was ruled out due to long setup time and potential low urgency from ASX.

##### Success criteria

The group discussed the following success criteria:

- Liquidity
- Trade volumes
- Price discovery
- Broad market usefulness

## Product refinement

In terms of refining the product the following were key considerations:

- Focus on simplicity and broad appeal.
- Super peak might be favoured for Winter 2025.
- Future recommendations might include demand response and renewable firming.

## Trading Windows

Discussion on trading windows cover the following:

- Less frequent windows (e.g. monthly) preferred to concentrate liquidity.
- Risks included inability to respond between windows.
- Potential for voluntary trading outside windows (e.g. FDR-style).

## Prudentials

The group's discussion around prudentials highlighted:

- The barriers for smaller participants.
- Hedge Settlement Agreements (HSAs) seen as a way to manage prudentials.
- ASX products present higher barriers.

## Market making

In relation to marketing making there were mixed views on necessity. The group noted the:

- Potential for shared risk across products.
- Importance of signalling expectations for future market making.

## Price discovery & risk

The group's discussion included the:

- Challenge in aligning buyer and seller risk perceptions.
- Spread in transaction costs (e.g. prudentials, brokerage) contributes to pricing gaps.
- needed for mechanisms to reduce transaction cost spread.

## Product Complexity

- Options and collars excluded due to complexity and limited appeal.
- Simpler fixed price and capped products preferred.

#### Flexi-Peak & Regional Variation

- Regional definitions and daylight variations were noted and the group outlined potential applications for wind firming and battery storage.

#### Complementary Liquidity

The discussion suggested:

- Combining peak and super peak products might enhance liquidity.
- This could support broader trading and product development.

**Commented [LR1]:** Do we need to add content that highlights that the subgroup accepted the co-design groups recommended product ?

### Summary minutes from 4 December Discussion

**Purpose:** Review updates from the Co-Design Group and discuss next steps for product launch and market engagement.

#### Key Discussion Points

##### Co-design update

The Authority outlined the co-design process and next steps:

- Planned trading event - Brokers would be approached via an RFI to support a late January 2025 trading event.
- Shortlisted products would include:
  - ASX Peak Concept
  - Super Peak Concept (preferred)
  - Super Peak Product: included morning and evening peaks; “floating” trading periods were rejected due to uncertainty for participants.
- Specification work was underway focused on volume exposure timing rather than just price signals.

##### Industry Engagement

- Public Release Event: Scheduled for 18 December 2024 to introduce the product and approach industry.

- No Formal Board Report until early 2025, as this was an industry-led initiative.

#### Market Design Considerations

In terms of the trading platform:

- Initial launch likely via bulletin board.
- Long-term migration to ASX remains under consideration, depending on liquidity.
- ASX offers strong data but comes with compliance and prudential barriers.

To address market data & tracking:

- Brokers would advise on trading frequency (likely weekly or monthly).
- Authority aims to track:
  - Bid/offer activity
  - Depth of offers
  - Volume sources
  - Barriers to matching

Concerns relating to credit & prudentials were highlighted as follows:

- Credit positions vary and might limit trading despite liquidity.
- Hedge Settlement Agreements (HSAs) offer partial risk coverage but were not universally applicable.
- Discussion on whether buyers could be exempt from prudentials; mixed views on seller risk exposure.

For non-price barriers the considerations were:

- Prudential requirements and platform limitations were key challenges.
- ASX margin estimates (~1.5x baseload) were difficult to manage across small volumes.

#### Strategic Alignment

- The EAAG Subgroup highlighted the importance of linking this initiative to broader market mechanisms:
  - Market making
  - Virtual disaggregation

- Clear communication of these linked could incentivised participation.

The greed next and final steps were:

- 18 Dec: Industry release event
- Early 2025: Draft report to Board
- March 2025: Subgroup to provided supplementary memo with commentary