

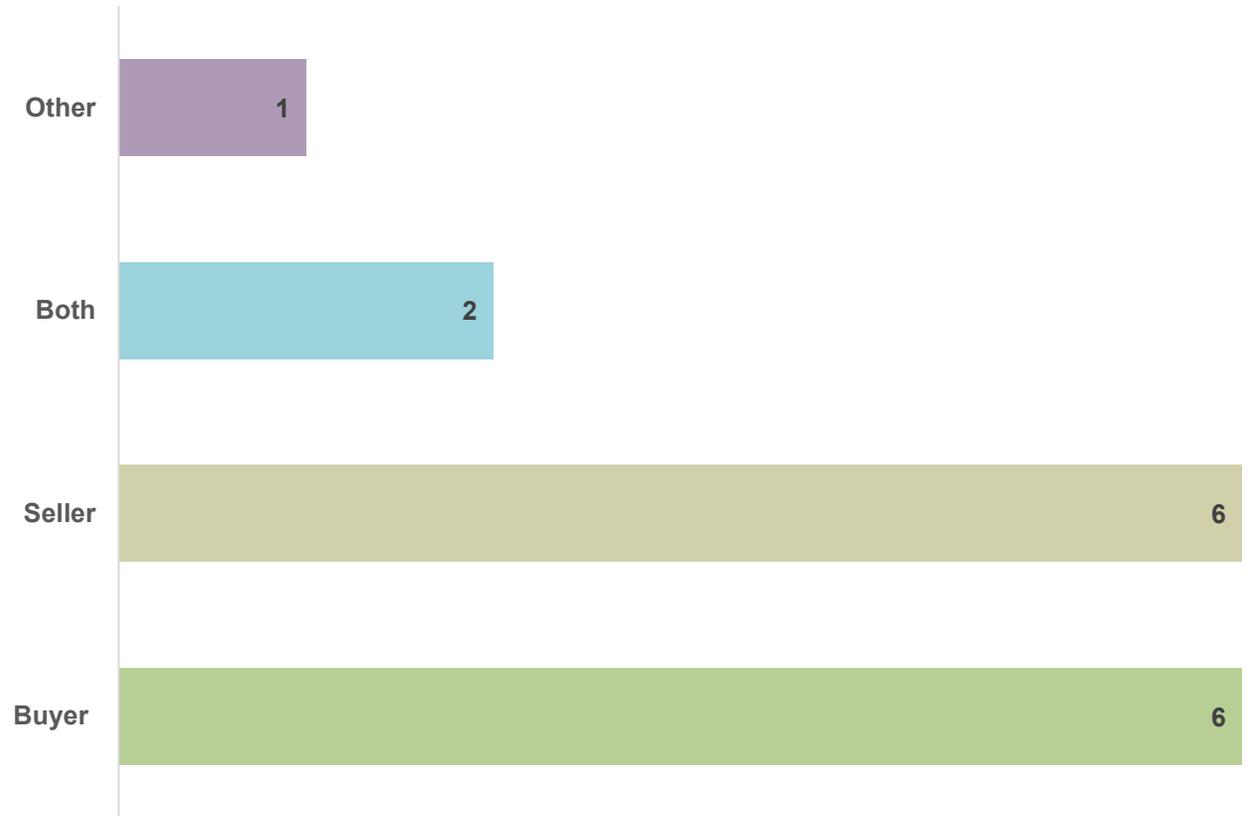
Standardised Demand Response Flexibility Product

Survey results

About the Survey

- Targeted to a specific audience
 - Potential Buyers or sellers of a standardised demand flexibility product
 - 22 questions for sellers, 19 for buyers
- **15 responses in total**
 - Buyers included traders, gentailers, retailers
 - Sellers included aggregators, industrial consumers, commercial entities

Respondents



Product features: alignment between buyer needs and seller offers

- **Capacity offered broadly matches capacity needed**
 - Most buyers need 10-100 MW
 - Sellers responses ranged from 2-100 MW
- **There are overlaps regarding event-duration preferences**
 - Most buyers need the product for 1-4 hours
 - Sellers would prefer to offer 2 hours or longer
- **Frequency preferences diverge**
 - Most buyers need the product > 10 times per year
 - Most sellers would prefer to offer 1-10 times a year
- **Notice periods are aligned**
 - Most prefer 1-4 hours of notice before the event
- **Availability expectations are similar**
 - Most agree flexible load should be available year-round
- **Locational preferences are also aligned**
 - Major GXPs and the North Island are preferred by most

Buyer-specific questions

- 14 questions tailored to buyers
- Asked about agreement level to statements
- **Average agreement: 3.4 out of 5**

Buyers statements	Agreement (1 to 5)
<i>Spot price volatility during peak periods is a significant risk (even when hedged). Cost-effective DR can reduce that risk</i>	3.9
<i>Buyers have the information and tools to price contracts. The costs of negotiating and writing bespoke contracts are manageable</i>	3.9
<i>Sellers could provide cost-effective hedges through DR contracts</i>	3.2
<i>Buyers know which sellers to approach</i>	2.6
<i>Prudential settings recognise or encourage demand response contracts</i>	2.4
<i>Sellers have the information and awareness to monetise demand flexibility</i>	2.0

Seller-specific questions

- 13 questions tailored to sellers
- **Average agreement: 3.6 out of 5**

Sellers statements	Agreement (1 to 5)
<p><i>We are able to supply DR during peak times (especially in winter)</i></p> <p><i>We are keen to monetise DR flexibility.</i></p> <p><i>We believe the obligations would not be disruptive</i></p>	4.3
<p><i>Sellers expect that buyers (eg, electricity retailers) would pay enough to make this attractive</i></p>	4.2
<p><i>We know where to start, who to approach, and have the info and tools to price contracts</i></p>	3.0
<p><i>Negotiation costs and upfront investment requirements are manageable</i></p>	2.6

Perceived barriers from buyers and sellers

Buyers:

- Buyers are confident they have the information needed to price contracts and can manage negotiation costs (3.9/5)
- Buyers are not confident that sellers have the information and awareness needed to monetise demand flexibility, and they are concerned it could be disruptive to sellers' businesses (2.3/5)

Sellers:

- Sellers are somewhat confident they have the information and tools to price contracts (3.0/5)
- Sellers are less confident that negotiation costs and upfront investment requirements are manageable for them (2.6/5)

Conclusions:

- Information, costs, and upfront investment appear to be key barriers for sellers – especially for industrial participants
- Limited access to sellers (might not know who to approach) and a lack of confidence in sellers' ability to monetise demand flexibility are the key barriers for buyers

Preferences around contract and conditions across buyers and sellers

- **Preferred contract structure**
 - Both **Option** (pay premium for right to call) and **Outright purchase** (fixed payment for obligation)
- **Prudential offset qualification**
 - Considered a nice-to-have by most respondents
- **Event duration, trigger conditions, notice period and penalties:**
 - Most respondents prefer those to be negotiated
 - Mainly major generators and major consumers
- **Exercise limits:**
 - “standardisation would be ideal but working group will need to assess if practical for a range of potential sellers...”
- **MW quantity flexibility:**
 - Most participants prefer to negotiate the quantity (instead of specified in a standard contract)
- **Verification/baseline measurements:**
 - Most participants prefer some sort of metered approach (load reduction or increased injection)

General feedback

- Respondents believe education and price transparency key to unlock an efficient DR product
 - Scored 3.6 (out 5), on average, across buyers and sellers
- Most believe that SDFP could likely be used widely across participants
 - But they're unsure if there will be enough demand for it
- SDFP will provide sufficient differentiation from the super-peak product according to most respondents
 - They're either likely or very likely to use the product

Selected insights from open-ended questions

- The Authority must ensure the SDFP meet the requirements of both buyers and sellers
- While the OTC Wholesale market is well documented with ISDAs the sell side of this product might not be well networked from a documentation perspective. A centrally cleared product would ease this point of friction.
- Clarifications might be needed around:
 - Problem definition
 - How to identify intended sellers and buyers
 - Whether it's a Financial or physical product