

1 November 2019

Rob Bernau
General Manager - Market Design
Electricity Authority

Dear Rob

Priorities and preconditions for “Input Services”

Thank you for coming to the group’s meeting last month, members have taken actions to suggest other projects and priorities for the coming year.

Our advice to the Authority on access arrangements for shared Input Services is on target to be completed at our December meeting, and I attach the draft introduction. Reviewing the current draft, members have confirmed their view that there is no point in progressing any initiatives to allow sub-ICP trading until the principal initiatives from our “Equal Access” report have been initiated.

Members have two specific concerns:

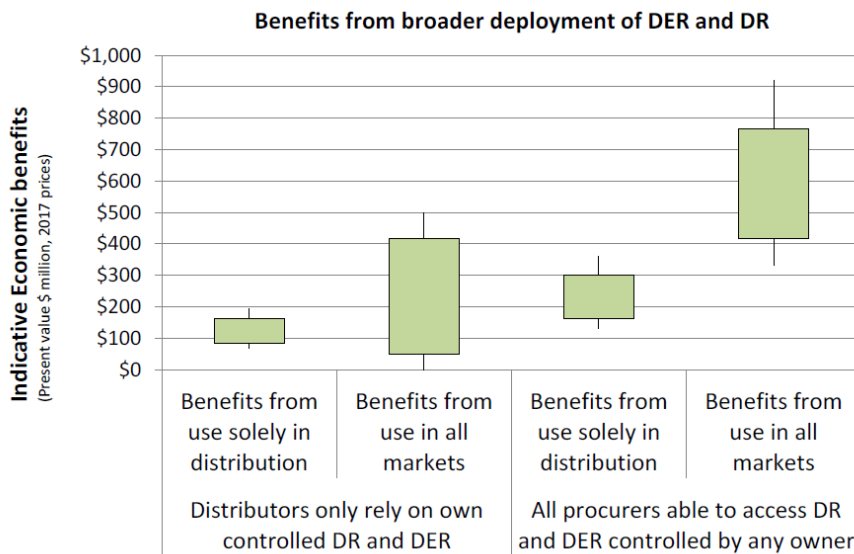
- There are no initiatives to develop missing markets for flexibility as an input to distribution services and
- Nothing is currently planned to align the design of Transpower’s Demand Response programme with the principles supporting Equal Access.

Payments for flexibility services supporting distribution

Members welcome the Authority’s “Open Networks” programme and the recently-released consultation over hosting standards for Part 6 but are concerned that there is nothing in the Authority work plan for the coming year which relates to distributors creating opportunities for flexibility providers to be paid for offering controllable load, generation or storage (“flexibility services”) as an alternative to network augmentation – as, for example, Aurora is investigating in the Upper Clutha.

DER providers can capture flexibility benefits that relate to energy, ancillary services and transmission peak reduction but there is no consistent mechanism to allow them to capture the benefit of reducing distribution peaks. While we see the long-term potential for DER flexibility to be rewarded by variable real time locational distribution price, there will need to be a short-term approach/mechanism to incentivise the growth of aggregators offering distribution network alternatives. We envisage (as an example) contracting for distribution network alternatives will be an important first step in developing the non-network

alternatives market and it would be useful for the EA to consider how to influence distributors in this regard.



This missing market is the cause of the \$600m difference between the benefits of broader DER deployment in the secretariat's calculations on slide 33 of IPAG's final report on Equal Access, which is repeated in slide 16 of the Input Services report (left).

Consistency of Transpower's Demand Response programme

DER access to transmission is treated differently from access to distribution networks. The Authority's own "Demand response guiding regulatory principles" were drafted with the objective that demand response is put to the most efficient use. IPAG's Equal Access advice generalises this intention with the recommendation that *(c)oordination is especially required for access between the transmission operator and the distribution operator, so they aren't at cross purposes when either calls on DER. If arrangements result in both trying to access the same DER across similar periods, security and reliability on both transmission and distribution networks could be compromised.*

IPAG recommended that *(t)he Authority to report publicly the results of Transpower's trial Demand-Response programme, including technical details of what worked and what didn't work. There is the intention of informing future iteration of Transpower's programme ahead of RCP3. The reporting should include specific recommendations for distributors. Even if it is not possible to complete this work before RCP3 begins on 1 July 2020, alignment of Transpower's Demand Response programme with the design of flexibility markets on distribution networks will be essential to the evolution of both at and below the ICP.*

Members have asked me to raise these issues with you given the high priority that the Government has put on minimising the costs of our transition to a low carbon economy and its endorsement of recommendation G1 in the recently published final report of the

Electricity Price Review which contains a direct reference to IPAG's Equal Access recommendations.

Members would be keen to discuss the Authority's plans for Open Networks and how best to progress recommendations 8-10 on slide 57 and 28-29 on slide 69 of the Equal Access report. It would be timely if we could include this in the agenda for December's IPAG meeting. It may also be useful to discuss these initiatives in the context of IPAG's own work programme for next year.

I attach the introduction to our draft Input Services report. The action for me to write to you came from the discussion that generated slides 19 and 20.

Yours faithfully

A handwritten signature in dark ink, appearing to read 'John Hancock', with a long, sweeping horizontal line underneath it.

John Hancock
Chair