

29 May 2020

John Hancock
Chair
Innovation and Participation Advisory Group

By email: john@hancock.co.nz

Dear John,

Review of Transpower's initial experiences with a Demand Response programme

The Authority notes that the IPAG has previously communicated¹ that to unlock the full value of its two previous pieces of advice (Equal Access and Access to Input Services), demand response provision in New Zealand should be aligned with the principles contained in this advice.

Transpower's revenue allowance for its second Regulatory Control Period ("RCP2") included \$8 million for demand response as a means of deferring transmission investment. Between 2015 and 2020, Transpower have developed technology, processes and commercial offers for demand response and a portfolio of participating customers. Now that RCP2 has finished, and noting your previous advice, we agree that it is timely to review the effectiveness of the programme both in terms of how Transpower's regime might evolve and implications for similar distribution business initiatives.

The review should cover:

- A summary of the current state of electricity demand response and wider flexibility mechanisms in New Zealand
- An assessment of the performance of the Transpower Demand Response programme to date with respect to the Authority's statutory objective, including the promotion of innovation (which links to both the competition and efficiency objectives)
- Related insights or recommendations regarding the design and operation of the Transpower programme
- Implications and recommendations for the design and operation of distribution business flexibility markets in New Zealand
- An assessment of the effectiveness of the RCP2 allowance as an incentive for the development of flexibility markets
- Implications and recommendations for the design and operation of future incentives for transmission and distribution flexibility markets in New Zealand.

As Transpower's revenue, from which the Demand Response programme was funded, is set by the Commerce Commission, we would expect IPAG to work closely with Commission staff during this project, and would also expect that any insights from IPAG about how the programme has performed for the Commission's regime would be useful to the Commission.

¹ Letter from IPAG to General Manager Market Design titled: Priorities and preconditions for input services.

I would also like to thank you and IPAG members for your flexibility during early 2020 as all of us dealt, and are still dealing, with specific and pressing Covid-19 related issues. We note that the IPAG plans to start formally meeting again for its 21st meeting on the 10th of June 2020.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Rob Bernau', with a stylized, sweeping underline.

Rob Bernau
General Manager, Market Design

Copy to: Rebecca Osborne, Transpower
Andy Burgess, Commerce Commission