

1 March 2024

Submissions
Electricity Authority
Level 7, AON Centre
1 Willis Street
Wellington 6011

Via email: OperationsConsult@ea.govt.nz

SUBMISSION ON POTENTIAL SOLUTIONS FOR PEAK ELECTRICITY CAPACITY ISSUES CONSULTATION PAPER

The Electricity Retailers' Association of New Zealand ('ERANZ') welcomes the opportunity to provide feedback on the Electricity Authority's consultation paper 'Potential solutions for peak electricity capacity issues' from January 2024.

ERANZ is the industry association representing companies that sell electricity to Kiwi households and businesses. Collectively, our members supply almost 90 per cent of New Zealand's electricity. We work for a competitive, fair, and sustainable electricity market that benefits consumers.

Submission

ERANZ submits the Authority should place a greater emphasis on reliability, not just efficiency, for the long-term benefit of consumers. Efficiency is important, but we note there is a very low tolerance for any electricity supply disruptions among consumers, businesses and political decision-makers. This is reflected in the new Government identifying energy security - particularly over this winter - as a high priority. This appetite will decrease further as electrification increases, meaning consumers come to rely on electricity even more, and electricity is playing a key role in decarbonisation efforts.

ERANZ agrees with the Authority's desire to ensure that any short-term policies introduced to address the winter peaks issue does not impede the long-term transition of our electricity sector. The challenge of the coming decade to greater electrify large parts of New Zealand's economy is difficult enough without unintended consequences from potentially well-meaning but ineffective short-term policies.

Over a year ago the leaders of New Zealand's energy sector discussed and proposed actions the government and regulators could take to tackle the peak capacity issue. These actions were not taken up and yet the issue persists. While there have been unscheduled outages at several generation plants which have added to the problem, swifter action in 2023 could have helped

through 2024 and 2025.

Overall, the risks of electricity shortages in the upcoming winters of 2024 and 2025 remain elevated, particularly due to expectations that unprecedented peak demand will continue, fuel availability and unplanned outage risks, and variability of wind generation.

ERANZ encourages the Authority to treat this winter peaks issue as a priority. The Authority should divert greater resources to examine submissions to this consultation process, develop a suite of policy options, and then engage directly with industry participants on benefit-cost analysis and implementation issues. This work should occur at pace to bolster security of supply for the coming winter.

Retailers are doing more pricing innovation to encourage those customers who can move much of their peak load into off-peak times to do so. Time-of-use pricing plans are growing in popularity and retailers are experimenting with different types and pricing strategies. These plans do not suit everyone because they require embedded behaviour change by customers, but for those who can take advantage they offer significant savings. This is becoming more important as households increase their electricity demand through adoption of electric vehicles.

Where possible, ERANZ encourages the Authority to integrate policy solutions and contract mechanisms into the existing market structures rather than creating temporary 'bolt on' solutions. Partly, this will assist with ensuring any short-term policies do not create longer-term disincentives for the transition. Additionally, this will ensure any mechanisms are transparent across the industry, and participants can use their existing market experience to use and deploy them.

ERANZ submits that introducing market making requirements for additional products requires careful consideration by the Authority, particularly as it has the potential to impact liquidity in existing market arrangements. A thorough cost benefit analysis would be required before any decision is made.

ERANZ supports the Authority's plan to review investment and innovation in battery energy storage systems ('BESS') and in demand flexibility services and to encourage this market's development. This includes ensuring that these resources can easily participate in existing ancillary service markets.

Ancillary services are in the Authority's "medium-term" bucket of 2-4 years away which limits their contribution to helping with winter 2024 and 2025. These services will take some time to develop and for their impact on the market to become useful.

Conclusion

ERANZ would like to thank the Authority for considering our submission.

Yours sincerely

A handwritten signature in black ink, appearing to read 'K. Clark', with a long horizontal flourish extending to the right.

Kenny Clark
Policy Consultant