

Draft guidance on distributor involvement in the flexibility services market

Online workshop – summary of feedback

Background

The Electricity Authority hosted a workshop for industry and those interested in providing flexibility services on 25 June 2024 to gain direct feedback on the draft *Guidance on distributor involvement in the flexibility services market* (guidance).

Part of the workshop involved attendees breaking into small groups to discuss a case study in relation to the guidance principles, and then share their views and insights with all workshop attendees.

Sixty-four participants took part in these discussions across 10 break-out groups, and consideration included the following questions:

- Are the principles comprehensive and well calibrated – do they cover what’s needed for a level playing field?
- What is the level of impact of the principles on distributors, and how might they impact distributors’ approach to flexibility?
- What differences would be expected to be observed if the guidance is working?
- What monitoring and reporting arrangements should the Authority put in place?

Summary of feedback

The following is a summary of attendees’ feedback, as reported by each of the break-out groups. This feedback has been arranged into themes.

Guidance principles

There was some feedback that the principles are fundamentally agreeable and generally comprehensive. Other feedback was that the intent of the guidance is reasonably clear, including the intent to grow flexibility services and optimise networks for the lowest overall cost to consumers.

Some thought the guidance would restrict distributors directly owning and controlling distributed energy resources in their regulated business.

Gaps in the guidance

Feedback in terms of possible gaps in the guidance was that there was not much detail to help distributors make practical decisions and work through the trade-offs between principles.

The absence of guidance on legacy flexibility (ie. ripple control) was a particular area of concern.

Some considered the guidance might benefit from having more examples or case studies that cover situations distributors are likely to come across. Examples of case studies suggested by attendees included the use of community batteries and remote area power supply.

Some attendees thought consideration may be needed on whether the guidance needs to distinguish macro demand solutions from location-specific discrete solutions. The feedback suggested there may be fundamental differences between location-specific situations and the kinds of macro solutions that need to be covered in the guidance.

Practical use of the guidance needs consideration

Attendees provided significant feedback on the practical use of the guidance in the current operating environment.

Comments included that the principles really don't address how distributors need to manage safety and risks.

Particular reference was made to the lack of depth in existing flexibility services from third parties, the absence of visibility of flexibility suppliers and understanding of their impact on distribution network, and whether in the short run, distributors need to have back-ups in case flexibility suppliers fail.

Difficulties with contracting flexibility services

Attendees also highlighted practical difficulties with contracting flexibility services.

Some feedback was that distributors need to manage risk and there were questions as to how contracting for flexibility services will need to also manage risk.

Examples of these risks include when existing contracts for flexibility come to an end, what confidence would the distributor have in being able to re-contract the necessary flexibility? When choosing between an in-house solution and a procured solution, what risks should appropriately pass to the third-party provider, and is it possible to enter into contracts that capture all of those risks?

To this end, there were comments on the role of distributors to support the development of flexibility services. Should distributors chase the least-cost flexibility solutions today, or should they prioritise doing something that is going to enable and support the development of flexibility services in the long run? Should flexibility service providers also be regulated? Do they need to be doubling costs in the short term to create benefits in the long term, and what actions can they take now that will either help or hinder those long-term benefits being realised?

As an example, one attendee asked how should a distributor respond when they need 1MW of capacity and there is only 100kW of flexibility in the market today? Importantly, if the traditional solution is built then the opportunity for flexibility is lost for a considerable time.

Building blocks needed for flexible services

There was some acknowledgment that there are some fundamental building blocks that need to be in place to support the development of flexibility services.

Cost-reflective pricing was proposed by some attendees as being a useful tool to manage network congestion.

It was noted by some attendees that big changes are required by distributors, the grid owner and the system operator on the use of flexibility for third-party providers. Lots of different capabilities are required in order to improve the confidence of grid and network owners and operators in flexibility. There was feedback that a clear articulation or problem statement – rather than specifying the solution – might help the procurement process attract offers from flexibility providers. These offers could then be compared against the network solution and considered against the costs to end consumers.

Others said distributors need to clearly communicate their requirements, early enough to give as many flexibility service providers as possible the opportunity to develop solutions that respond to the problem. The earlier this is done, the more options distributors will have to consider to address a network capacity problem.

Scope of the guidance needs to be considered

Feedback on the scope of the guidance raised questions on whether bilateral arrangements between distributors and large industrial customers are within the scope of the guidance.

There was a range of comments on the appropriateness of including existing generation and flexibility (ripple control) within the scope of the guidelines. There was some suggestion that the guidance should not apply to legacy capacity. It was suggested that only replacements to existing distributor-controlled generation and flexibility should be brought within the scope of the guidance, as a grandparenting of existing capability.

However, there was some acknowledgment that drawing a line between maintaining the legacy capability and new investment might be problematic.

Consideration of monitoring and compliance arrangements needed

There were questions about how the Authority might monitor and report compliance and adherence to the guidance, and whether allowances should be made for differences in the size of a distributor or other factors.

More examples around what this might look like may prove helpful, while the suggestion that the general nature of the guidance may also reflect a lack of understanding of how distributors and the wider industry are going to be working with flexibility at the coalface.

There were comments on indicators and what could or should be observed. It was noted that different conclusions or inferences can be made from observing behaviour (eg. distributors going out to the market for flexibility services) and observing the actual purchasing of flexibility as a service.

The example of Vector going to the market for a non-wire solution for Warkworth was raised by more than one group.

Prioritising benefit for consumers is vital

There was feedback that a key focus needs to be on the benefit for consumers, rather than focusing on the benefits to an individual distributor or flexibility service provider. Some attendees noted that how this works in practice is difficult to determine for both distributors and flexibility providers.

Related comments suggested that the “right” flexibility solution is a balance, thinking about the risks and benefits, and so it is about who is best placed to understand or to wear the risks and benefits. In some cases, competition maybe the best solution. Other times, another

more efficient solution will provide better outcomes for consumers. The recent grid emergency was mentioned and how important immediate access to, and ongoing use of 15GW of ripple control was to ensuring the lowest negative impact on consumers.

Timing of guidance needs to be considered

Some attendees suggested that it was too early for the guidance.

It was noted that the Commerce Commission had previously looked at ring-fencing in its first Input Methodology review and concluded that monitoring developments was the better response. Some attendees therefore suggested the Authority monitor developments and put the guidance in place at a late date.

There was also an observation that currently, there is no clear and reliable flexibility services market. Market penetration of solar and electric vehicles was noted to be sitting at around 2% to 3%. It was suggested that we are not like Australia in terms of solar penetration.

Some general comments from participants also highlighted that realistically there are only a few in the market that can potentially meet distributors' flexibility needs. There may be a need for partnerships to stimulate demand and learning.

Attendees acknowledged the transition needs to be managed, particularly when the competition and the depth in flexibility services is not currently there.

There were some questions too about the interaction between this guidance and, for example, the Commerce Commission's related party disclosure requirements. Broadly, the view from attendees was these requirements are significant and involve independent oversight of related party transactions.

Closing remarks

The above were the main themes captured from the report backs on the break-out group discussions. This summary of feedback is being published alongside commentary earlier in the workshop.

The earlier feedback in the workshop highlighted the role flexibility already plays in network management. In particular, the importance of ripple control in both network design and management was a key area of concern. A case was also made that there could be benefits from deeper conversations on the guidance and its practical implications before the guidance is finalised. A number of additional principles were also raised. We recognise many attendees were from the distribution sector, and we particularly welcome hearing further from those who feel their perspectives weren't reflected in this summary.

We would like to thank those who participated in the workshop and those who have already provided written feedback. We anticipate the next steps on the draft guidance will be discussed with the Authority's Board in September.

As a reminder, the deadline for written feedback on the draft guidance is 5pm, Wednesday 10 July. Feedback can be sent to distribution.feedback@ea.govt.nz.