Lisa Rautenbach

From: Antony Oosten [redacted] >
Sent: Tuesday, 5 November 2024 7:59 pm
To: TaskForce
Subject: EA Energy Competition Taskforce feedback

Kia ora,

Fonterra welcomes the opportunity to provide input to inform the Energy Competition Task Force's options paper due for release in February 2025. We believe the Task Force's work is critical to improving the performance of the electricity market and we look forward to engaging in the public consultation early next year.

As New Zealand's largest exporter and with manufacturing operations spread throughout New Zealand, Fonterra relies on an affordable, secure and sustainable supply of energy to maintain our operations. Ensuring this supply continues to be affordable is crucial to New Zealand's export competitiveness, particularly for the primary industries including dairy processing.

Fonterra has been raising concern about elevated wholesale electricity prices for some time and we believe that the Task Force has the opportunity to recommend measures that will have a lasting positive impact on New Zealand's electricity market. Fonterra believes that the Task Force should prioritise measures that are in the long term interests of consumers. This is consistent with the Electricity Authority's statutory purpose.

The most credible and impactful measure aligned with the long-term interests of consumers is an incentive-based market mechanism for Demand Response (DR). Not only is this an efficient and market-orientated solution, it aligns with the interests of electricity consumers and be relatively straight forward to implement now that Real-Time-Pricing (RTP) is in place.

A fair market mechanism for DR would see interested parties register as participants and be capable of bidding in DR to trading periods. In return, these participants would receive payment at the market clearing price if they are dispatched.

There are clear similarities between a DR participant and a renewable generator with intermittent supply that comes with very low fuel costs (e.g. solar, wind, hydro). Both types of participants face capital costs to participate, some operating costs, and in the case of DR participants, opportunity cost from not being able to run operations. For many industrial users who operate 24/7, shifting usage from a period of high electricity cost comes at a cost of losing the opportunity from running during that down period.

The mechanism could be implemented via a market rule change. Such a rule would enable DR-registered participants to bid into the market and be dispatched by the System Operator in the specified trading period, in the same manner that generation bids in the spot market price stack are currently dispatched.

The rule would establish the terms upon which a registered participant can bid in DR, such as eligibility criteria, terms of DR bidding, ensuring transparency and consistency in how DR bids are integrated with generation.

Whenever the pre-DR clearing price is above the highest DR bid, the System Operator would dispatch DR bids in descending order until the new clearing price is set by either the final generator or the highest dispatched DR bid. This would result in either DR bids being dispatched and those participants receiving payment at the marginal rate set by the final generator, or the clearing price set by the DR bid acting as the clearing price due to the avoidance of a higher marginal generator needing to be dispatched.

Settlement could be achieved by, for example, a contractual arrangement between DR participants and other consumers, whereby DR participants who are dispatched receive a payment spread across remaining consumers or some other form of measure that ensures revenue sufficiency. In effect, the market clearing price would be set by the marginal generator, accounting for the demand adjusted for DR as articulated in the rule above.

All consumers would benefit from such an arrangement as the DR participants switching off load will influence the marginal price for a particular trading period, placing downward pressure on electricity prices.

With this mechanism in place, DR becomes a key component to balancing the wholesale electricity market and provides a lever for consumers to respond directly to price signals and receive fair compensation for the costs associated with that participation.

Unlike some other electricity users, Fonterra does not currently have the capacity to quickly reduce electricity load due to the nature of dairying operations in New Zealand and our existing infrastructure.

Our primary interest in advocating for this measure is in enabling Fonterra to make investments that would facilitate participation in the future. Just as generators need market signals to invest in new generator, so too do large electricity users need market signals to invest in DR capabilities. Right now, the market structure only offers an incentive to generators to make those investments.

We look forward to participating in the upcoming consultation to improve the performance of the electricity market and ensure it is aligned with the long term interests of consumers.
