

28 July 2014

Mr Brent Alderton
Chief Executive
Commerce Commission
PO Box 2351
Wellington 6140

Dear Brent

Transpower's Demand Response Programme

This letter is a follow-up to our letter of 14 April 2014. We note that Transpower has included a paper on its demand response (DR) programme as part of its RCP2 submission. We have met with Transpower and discussed that paper.

The Authority is supportive of Transpower's DR programme *as a means of deferring transmission investment*. We are pleased to note that Transpower's paper has addressed the majority of the concerns expressed in our 14 April 2014 letter. In particular, we are pleased that using DR for purposes other than for deferring transmission investment is outside the scope of the RCP2 funding request and that the DR management system (DRMS, the software platform that enables the management of Transpower's DR programme) will not be used by Transpower to develop new DR products.

Transpower's paper has also responded, in the main, to our suggested mitigation measures. Transpower has:

- undertaken to work with the Authority and the Commerce Commission to develop a protocol for the use of its DR programme. We take this to include trialling the DR programme. We have discussed this further with Transpower and propose setting up a small group of Transpower and Authority staff to develop this protocol
- committed to consulting with the Authority before first using its DR. We sought to have Transpower obtain the Authority's approval, rather than consult, before first using its DR for any purpose. However, we are confident that having the protocol in place will effectively provide the necessary approval. In the event that the Authority had outstanding concerns on the use of the DR tool that could not be addressed in the protocol, we are confident that Transpower would act in good faith and not proceed with the use, including trailing of the tool
- noted that any market design involving DR is the Authority's role, and it is willing to support market developments that will integrate DR into the spot market.

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Transpower has also stated that it is proposed that the system operator will ultimately operate the DRMS. We will include the system operator in the work to integrate Transpower's DR programme into the spot market.

The Authority considers that the development of the protocol and the integration into the spot market are important to satisfying the Authority's concerns regarding the potential inefficiencies of Transpower's DR programme in the spot market. Therefore, the protocol should be in place and work started on the integration before there is any further use of Transpower's DR programme.

It should be noted that the development of market related initiatives involving system operator tools and systems have a long lead time. Work integrating Transpower's DR programme into the spot market will need to be included in the joint Authority / system operator development plan and prioritised with the other work in that plan. Transpower should prepare and publish a work plan that shows the development, consultation and finalisation of the protocol, sets out a forward looking timeline for when the Transpower DR programme would be used, both for trials and for actual transmission deferral, and how it proposes to work with the Authority and system operator to prioritise the work of integrating its DR programme into the spot market.

Authority staff would be happy to meet with Commission staff to discuss and elaborate on the points made in this letter.

Yours sincerely



Carl Hansen
Chief Executive