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Electricity Authority
By email: fsr@ea.govt.nz

The future operation of New Zealand's power system: Issues and high-level options

Meridian appreciates the opportunity to provide feedback on the Authority's consultation paper 'The future operation of New Zealand's power system'.

We do not have a clear preference for a Distribution System Operator (DSO) model. However, we consider there are a few important principles for the Authority to consider as it continues its work in this area:

1. In determining who should perform the DSO function, the Authority should have a clear focus on operating efficiencies. This includes seeking to minimise any duplication of systems, processes and resources. Such a focus may point to leveraging the existing capability of the System Operator or concentrating responsibility for DSO services in a few larger distributors. Ultimately, we see the adoption of a DSO model as leading to increased opportunities for distributors to collaborate (or consider consolidation) where efficiency gains can be realised for the benefit of consumers.
2. To the extent possible, the deployment and compensation of flexibility services should be delivered through market-based mechanisms. Market mechanisms are mostly likely to result in efficient and appropriate compensation for flexibility services and ensure they are co-optimised with other system resources. This will ultimately maximise the value to consumers of these services. To achieve this, it will be important to ensure that regulatory arrangements do not enable distributors to directly control Distributed Energy Resources (DER) without providing appropriate rewards to consumers. This would disincentivise the further development of DER and ultimately result in lower consumer benefits and higher system costs.
3. It will be important to carefully consider incentives on the various players and avoid conflicts of interest. This is a fast-moving area with specific roles still being defined and adopted. In some cases, parties could end up with multiple roles with inherent conflicts of interest e.g. being both a procurer and dispatcher of flexibility services and an owner of some flexibility services. Appropriate mechanisms or restrictions should be considered which will ensure the independence of any DSOs and ensure

there is no preferential treatment for flexibility services owned by distribution networks. This might include a clear delineation of particular roles.¹

Generally, these issues have been well canvassed in the consultation paper and we trust the Authority will continue to give due thought to these matters as it progresses its work.

Lastly, we understand a cost-benefit analysis of the different DSO models will be carried out as part of the next phase of the Authority's work. We support this step and encourage the Authority to make such an assessment as detailed and comprehensive as possible. In the absence of clear cost-benefit calculations, views on the relative merits of different DSO models become largely theoretical. For example, it may be the long-term system benefits of co-optimising the deployment of DER across both transmission and distribution networks via a single security-constrained economic dispatch are enormous. While the complexities and challenges of such an approach would also be significant, it is difficult to weigh up the relative merits of such an approach without at least a rough quantification of the potential benefits. This will allow market participants to provide more informed feedback. Once a particular approach is decided on it may be difficult to change direction. As such, understanding the cost and benefits at this point in time is critical.

Please contact me if you have any queries regarding this submission. This submission can be published in full.

Nāku noa, nā

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¹ In considering the delineation of roles, we are also cognizant that most distributors do not have regular and direct contact with electricity customers; this may make it more of a challenge for distributors to offer value and incentives to customers versus, for example, a retailer. This should also be a consideration.