Submission on the Electricity Authority consultation paper “Real-time pricing proposal”

Response from Flick Energy Ltd (Flick)

Dated 9 October 2017

For email to submissions@ea.govt.nz

Flick Energy Ltd – responses

Question No.	Question	Response
	General Comments	Flick reiterates prior submissions made, in particular that we are supportive of the Authority's work to make spot prices more actionable and resource efficient. Flick's experience is as a spot market retailer to (primarily) residential customers. Flick has noted that there is an increasing number of residential customers who are willing to actively respond to price signals. Making these price signals known in real time would be well received, and beneficial to these customers. With the pace of technology advances, price certainty is critical to allowing customers to make demand response (and generation and consumption) decisions. Flick reiterate that actionable prices are an enabler of retail innovation. Flick would encourage the Authority to consider ways to implement real time pricing sooner than the time frames indicated.

Q1	**Do you agree with the broad principle of using dispatch prices to determine final prices? If not, please explain your reasoning**	Yes. Flick is supportive of making spot prices more actionable and efficient and agrees that that using dispatch prices to determine final prices is the right broad principle. Flick agree with the Authority's statements at paragraph 2.6 that the current arrangements do not allow participants to make the most efficient demand response, generation, or trading decisions. Flick is particularly supportive of changes to allow the best to be made of other technology advances. As the Authority has identified, price certainty is an enabler of battery, communication or automation devices. The Authority highlights at 2.10 that New Zealand is unique in terms of the two day delay with pricing. Removing this delay would align pricing with modern consumer expectations. Flick agrees with the Authority's design philosophy that final pricing should align with the system operator's real-time dispatch process as far as possible. Flick is supportive of using dispatch schedules to generate dispatch prices (derived from the interaction of generation and demand bids in real-time). Flick note that by including load assigned default scarcity values in pricing– means that 'infeasibilities' and other provisional pricing would no longer occur. Flick agree with the Authority's statement at 3.6 that these provisional pricing situations occur at times when price certainty is of particular importance to participants.
Q2	**Do you agree with using the time- weighted average of dispatch prices to calculate prices for a trading period? If not, please explain your reasoning.**	Yes. Time-weighted averages appear to be the best option to calculate prices. It would also be a positive outcome if the expectation is that time-weighted averages are not expected to require changes to other parts of the market -the FTR or futures contracts.

Q3	**Do you agree with disestablishing the pricing manager and allocating residual functions to other parties? If not, please explain your reasoning**	Yes. Flick agree with the proposal to disestablish the pricing manager role. Flick also agree with the allocation of the residual functions: The calculation of interim prices – should be automated with clearing manager overseeing. The changing of interim to final prices should also be automated (unless pricing error or UTS is claimed) – and that the clearing manager should undertake this function. Flick submit that to the extent possible automation should occur and agree that addressing pricing errors (not just material errors) should be retained with the system operator overseeing this process.

Q4	**Q4. Do you agree with the general approach of using default scarcity values to handle generation shortages? If not, please explain your reasoning.**	Flick notes that the Authority is proposing to assign default scarcity pricing values to all forecast demand not bid by purchasers. Currently generation shortage leads to emergency load shedding. Triggering scarcity pricing provisions – if the system operator instructs widespread load shedding spot prices are scaled generation weighted $10k – 20k / MWh in each Island. The current set up gives revenue certainty for last resort generation or demand response – and provides incentives to hedge. However, the current arrangement provides uncertainty in real time about whether scarcity pricing will be triggered. Flick agree with the Authority that is undesirable. Flick also agree that in these situations participants should have actionable price signals to maximise generation or demand response. **The Authority is proposing:** assigning default scarcity values to all forecast demand not bid by a purchaser. Emergency load shedding of demand assigned scarcity values would show in forecast schedules (the price responsive schedule PRS and the non-price responsive (NPRS)) Then if not resolved with rebids and reoffers in dispatch prices in real time. Proposed three scarcity blocks for forecast demand: 5% at $10k, 15% at $15K, and 80% at $20k These three blocks would be assigned to load not bid by purchasers. Flick Agree that applying default scarcity values in this way is the best translation of the current ex-post scarcity pricing arrangements. Under this arrangement parties would be certain of dispatch prices in real-time (assuming no pricing error or UTS). Under RTP default scarcity values could be triggered for localised shortages rather than for a whole Island. Flick submit that it is positive that under RTP forecast, real-time and spot prices would be consistent for a given set of system conditions. Allowing actionable real-time prices, enabling better informed decisions.

Q5	**Q5. Do you agree with using default scarcity bids before generation or dispatchable demand offered at a higher price in the dispatch schedule? If not, please explain your reasoning.**	Flick note that the change from the current approach is that default scarcity bids could be dispatched before generation bids or demand offers with higher prices. Agree that shedding load at scarcity pricing values on rare occasions would be preferable to scheduling other resources that have an even higher cost.
Q6	**Q6. Do you agree the system operator does not need to make changes to the existing process it uses to notify distributors of emergency load shedding?**	Flick note that at present no load at conforming nodes participates in the dispatchable demand scheme. Instead the SO issues instructions to curtail load. And that in practice the SO manages pragmatically (rather than to a strict schedule). Authority proposes scarcity prices should apply if they occur in the in the dispatch schedule even if no load shedding occurs in practice. Flick agrees with this proposed approach.
Q7	**Q7. What is your view on the preferred treatment of disconnected nodes? Please explain your reasoning.**	Flick agrees with the suggested approach of having proxy prices assigned at nodes that are marked as disconnected. With the proxy based on an adjacent node. Flick supports this approach as we think this is an efficient way to avoid inappropriate scarcity values at disconnected nodes.
Q8	**Q8. Do you agree that it is not desirable to apply a cumulative price limit under RTP? If not, please explain your reasoning.**	Flick agrees that it is not desirable to apply a cumulative price limit under RTP and note that the rolling outage provisions in the Code would apply if there was an ongoing need to curtail demand
Q9	**Q9. Do you agree the current principle of partially relaxing reserve procurement before invoking emergency load shedding should continue under RTP? If not, please explain your reasoning.**	Existing pricing process applies an adjustment if automatic under-frequency load shedding AUFLS occurs. Prices caused by a shortage of reserves are limited to greater of – three times highest scheduled energy offer price or highest priced offer that cannot be supplied (FIR or SIR). This adjustment after the fact is incompatible with real time prices. Flick submits that it is important that in these uncommon situations that participants have access to actionable real-time prices, enabling improved decisions.

Q10	**Q10. Do you agree with the proposed removal of the high spring washer pricing provisions in the Code? If not, please explain your reasoning.**	Yes. Flick notes that the Authority does not expect that the outcomes under RTP would be significantly different than currently (because very few resources currently priced above $10k). Flick notes that introducing default scarcity values for forecast load will in effect limit prices in a HSWPS. Introducing RTP should facilitate greater voluntary demand bids and other actions in response to HSWPS to reduce their impact. Flick agrees with the Authority's proposal to remove HSWPS provisions from the Code.
Q11	**Q11. Do you agree with the proposed changes for demand inputs? If not, please explain your reasoning**	Flick notes that the Authority and the System Operator expect that changing to bottom-up forecast of load at each node would be more accurate – and on this basis Flick is supportive. Flick is also supportive of the recommendation that demand inputs for non-dispatchable load at non-conforming nodes being based on actual load values – noting that this is expected to be more accurate – and is consistent with current process for final price calculation.
Q12	**Q12. Do you agree that ION meter data should be the primary data source for demand inputs? If not, please explain your reasoning.**	Flick has no comment on the ION metering data – except that in general terms - Flick is supportive of measures to increases accuracy across the industry.
Q13	**Q13. What is your view on the best approach to incorporate dispatchable demand within an RTP framework? Please explain your reasoning.**	The proposal that dispatchable demand is despatched from the dispatch schedule in the same way generators are currently, seems sound. Those with close working knowledge of these processes are clearly best placed to assess the impact of these technical aspects. Again, though it would appear positive to have processes simplified and that under RTP dispatchable demand purchasers would no longer need to provide the pricing manager with next day metering data.

Q14	**Q14. Do you agree with the proposed features for a dispatch-lite product? If not, please explain your reasoning.**	The proposed features of the 'dispatch lite' seem positive. Flick is supportive of enhancements that would allow smaller (and new) participants to bid controllable load into market schedules. Noting that these participants would have lesser compliance obligations (and would not be eligible for constrained on and off payments). Obviously, how this will interact with system security is critical – and is best answered by those with working knowledge of these systems.
Q15	**Q15. Do you agree with the proposal to allow revisions to offers and bids within trading periods in some circumstances? If not, please explain your reasoning**	Flick is supportive of the proposal to allow revisions to offers and bids within a trading period – noting that these would only be limited to 'grid emergency or bona fide physical reason'. As the Authority has set out at 3.93 oversight and transparency would be key to ensuring that reoffers and rebids are not used to manipulate spot pricing.
Q16	**Q16. Do you agree with using the last bid or offer received in a trading period when calculating constrained on and off payments? If not, please explain your reasoning.**	Flick notes that Authority is proposing to retain the constrained on and off payments process as market settlements remains on a 30-minute trading period using an average price. Flick agrees with this approach.
Q17	**Q17. Do you agree we should retain a process for addressing material pricing errors? If not, please explain your reasoning.**	Flick agrees that some checks should be retained for addressing material pricing errors (noting that errors have an adverse impact on the reputation of the market generally). Flick is supportive of a minimum materiality threshold (and of looking to other markets to consider this).

Q18	**Q18. Which approach do you prefer for managing pricing errors: a manual claim or automated checking? Please explain your reasoning (this could include suggestions for an automated filter).**	The automation process that the Authority has cited that is used in the Australian National Electricity Market seems like a sensible process to borrow from. In general terms automation is preferable to manual processes. Obviously, this would require detailed design to ensure that automation is workable.
Q19	**Q19. If we retain a manual claim process for pricing errors under RTP, who should perform that role: – the system operator? – the Authority? – the pricing manager, as their only function? – some other party? Please explain your reasoning, including regarding any possible conflict of interest**	As set out at Q18 Fick submits that automation would be preferable – however if manual processes are retained under RTP then they should be managed by the entity with the best current knowledge – which in that case would be the system operator.
Q20	**Q20. Do you agree with the proposed treatment of spot prices during market system outages? If not, please explain your reasoning**	Flick agrees that on the rare occasion that there is a market system outage that the process the Authority has set out at 3.107 (that prior prices would stand) is sound.
Q21	**Q21. Do you agree with the proposed changes to forecast schedules to align them with dispatch schedules? If not, please explain your reasoning.**	Flick is supportive of the proposed changes to the forecast schedules to align them with the dispatch schedules – noting that these schedules would provide prices which are 'like for like' with dispatch prices if forecast and actual conditions are the same.

Q22	**Q22. Do you agree with the proposed use of dispatch schedules to apportion loss and constraint excess for financial transmission rights each month (if that is required)? If not, please explain your reasoning.**	Flick agrees with the proposed use of dispatch schedules to apportion loss and constraint excess for FTRs. Flick note the Authority's comments at 3.116 that the portion of LCE allocated to fund FTR has been growing over time as new FTR nodes are added. And at 3.117 that the proposed approach to apportion LCE would be 'consistent with the underlying philosophy used to apportion LCE under current arrangements'.
Q23	**Q23. Do you agree with the proposed approach for transitioning to RTP? If not please explain your reasoning.**	Flick note the comment that moving to RTP would involve significant changes to the current market systems. Flick is supportive of the idea of piloting RTP prior to full roll-out (given the importance of market security). Flick would encourage the Authority and the System Operator to wherever possible leverage existing technology from other markets rather than building technology. Four years seems like an incredibly long time.
Q24	**Q24. Do you agree with the objective of the proposed Code amendment? If not, please explain your reasoning**	Flick is absolutely supportive of the objective of the proposed amendment to make spot prices more actionable and resource efficient. Flick believe that this consistent with the Authority's statutory objective – and as the Authority has set out - will 'remove barriers and will promote the uptake of new technologies and new business model'. Allowing customers to realise benefits that are not available currently.

Q25	**Q25. Do you agree with the cost benefit assessment? In particular: – what (if any) other sources of benefit should be included in the assessment? – what is your view on key assumptions, such as the level of improved demand response enabled by RTP? – what (if any) other sources of costs should be included in the assessment? Please explain your reasoning**	Flick is broadly supportive of the cost benefit assessment. Flick also notes that the Authority has identified that RTP could provide additional benefits in that under RTP prices are less likely to be closer reflect the true value of energy and reserve – and that with this would come increased confidence in the market and would lead to better informed confidence in the value of risk management products. Although true impact of increased technology such as batteries cannot be accurately modelled into cost benefit analysis it is positive that these technologies would be better implemented with RTP.
Q26	**Q26. Do you agree with our assessment of alternative RTP designs? If not, why not?**	Flick agrees with the reasoning and the Authority's assessment of the alternative RTP designs.

For any questions relating to this submission, please contact:

Nikki Bloomfield

General Counsel
Flick Energy Ltd
PO Box 19-098
Courtenay Place
Wellington 6149
Email: nikki.bloomfield@flickelectric.co.nz
Phone: 021 754 980