



6 March 2023

Tony Baldwin
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Market Development Advisory Group
C/- Electricity Authority
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By email: mdag@ea.govt.nz

Dear team

Re: Price discovery in a renewables-based electricity system – Options Paper

Flick appreciates the opportunity to provide a submission on MDAG's comprehensive Options Paper relating to price discovery in a renewables-based electricity system.

Flick is a signatory to the joint independent retailers' submission. Flick strongly believes that a much more competitive electricity market is needed now and for any successful energy transition to a renewables-based electricity system. Further, development and provision of risk management tools which enable independent operators to compete on a level playing field is an essential pre-requisite for a competitive market.

The joint submission focused on options that have the potential to improve competition outcomes in the wholesale market. As discussed, competition, or lack of it, has a direct impact on whether retail competition thrives.

This submission focuses on Flick's involvement in demand-side flexibility.

Flick was set up in 2014 offering, for the first time, the opportunity for residential electricity consumers to purchase electricity at wholesale spot prices¹. Customers had an App which told them the real-time wholesale price and received a warning if there were indications of high wholesale prices. This is a lived example of residential consumers being able to 'flex' their demand in direct response to the price they faced for electricity.

It is also a lived example of the direct negative impact of elevated spot prices and increased spot price volatility on customers. The change away from market fundamentals from late 2018 drove our decision to withdraw this product for new customers in February 2021. While some customers remain on this wholesale product, and are prepared to ride the volatility, we consider these people are 'much more sophisticated' electricity consumers.

¹ There was a direct pass-through of distribution charges plus a Flick fee.

In July 2021, Flick released an Off-peak product nationwide for residential consumers.² Flick also has a 'Best Plan Promise' and notifies customers every 90 days whether, based on their actual usage, they are better off on our Off-Peak or Flat plan. In this way we are encouraging consumers to think about when they use electricity. Flick has been, and continues to be at the forefront of innovation in this space.

Being an independent retailer means Flick does not own generation assets. We are reliant on purchasing electricity from businesses that own generation assets so that we have a 'product' to on-sell to our customers. Thus, as an independent retailer, Flick is commercially incentivised to:

- minimise the cost of buying electricity for on-sale to our customers
- use the hedge market (exchange-traded or OTC) to manage spot price volatility
- work with our customers to manage their and our exposure to high spot price periods.

We agree with MDAG's observation that "vertically integrated generator-retailers have dampened incentives to utilise DSF"³. Retailing is a competitive market and retailers that offer products that customers want should be rewarded for their innovation.

We acknowledge businesses may be established to offer 'flexibility' services to customers, in addition to electricity supplied by retailers. The critical outcome from Flick's perspective is that overall arrangements lower the total system costs for end consumers.

The following is Flick's feedback on MDAG's options relating to demand-side flexibility (DSF) (in the order they appear in the consultation paper).

MDAG Option	Flick's feedback
C1 – Monitor provision and uptake of DSF-rewarding tariffs	Flick suggests there has to be clear articulation of the problem this monitoring would solve. We also query whether the costs associated with setting up an ongoing monitoring function – involving all retailers – will achieve a net benefit and the desired outcome. Time of use tariffs have had large uptake over the past few years. Flick's view is that this is largely driven by the fact that these are the plans which have been heavily promoted and discounted by the retailers offering them. This does not necessarily translate to greater off-peak usage.
C2 – Sunset profiling if smart meters in place	Flick uses smart meter data for billing and reconciliation. ⁴ The use of profiling should be banned as soon as possible. This also raises the question about whether or when NZ can get to 100% smart meter penetration so that all consumers benefit.

² Initially it was not offered on one distribution network but is now available to all New Zealanders.

³ Paragraph 4.55(b), page 36 <https://www.ea.govt.nz/assets/dms-assets/31/MDAG-Library-of-options-FINAL-1.pdf>

⁴ If the smart meter is not communicating, we use historic consumption data specific to that ICP to estimate usage and reconcile once the meter has been read.

<p>C3 – Require retailers to offer DSF tariffs</p>	<p>As discussed in the joint submission, Flick does not support any mandating of particular types of retail tariffs. Electricity retailing is a competitive market where retail tariffs reflect a company’s own commercial imperatives. If the settings and incentives are right, retailers will be compelled to solve for reduced peak demand, either internally or through consumer propositions.</p> <p>What is more important is that electricity consumers can get access to accurate information about available tariff options and the process of switching retailers is easy.</p>
<p>C4 – Develop standardised shape-related products to reward DSF</p>	<p>Flick strongly supports industry-led development of standardised shape-related products. Baseload futures products are no longer sufficient, or you might go as far to say that the fact only baseload products are traded is a sign of an immature risk management market.</p> <p>Risk management tools for both demand shape and high volatile spot prices at any time (not just standard peak demand periods) are overdue.</p> <p>Independent retailers are incurring additional costs from arranging shape cover bilaterally (charged mostly by gentailers’ generation business because they make up ~85% of the market) while it appears⁵ gentailers’ retail business does not face these additional costs.</p>
<p>C5 – Provide significant funding for pilots / trials to kick-start dynamic tariff use</p>	<p>Flick supports learning-by-doing. We note the Authority now has the mandate to approve Code exemptions (and impose conditions) that could enable more innovation in the form of pilots or trials.</p> <p>The Code was written decades ago. The starting point needs to be what is in the long term interests of the consumer in the current context of a more renewables based electricity system. If the Code is a constraint then participants looking to innovate should feel encouraged to bring this to the attention of the Authority to discuss a workaround.</p>
<p>C14 Provide info to help domestic customers with DSF decisions</p>	<p>Flick strongly supports Powerswitch having access to consumption data so that customers’ switch decisions are based on the most accurate information.</p> <p>Powerswitch must also be funded to provide high quality information for its ‘regulated’ service so that customers can trust that recommendations provide a financial benefit.</p> <p>Flick suggests this topic is an urgent priority that is unrelated to any transition to more renewable generation.</p> <p>We understand the UK has a unique identifier on each customer’s invoice. Displaying this identifier (QR code) on the price comparison site automatically uploads that customer’s consumption data into the algorithm.</p>

⁵ From gentailers’ internal transfer price methodology disclosures
<https://public.tableau.com/app/profile/electricity.authority/viz/ITPbenchmarks/ITPbenchmarks>



We welcome the opportunity to discuss our information in this submission with you in more detail.

Yours

A handwritten signature in black ink, appearing to read "Pavan Vyas", is written over a horizontal line.

Pavan Vyas

Chief Executive Officer