



25 July 2023

Future Security and Reliability team
Electricity Authority
P O Box 10-041
Wellington

By email: fsr@ea.govt.nz

Dear team

Re: Consultation Paper-Ensuring an Orderly Thermal Transition

Flick appreciates the opportunity to provide a submission on the Electricity Authority (Authority) analysis of information gaps that could contribute to inefficient thermal generation retirement / investment decisions.

The Authority is looking to ensure an orderly thermal transition when the potential for a disorderly thermal plant closure is described as: “providers of thermal generation to close plant even though it has lower costs than alternative sources of back-up service and there is demand for its services from consumers”.

We note that the Authority predicates its conclusions on the existence of incentives for wholesale market participants to act in a way that reflects consumer preferences, so that private incentives align with the public interest.¹

These incentives did not exist in the short term on 9 August 2021 when a gentailer clearly stated they planned their generation output to match their customer load. This approach may have changed since then but we suggest behaviour in the next half hour / day is relevant to making a decision for the long term to retire or invest in thermal generation capacity.

Flick reiterates its position that a liquid hedge market with more sophisticated products and over a longer time frame is essential. Market made cap and / or peak products are urgently needed.

A well-functioning exchange traded futures market will provide transparency about the cost of thermal back up and the timeframe over which participants want / require thermal to be available (both in near term trading and the long term).

Thermal generation is important as it's our key source of 'stored' energy. Over time, our existing hydro storage should become our source of stored energy. Other technologies – batteries and hydrogen – will provide fast start stored energy as well. However, a well-

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functioning liquid exchange traded futures market will provide a technology agnostic platform for owners of all of these technologies to value and trade their 'stored' energy.

The consultation paper talks about 'contracting'. We acknowledge there can be different arrangements for forward selling thermal electricity (eg bilateral swaptions etc) but it is critical timely information is disclosed about the price, quantity, location and timeframes so that all participants understand the value of this electricity and any risks of its supply implicit in the price.

Flick agrees with the Authority that its role is to ensure the regulatory regime provides the right incentives for commercial businesses. Three different generators decided to decommission three major thermal generation plant in 2014 to 2016 with little forward indication of this intention to the market.

Even if the risks of disorderly exit are considered low at this stage, work to improve the liquidity of the hedge market has wider benefits. Development and provision of risk management tools will enable independent operators to compete on a level playing field which is an essential pre-requisite for a competitive wholesale market.

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

Yours



Pavan Vyas

Chief Executive Officer