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PUBLIC VERSION

Dear Andy

Re: Open letter – ensuring our energy and airports regulation is fit for purpose

Flick Electric appreciates this opportunity to provide feedback to ensure regulation of the monopoly part of the electricity sector under Part 4 remains fit for purpose.

Flick Electric (Flick) is an independent electricity retailer (ie does not own generation assets). We are the interface of the electricity supply chain with electricity consumers, particularly mass market, and seek to bring smart energy choices to life by offering innovative electricity products to consumers.

Our Freestyle product, directly linked to the wholesale spot price, enables consumers to be true 'prosumers' and capture the benefits of adoption of new technology. Consumers use clear and transparent price signals to make decisions about their use and adoption of technology.

Flick's world-first app, CHOICE, gives Kiwis live updates about the carbon impact of NZ's electricity use and sends alerts so they know when to switch things on and off. Flick Electric is a carboNZero company, offsetting our corporate emissions by investing in native plantings by Trees that Count.

We are committed to working with consumers and the sector to achieve a just transition to a low emissions economy. Our focus is to ensure that the way NZ transitions to a low emissions economy results in sensible outcomes for electricity consumers and for the economy. That is, the balance is equitable between environmental responsibility and social responsibility.

We agree that achieving NZ's commitments to a decarbonisation pathway will require significant investment and change within the electricity sector. Fortunately, we are in a time when the economics of the electricity sector are changing due to technological improvements. The economics of decentralised generation are beginning to stack-up. Consumer choice and control over their energy use and generation is becoming a reality as EVs, control technology, batteries and small-scale generation are all falling in price and becoming more accessible. The pressures of climate change, combination of technological improvements and changing economics mean that this sector should look fundamentally different by 2035. If successful, the electricity sectors' transformation will have an impact on the productivity and the competitive advantage of New Zealand (and consequently our national wellbeing); conversely, if not, it will put these in jeopardy.

The Commission's Part 4 regime and information disclosure requirements is an important component of the electricity regulatory system to ensure outcomes are for the long-term benefit of consumers.

Flick agrees that the Commission's regulation under Part 4 should achieve the following outcomes (listed at the bottom of page 3 of your letter):

- supports the transition to a low carbon economy, but in a way that does not compromise consumers receiving the energy services they demand, across reliable and resilient networks
- encourages innovative approaches to delivering least-cost energy services
- continues to provide a level of regulatory certainty and predictability conducive to efficient investment
- recognises wider regulatory systems and competitive energy markets, and the role of our regulation within them.

Network management and demand response

We acknowledge that cost recovery by distribution companies should reflect their ratio of fixed versus variable costs. However, customers are likely to increasingly be able to offer distribution companies benefits while undertaking their day-to-day or congestion management of the network by consumers managing their own load and or the distributed energy resources they own behind their meter. Flick submits the regulatory regime should enable compensation for this 'service' provided by consumers. This already exists with the tariff differential between controlled and uncontrolled load and peak / off-peak charges. As network tariffs change and/or new technology is implemented the regulator and/or distribution companies should not lose sight of compensating consumers for providing any network management benefits (for outages, deferring or avoiding new network infrastructure investment).

Flick submits that the perspective on consumer-owned distributed energy resources needs to change to be seen as an opportunity and not the current cost

or problem focus by many distribution companies. In our view, there is significant potential benefits for distribution companies in aligning with consumers who own distributed batteries.

In addition, distribution companies should be incentivised to encourage demand response. Better use of demand response has the potential to shift demand from peaks. There is latent potential for consumers to make better choices about when they use their electricity. Providing consumers with information, price signals and tools is a critical first step for consumers to make informed decisions.

Our Off-Peak trial in Wellington demonstrated that consumers are prepared to change their behaviour when they are informed. In addition, residential consumers on Flick's Freestyle product who pay spot electricity prices are enabled to be true 'prosumers', using transparent price signals to capture the benefits of adoption of new technology and to make decisions about their use of electricity. However, consumers also have to be confident that spot electricity prices are reasonable and reflective of underlying cost drivers when / if they chose to be exposed to these prices.

The benefits of increasing demand response have been well understood for some time but in our view the enablers, including consumer awareness, are at a tipping point. Future growth in demand response activity, by residential and larger consumers, depends on consumers electing to understand spot market prices and respond/reduce demand when they see that spot prices are high/can be predicted to be high. The counterfactual is consumers can elect to be protected from these prices by a fixed price contract and be indifferent about when they consume electricity. If spot prices are volatile and/or unexplainably high consumers will not be confident in being exposed to these prices. It is critical, therefore, that everyone has confidence in the market and rational price signals are essential. In summary, Flick submits that a well-functioning wholesale market is essential so that distribution companies can realise the potential from demand response.

Innovation

Flick is focused on identifying and delivering innovative approaches to delivering products and services for end consumers. The services provided by the 'transport infrastructure' part of the value chain should not be a barrier to this innovation. Further, the long-standing debate about whether the transport infrastructure sector is providing a regulated service or operating in the competitive part of the value chain continues to be relevant. Distribution companies should be sufficiently funded to implement innovation in the provision of their monopoly regulated services for the long-term benefit of consumers.

Increasing investment in generation and retail

The trend over time may be for distribution companies to increase their investment in the generation and retail parts of the value chain. While there are already restrictions on the structure of this ownership and arms' length relationships, this trend could develop another set of regionally based 'vertically integrated' generator-retailers. We support the introduction of new competition in the generation market from independent generators and distribution businesses that are prepared to invest in grid scale generation plant.

However, Flick queries the role of the Commission in monitoring the future market power of these regional VI firms (regulated to operate at arms' length from their distribution assets).

A well-functioning wholesale market is equally important for efficient management of distribution assets

In our view the incentives enabled by the vertically integrated structure of the current dominant generators in the current market design is not delivering efficient outcomes for consumers. Will this be perpetuated if distribution companies become dominant regional VI companies as well?

While this goes beyond Part 4 regulation, Flick recommends the Commission undertake a market study of whether the dominance of vertically integrated gentailers in both the generation investment and wholesale markets is in the best interests of consumers. This study would report on whether the current market structure can be relied on to achieve the government's ambitious renewables and climate change targets.

In our view, the dominance of the gentailers has to be addressed to ensure a highly competitive and well-functioning wholesale and retail electricity market delivering long term benefits for consumers through:

- strong competition to be the generator that is dispatched at the lowest economic cost - a cost reflective of underlying cost drivers and the long-run marginal cost of new generation
- strong competition amongst incumbent and independent generators to make timely decisions to invest in new generation capacity
- incentives on existing or new participants to solve the impact on security of electricity supply of low hydro storage.

In summary, it is critical that the right mechanisms, transparency and market structure are in place to ensure that electricity prices are affordable and supply is reliable as people increasingly rely on electricity for their energy needs.

Co-operation across the sector

We understand the Commission is working in co-operation with numerous other agencies that are interested/involved in the ensuring a regulatory regime facilitates and does not create barriers to innovation and technology change.

Flick is concerned to ensure joined-up-thinking as different regulators manage /cope with /anticipate change which is necessarily uncertain in both impact and timing. Flick suggests an Advisory Group or Technical Advisory Group with representatives from all the regulatory agencies as well as representatives across the electricity sector could provide a useful co-ordination and sounding board role. This would be similar to the Advisory Group established in the UK for their Open Networks programme of work.

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

Yours



Steve O'Connor
Chief Executive

