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Kevin Lampen-Smith
Electricity Authority
2 Hunter Street
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By email: submissions@ea.govt.nz

Dear Kevin

2012-2013 Appropriations and Work Plan

Genesis Power Limited, trading as Genesis Energy, welcomes the opportunity to provide a submission to the Electricity Authority ("the Authority") on the consultation paper "2012/13 Appropriations, Authority Path to CRE and EECA work programme" dated 29 November 2011.

We appreciate the Authority's efforts to provide more useful information to stakeholders this year to explain the basis for the Authority's appropriation and work plan. We also appreciate the Authority's efforts to constrain "baseline" expenditure.

In our submission last year¹ we expressed the following:

We are disappointed that the Authority has not yet been able to identify any operational savings arising from its narrower set of functions, tighter statutory objective and greater use of advisory groups for market development work (compared to the Electricity Commission). However, we appreciate that the Authority is at an early stage of its development and we expect that it will be in a better position next year to deliver savings or to demonstrate increased value for money.

It appears that, scarcity pricing and transmission pricing aside, the Authority has had some success at delivering increased value for money. We have not agreed

¹ *Genesis Energy supports the Authority's focus on implementing the Ministerial Review*, Genesis Energy submission to the Electricity Authority, 22 December 2010.

with all of the Authority's decisions, but we do welcome the fact that the Authority has managed to achieve progress in various aspects of market development that have been stalled for many years. We also welcome the modest operational savings that the Authority has achieved this year and we encourage continued efforts to extend these initial savings.

Further work required on "new matters"

In our submission last year,¹ we welcomed the Authority's decision to prioritise the "new matters" projects. We are pleased that the Authority has made significant progress on these projects but we remain of the view that the Authority has failed to address the pricing faults that motivated the Ministerial Review to recommend scarcity pricing for various supply emergencies. As such, we consider that there is significant unfinished business in this area. We are pleased that scarcity pricing has not entirely disappeared from the Authority's work plan but we consider that more urgency is warranted.

We also consider that there is value in the Authority monitoring the effectiveness of its "new matters" interventions. This is particularly important with respect to the "more standardisation" matters. We have considerable doubt that the Authority's light-handed mediation approach will prove sufficient and we are concerned that the very short two-week prudential standard imposed on distributors may drive perverse behaviour that is not in the long-term interest of consumers.²

In addition, given the Authority's light-handed approach to standardisation, we consider that it is very important that the model use of system agreements are finalised as a priority.³

Transmission Pricing

We are disappointed that the Authority committed significant funds last year to entertaining further litigation of how the costs of the HVDC link should be recovered. We encourage the Authority to avoid turning its proposed further work on this matter into yet another costly, diverting and unproductive exercise.

² *Proposed "optional mandatory" indemnity approach fails to meet Authority's "new matters" obligation*, Genesis Energy submission to the Electricity Authority, 10 October 2011, *Importance of addressing retailer-distributor contracting environment*, Genesis Energy submission to the Electricity Authority, 7 September 2011 and *More Standardisation of Distribution Arrangements: Proposed amendments to the Code*, Genesis Energy submission to the Electricity Authority, 23 June 2011.

³ *Finalising model agreements worthwhile but further work required to address underlying market failure*, Genesis Energy submission to the Electricity Authority, 5 October 2011.

ICP-based Distribution Pricing

We consider that there would be value in the Authority initiating a project in the coming financial year to closely examine whether there would be merit in mandating ICP-based distribution pricing. The Authority raised the prospect of such an intervention in the course of its “more standardisation” work but decided not to pursue the issue further and no further work on this issue has been included within its forward work plan.

We consider that there are three main factors that may support the option of mandating ICP-based pricing:

- *pricing innovation.* ICP-based pricing provides better support and more scope for retailers to develop innovative end-user tariffs. As the penetration of advanced metering grows, there is evidence of increasing retail tariff innovation. For example, Genesis Energy launched a multi-period retail tariff in Waitemata this month;
- *prudential risk.* GXP-based pricing can shift much of the risk of retailer default from distributors to competing retailers. We are concerned that the Authority’s decision to impose a very short two-week prudential standard on distributors will encourage many distributors to shift to GXP-based pricing and that this will result in inefficient risk allocation; and
- *standardisation.* As with most aspects of the retailer-distributor commercial interface, standardisation helps to reduce transaction costs and to decrease the degree of retail market regionalisation.

For further comment on these matters refer to our previous submissions.⁴

Value of Proposed Guidelines

The Authority is proposing to develop a number of guidelines such as “how to be a retailer”, “how to be a generator” and “how to participate in the FTR market”. We query the value of preparing such documents given that all of these activities should be carried out by sophisticated organisations that need to form a detailed understanding of all of their trading risks and obligations.

⁴ *More standardisation of distribution arrangements: proposed amendments to the Code*, Genesis Energy submission to the Electricity Authority, 23 June 2011 and *Importance of addressing retailer distributor contracting environment*, Genesis Energy submission to the Electricity Authority, 7 September 2011.

Extend Consumer Guarantees Act indemnity to Transpower

We support the Authority's decision to consider extending the Consumer Guarantees Act 1993 (CGA) indemnity. As outlined in our September 2011 submission,⁵ we consider that it would be remiss to exclude Transpower from Code amendments relating to CGA liability. We recommend that the Authority discuss this work with the Ministry of Consumer Affairs to ensure consistency with the Consumer Law Reform Bill that is expected to get its first reading in 2012.

If you would like to discuss any of these matters further, please contact me on 04 495 6354.

Yours sincerely



Karen Collins
Senior Regulatory Advisor

⁵ *Importance of addressing retailer-distributor contracting environment*, Genesis Energy submission to the Electricity Authority, 7 September 2011.