



11 Chews Lane
PO Box 10568
The Terrace
Wellington 6143
New Zealand

Genesis Power Limited
trading as Genesis Energy

Fax: 04 495 6363

17 October 2012

Carl Hansen
Electricity Authority
2 Hunter Street
WELLINGTON

By email: submissions@ea.govt.nz

Dear Carl

Policy Statement and Procurement Plan amendment processes

Genesis Power Limited, trading as Genesis Energy, welcomes the opportunity to provide a submission to the Electricity Authority (“the Authority”) on the consultation paper “Policy Statement and Procurement Plan amendment processes” dated 11 September 2012.

Support proposals for flexible timing for review of policy and procurement plans

Genesis Energy agrees with the changes to allow the System Operator (“the SO”) greater flexibility around the timing of changes to the policy statement and procurement plan. We agree that the current requirement for annual reviews is too frequent, relative to the extent of changes likely to be needed. Reducing the frequency of reviews and allowing the SO to waive the requirement for a review are sensible initiatives that will reduce transaction costs for the industry overtime.

Suggested improvements to retain industry oversight of changes to content of policy and procurement plans

Genesis Energy considers that it is important that the proposed process continues to provide industry participants, and the Authority, with appropriate opportunities to oversee changes to the content of these documents. As noted in the paper, the policy statement and procurement plan are key components of the common quality and system dispatch regimes. Collectively these documents

determine the cost and the quality of services that are provided by the System Operator and eventually paid for by industry participants. While consultation may be costly, it is, we consider, necessary to ensure the interests of the industry as a whole are met through efficient and effective performance and procurement of ancillary services.

To address this, we suggest that the Authority make two changes to the proposed process. These changes will ensure that the proposed process continues to capture the benefits of consultation with participants and better reflects the respective roles of the Authority and the SO in the regulatory framework:

1. Retain role of the Authority in evaluating costs and benefits of proposed changes

We suggest that the requirement to undertake a cost benefit evaluation of proposed changes to these documents should remain with the Authority, rather than being shifted to the SO. While the SO can make an important contribution by providing information that is relevant to this evaluation, the SO is a market service provider. The SO does not have the same policy expertise as the Authority, or the statutory mandate, to assess changes based on what is in the best interests of the industry as a whole. We consider that the Authority is also in a better position to assess the benefits of any changes, with reference to the Authority's wider policy objectives and other market developments initiatives.

2. Require SO to invite comments from industry participants on technical and non-controversial changes before submitting for Authority approval

We appreciate that requiring full consultation on all changes to the policy statement and procurement plan may be costly and resource intensive. However, we have reservations about the proposal for the SO to make 'simple' and 'technical' changes to these documents outside of the normal review process and without consultation with industry participants. The decision as to whether a proposal is 'simple' or 'technical' is subjective. Industry participants should have the opportunity to submit their views on whether there are, in fact, wider operational or cost implications from suggested changes to these documents. To address this, we recommend an additional process step that would require the SO to invite comments from participants on the nature of technical changes prior to obtaining approval from the Authority. This additional process step will also assist the Authority in forming an understanding of the full impacts of any changes.

Our responses to the consultation questions are in Appendix A. If you would like to discuss any of these matters further, please contact me on 04 495 6357

Yours sincerely

A handwritten signature in black ink that reads "Lizzie Wesley-Smith". The signature is written in a cursive, flowing style.

Lizzie Wesley-Smith
Regulatory Advisor

Appendix A: Responses to Consultation Questions

QUESTION	COMMENT
<p>Q1: Do you agree with the Authority's evaluation of the proposed changes? If not, what alternative evaluation would you make, and why?</p>	<p>We consider that the majority of cost reductions are likely to stem from removing the requirement for these documents to be reviewed annually. As outlined in our cover letter, we support this aspect of the proposed process.</p> <p>There may be administrative cost savings from allowing the content of these documents to be changed without consultation. However, these types of cost savings need to be carefully weighed against the benefits of ensuring industry participants and the Authority have an appropriate level of control over the performance and procurement of ancillary services.</p>
<p>Q2: Is there an alternative that you consider better meets the objectives of the proposal? If so, please describe the alternative and why you prefer it.</p>	<p>Please refer to the suggested improvements to the Authority's process that we have put forward in our cover letter. Our proposed amendments seek to ensure the process continues to capture the benefits of consultation with participants and better reflects the respective roles of the Authority and the SO in the regulatory framework.</p>
<p>Q3: What comment do you have on the proposed drafting to give effect to the changes proposed by the system operator? Please provide alternative drafting you consider more appropriate (using the table below).</p>	<p>We propose alternative drafting to clauses 8.12A and 8.44A below.</p>

Specific drafting comments

CLAUSE	COMMENT	PROPOSED DRAFTING	ALTERNATIVE
8.44 Technical and non-controversial amendments	<p>Our proposed alternative drafting:</p> <ul style="list-style-type: none"> uses wording that is consistent with section 39 of the Electricity Industry Act 2010 relating to the Authority's ability to make technical non-controversial changes under the Code; and places additional requirements on the SO to submit technical and non-controversial changes to industry participants for comment. 	<p>(1) The system operator may at any time propose an amendment to the procurement plan that it considers is technical and non-controversial by submitting a draft procurement plan to the Authority together with an explanation of the proposed changes.</p> <p><u>(2) in preparing the draft procurement plan the system operator must invite comments from participants on their views of the nature of the changes proposed.</u></p> <p>(3) The Authority must as soon as practicable after receiving a draft procurement plan by notice in writing to the system operator—</p> <p>(a) approve the draft procurement plan to be incorporated by reference into this Code, <u>provided, it is satisfied on reasonable grounds that the nature of the amendment is technical and non-controversial;</u></p>	

CLAUSE	COMMENT	PROPOSED DRAFTING	ALTERNATIVE
<p>8.12A Technical and non-controversial changes</p>	<p>Our proposed alternative drafting:</p> <ul style="list-style-type: none"> • uses wording that is consistent with section 39 of the Electricity Industry Act 2010 relating to the Authority's ability to make technical non-controversial changes under the Code; and • places additional requirements on the SO to submit technical and non-controversial changes to industry participants for comment. 	<p>(1) The system operator may at any time propose a change to the policy statement that it considers is technical and non-controversial by submitting a draft policy statement to the Authority together with an explanation of the proposed changes.</p> <p><u>(2) in preparing the draft procurement plan the system operator must invite comments from participants on their views of the nature of the changes proposed.</u></p> <p><u>(3) The Authority must as soon as practicable after receiving a draft policy statement by notice in writing to the system operator—</u></p> <p>(a) approve the draft policy statement to be incorporated by reference into this Code, <u>provided, it is satisfied on reasonable grounds that the nature of the amendment is technical and non-controversial;</u></p>	