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14 July 2015

John Rampton  
Electricity Authority  
PO Box 10041  
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By email: [submissions@ea.govt.nz](mailto:submissions@ea.govt.nz)

Dear John

## Proposed HVDC variation to the TPM

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Genesis Energy Limited welcomes the opportunity to provide a submission on the consultation paper “HVDC component of Transpower’s proposed variation to the Transmission Pricing Methodology” (the proposed HVDC variation”).

Genesis Energy supports:

- Changing the allocation of HVDC costs for South Island generators from a historic anytime maximum injection (HAMI) charge to a MWh charge.
- Transpower investigating the merits of USI derating separately from the operational review; and
- The proposed four year transition to MWh charge starting from 2016/17.

We have also asked Castalia Strategic Advisors to review the proposed HVDC variation as an addendum to their note on the first set of operational changes.<sup>1</sup> Their addendum is attached.

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<sup>1</sup> Castalia Strategic Advisors, *Analysis of Transpower’s (Initial) Proposed Variations to the Transmission Pricing Methodology*, 2 June 2015 <https://www.ea.govt.nz/dmsdocument/19425>

## Support change to MWh charge

Genesis Energy supports the proposed change from a HAMI to MWh charge for the allocation of the HVDC costs.<sup>2</sup> The changes will redistribute HVDC costs amongst South Island generators. For example, the Tekapo Power Scheme is likely to pay more under the proposed MWh charge than under the current HAMI charge.<sup>3</sup> Nevertheless, Genesis Energy considers the benefits to end consumers of the Proposed HVDC Variation outweigh the cost of the wealth-transfer between generators.

We agree the MWh charge will lead to lower levels of distortion of consumer and generation decisions than under the current HAMI charge. Under the MWh charge, generation decisions will be focussed on energy prices alone. Importantly, the MWh charge should also reduce spot market price volatility as it both reduces peak prices and lifts low priced and/or off-peak energy prices. Lower volatility will send more consistent price signals to both generators and consumers.

We also suggest a change to MWh charge will reduce any distortions on generation investment decisions. Unlike the current HAMI charge, a MWh charge treats all grid-connected South Island generators the same: it does not penalise generators who may provide peak injection.

## Support a separate review of USI derating

Genesis Energy supports postponing any decision on derating the USI until after Transpower has completed a separate review. We agree with the Authority that “there are significant design issues to address, such that it is not clear, at this point, that a per-MWh charge plus USI derating would actually better promote the statutory objective.”<sup>4</sup>

We consider a separate review should helpfully establish the scale, and likelihood, of measures to defer investment in the USI. Insofar as a problem is identified, we are not convinced that derating will suffice to incentivise offsetting behaviour. The impact of HVDC allocations on new-build decisions is unlikely to be material when compared to the more important economic issues such as resource location and demand requirements. Therefore, Genesis Energy would

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<sup>2</sup> Page 4, Genesis Energy submission “Support for proportional changes to fix problems with current transmission cost allocation” dated 22 December 2014

<sup>3</sup> Paragraph 4.2.2 Proposed HVDC Variation

<sup>4</sup> Paragraph 2.6.3 Proposed HVDC Variation

prefer to see Transpower consider more direct, and transparent, market arrangements to defer USI transmission asset investment.

### **Support a sensible transition to MWh charge**

We support the proposed four year transition to MWh charge from 2017/18.<sup>5</sup> The change to MWh charge will have a financial impact on South Island generators, and will have a wider market impact on all generators and consumers. Therefore, it is important for a sensible transition period to be embedded into the change.

### **Importance of this operational review for the Authority's own TPM review**

We consider the operational review is material to the Authority's own TPM review. As acknowledged by the Authority<sup>6</sup>, any operational changes will impact on the counterfactual used to assess any broader change to the TPM. In this regard, Castalia's addendum includes an analysis of the impact of the operational changes to the TPM, including the Proposed HVDC Variation, on the overall scale of problems with the current TPM<sup>7</sup>. They find the operational changes are likely to reduce significantly the inefficiencies that can be addressed by a broader change to the TPM. The Proposed HVDC Variation will, in itself, reduce the inefficiencies with the current TPM from as much as \$43 million to around \$4 and \$9 million.

We also suggest the Authority compare the options in the current TPM options working paper against a TPM improved by the variations to the existing TPM.

If you would like to discuss any of these matters further, please contact me on 04 495 3340.

Yours sincerely



Jeremy Stevenson-Wright  
Regulatory Affairs Manager

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<sup>5</sup> Paragraph 4.1.3 Proposed HVDC Variation

<sup>6</sup> Page 15 TPM Options Working Paper, dated 16 June 2015

<sup>7</sup> As identified in the Authority's TPM Problem Definition Working Paper

## Appendix: Response to questions

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Question	Genesis Energy comment
Q1. Do you have any comments on the problem definition?	See cover letter.
Q2. Do you consider that the proposal is preferable to the status quo and other options? If not, please explain your Preferred option in terms consistent with the Authority's statutory objective.	Yes. For the reasons outlined in our cover letter and the attached addendum from Castalia, we support the change to MWh from HAMI.
Q3. Do you consider that the proposal complies with section 32(1) of the Act, and with the Code amendment principles, and should therefore proceed?	Yes. Please see the attached Addendum from Castalia supporting this view.
Q4. Do you have any comments on the drafting of the proposal?	No.