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Kate Hudson
Electricity Commission
Level 7, ASB Bank Tower
2 Hunter Street
WELLINGTON

By email: submissions@electricitycommission.govt.nz

Dear Kate

High-Level Transmission Pricing Options

Genesis Power Limited, trading as Genesis Energy, welcomes the opportunity to provide a submission to the Electricity Commission on the consultation paper "Transmission Pricing Review: High-Level Options" dated October 2009.

In many respects, it is disappointing that the Commission has launched a review of the transmission pricing methodology only one year into the current methodology. From an investor's perspective, the Commission is sending a poor signal about regulatory stability. The Commission has shown too great a willingness to bow to the complaints of a few participants seeking yet another opportunity to litigate the allocation of HVDC charges.

Genesis Energy is participating in the CEO Forum work on transmission pricing, along with Transpower and many of Transpower's other major customers. This is providing an opportunity for Transpower and its customers to engage at a senior level in a robust and constructive dialogue on the future of transmission pricing.

Genesis Energy encourages the Commission to leverage the Forum's work as far as possible to avoid unnecessary duplication of effort and to ensure that the Commission's work and the Forum's work do not diverge too significantly.

Reflecting the views we have formed through the CEO Forum work to date, Genesis Energy considers that:

- there is a structural South to North flow that is robust to a credible range of future development scenarios;
- consistent with this, the current HVDC charge allocation provides a simple, but broadly appropriate, locational signal to generation investors that should influence grid development towards a least-cost path;
- changing to a full postage stamp methodology (including postage stamp allocation of HVDC charges) would be a retrograde step that would be very likely to increase costs for all consumers in the long-run;
- a “but for” methodology¹ would lead to contentious cost allocation processes for just-in-time upgrades of a grid that is generally too constrained to deliver robust levels of competition or acceptable security;
- a tilted postage stamp methodology applying to load and generation could provide a significantly better locational signal than the status quo and is worth investigating in detail; and
- it is worth reassessing the “depth” of the connection asset definition, along with considering mechanisms for allocating capacity rights to non-regulated investors in transmission assets.

Genesis Energy considers that load flow-based approaches and the “augmented nodal pricing signals” approach described in the Commission’s paper are not suitable pricing options.

Pricing based on load-flow analysis has proven too variable in the past to be able to gain reasonably broad acceptance from Transpower’s customers. The augmented nodal pricing model may have some academic appeal, but the concept of an “optimal” grid would be likely to prove contentious and problematic in practice.

The consultation paper signals that the Commission intends to investigate the treatment of transmission alternatives as part of its review. In Genesis Energy’s experience, weaknesses in the treatment of transmission alternatives to date

¹ As presented to the CEO Forum by MEUG.

have had more to do with Transpower and the Commissions' application of the existing framework than with the framework itself.

Given our ongoing participation in the CEO Forum work on transmission pricing, and our view that scarcity pricing and locational price risk management are higher priorities for the Commission than transmission pricing, Genesis Energy has chosen not to respond to the consultation questions.

If you would like to discuss any of these matters further, please contact me on 04 495 3348.

Yours sincerely

A handwritten signature in black ink that reads "R Parry". The signature is written in a cursive, flowing style.

Ross Parry
Regulatory Affairs Manager
Genesis Energy