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John Rampton  
General Manager Market Development  
Electricity Authority  
2 Hunter Street  
WELLINGTON

By email: [submissions@ea.govt.nz](mailto:submissions@ea.govt.nz)

Dear John

## There is value to improving the clarity and coherence of the regulatory framework

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Genesis Power Limited, trading as Genesis Energy, welcomes the opportunity to provide a submission to the Electricity Authority (“the Authority”) on the consultation paper “Proposed Code Amendment: Regulatory Framework for the Transmission Pricing Methodology” dated 14 February 2011.

### **Genesis Energy supports the Authority’s proposal**

Genesis Energy agrees that the pricing principles in clause 12.79 of the Electricity Industry Participation Code “the Code” should be removed. The pricing principles add unnecessary complexity to the pricing development framework.

### **We suggest further improvements**

We submit that the Authority should also consider the following minor changes that would improve the clarity and coherence of the regulatory framework for transmission pricing. The Code should:

- incorporate the transmission pricing guidelines as a new schedule to Part 12;

- include new clauses dealing with how the Authority may amend the transmission pricing guidelines; and
- more clearly set out that, although the Authority may review the transmission pricing methodology, it may not amend the transmission pricing methodology.

### Our understanding of the framework

The regulatory framework set out in the Code delineates the roles of Transpower and the Authority such that:

- the Authority's principal responsibility is to develop pricing guidelines and process requirements;
- Transpower is responsible for developing the transmission pricing methodology and making any amendments; and
- the Authority is responsible for accepting any methodology proposed by Transpower that is consistent with the pricing guidelines<sup>1</sup>.

The Code provides for either Transpower or the Authority to review an existing transmission pricing methodology. However, if the Authority wishes to review a methodology then it must show that the review is prompted by a material change in circumstances and it must follow a process whereby Transpower is responsible for proposing any changes and the Authority is responsible for approving those changes.<sup>2</sup> As such, the Authority's "lever" for causing a transmission pricing methodology to be changed is to amend the pricing guidelines.

### Recommended improvements

Genesis Energy recommends the improvements set out below.

#### Codify the pricing guidelines

We submit that, given the central role of the pricing guidelines within this regulatory framework, it would be sensible to incorporate the pricing guidelines into the Code. We note that the current March 2006 version of the pricing

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<sup>1</sup> The methodology must also be consistent with the statutory objective in section 15 of the Electricity Industry Act 210 and with any determination made by the Commerce Commission under Part 4 of the Commerce Act 1986.

<sup>2</sup> Clause 12.91(2) provides the Authority with a backstop power to amend a proposed methodology if Transpower has twice submitted a methodology that the Authority considers does not conform to the requirements set out in the pricing guidelines.

guidelines is not even readily located on the Authority's website. The guidelines have been moved to the "archive" section of the website, even though they should remain the point of reference for any changes to the transmission pricing methodology that Transpower may wish to propose.

#### More clearly codify the guidelines amendment process

We submit that, given amendment of the pricing guidelines is the Authority's principal lever for effecting a change to the pricing methodology, it would be sensible to include clearer provisions dealing with the process for amending the pricing guidelines. Clauses 12.81 to 12.83 provide requirements that were drafted in anticipation of the process for developing the initial 2004 transmission pricing methodology. It can be inferred that these requirements carry across to any subsequent amendment process, but it would be useful to set this out explicitly. We note that if the pricing guidelines are incorporated into the Code, then the Authority's normal Code change requirements will apply. However, it would be useful to supplement these given that cost allocation on the scale involved in adjust transmission pricing may justify additional procedural requirements.

#### Clarify the respective roles of the Authority and Transpower

We submit that it would be useful to amend clause 12.86 "Review by the Authority" to make it clearer that Transpower develops transmission pricing methodologies and the Authority, in effect, can only change a methodology by changing the pricing guidelines.

We believe that the three changes above would make the regulatory framework clearer and, consequently, less likely to lead to disagreement regarding the relative roles of Transpower and the Authority.

#### **Changes would assist the current review process**

Genesis Energy appreciates that the Authority is part way through a project of assessing the current pricing methodology, however we consider that the changes we have proposed would assist that project by clarifying the regulatory framework. To date, it has been easy to gain the impression that the Authority considers itself responsible for the detail of the pricing methodology. While the principles could be developed to provide more detailed guidance than the present version, it would be useful have clarity regarding whether this is the Authority's intention. We also consider that it remains appropriate for the Authority to focus on high-level guidelines.

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