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Carl Hansen
Electricity Authority
2 Hunter Street
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By email: submissions@ea.govt.nz

Dear Carl

Strong call for regulatory certainty strengthens the case to finalise decision-making framework

Genesis Power Limited, trading as Genesis Energy, welcomes the opportunity to provide a cross-submission to the Electricity Authority ("the Authority") on the consultation paper "Decision-making and economic framework for transmission pricing methodology review" dated 26 January 2012.

Strong call for regulatory certainty

A key theme arising from the majority of the submissions is the considerable degree of regulatory uncertainty resulting from the on-going review of the transmission pricing methodology (TPM). Regardless of submitters' views on the suitability of the framework and its hierarchy of allocation methodologies, it is clear that all parties are seeking a timely resolution of this issue.

We support the point raised by Transpower that:

"a major structural change to the TPM would consume considerable scarce resources within the EA and across the industry at a time when the EA has far more urgent priorities that have the potential to provide greater long-term benefit to consumers."¹

¹ Page 2 of Transpower's submission, 24 February 2012.

The Authority has a large and ambitious work programme for 2012/13 onwards² and there are a number of other priority projects such as intra-island locational price risk that we consider that the Authority should focus its resources on. In addition, we recognise the difficulties that many consumer groups such as Carter Holt Harvey³ face with resourcing and contributing to this on-going work stream.

We encourage the Authority to finalise the decision-making and economic framework (“the framework”) in a timely manner⁴ and not to be unduly swayed by the lobbying of parties who seek to draw the process directly into a further detailed re-litigation of HVDC pricing, yet still claim to want regulatory certainty.

Compelling case needed to move away from status quo

We support the views put forward by Vector, Contact, Orion and the Domestic Energy Users’ Network (DUEN) that there must be compelling evidence to justify a move away from the status quo for TPM. It is imperative that decisions are made on the basis of clearly demonstrated and material efficiency gains and the Authority must recognise that it is not dealing with a “blank sheet”.⁵ We agree with PowerCo’s statement that:

“any revisions to TPM [should] avoid increasing complexity unnecessarily, or reduce the transparency of the approach without a clear potential for improvement in dynamic efficiency”.⁶

A decision made on material efficiency gains is necessary for a stable and enduring TPM that will provide the regulatory certainty sought by the industry. We expect that the Authority will robustly apply its Code Amendment Principles, in particular need for a “clearly identified efficiency gain or market or regulatory failure” (principle two) and a quantitative cost benefit assessment (principle three), when progressing options for the TPM review.⁷

² As set out in the Authority’s consultation paper, *2012/13 Appropriations, Authority Path to CRE, and EECA work programme*, 29 November 2011, and as discussed at the Regulatory Manager and Consumer Representative meeting on 1 March 2012.

³ Carter Hold Harvey Pulp and Paper Limited submission, 24 February 2012.

⁴ As sought by Pan Pac Forest Products Limited, PowerCo.

⁵ Page 4 of Unison Network Limited’s submission, 24 February 2012.

⁶ Page two of PowerCo’s submission, 24 February 2012.

⁷ *Consultation Charter*, Electricity Authority, 20 December 2010.

Dynamic versus static efficiency

As noted by many submitters, the consultation paper is unclear on the Authority's prioritisation of dynamic efficiency versus static efficiency. We endorse the view put forward by Rio Tinto Alcan that it is "generally accepted that consumers are better served through pricing structures that maximise dynamic efficiency, even if that may lead to a short-term loss of static efficiency."⁸

Do not support majority view of TPAG

A number of submitters⁹ have taken the opportunity to restate their support for the majority view of the Transmission Pricing Advisory Group (TPAG) and have expanded upon why they believe that a transition to a postage stamp methodology for HVDC charges is the best way forward. We consider that this approach has unhelpfully diverted the focus away from the suitability of the Authority's decision-making framework and has overstated the industry support for the TPAG recommendations.

We support the views raised by consumer groups, major industrial users and Vector that:

- "the TPAG did not provide a comprehensive and durable framework for making decisions about the TPM";¹⁰
- the approach by the Authority to step back from the detail and work of TPAG is a sensible approach;¹¹ and
- "at best, the TPAG review demonstrates a case has not been made to justify changes to the [TPM]."¹²

Vector also usefully highlights the impact of wealth transfers on the Authority's decisions, noting that "the impact of wealth transfers between consumer and producers can outweigh efficiency considerations in the calculation of the net benefits to consumers in certain circumstances".¹³ We remain strongly of the

⁸ Page 2 of Rio Tinto Alcan's submission, 24 February 2012.

⁹ Mighty River Power, Meridian Energy, Trustpower and Contact Energy.

¹⁰ Page 2 of Rio Tinto Alcan's submission, 24 February 2012.

¹¹ Major Electricity Users' Group submission, 24 February 2012.

¹² Page 15 of Vector's submission, 24 February 2012.

¹³ Page 14 of Vector's submission, 24 February 2012.

opinion (consistent with that held by many submitters)¹⁴ that wealth transfers from consumers to South Island generators are not justified.

Process going forward

Submitters have raised concerns with the Authority's process for the TPM review, noting that insufficient time has been allocated to this consultation round¹⁵ and that the Authority's Board should consider a public hearing where it can question submitters directly.¹⁶ The Authority, in response, has offered to meet with submitters or groups of submitters following the cross-submission process.

While parties may find it beneficial to have additional input at this stage, we consider that there would be limited value in a workshop or public hearing now. We recommend that the Authority should focus on finalising the framework in timely manner and should instead hold a public hearing or workshop on the selected TPM options that are put forward for consideration in June 2012. This would provide parties with the opportunity to more effectively engage on the application of the framework and the details of the Authority's proposed TPM option(s).

We are sympathetic to the point raised by Carter Holt Harvey¹⁷ that the Authority should consider how it can assist consumer groups to participate effectively in future consultation. It is important that all affected parties are represented in the Authority's deliberations and that a balanced view can be put forward.

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

¹⁴ Orion submission, 24 February 2012.

¹⁵ Contact Energy submission, 24 February 2012.

¹⁶ Rio Tinto Alcan's submission, 24 February 2012.

¹⁷ Carter Hold Harvey Pulp and Paper Limited submission, 24 February 2012.