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

Genesis Power Limited
trading as Genesis Energy

Fax: 04 495 6363

2 November 2012

Androula Dometakis,

General Manager Corporate Services

Electricity Authority

2 Hunter Street

WELLINGTON

By email: submissions@ea.govt.nz

Dear Androula

2013/14 Appropriations and Work Priorities

Genesis Power Limited, trading as Genesis Energy, welcomes the opportunity to provide a submission to the Electricity Authority on the "2013/14 Appropriations and Work Priorities" consultation paper dated 24 September 2012 ("the 2013/14 Appropriations Paper").

Efficiency gains from operation costs

A key organisational development strategic priority for the Authority is "delivering productivity and quality gains at the Authority and its service providers". [1] We consider that, as a basic principle, the management of the Authority's own costs, and those of service providers, are key measures of success against this priority.

Therefore, while we are pleased to see that the Authority's operational costs are not forecast to increase from the 2012/13 budget,[2] we are disappointed that the Authority has not yet taken advantage of removing costs following the Section 42 achievements, nor demonstrated clear efficiency gains in how it manages its own operating costs.[3] We have previously noted our expectation that the Authority should demonstrate efficiency gains or increased value for money, given its

[1] Electricity Authority Statement of Intent 2012-2015

[2] Table 2, 2013/14 Appropriations Paper

[3] Table 2, 2013/14 Appropriations Paper: external advice costs decrease from $8 million (2012/13 budget) to $6.9 million (2013/14 forecast), but personal costs increase from $8.5 million to $9.5 million.

narrower set of functions, tighter statutory objective and greater use of advisory groups for market development work, when compared to the previous Electricity Commission.[4]

Ensuring that service providers are demonstrating value

Of obvious note is the continued increase in service provider costs, both from the System Operator and from other service providers. While we support the review of the System Operator arrangements, the increase in costs for 'other service providers' by 14% in 2013/14 (discounting the costs of establishing the new FTR market) should be closely scrutinized, both in terms of minimising and reducing costs while ensuring tangible customer and market benefits are achieved.

Embedding and enhancing the role of advisory groups

We agree that "embedding and enhancing the effectiveness of advisory groups" should be a key priority for the Authority as utilising the skills of the sector is an essential tool if the Authority is to deliver on its statutory objective.

We suggest, however, that the current use of the Wholesale and Retail Advisory Groups can be substantially improved in three ways:

1. Ensure that Advisory Groups are representative of the sector on key issues when there is consideration of issues that have the potential to fundamentally affect the operation of the market. This is most concerning when some of the largest operators in particular segments are not represented effectively on either Advisory Group. We suggest that this concern can be addressed by enabling stakeholders, who have a clear interest in a topic, to 'opt-in' to the group on these issues.

2. Embedding the independence of Advisory Groups to enable them to evaluate proposals directly from participants, and if those proposals are found to be meritorious, develop and recommend them to the Authority. This could be achieved through the empowerment of the groups to identify and prioritise their own agenda. This should not restrict the ability for the Authority to request a review from the Advisory Groups on specific issues – but we consider that this should be the exception rather than the norm.

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[4] *Genesis Energy supports the Authorities focus on implementing the Ministerial Review*, Genesis Energy submission to the Electricity Authority, 22 December 2012

3. The Advisory Groups should also be used to test any assumptions on the possible benefits and costs of market improvement projects. Although the current "initial assessment" undertaken by the Authority for new projects is a good start, we consider a more robust assessment should be undertaken for a project to be developed. We suggest that the Advisory Groups would be a good forum for providing this assessment

Ambitious work programme

The Authority has outlined a very ambitious work programme. There are twenty 'top priority' projects for completion in 2013/14, 22 second and third priority projects, and a further eight projects that are expected to be underway during that year, but completed in 2014/15. Such an ambitious work programme raises concerns as to achievability, resourcing and implementation costs for the Authority, and for market participants, and in the prioritisation of the programme.

We would encourage the Authority to operate within the confines of the resources reasonably available to it, and to not unnecessarily overextend its work programme as this both over extends the Authority and market participants. To this extent, we suggest that the Authority review its work programme to identify those projects that are most likely to deliver substantial efficiency gains to the operation of the market for the long term benefit of consumers.

Adapting to regulatory change takes time

The last two years has been a very active period of reform for the electricity sector. Although many of these reforms have been completed, a number of substantial reforms still require implementation and participants to not only change the way that they participate in the market, but to also develop specific resources or dedicated teams. For example, Genesis Energy has created specific roles and functions to actively participate in the ASX Futures market.

These changes require time and money to be effectively incorporated into participant's strategies and businesses. We suggest that the Authority should take account of the impact of these changes on participants when considering the work programme.

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