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21 May 2010

Alex Sim  
Commerce Commission  
44 – 52 The Terrace  
WELLINGTON

By email: Alex.Sim@comcom.govt.nz

Dear Alex

## Non-Part F Capital Expenditure Threshold

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Genesis Power Limited, trading as Genesis Energy, welcomes the opportunity to provide a submission to the Commerce Commission (“the Commission”) on the consultation paper “2010/11 Non-Part F Capital Expenditure Threshold for Transpower” dated 11 May 2010.

As an electricity generator and nationwide electricity retailer, Genesis Energy has a strong interest in Transpower’s level of investment and ongoing development of the transmission grid. A reliable and reasonably unconstrained transmission grid is vital in supporting a competitive electricity market that delivers competitive prices to consumers.

Genesis Energy supports the Commission’s preliminary view to provide Transpower with a capital expenditure threshold of \$225.6 million for the 2010/11 year, rather than the \$246 million sought by Transpower. Genesis Energy is not in a position to scrutinise Transpower’s non Part F capital expenditure in any detail, but considers that the Commission appears to have weighed up the appropriate factors in reaching its’ preliminary view.

### **Incentivising Performance versus Need for Investment**

Genesis Energy believes the Commission needs to carefully balance the need for greater investment in the transmission grid against the incentives necessary to encourage Transpower to improve its asset management practices. The Strata

report<sup>1</sup> identified some substantive concerns with Transpower's project planning processes, project management functions and its poor historical record in delivering against budget. Genesis Energy also notes that it is Transpower's historic under-expenditure on maintenance which has led to Transpower requiring much higher levels of refurbishment expenditure in 2010/11 onwards.

While we acknowledge the improvements Transpower has made to its internal processes and asset planning strategies, we believe the Commission is warranted in reducing the 2010/11 threshold from what was originally proposed. It is important that the Commission seeks greater efficiencies and cost savings from Transpower's project planning processes so that Transpower is incentivised to lift its performance. Notwithstanding this, Genesis Energy does not recommend setting a threshold equal to or lower than the past financial year, as substantive investment is needed to address historical deferred maintenance and to ensure the whole of life costs for assets are reduced.

#### **Flexibility in planning process**

While it is preferable that Transpower identifies all projects before the commencement of the 2010/11 year, Genesis Energy recognises that this is not always possible. It is vital that Transpower has some flexibility to undertake unplanned projects and recover the associated expenditure, when the projects are in the best interests of the industry and consumers. Genesis Energy believes the ex-post approval mechanism discussed by the Commission is an appropriate way to address this situation.

If you would like to discuss any of these matters further, please contact me on 04 495 6354.

Yours sincerely



Karen Boyes

Senior Regulatory Advisor

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<sup>1</sup> Review of Transpower's 2010/11 Non Part F Capital Expenditure Plans (First Draft), Strata Energy Limited, April 2010.