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25 August 2010

Karen Murray  
Commerce Commission  
PO Box 2351  
WELLINGTON

By email: [regulation.branch@comcom.govt.nz](mailto:regulation.branch@comcom.govt.nz)

Dear Karen

## Cross Submission on Input Methodologies and Individual Price-Quality Path for Transpower

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Genesis Power Limited, trading as Genesis Energy, welcomes the opportunity to provide a cross submission to the Commerce Commission ("Commission") on the consultation papers "Input Methodologies Transpower: Draft Reasons Paper" and "Individual Price-Quality Path Transpower: Draft Reasons Paper" dated June 2010.

### Instantaneous Reserves

Genesis Energy agrees with the Major Electricity User Group and Contact Energys' opposition to the fourteen day grace period for the recovery of reserve costs when there is an HVDC Pole outage. Genesis Energy sees no reason for the selection of fourteen days and queries whether this is an arbitrary number. Fourteen days equates to around 4% of a total year and in itself would represent an unsatisfactory quality standard for availability. We note that Transpower also oppose the grace period even though it would be to their benefit.<sup>1</sup>

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<sup>1</sup> Transpower (2010), "Key points summary – Submission to the Commerce Commission", from <http://www.comcom.govt.nz/assets/Pan-Industry/Input-Methodologies/Transpower-Draft-Decisions/Transpower-Submission-on-Transpower-Input-Methodologies-Draft-Determination-and-Reasons-Paper-Key-Points-Summary-9-August-2010.PDF>, p. 9

In Genesis Energy's "Submission on Input Methodology and Individual Price-Quality Path for Transpower"<sup>2</sup> dated 6 August 2010 it was highlighted that the main value in exposing Transpower to reserve costs would be to incentivise high quality maintenance of the HVDC link. Accordingly, Genesis Energy would like to reiterate its submission to the Commission that "Transpower should be able to recover all reserves costs other than those occurring during a forced outage of an HVDC pole."

### IR as Operational Expenditure

Genesis Energy disagrees with Meridian Energy's submission that instantaneous reserves should form part of Transpower's operational expenditure ("opex") but agrees that the Commission could have provided a more thorough explanation for its apparent reversal from favouring the treatment of reserve costs as opex in 2009 to treating them as a recoverable costs in the Draft Decisions.

If Transpower is required to treat IR as opex then it may defer other opex in order to cover large increases in reserve costs that are out of Transpower's control. Genesis Energy's initial submission mentioned that IR costs are influenced by other generators. As such, Genesis Energy continues to recommend that Transpower is able to recover IR costs except for those occurring during an outage.

Contact Energy submits that:

"IR costs attributable to HVDC projects must be capitalised as part of project costs **not** treated as recoverable, pass-through or OPEX. This should occur during the transitional period as well as post settlement."<sup>3</sup>

Genesis Energy disagrees with this submission. Reserve costs resulting from an HVDC project are not purely attributable to Transpower. Generator behaviour, market design and the availability of key grid assets are all important determinants of reserve costs and cannot be managed by Transpower.

### **EV Account**

Genesis Energy agrees with Meridian's submissions in favour of a single maximum allowable revenue requirement for each of the HVDC and HVAC

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<sup>2</sup> Genesis Energy (2010), "Submission on Input Methodology and Individual Price-Quality Path for Transpower", from <http://www.comcom.govt.nz/assets/Pan-Industry/Input-Methodologies/Transpower-Draft-Decisions/Genesis-Energy-Submission-on-Transpower-Input-Methodologies-Draft-Determination-6-August-2010-.PDF>, p. 4

<sup>3</sup> Contact (2010), "Submission on draft determination and input methodologies for Part 4 regulation of Transpower", from <http://www.comcom.govt.nz/assets/Pan-Industry/Input-Methodologies/Transpower-Draft-Decisions/Contact-Submission-on-Transpower-Input-Methodology-Draft-Determination-9-August-2010.PDF>, p. 6

accounts<sup>4</sup> and in favour of Transpower disclosing its methodology for allocating costs to HVDC or HVAC accounts. Genesis Energy agrees with Meridian that Transpower's reporting on these matters has been less than desirable in the past.

### Major Capital Investments

Genesis Energy submitted that a \$5 million threshold for major capital expenditure ("capex") is far too low and recommended a threshold of \$20 million be adopted. Transpower's submission supports this figure and Genesis Energy agrees that Transpower must have the incentives to plan and invest "in the most efficient and innovative way possible"<sup>5</sup> rather than risking regulatory hold-up. Genesis Energy would like to reiterate its support for setting the threshold at \$20 million, a figure consistent with the 2009 Government Policy Statement.

If you would like to discuss any of these matters further, please contact me on 04 495 6357.

Yours sincerely



John Bright  
Regulatory Affairs Analyst

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<sup>4</sup> Meridian Energy (2010), "Submission on Transpower's input methodologies determination and draft reasons paper", from <http://www.comcom.govt.nz/assets/Pan-Industry/Input-Methodologies/Transpower-Draft-Decisions/Meridian-Submission-on-Transpower-Input-Methodologies-Draft-Determination-and-Reasons-Paper-Public-9-August-2.PDF>, p. 22

<sup>5</sup> Transpower (2010), op. cit., p. 6