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Dear Gareth

## Draft Government Policy Statement on Electricity Governance

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Genesis Power Limited, trading as Genesis Energy, welcomes the opportunity to provide a submission to the Ministry of Economic Development on the February 2009 draft Government Policy Statement on Electricity Governance.

Genesis Energy generally supports the changes proposed to the Government Policy Statement. The overall theme of the amendments appears to make relatively easy, incremental, and uncontroversial changes as a precursor to more substantive changes to come later (possibly emerging from the work of the proposed Ministerial Advisory Group on the electricity industry).

### **Specific Comments**

While supporting the proposed amendments, Genesis Energy considers that additional changes could be made now that would further improve the overall quality and focus of the Government Policy Statement. These changes are as set out below.



- Some issues retained in the Government Policy Statement arguably divert the Electricity Commission's attention from moving to a more strategic focus more quickly. Examples include:

(a) retailer insolvency (paragraph 46). This issue has been languishing on the Electricity Commission's list of work 'priorities' since its inception and, in the absence of a clearly defined market failure, should be deleted and left to the discretion of the regulator as to its future importance and priority;

(b) transparency of charge components in domestic consumer contracts (paragraph 39). Genesis Energy makes the same comments as for (a) above; and

(c) transmission alternative funding (most of paragraph 95 and all of paragraph 96). Both the appropriate weight to be given to transmission alternatives (by both Transpower and the Electricity Commission) as well as the practicalities of the implementation of an approach to transmission alternatives have proven to be intractable problems with little real sense of progress made or likely. Transpower and Electricity Commission are already obliged to consider transmission alternatives under the market rules and the Government Policy Statement should be further amended to read:

"As part of the consideration of transmission investments where the total cost of a project is more than \$20M, the Commission should ensure that transmission alternatives are considered to the extent practicable."

- In the interests of brevity, removal of the 'contextual' or 'adveritorial' elements of the draft Government Policy Statement should be considered. Widespread awareness of the Government Policy Statement and its purpose means that the Government Policy Statement no longer needs to serve as a communication tool, but should be solely refocused to the Electricity Commission. While significant progress has been made in this draft, further improvements could be made, for example:

(a) background information on the low fixed charge regulations (paragraph 42);

- (b) the description of work previously undertaken in the energy efficiency area (paragraph 55) as well as the range of agencies involved (paragraph 56); and
- (c) the description of the Resource Management Act (paragraph 93).
- Clarification of the extent to which security of supply is the new Government's top priority. Genesis Energy notes that it is difficult to discern the extent to which, if at all, shifting this section of the Government Policy Statement (from section 6 to 2) achieves the Ministry of Economic Development's stated objective to:

"Emphasise the priority the government accords to security of supply policy."

To rectify this, Genesis Energy proposes the first sentence of paragraph 10 be amended to read:

"Maintaining electricity security of supply is a prime focus of the new Government's energy policy and must be afforded due regard by the Electricity Commission."

In addition to this clarification, Genesis Energy would consider it helpful if:

- (a) the obvious aspects of the security of supply section as related to the operation of the reserve energy scheme, such as those that facilitated the Electricity Commission capping the market price (paragraph 31), were deleted; and
- (b) the Government Policy Statement required the Electricity Commission to canvass the possible security of supply impacts of the proposed emissions trading scheme. Given the pending introduction in Australia of an emission trading scheme, the Australian Energy Market Commission determined that a review was desirable. This review tested whether energy market frameworks are resilient to the changes in behaviour that will result from the implementation of the scheme and an expanded national Renewable Energy Target.<sup>1</sup>

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<sup>1</sup> The AEMCs first interim report can be found at the following website:  
<http://www.aemc.gov.au/pdfs/reviews/Review%20of%20Energy%20Market%20Frameworks%20in%20light%20of%20Climate%20Change%20Policies/First%20Interim%20Report.pdf>

New Zealand's energy markets are entering a period of profound and potentially rapid change with the likely introduction of significant new policies to address the risks of future climate change. These policies will directly affect behaviour and investment in gas and electricity markets and may well alter the structure of the energy sector over time as New Zealand moves towards less carbon-intensive forms of electricity generation. This, in turn, will result in active responses by electricity and gas consumers seeking to play a role in reducing carbon emissions. But no urgency has been afforded a review in New Zealand.

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

Yours sincerely



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