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Commerce Commission

By email: regulation.branch@comcom.govt.nz

Our process, framework and approach for setting Transpower's expenditure allowances, quality standards and individual price-quality path for 2020-25

Genesis Energy Limited (**Genesis**) welcomes the opportunity to provide a submission to the Commerce Commission (the **Commission**) on the consultation paper *Our process, framework and approach for setting Transpower's expenditure allowances, quality standards and individual price-quality path for 2020-2025 (consultation paper)* dated October 2018.

We appreciate the engagement to date on Transpower's third regulatory control period (**RCP3**). As a customer, we have provided feedback to Transpower regarding RCP3 in the submissions attached as Appendix 1. We recommend the Commission considers these and all other stakeholder submissions as it moves through the next phase of its process.

Transmission investment for net zero emissions by 2050

In particular, we recommend the Commission takes note of the comments provided by ourselves and others e.g. Mercury and Meridian Energy on the need to anticipate the considerable investment and resourcing that will be required to ensure the transmission system is ready to enable New Zealand's transition to a low emissions economy.

Transpower has predicted a doubling in electricity demand by 2050, which will require a significant increase in transmission investment - in the right place, at the right time - to accommodate. Facilitating transmission and generation investment is a challenge that New Zealand must address, and this should be acknowledged in regulatory processes such as planning for RCP3.

It should also be addressed outside the scope of this consultation paper and as such, Genesis is advocating for change to the National Policy Statement and broader resource consenting framework, including considering how transmission corridors could be more efficiently developed.

A robust asset health and criticality-linked investment framework is key

Genesis, and others, have also highlighted the importance of a robust asset health and criticality framework. This includes making comments on key performance indicators e.g. service performance targets and the need to provide sufficient differentiation (and priority) for generation

assets and the impact of their outages on the wider electricity system. It also includes developing grid output measures that reflect customer preferences.

To this end, we fully support the Commission's position in the consultation paper that, 'a well-functioning transmission asset owner should understand the criticality of its assets and that this should be used to inform an investment decision-making framework; a framework that also has considerations of asset health informing the outage impact.'

A risk-based asset management approach such as this will ensure, as noted by the Commission, that investment decisions are robust and defensible. In our view, this provides crucial transparency and accountability for a monopoly asset owner trusted with spending consumers' funds, and as such, should also be extended to electricity distribution businesses in the upcoming distribution price path reset process.

Genesis also supports the Commission to be guided by whether Transpower's proposal is consistent with that of a 'prudent supplier', and, accordingly, using a range of tools to apply proportionate scrutiny to forecast expenditures for RCP3. This should provide an avenue to ensure that Transpower is planning for the necessary transmission investment for RCP3 and beyond, including out to 2050, as noted above.

If you would like to discuss any of these matters further, please contact me by email: margie.mccrone@genesiseenergy.co.nz or by phone: 09 951 9272.

Yours sincerely



Margie McCrone
Senior Advisor, Government Relations and Regulation

Appendix 1: Genesis Energy submissions on RCP3

31 August 2018

Transpower

By email: RCP3@transpower.co.nz

Securing our Energy Future 2020 – 2025

Genesis Energy Limited (**Genesis**) welcomes the opportunity to provide a submission to Transpower on the consultation paper *Securing our Energy Future 2020-2025: Regulatory Control Period 3 – Draft Proposal for Consultation* (**consultation paper**) dated July 2018.

We appreciate Transpower's engagement to-date as it works towards its third regulatory control period (**RCP3**), including the consideration of stakeholder feedback provided on the engagement papers and the recent stakeholder workshop. Generally, we support Transpower's RCP3 proposals. We are however concerned that RCP3 does not provide a clear pathway for the future in which Transpower envisages significant electricity demand growth requiring a doubling in the current generation capacity.

We are not so ambitious in our demand projection for a decarbonised New Zealand but we do agree that new renewable electricity generation will be needed as thermal generation is retired and other sectors e.g. transport electrify. We also agree that addressing security of supply risks will be a key challenge for the sector as it transitions to more renewable generation.

For new generation investment to proceed, and to do so in a way that balances the reliability of New Zealand's electricity system with affordability and sustainability requirements, the transmission investment required to facilitate it must be anticipated. Accordingly, we consider that Transpower should reconsider the extent to which RCP3 takes a business as usual approach when it should better reflect the step-up in transmission investment that will be needed in the years to come.

Please find our responses to the consultation paper questions attached as Appendix A. If you would like to discuss any of these matters further, please contact me by email: margie.mccrone@genesisenergy.co.nz or by phone: 09 951 9272.

Yours sincerely



Margie McCrone

Senior Advisor, Government Relations and Regulation

Appendix A: Responses to Consultation Questions

QUESTION	COMMENT
<p>Q1: Our view of the future has implications for how we plan for and maintain the National Grid. Do you agree with our assessment of New Zealand's energy future? If not, what other factors should we be considering when planning for the future of the grid?</p>	<p>Transpower's view of the future is generally in line with the Genesis view of the future, albeit with more aggressive demand growth. We agree that electrification and decarbonisation will require significant investment in new generation, and we are also concerned with the challenge in addressing dry year risk in the future.</p> <p>Noting Transpower's aggressive demand growth assumptions, we believe there is insufficient focus in the consultation paper on how to facilitate new generation coming online. It is our view Transpower should consider this further before finalising its RCP3 proposal.</p>
<p>Q2: We would welcome your views on our Enhancement and Development forecasting approach and assessment of the uncertainties.</p>	<p>We are comfortable with the forecasting approach i.e. the use of high and low scenarios to produce a range, as well as the use of a midpoint.</p> <p>We do however note that enhancement and development (E&D) investment is significantly cut back in RCP3, with a big focus on maintenance in the five-year period. The 'high expenditure forecast' appears low considering the assumptions that new generation will be required, and the emphasis on possible generation investment timing and resultant transmission interconnection constraints should be reconsidered.</p> <p>We consider Transpower should explore a mechanism through the capex input methodology to incentivise decarbonisation considering the transmission cost hurdle that is a barrier to building new renewable generation. This could form part of the revenue allowance allowed under the E&D portfolio.</p>
<p>Q3: We've identified key challenges for the grid through RCP3. We are interested in your views regarding these, or other challenges you consider important.</p>	<p>We consider the identification of key challenges including reconductoring, tower painting and labour constraints is appropriate.</p>
<p>Q4: We would welcome your views on our expenditure plans for RCP3 and their revenue impact.</p>	<p>We expect to see a reduction in operational costs following the significant organisational improvements and benefits flowing from new technology e.g. the recent capital investments</p>

	in the conversion of outdoor switchyards to indoor GIS switchboards.
Q5: Do you think the proposed service performance targets are appropriate for RCP3 in the context of the expenditure plan? Please explain your rationale, and any changes you would propose.	We support the categorisations for GP1 and GP2 that provide sufficient differentiation and priority for generation assets. We also support the targets for AP1 and AP2. For more of our views on 'AP3: Return to Service Time' please refer to our June 2018 submission on <i>Service and asset health engagement paper 3</i> .
Q6: Do you think the proposed asset health targets are appropriate for RCP3 in the context of the expenditure plan? Please explain your rationale, and any changes you would propose.	We consider the targets are appropriate, having been through the consultation process.
Q7: Do you agree with how we've applied the effectiveness ratios in the setting of asset health targets? Please explain your rationale, and any changes you would propose.	We consider the effectiveness ratios to be reasonable and pragmatic. We suggest that a criticality factor should be added to the bundling approach.
Q8: We would welcome your views on any other areas that could be suitable for price quality testing.	No comment.
Q9: We would welcome your views on the quality indicators we have used. Are they clear, and are we missing anything important?	No comment.
Q10: What are your views on the balance between price and quality for RCP3 and beyond?	No comment.
Q11: Are there any areas where you think Transpower should avoid or embrace increases or decreases in quality (e.g. environmental impact of operations, innovation and technology adoption, network communications, distributed generation support)?	We consider Transpower should undertake work wherever possible outside of 'normal hours' e.g. overnight or during the weekend to minimise disruptions.
Q12: What options are available to Transpower's customers to mitigate risks and, in doing so, support Transpower to enable a tighter price-quality position?	We would like to see greater opportunities for customers such as ourselves to input into the design phase of projects that require the integration of assets or data e.g. DSE project. This would deliver more efficient and effective design outcomes.
Q13: Would you prefer a smoothed transmission revenue path? Please explain your rationale.	Yes, as this appears reasonable.
Q14: Do you have any preferences for how we smooth revenue? Please explain your rationale.	No comment.
Q15: Would you prefer wash-ups and incentive adjustments to be carried across control periods or	We would prefer them to be carried across control periods as this rationalises effort.

applied annually? Please explain your rationale.	
Q16: We would welcome your views on the principles we should apply to designing RCP3 service performance incentives.	We suggest Transpower considers the criticality of generation points, and applies a higher standard of service to those generation points with greater megawatts connected.
Q17: We would welcome your views on the principles we should apply to designing RCP3 asset health performance incentives.	Generally, as a direct connect party we need to have visibility of asset health, and particularly, those assets directly affecting our business e.g. the 220 kilovolt Rangipo GIS. For more of our views on asset health performance incentives, please refer to our June 2018 submission on <i>Service and asset health engagement paper 3</i> .
Q18: Do you support our proposed use of the listed project mechanism for large reconductoring projects? Please explain your rationale.	We consider this is reasonable because the process is already underway and would manage similar risks e.g. project cost uncertainty.
Q19: Would you prefer use of the listed project mechanism for HVDC Pole 2 life extension work? Please explain your rationale.	See response to Q18.
Q20: We would welcome your views on the merits of addressing reconductoring delivery risk using the low incentive rate mechanism instead of deferral.	In principle we are comfortable with managing delivery risk using the low incentive rate mechanism instead of deferral.

28 June 2018

Transpower

By email: RCP3@transpower.co.nz

Service and asset health engagement paper 3

Genesis Energy Limited (**Genesis**) welcomes the opportunity to provide a submission to Transpower on the engagement paper *Service and asset health engagement paper 3* dated June 2018.

We appreciate Transpower's engagement to-date as it works towards the third regulatory control period (**RCP3**) and your consideration of stakeholder feedback provided on *Service engagement paper 2* dated April 2017.

We provide comments on baseline targets for service performance measures and new proposed asset health measures attached as Appendix A. If you would like to discuss these comments or any other matters further, please contact me by email: margie.mccrone@genesisenergy.co.nz or by phone: 09 951 9272.

Yours sincerely



Margie McCrone
Regulatory Advisor

Appendix A: Responses to Consultation Questions

QUESTION	COMMENT
Q1: Do you consider that revenue-linked asset health targets could be superior to works delivery targets?	We consider asset revenue-linked targets could be superior to works delivery targets provided they also consider asset criticality as a component.
Q2: As a result of previous engagement feedback, we have reviewed the point of service (POS) categories and sub-categories. Do you agree with the proposed refinements to the POS categories and sub-categories for RCP3? Please explain your rationale for your answer.	Yes, we agree. In our view, the proposed refinements better categorise and recognise security risk and the financial impacts of interruptions.
Q3: Do you agree with the proposed baseline targets for these measures? Please explain your rationale for your answer.	We are comfortable with the proposed targets with the changes in categorisation.
Q4: Do you support both, one, or none of the options to account for the planned HVDC works in the proposed baseline target? Please explain your rationale for your answer.	We support Option A. This option requires active management of the <i>Pole 2</i> project to meet targets where Option B excludes any unavailability associated with <i>Pole 2</i> .
Q5: Do you agree with the proposed baseline targets for this measure? Please explain your rationale for your answer.	Yes, we agree. We consider the baseline targets are acceptable based on the availability achieved in recent years.
Q6: As a result of previous engagement feedback, we have reviewed the current RCP2 circuits for RCP3 to incorporate more circuits to better reflect the 'transmission backbone'. Do you agree with the approach to remove circuits that would not have a market impact, and include circuits/assets that would have the most market impact? If not, please explain your rationale.	Yes, we agree. Generally, outages with the potential for large financial impacts are of primary interest to participants.
Q7: Do you agree with the proposed baseline target of 98.9% for this measure? Please explain your rationale for your answer.	We agree with the target and considerations tabled from the Focus Group session.
Q8: Do you agree with our approach to apply the service target to the same assets as we have for AP2, i.e. those that	Yes, we agree.

would have the most market impact? If not, please explain your rationale.	
Q9: Do you agree with the proposed baseline target for this measure? Please explain your rationale for your answer.	<p>We agree safe completion of work is non-negotiable.</p> <p>We are however concerned a floor in the baseline measure as proposed could result in an increase in outages generally running beyond the planned outage window, but returning within the four-hour buffer window (and accordingly meeting the target but with reduced performance).</p> <p>We also note that typically, outage return times and buffer periods fall in the lead up to, or during, evening peaks. We would support exploration of a different buffer/target around such peaks.</p> <p>Further, we note any outage overrun can create production and trading uncertainty. With this in mind, we consider timely communication around outages and return to service is essential.</p>
Q10: Do you have any views on the principles that should inform the coverage of our asset health targets?	<p>We believe the proposed use of five asset classes is too limited.</p> <p>We propose broadening the range of assets to include indoor switchgear with potentially higher risk i.e. where people often work in the vicinity or confines of a building.</p>
Q11: Do you have any views on the principles or methodology for setting targets?	<p>We propose using a range of asset health targets and scores for given assets as this will align more suitably with business risk profiles.</p>

28 April 2017

By email: communications@transpower.co.nz

Service Engagement Paper 2

Genesis Energy Limited (“Genesis Energy”) welcomes the opportunity to provide a submission to Transpower on the consultation paper “Service Engagement Paper 2” dated April 2017 (“the Paper”).

Genesis Energy appreciates the process Transpower has followed in developing its service performance measures and targets for the regulatory control period from 2020 to 2050 (“RCP3”). We look forward to further engagement on this matter.

We have included our responses to questions in the paper attached as Appendix A. If you would like to discuss any of these matters further, please contact me on 09 951 9272.

Yours sincerely



Margie McCrone
Regulatory Advisor

Appendix A: Responses to Consultation Questions

QUESTION	COMMENT
Q1: Do you agree with the proposal outlined above to transition from the RCP2 performance measures to RCP3?	Agree, subject to the comments we provide below.
Q2: Do you agree with the proposed change in the categorisation methodology for POS categorisation? Please explain your rationale for your answer.	Agree, provided that existing categorisations are retained.
Q3: Do you think we should classify all N sites in the same category? If not what alternative methodology would you suggest? Please explain your rationale for your answer.	No comment.
Q4: Do you agree with retaining the same categorisation methodology for Generation sites? If not what alternative methodology would you suggest? Please explain your rationale for your answer.	No. Major generation should be separated into another category as it would be valuable to monitor the availability of these assets separately. The inherent assumption here is the impact of grid asset outages would be greater for generation sites, and so monitoring this separately will encourage better scheduling to prioritise one site over another (non-generation site). We would suggest generation sites over a certain threshold (e.g. 60MW to line up with the de minimis) can be grouped together.
Q5: Do you agree with retaining AP1: HVDC availability for RCP3? If not,	Agree.

QUESTION	COMMENT
<p>what are your reasons, and what alternative would you recommend?</p>	
<p>Q6: Do you agree with our proposal to improve our communication around how we undertake efficiency and optimisation of outages within the planning horizon?</p>	<p>Genesis Energy strongly supports the proposal to improve communication on efficiency gains and optimisation of outages. Consideration should also be given to the ability to define the potential opportunity costs/value of outages (similar to (VoLL principles applied for POS) to help guide and demonstrate optimisation.</p>
<p>Q7: Do you agree with our proposal to review the circuits with the intent of incorporating more circuits within the measure? If not please explain your rationale and which circuits should be included.</p>	<p>Agree. The measure should be reviewed to include the 'transmission backbone'.</p>
<p>Q8: Do you have any improvements on how our availability targets could be set?</p>	<p>Genesis Energy agrees targets could be set annually on the basis that this would provide more meaningful targets, which would have the most up-to-date information, provided this does not detract from the outage optimisation initiative.</p>
<p>Q9: Do you support the addition of this new "stick-to-the-plan" asset performance measure and the dropping of PMD4 and PMD8?</p>	<p>While Genesis Energy does in principle advocate for the addition of a new performance measure that relates to sticking to the plan, we raise the following concerns with the proposed methodology:</p> <ul style="list-style-type: none"> • There needs to be a degree of pragmatism on this issue as there may be valid reasons why it is no longer appropriate for a particular outage to be returned on time. • The proposed "stick-to-the-plan" measure only provides for late return. It does not consider late start or if an outage was rescheduled – hence not a true reflection of 'sticking to the plan'. These factors should be considered as they also have effects of the market. • We do not support discontinuing PMD8 as it is not offset by what is being proposed under "stick-to-the-plan" in its current form

QUESTION	COMMENT
	<p>and so remains applicable. We support PDM4 being dropped.</p> <ul style="list-style-type: none"> Continued industry consultation is required to determine the agreed methodology for AP3.
<p>Q10: Do you agree with the proposed changes to the PMD measures? If not, what do you propose? (Please provide your rationale for your position).</p>	<p>Genesis Energy agrees with the proposed changes except in relation to PMD8, which we explain above in our response to Q9.</p>
<p>Q11: Do you agree that the existing post-event customer survey process allows for effective two-way information gathering on where things are working well and where improvement can be focused?</p>	<p>Agree.</p>