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6 August 2010

Karen Murray
Commerce Commission
PO Box 2351
WELLINGTON

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

Dear Karen

Input Methodologies – Gas Pipeline Services

Genesis Power Limited, trading as Genesis Energy, welcomes the opportunity to provide a submission to the Commerce Commission (“the Commission”) on the consultation paper “Input Methodologies Gas Pipeline Services: Draft Reasons Paper” and associated documents dated June 2010.

We have not sought to provide comments on all aspects of the consultation package, rather we have focused our comments on areas that affect our business most directly.

Transmission Investments

Genesis Energy’s primary interest in input methodologies for gas pipeline services is the implications for gas transmission investment. This is because Vector’s northern transmission pipeline is nearing its physical capacity limits and significant investment would be required to support any load growth in Auckland or Northland.

Given the “lumpiness” of gas transmission investment, Genesis Energy believes the Commission should consider whether an *ex ante* approval process would be appropriate for gas transmission. We note that investment in gas transmission is inherently risky given uncertainties regarding demand growth and the location of new gas supply. As such, it may be appropriate for a regulated gas transmission

business to be able to reduce, although not eliminate, investment risk for large projects.

An *ex ante* test for gas transmission investment could resemble Transpower's grid investment test, although some adjustment would be necessary given that the characteristics of gas transmission are not the same as electricity transmission. For example, gas transmission pipelines are linear systems rather than meshed networks, demand growth is less certain, the location of future gas supplies is uncertain and gas is a discretionary fuel.

Other Comments

Genesis Energy has minor comments on the following areas:

- Regulated Asset Base Additions and Disposals: Genesis Energy supports the Commission's decision on the treatment of additions and disposals to the regulatory asset base so that assets are entered into the regulatory asset base at the point at which they are commissioned.¹
- Asset Management Plans: Genesis Energy also supports the Commission's preliminary view that all regulated gas pipeline businesses should produce certified asset management plans and that these should be disclosed as part of the information disclosure requirements. We believe these plans will give the Commission, consumers and interested stakeholders confidence that assets are well managed.
- Need for Default Price-Quality Paths: Genesis Energy observes that default price-quality paths are unlikely to be suitable for gas pipeline businesses given the small number of regulated businesses and the difficulty of establishing meaningful benchmarks.
- Incremental Rolling Incentive Scheme: Genesis Energy supports the introduction of an incentive scheme for gas pipeline businesses and, as it is essentially the same as that proposed for electricity distribution businesses, please refer to our detailed comments in our submission "Input Methodologies – Electricity Distribution Services" dated 6 August 2010.

¹Section 4.4.77, Input Methodologies (Gas Pipeline Services) Draft Reasons Paper, June 2010, Commerce Commission

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

Yours sincerely

A handwritten signature in black ink that reads "K/Boyes". The signature is written in a cursive style with a large, stylized 'K' and 'B'.

Karen Boyes
Senior Regulatory Advisor