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Keston Ruxton
Regulation Branch
Commerce Commission
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Dear Keston

Transpower capex input methodology review: Emerging views on incentive mechanisms

Genesis Energy Limited (**Genesis**) welcomes the opportunity to provide a submission to the Commerce Commission (**Commission**) on the emerging views paper "Transpower capex input methodology review: Emerging views on incentive mechanisms" dated 1 September 2017 (**emerging views paper**).

We are pleased to see the Commission recognise the potential disincentive for Transpower to undertake transmission alternatives in instances where they may be the most efficient solutions following its June 2017 proposed focus areas consultation paper (**consultation paper**).

In response, we support the Commission improving third-party scrutiny and engagement in investment decisions to ensure investment choices are made for the long-term benefit of consumers as is proposed in the emerging views paper. We look forward to further consultation with industry on this.

Greater scrutiny; greater transparency

In the emerging views paper the Commission raises concerns regarding the existing incentive mechanisms and if they provide sufficient scope for Transpower to identify appropriate investments, and undertake these when it is efficient to do so.

To address this, the Commission proposes greater third party engagement when Transpower is considering investments, which it says would allow a wider variety of investment options to be assessed, enhance protection for consumers against inefficient investment and ensure the full benefits of innovation in the electricity industry are realised.

We agree that such benefits would flow from greater third party engagement because greater engagement means greater transparency. In a number of recent submissions, Genesis has advocated for increased transparency around the investment decisions made by regulated monopolies, particularly electricity distribution businesses (**EDBs**).

Genesis, like Mercury[1] and Trustpower[2], considers that parallels can be drawn between the investments made by Transpower and EDBs in the context of the Commission's capex input methodology review (**capex review**), and that they should be subject to similar scrutiny to ensure that monopoly businesses are considering non-traditional investment options as viable alternatives where they would offer a least cost, more efficient pathway for the regulated consumer.

Transparency is best achieved when sufficient information is made available for interested parties to make a genuine evaluation on whether efficient procurement choices are being made. In our view this means having access to qualitative and quantitative data that demonstrates non-traditional investment options were considered (where appropriate) and justifies the trade-offs made in respect of any investment decision. In respect of the capex review, we consider that the Commission's proposal in the emerging views paper will achieve transparency of decision making.[3]

Is now the right time?

Genesis agrees that while the Commission may not currently see evidence Transpower is not appropriately considering transmission alternatives, it is appropriate to review the existing rules at this time.

We also agree that the current level of innovation in the electricity sector and the increasing options for transmission alternatives means the full benefits of non-traditional grid investment is both uncertain and potentially significant. It could be that the future shapes up as the Independent Electricity Generators' Association[4] (**IEGA**) sees it, or it may be at

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[1] In Mercury's June submission to the Commission on the capex review it was stated, "Mercury is however concerned that there is a separate regime for participants who essentially deliver a similar service to the broader market participant group as well as consumers (that is, to keep the lights on). Mercury encourages greater consistency between the 2 regimes, particularly sound investment decisions based upon broad market benefits and transparent reporting of financial transactions and opportunities for services for monopoly service support."

[2] Trustpower wrote in its June submission on the capex review, "While it is out of the scope of this review, we would also support the Commission examining the costs and benefits of mandating an equivalent requirement on electricity distribution businesses to test the market for distribution alternatives, prior to any major investment decisions they make."

[3] Where it proposes, in section 62, to increase the ability for stakeholders to understand complex planning documents; identify opportunities were transmission alternatives are feasible; have an opportunity to engage with Transpower at the most appropriate time in the planning process; and understand the reasons for Transpower's acceptance or rejection of potential solutions.

[4] In its June submission on the capex review, the IEGA wrote, "As emerging technologies grow, transmission alternatives may become the 'baseline' investment with actual transmission assets being the alternative."

a much slower rate. In other words, we do not yet know the extent to which emerging technologies – for example, batteries sourced from a competitive market for network services - will be preferential to traditional ‘poles and wires’ investments, or if a competitive market for emerging technologies will be established that allows for a fast adoption of multiple technological options.

While we anticipate that some submitters might prefer to take a wait-and-see approach in the face of uncertainty, we simply cannot afford to risk continuing to do so if it means the best outcomes for consumers are left off the table. What is certain is that a wait-and-see approach will serve to limit the range of products and services that exist now or are yet to be developed to the long-term detriment of consumers. We appreciate the Commission’s willingness to act in the emerging views paper.

The right approach

Genesis agrees that greater third-party engagement should not increase costs disproportionately or extend project delivery times unnecessarily, as could be the case if all investment decisions were required to meet the same threshold for consultation.

We consider the Commission’s approach, where a project cost threshold (e.g. $5 million) could be applied to determine when greater third-party engagement is required, is worth pursing further. Similarly, we are interested to hear from other stakeholders if they can see another way to identify what projects would benefit from increased scrutiny.

Overall, Genesis sees real merit in further investigating the approach proposed by the Commission, which we consider strikes the right balance between acting now to facilitate innovation, while appreciating that where the future is uncertain regulation may need to be flexible and adaptive.

We are of the view amending the rules at this time to provide for greater transparency via increased third-party scrutiny of Transpower’s investment decisions will ensure the best consumer outcomes are being achieved. To this end, Genesis is also pleased to see the Commission separately consulting on its emerging view that greater scrutiny is required to ‘shine the light’ on EDB related party transactions.

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

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