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Dear Anton

Electricity Security of Supply Policy Review

Genesis Power Limited, trading as Genesis Energy, welcomes the opportunity to provide comments to Castalia Strategic Advisors ('Castalia') on its review of the Electricity Commission's policy on security of supply. Genesis Energy has reviewed the Castalia submission document and is pleased to have the opportunity to respond to issues raised in it.

Genesis Energy has set out below some comments on a number of specific issues that the consultation paper raises for Genesis Energy. Genesis Energy has also provided Castalia with responses to its specific questions in Appendix One attached to this letter.

General Comments

Before getting into the detail of the submission, there are a couple of general comments that Genesis Energy wishes to make. These comments relate to the inter-related issues surrounding the apparent rush with which Castalia and the Electricity Commission are considering an issue of critical importance to the industry and how it operates going forward, the timing of the delivery of the consultation paper and its implications, and nature of the consultation paper. Genesis Energy also makes some comments on the consultation process per se and its expectations of the steps that should be followed from this point forward.

Haste of the Process to Date

Genesis Energy is concerned about the haste with which the consultation process is being conducted. While three months have elapsed between the issuing of the security of supply issues paper and the current consultation paper, industry participants have only been allowed 21 working days in which to respond. Genesis Energy considers this to be grossly inadequate for an issue of such importance to the industry. Unfortunately, this extremely short timeframe has been exacerbated by the timing of the delivery of the consultation paper. Its delivery by Castalia on March 12 directly coincided with the final weeks in which industry participants were finalising their responses to the suite of four consultation papers that had been issued by the Government on the energy strategy and climate change. Needless to say, such issues took precedence over the security of supply review and while other participants with larger regulatory teams may have been able to address such a conflict in priorities, Genesis Energy could not. It effectively had **three** working days in which to respond in order to meet the set deadline.¹

The need to balance multiple consultation papers is not costless to industry participants. A not insignificant portion of the cost ultimately faced by industry participants will relate to the inevitable impact on the quality of the responses that the Electricity Commission receives. At a time when the Electricity Commission is addressing issues of major importance to the entire industry, and presumably wanting high quality responses to assist it in its deliberations, the opposite may in fact occur to the detriment of the entire industry.

Ultimately, these concerns must raise serious questions about the efficacy of the Electricity Commission's consultation process and Genesis Energy's response to the security of supply review consultation paper needs to be seen in this light.

Finally, Genesis Energy would also like to make some comments regarding the overall 'approachability' of the consultation paper. While Genesis Energy freely acknowledges that this may well be a function of the timeframe within which Genesis Energy found itself needing to address the complex range of issues contained in the consultation paper, Genesis Energy found the consultation paper hard to approach. This was not aided by the level of repetition nor the absence of a stand-alone list of the recommendation that Castalia put forward.

¹ Genesis Energy finalised its NZES submission on Wednesday 4 April, essentially leaving it Thursday 5, Tuesday 10 and Wednesday 11 to prepare for and complete the submission.

The Process from Here

Genesis Energy would also like to remark on the process from this point forward. Genesis Energy appreciates that the Electricity Commission wishes the review to be seen as independent of it, and therefore conducted via Castalia. However, at some point, the Government (or at least an agency represented by it such as the Ministry of Economic Development or the Electricity Commission) needs to form a view on the work undertaken by Castalia and then formally submit the *Government's* view (not that of its consultant's) for further consultation.

Given the importance of this issue to the industry, Genesis Energy would be disappointed were a view to be formed by the Electricity Commission on Castalia's consideration of the submissions it receives and that view be implemented without further consideration by industry. Such a process should it occur would be, in reality, no different to the Electricity Commission forming a view on a rule change and then providing that directly to the Ministry of Economic Development and Minister of Energy to agree to without first consulting on it.

This may involve a further step in the process that the Electricity Commission (nor the Ministry of Economic Development) had anticipated. However, Genesis Energy considers such a step is— even if it involves only a brief consultation period if the Electricity Commission agrees with the view formed by Castalia –vital to the eventual development of a sound outcome.

Specific Comments

Genesis Energy's comments fall under four main headings. These being:

1. Genesis Energy's over-arching approach to the consideration of security of supply;
2. The identification of a market failure and the socially optimal level of security of supply;
3. The options to intervene into the electricity market; and
4. Other, residual issues.

Genesis Energy addressed each of these in turn, below.

Genesis Energy's Approach to considering Security of Supply Issues - An Exercise in Balancing Risk and Who Bears it

At its core, decisions around security of supply (and what level of security is appropriate or efficient) can be traced back to different positions on what allocation of risk is optimal or efficient in the market. In reality a spectrum of

allocations exist, ranging from one extreme where electricity consumers are responsible for meeting their security needs via the market (that is, by taking a position on what level of exposure is appropriate for them²) to the other whereby security of supply is controlled by Government in the form of a capacity market or similar, whereby a set amount (or proportion) of generation is 'set aside' to be available as reserve when required, for example.

The consultation paper usefully canvasses much of this spectrum via its 'intervention options', ranging from the current arrangements through to a 'market augmentation' option that requires retailers and major users to procure energy adequacy for their entire load.

Where Government makes decisions as to an appropriate position on this spectrum, it is effectively identifying what it considers to be an optimal risk allocation. For example, the selection of the market augmentation option outlined in the consultation paper would imply that the Government believed that it was in the best position to be able to deal with security of supply risk, and that it could make the most efficient decisions around what was required, by whom, and at what cost. Because decisions by Government to intervene and assume some (or all) of the risk ultimately imposes costs on electricity consumers (via levy's)³, the balancing of the costs of security of supply mechanisms, with the costs of un-served energy is of vital importance. The paper provides a useful analysis of this concept, and defines a reasonable economically efficient condition for the optimal security of supply (Chapter 4).⁴ The paper is prudent in offering ranges to reflect the inherent uncertainty surrounding these calculations.

² In this regard, the extent to which hedge markets are sufficiently liquid will be important and Genesis Energy notes the work that the Electricity Commission currently has underway via the Hedge Market Development Steering Group on the development of an efficient hedge market.

³ And that these costs are almost certain to differ from those which they would face if their security of supply costs were purely derived from the market, and their decision on appropriate exposure to it (the market).

⁴ Though Genesis Energy notes that the conclusions regarding the energy margin and revised security standard are in part, dependent upon a simplistic assessment of the full economic cost of un-served energy and some improvements could be made in that regard. For example:

1. Demand elasticity is highly uncertain, far from linear (as assumed) and often not truly reflective of the full economic cost of demand curtailment. For example, while a paper mills may shutdown at prices above \$200/MWh, in an extended shortage this could result in indirect flow-on effects to the local economy far in excess of this level. Or, for example, the elderly who, in response to a perceived shortage reduce consumption and subsequently catch pneumonia and incur substantial health costs. In addition, mass market demand is highly variable based on weather conditions, so a cold snap could swallow a months worth of savings in a couple of days. All of the above would need significant modelling to get it right; and
2. The concept of a security margin relies on establishing and using probability curves for supply over the critical period. While this is a relatively well established approach for hydrology, if used incorrectly it could give rise to essentially the same issues as the min-zone approach, by ignoring or overestimating 'effective' thermal capability. One way to gain significant value from this approach is to develop supply probabilities for thermal capably using Monte Carlo type simulations that include all credible outage scenarios with associated probabilities.

Market Failure and the Socially Optimal Level of Security of Supply

Having established an estimate of the optimal level of security of supply, and translated this into a desired practical security of supply standard, the paper then moves on to discuss whether, in Castalia's view, the market is likely to deliver the desired security of supply standard. The paper offers options for correcting the 'market failure'.⁵

After analysing forward generation investment commitments and plans, a key observation made is that "the expected gross margin may be too low even with Whirinaki". The authors propose that the level of reserve made available will not meet what has been calculated as the optimal security of supply standard. It is observed that "markets may fail to deliver adequate resources to provide the socially optimal level of security of supply for a variety of reasons" but that "while it is useful to classify types of market failure in principle, we find that at present there is simply no information to identify in practice what may be causing potential problems, and how serious those problems are".⁶

These observations are important, as the presence of market failures are typically seen as suitable justification for intervention by Government – in this case, potential justification to move along the spectrum of risk allocation to a level of involvement higher than that in the current arrangements. As noted above, this would mean that costs could potentially be imposed on consumers of electricity as a result of such intervention, which are almost certainly going to differ from those faced by consumers absent the intervention.

In light of Genesis Energy's view on market failure per se and on the possibility of market failures (which cannot yet be identified) resulting in a level of security of supply lower than the socially optimal level, Genesis Energy contends that the market may indeed be providing security of supply which is reflective of the incentives, signals and information faced by those providing security of supply (that is, generators and potential investors in generation).

In Genesis Energy's view, the market may actually be operating efficiently and allocating resources in the manner in which we would expect them to. There is a view which suggests that markets are not technically failing where households or businesses choose not operate at a level which produces the

⁵ Economic literature traditionally defines market failures as a failure of competition, public goods, externalities, incomplete markets and information failures. The options set out to address the 'market failure' are Option 1: current arrangements, Option 2: procure all hedges, Option 3: procure all hedges with opt-out, Option 4: market augmentation. Interestingly, no option was presented which *reduced* the Governments' current involvement – that is, a reliance on buyers and sellers in the electricity market to manage dry-year risk.

⁶ Castalia consultation paper entitled 'Electricity Security of Supply Policy Review, Consultation Paper for the Electricity Commission, dated march 2007, page 46.

socially optimal amount of a good or service. They do so because they hold better information about the risks or costs associated with producing the socially optimal amount. They effectively apply a cost/benefit approach on an economic basis, which points them towards actions, which while not aligned with socially optimal output, do not necessitate or justify Government intervention from a market failure perspective. These arguments are not unfamiliar to Castalia.

The incentives created by the information that households and businesses hold lead them to decisions which support individual welfare maximisation as opposed to national welfare maximisation or a socially optimal outcome.

Some examples of the factors that investors in security of supply take into account when making investment decisions relate to availability of fuel, uncertainty around climate change policy and to regulatory intervention and uncertainty. Existing and potential providers of reserve generation are likely to be fully aware of contemporary gas price pressures, and uncertainty around the supplies of domestic gas available for projects spanning late into next decade in particular. The current uncertainties surrounding climate change policy and its effect on likely incentives to invest in various technologies will also be key inputs to business' decisions around the risks and potential benefits associated with offering reserve generation.

Regulatory intervention and uncertainty is also likely to be a consideration for such businesses, which will be cognisant of frequent messages that support the view that the Electricity Commission is charged with addressing security of supply. Such messages may simply reinforce the idea that generators' roles in security of supply are limited. The issue of pre-consenting sites for reserve generation is even raised in the paper.⁷ Potential investors will be sure to consider potential risks relating to fuel and construction timeframes

⁷ Genesis Energy strongly objects to the notion that the Electricity Commission should pre-consent sites for reserve generation. This objection is primarily based around the following:

1. The absence of a clearly defined market failure. Genesis Energy wonders if pre-consented sites are the solution, what the problem (market failure) is;
2. The practical problems associated with pre-consenting. These are readily acknowledged by Castalia when it says "Pre-consenting will carry some costs because Resource management Act procedures require any proposed project to be defined in some detail. The plant specification and consents may also need to be changed as technologies change." (page 15); and
3. The effective separation by the Electricity Commission of the purchasing of land from the other operational activities of reserve energy providers. In Genesis Energy's view, this would be no different in principle from the separation of any other 'important' operational activities – such as, for example, the design of the plant and the procurement of services to build it, on the basis that these are also strategically important inputs in to the eventual implementation of a secure system. Neither would it potentially be any different in principle from the Electricity Commission purchasing land for future grid development options. It was, in Genesis Energy's experience, this very sort of seductive centralised thinking that resulted in the pre-privatised New Zealand Railways Department deciding that it should build its own vehicles as it would provide greater certainty to it operationally and it held the required coach-building skills available to do it – a decision that was patently inefficient.

and costs in particular, as they relate to generation projects which may be 7 years from start up (as suggested in the paper).

The examples highlight potential reasons for estimated gross reserve margins potentially being inadequate to meet the socially optimal security of supply standard. They do not necessarily represent market failures – indeed they may represent information being used by participants to make informed and rational decisions. Just as consumers weigh up the costs and benefits of various levels of exposure, so will those on the supply side, in an efficient market.

The information around potential risks and benefits would also need to be considered by the Government in considering a position on the risk allocation spectrum. The options mooted which potentially encourage a level of over-investment could impose material costs on electricity consumers, who may be willing to receive a much lower level of security, for a much lower cost. As the consultation paper notes, a risk averse approach by the Electricity Commission in setting reserve requirements may encourage generation to be built or considered in times when uncertainties around climate change and fuel price/supply are real and potentially significant.

Intervention options

While Genesis Energy offers a different view as to the source of the differential between the socially optimal security of supply standard as determined, when compared to the likely level of security of supply that will be produced by the market, the options canvassed in the paper for dealing with uncertainty around the differential are not unreasonable. The criteria used to assess the various options are sound and the interpretations seem plausible from an initial assessment.

For example, Genesis Energy generally agrees with the analysis that Castalia has put forward around the use of the present min-zone and the assumption within it that thermal plant will automatically run ahead of hydro when it is approached or reached.

Genesis Energy has, in its past submissions on the min-zone, been critical of this approach for a number of reasons, mainly that:

1. It did not represent a likely market outcome –that is, some of the assumptions made do not align well with normal market behaviour;
2. Achieving the sustained high levels of thermal generation that is expected in the min-zone modelling is near impossible, particularly over night where the HVDC transfer is driven by reserve availability in the South Island; and

3. To be done correctly there needs to be a move to return period analysis as hydrometric analysis is normally carried out rather than simple use of the worst inflow sequence.

The recommendation to maintain the existing reserve energy policy, but with modifications (Option 1), seems reasonable in this regard. While the paper suggests that the option is best suited to deal with uncertainties around market failure though, Genesis Energy suggests instead that the recommended option suits the flexibility needed to be able to manage the various information and incentives in an environment of change and uncertainty with respect to generation, particularly moving forward.

It is agreed that there is considerable risk in seeking to apply solutions to problems that are not well defined, regardless of whether the uncertainties are derived from market failure or businesses acting on market information. As the consultation paper suggests, “comprehensive measures are appropriate for sustained market failure, but we always have an option to introduce them if sustained failure is revealed”. While Genesis Energy suggests a different view on market failure, the risks of acting otherwise and intervening can potentially pass on costs to consumers for risk they may be comfortable with managing, and may be better able to manage. It is also a requirement of the Electricity Commission, via the Electricity Act 1992, to act in a way that causes minimal disruptions to the market with regards to reserve generation and security of supply.

Other Issues

Genesis Energy considers that there are a range of other issues which Castalia needs to give greater consideration to. These relate to:

1. Issues surrounding the political economy of setting and implementing security of supply standards;
2. Understanding the incentives faced by providers of reserve; and
3. Clarification of the roles and responsibilities of various key stakeholders.

Genesis Energy briefly canvasses each of these points below.

Political Economy

Genesis Energy considers that strong and on-going political understanding and interest is critical to the success or otherwise of the approach suggested by Castalia. To this extent, Genesis Energy is somewhat surprised that section 5.3 largely glossed over its importance to the implementation of the suggested approach.

Genesis Energy does not believe that it is over-stating this issue. Castalia need go no further than the recent electricity market review, where the Minister of Energy says:

“My view is that the reality is that there is political accountability for electricity outcomes which cannot, and should not, be avoided.”⁸

In light of such a comment, Genesis Energy considers that Government would need to be convinced not only of the economic efficacy of the proposed changes but also why it is appropriate in practical terms of the risks to the electricity system and the change in the prospects of the lights going out in Auckland.

To a certain extent, Genesis Energy believes that with the Government market review that concluded that “the current arrangements are fundamentally sound”⁹, the Government has gone some distance towards managing the future expectations of market participants regarding the extent to which it can be held accountable for security of supply. Genesis Energy considers this to be an extremely positive development. Nonetheless, perception in this case, is reality and changes need to be well communicated and expectations carefully managed.

Information on Incentives faced by Reserve Providers

Genesis Energy has characterised the key issue regarding security of supply as being related more to the incentives faced by the providers of reserve from such factors as availability of fuel, uncertainty around climate change policy and to regulatory intervention and uncertainty than to a clearly identified market failure.

In Genesis Energy’s view, these issues may dissuade generators from considering involvement with generation that could potentially be offered as reserve and hence, contrary to the consultation paper, Genesis Energy suggests, that information on them would be useful in “identifying in practice what may be causing potential problems, and how serious those problems are”.

A better understanding of these issues and their potential impact on the provision of reserve is likely, in Genesis Energy’s view to be more fruitful areas for investigation, than other avenues. Indeed, Genesis Energy considers that should these areas of uncertainty be diminished, then Castalia may well have a better opportunity of observing the market’s contribution towards security of supply and whether or not further steps need to be taken

⁸ Cabinet Business Committee Paper entitled ‘Electricity Market Review: Improvements to Current Arrangements (Paper Two), page 24, paragraph 141.

⁹ Ministry of Economic Development consultation paper entitled ‘Powering our Future, Towards a Sustainable Low Emissions Energy System. Draft New Zealand Energy Strategy to 2050’, section 4.1, page 18.

by the regulator. This could potentially include an option that looks to reduce the Government's role in security of supply, if conditions dictated that this was an efficient option.

Clarification of Roles and Responsibilities

In relation to the practical implementation of a security of supply standard the consultation paper and associated discussion would benefit from consideration of the appropriate roles and responsibilities for various key stakeholders in emergency situations or when security of supply 'events' arise. While there is much analysis in the consultation paper assessing when an event is defined as occurring or measures of risk of one occurring, there is little detail around processes and roles during such an event. Previous experiences in this regard have highlighted a lack of co-ordination amongst key stakeholders, resulting in mixed messages being provided to consumers in particular.

In reality, while the Electricity Commission has obligations and responsibilities relating to security of supply *ex ante*, it is likely to have a limited role in an event as it develops in real time. The Electricity Commission does not have the power to direct (that is, to require certain generation to run) and the market rules prevail in such situations. While the paper develops useful ideas around reallocating processes and provisions from the regime to policy, it would benefit from considering who would act in an event in real time, and what the roles of the Electricity Commission and other key stakeholders (for example, Transpower and generators) would be under the various options. If this analysis suggests the Electricity Commission's role be extended to allow it to direct, for example, there would be serious implications to consider surrounding the property rights of those who may potentially be directed.

This work may have, to a certain extent, been addressed in the context of the dry year communication protocols that have been developed. If this is the case, the linkages between these two work streams should be made more transparent.

Summary

Despite Genesis Energy's concerns around the identification (or not) of a market failure, Genesis Energy understands Castalia to be recommending the following:

1. A continuation of the present 'watch dog' approach for the Electricity Commission to monitoring security of supply for shortfalls in the future with clearly defined triggers for when reserve energy needs to be procured and a clearly defined process for procuring that reserve energy;

2. A move to a simple energy margin of between 12 and 17 percent to be use as the trigger for determining if reserve energy is required in the timeframe;
3. A change to the offer strategy for Whirinaki to only be offered at SRMC to limit distortions to the market pricing signal; and
4. A continuation of the present voluntary information provision around security of supply.

This approach has, in Genesis Energy opinion, the ability if implemented correctly to provide a robust security of supply standard that should provide the correct balance between interventionism and free market outcomes. With further development to address Genesis Energy's concerns as noted above, prior to implementation Genesis Energy agrees that the proposed improvements should lead to an improved and clearer defined process and are satisfied that it will not lead to additional market distortions.

Genesis Energy is happy to discuss further any aspect of this submission with Castalia, should it wish to do so.

Yours sincerely

A handwritten signature in black ink, appearing to read 'John Carnegie', with a stylized flourish at the end.

John A Carnegie
Regulatory Affairs Manager

Appendix One: Responses to Specific Consultation Questions

QUESTION	RESPONSE
<p>Q1. What are your views on adopting an economic approach to choosing the level of security of supply?</p>	<p>An economic approach is a practical starting point for establishing the level of security of supply, accounting for New Zealand's unique electricity market configuration, considering transmission networks and location of hydro catchments, and subsequent inflow sequences etc, are essential factors that must under pin the economic model.</p> <p>As a general rule, Genesis Energy would always prefer a market based solution to an interventionist-based solution. The economic model works as a proxy of the market as it balances the cost and benefits of how much un-served energy is optimal against the cost of reserve supply. Therefore, Genesis Energy supports this type of approach.</p>
<p>Q2. Can the predominant energy security of supply problem be quantified adequately as a winter energy deficit?</p>	<p>Current demand and environmental condition suggest so, but changes in supply and demand dynamics should not be ruled out in the future.</p> <p>New Zealand's peak demand and supply limit converge over winter months, dictated largely by colder temperatures and prevailing weather patterns. The higher demand places downward pressure on storage until inflows pick up with the spring melt and demand eases as temperatures start to rise.</p>
<p>Q3. What marginal costs should be attributed to demand restraints at various levels?</p>	<p>Ones appropriate to the user and the impacts on the user.</p>

QUESTION	RESPONSE
<p>Q4. Do you agree with the proposed use of a simple percentage annual energy margin as the operational standard for security of supply?</p>	<p>A margin range rather than a fixed percentage would possibly offer more flexibility to the Electricity Commission and an opportunity for the market to react. A fixed percentage as the operational standard has the potential to commit the Electricity Commission to procure reserve energy at a time where participant investment could also be coming online, thus creating inefficiency's and over-spend.</p> <p>Current monitoring by the Electricity Commission takes in the short-term (min-zone), medium-term (2+ yrs), and long-term (7-10yrs) in an effort to aid participants in managing security of supply risks, and subsequent investment decisions. A margin range could identify years in need of closer analysis whereas a margin percentage could be used as a trigger to procure reserve energy when it is not necessary.</p>
<p>Q5. What are your views on the acceptable expected level of un-served energy each year relative to the range between 0.03 percent and 0.1 percent of total annual demand identified in this paper?</p>	<p>The level needs to be defined by detailed analysis taking into count all likely costs of un-served energy both direct cost in the electricity market and the broader economic impacts that higher levels of un-served energy may drive.</p> <p>As the problem has been defined as a capacity problem rather than a peak energy problem the solution –that is, the un-served energy is more likely to be in the form of longer term rolling load shedding which can potentially have a very different type of economic impact on the economy as a whole than just the impact within the electricity market itself.</p>

QUESTION	RESPONSE
<p>Q6. What are your views on how to translate the acceptable level of un-served energy into a probability of demand restraint and an energy margin?</p>	<p>At a high level, the proposal translates these factors into useable values and Genesis Energy supports this type of approach.</p> <p>Genesis Energy's concerns are in the lack of detail about how the model would be implemented. Genesis Energy considers that there is a need for some more 'flesh to be put on the bones'. For example, how will the demand level that the hydro probability of supply curve must meet be defined? How are thermal stations accounted for in that process? What considerations should be used for wind energy? How does it take account of co-gens etc etc.</p> <p>It is at this level of detail that the proposal must really be assessed if it is ever to become an operational standard.</p>
<p>Q7. Do you agree that there is insufficient evidence to be able to assess the likely frequency or magnitude of any electricity market failure in respect of security of supply?</p>	<p>Yes. However, Genesis Energy considers that this isn't a matter of there being insufficient evidence to be able to assess the likely frequency or magnitude of any electricity market failure in respect of security of supply but more a case of there simply being no evidence of a market failure having been sufficiently demonstrated to warrant more dramatic intervention than that proposed.</p>

QUESTION	RESPONSE
<p>Q8. Do you agree that, given the uncertainty about market failure, the best policy going forward is to adopt a “watch dog” approach? This would mean the Commission standing by to intervene if it becomes obvious that the market will not be in a position to meet the optimal reserve energy margin within the lead time of commissioning an open cycle gas turbine capacity, but being ready to switch to more comprehensive intervention options if the frequency and magnitude of market failure is greater than expected?</p>	<p>Yes. The market must be allowed as much time as possible to react to market conditions and manage the energy security of supply risk. In particular, see Genesis Energy’s views regarding the response to market uncertainties in the attached letter, and the impact Genesis Energy considers these factors have on the provision of reserve.</p> <p>However, with respect to any future interventions by the Electricity Commission, the agreement to the ‘watch dog’ role is completely separable from any other interventionist role that the Electricity Commission may wish to have. In particular, agreement to a ‘watch dog’ role certainly does not mean, or confer on the Electricity Commission any right whatsoever to subsequently intervene in the market. Such a prospect must, as a matter of good public policy, be tested on its merits at the time such additional intervention is considered to be appropriate. This is Genesis Energy’s understanding of ‘waiting and seeing’ – if the initial policy settings prove to be in error, then the original intervention can be intensified to correct the error of mistakenly having not intervened appropriately in the first place. To confer both a ‘watch dog’ role <u>and</u> the ability to subsequently intervene would essentially give the Electricity Commission an ‘open chequebook’ to intervene as and when it considered fit.</p> <p>If the right to intervene in the future under certain circumstances is sought now, then the conditions under which the Electricity Commission would intervene would, in Genesis Energy’s view, need to be extremely tightly defined. Unless Genesis Energy missed these in its quick review of the consultation paper, such conditions are neither specified nor comments sought on them as to their appropriateness.</p>

QUESTION	RESPONSE
<p>Q9. Do you agree that the scope of Regime and Policy should be clarified to give the Commission more operational flexibility?</p>	<p>Yes. However, in light of the Electricity Commission's track-record, it is important to be as cognisant of the risks associated with giving the Electricity Commission greater operational flexibility than of the disadvantages of the constraints currently faced by the Electricity Commission.</p>
<p>Q10. Do you agree that the current levy arrangements should remain in place?</p>	<p>Genesis Energy is comfortable with the present levy arrangements. However, if as proposed, Whirinaki is dispatched based on its SRMC, then there would appear to be an equally valid argument for any costs not recovered during the times that Whirinaki runs to be paid for by the Crown, and not socialised across all participants. Such a condition would be no different to that faced by any other reserve provider.</p>
<p>Q11. Do you agree that the procurement process should be pre-announced, and that a clear trigger for procurement be established in terms of an annual energy margin?</p>	<p>Transparency in the procurement process would add to participant knowledge and possibly open opportunities for contracted reserve energy, joint ventures etc, if required.</p> <p>Having a clear trigger in the form of a security margin should allow market participants to devolve investment proposals in a market-based fashion to ensure that security margin is maintained. There is a clear incentive to do so if the market participants do not want the distortionary impact in the market of Government procure reserve plant.</p>
<p>Q12. Do you agree that no further compulsory requirements should be imposed for the provision of information to the Commission?</p>	<p>In the absence of any evidence of a market failure, yes.</p>