



Genesis Energy Limited  
The Genesis Energy Building  
660 Great South Road  
PO Box 17-188  
Greenlane  
Auckland 1051  
New Zealand

T. 09 580 2094

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Ministry of Business, Innovation & Employment

**By email:** [energymarkets@mbie.govt.nz](mailto:energymarkets@mbie.govt.nz)

## Electricity Pricing Review: Proposed terms of reference

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Genesis Energy Limited (**Genesis**) welcomes the opportunity to provide comments to the Ministry of Business, Innovation & Employment (**MBIE**) on the consultation paper “Electricity Pricing Review proposed terms of reference” dated 20 December 2017 (**proposed ToR**).

### Executive summary

Genesis supports in principle the proposed ToR. We see the proposed Electricity Pricing Review (**the review**) as a once in a generation opportunity to ensure regulatory and market settings are fit for the future.

Globally the electricity sector is rapidly evolving as the traditional definitions of what it means to generate, deliver and consume electricity are being tested and redefined. This presents opportunities and challenges for industry and regulators alike to maximise consumer benefits in the long term.

In this submission, we explore two of the major influences of this change; the uptake of emerging technologies coupled with a desire to reduce greenhouse gas emissions.

We consider both influences to be key frames for this review, including understanding that the price paid by end-consumers will be directly influenced by the sector’s ability to respond appropriately to the extent of change it faces.

For New Zealand to be successful in its transition to the future, Genesis believes the review should consider:

- If the regulatory and market structures that underlie pricing are delivering efficiency and fairness, including recognising that the price paid by end-consumers is determined by both monopoly and competitive components of the current supply chain;

- Whether those same settings can deliver efficiency and fairness for a future which is being transformed by technological change and a commitment to tackle climate change; and
- How to better understand the social needs of vulnerable customers, whom the Government has already identified via the introduction of Winter Energy Payments for beneficiaries and super annuitants, including how the sector can work with Government to deliver appropriately targeted assistance for this group.

While supportive, we are conscious that the broad scope of the review has the potential to burden officials and the sector with an unmanageable workload, distracting from delivery of enabling, adaptive solutions that will benefit consumers in a meaningful way.

To ensure the review prioritises work programmes that will achieve this vision, we suggest MBIE publishes a discussion paper on 'review priorities' as an important next step. This is one of several recommendations in respect of the process we discuss below.

### **Future focus is key to deliver for tomorrow's consumers**

Consumers, start-ups, incumbent players and governments are increasingly investing in new ways of generating, storing and consuming energy - enabled by innovative data-driven products and services.

In our view, the current regulatory and market settings will not keep up with the pace of change, and it is no longer possible to shoehorn the future into frameworks designed for a pole and wires past if we are to achieve the best outcomes for consumers.

Accordingly, Genesis supports the proposed ToR to look closely at the ability of market and regulatory settings to both enable and benefit from emerging technologies and innovations in business models, while also assessing the potential for natural monopolies to create barriers to entry or limit competition.

As part of the review we would also support the proposed ToR in considering the flow-on effects of accelerating the electricity sector's transition from fossil-fuelled generation.

Considering thermal generation is currently the lowest cost solution to maintaining security of supply during times of low hydro availability, the review must take into consideration that if the sector is to meet the Government's targets for renewable electricity generation, trade-offs between the cost of electricity and security of supply will be required.

Genesis is committed to helping facilitate the reduction of greenhouse gas emissions from the electricity sector in ways that keep the lights on for New Zealanders and minimises cost impacts. We look forward to working with the Government and other stakeholders to understand how to balance these priorities during the review.

## **No ‘silver bullets’ so collaborative thinking is critical**

With the wide scope for review in the proposed ToR, it is clear MBIE appreciates the inter-relatedness of many of the issues it is seeking to explore. Genesis supports the Government in making co-ordinated decisions that drive the best outcomes for all consumers.

In addition to taking a collaborative approach to enabling emerging technologies and our transition to a low-emissions future, collaboration will be crucial in discussions surrounding energy affordability, social dynamics and the wealth of New Zealanders in general.

We acknowledge the Government for the leadership it has already shown in this area with the Healthy Homes Guarantee Act 2017 and the introduction of Winter Energy Payments, via which it has identified a group of vulnerable consumers for whom paying for energy is challenging, and who would benefit from appropriately targeted assistance.

Genesis looks forward to exploring ways the sector can work with the Government to further improve affordability or services for this targeted group of consumers, for many of whom electricity bills are one of several living costs that can be difficult to budget for and which are often exacerbated by New Zealand’s well documented housing stock challenges.

## **Diversity, robust process needed for effective engagement**

Genesis supports MBIE undertaking wide consultation on issues and draft findings; conducting the review in stages; and making recommendations for improvements to the regulatory system, structure and design of the electricity market as deemed necessary.

Where the broad scope of the review considers complex, interrelated and at times competing issues, it is crucial Government and the sector first agree on work programme priorities, taking a ‘consumer first’ perspective in doing so.

We suggest a sensible next step would be for MBIE to consult on a discussion paper to ensure the review proceeds with an appropriately targeted workload that is focused on cohesive, enabling outcomes. The alternative – disjointed, piecemeal policy decisions that solve problems with more problems – must be avoided if we are to truly deliver benefits for all New Zealanders.

While the proposed ToR is silent on who will conduct the review, we recommend it is undertaken by a panel of diverse individuals with a broad skillset that commit to embracing new ways of thinking and are willing and able to challenge each other’s biases and preconceptions. Ideally this would include people of different gender, age, ethnicity and experience who collectively have a sound commercial understanding of the New Zealand electricity sector, New Zealand society, and what is best for New Zealand Inc.

We also recommend MBIE communicates the timelines for the review stages and any requirements for information gathering as soon as possible to enable industry stakeholders

to be as responsive and constructive in their engagement as they can be. This should streamline a robust process for the benefit of all involved.

With that in mind, please do not hesitate to contact us should you require any assistance at any time. If you would like to discuss any of these matters further, please contact me by email: [dean.schmidt@genesisenergy.co.nz](mailto:dean.schmidt@genesisenergy.co.nz) or by phone: 09 951 9247.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Schmidt', written in a cursive style.

Dean Schmidt  
**Executive General Manager**  
**Corporate Affairs and Transformation**