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**Report of the
Electricity Authority
*Te Mana Hiko***

For the period 1 November 2010 to 30 June 2011
Presented to the House of Representatives in accordance with
section 150 of the Crown Entities Act 2004

Purpose of this annual report

This annual report is the Electricity Authority's formal report to Parliament on its results for the period 1 November 2010 to 30 June 2011.

The report contains information required by sections 150–155 of the Crown Entities Act 2004.

Further information about the Authority and its work is available from: www.ea.govt.nz

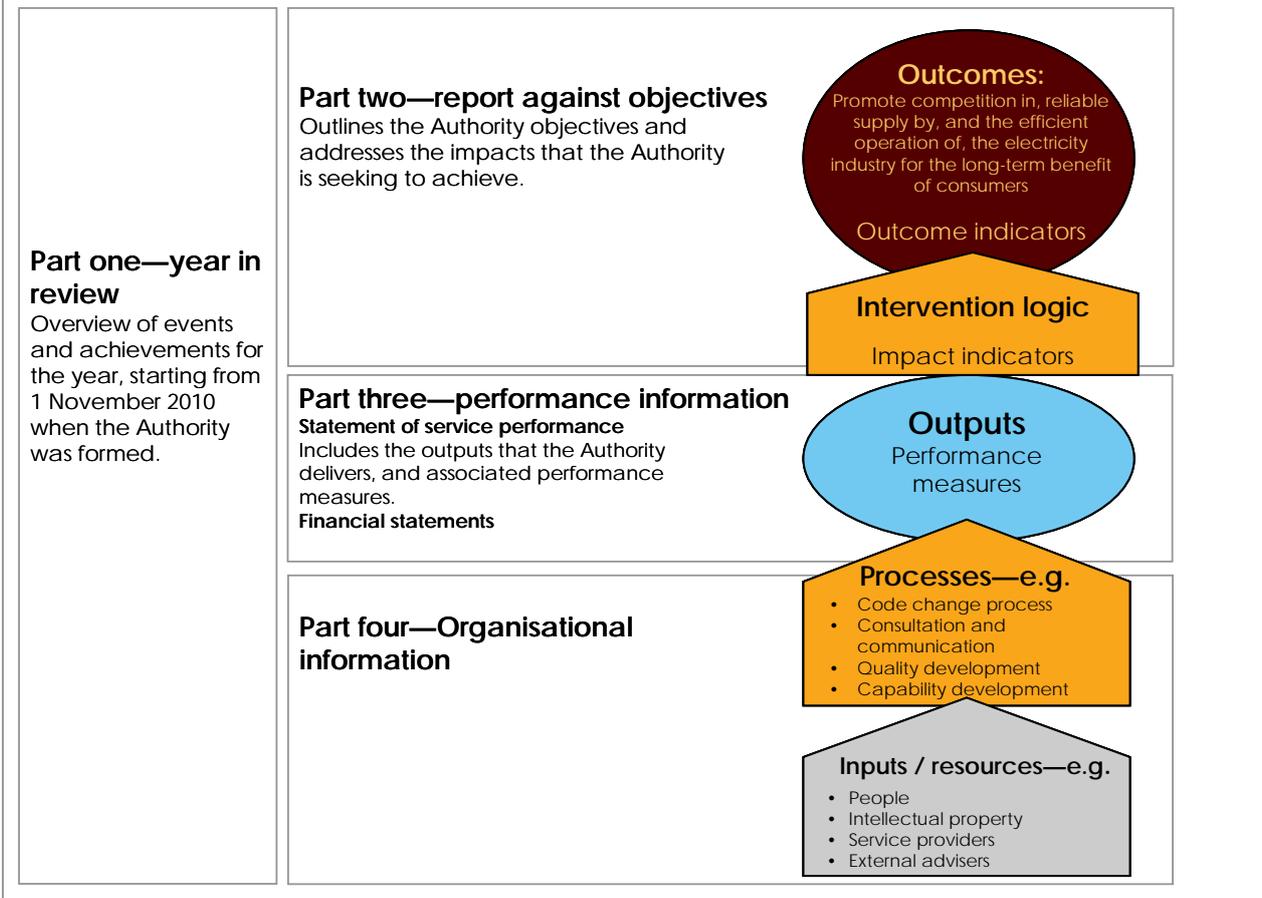
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The Authority’s performance measurement framework and where the information can be found in this Annual Report



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Chair's Foreword

This is the Authority's first Annual Report covering the period 1 November 2010 to 30 June 2011.

Establishing the Electricity Authority

The Authority was established as an independent Crown entity on 1 November 2010 by the Electricity Industry Act 2010 (the Act). The Authority is responsible for regulating and monitoring the performance of the electricity sector.

The Authority considers its statutory independence provides a strong base to ensure regulatory credibility and durability.

The Authority is now well established and has completed its development stage. At 30 June we were well progressed on our priorities for the first year of operation to 1 November 2011.

The Board's focus is now on strategy and ongoing governance is supported by detailed work carried out by Board committees: the system operation committee, audit and finance committee and compliance committee. It is also supported by advisory groups that bring considerable knowledge and experience to the market development projects.

The Board is working hard to both drive strong progress with its work, and to ensure that its decisions produce durable, effective and efficient outcomes. To achieve this the Board has adopted a transparent, open, inclusive approach with the aim of providing a predictable operating environment for industry, and efficient and reliable electricity supply for consumers. Its approach is illustrated by the publication of its foundation documents, use of advisory groups, a commitment to an ongoing programme of meetings with stakeholders, and the introduction of robust consultation processes.

The Board considers the work to date has been successful and positively received by stakeholders, in particular the progress made on section 42 matters and the consumer switching programme. We are confident that strong foundations are being laid for the achievement of our statutory objective:

to promote competition in, reliable supply by, and the efficient operation of, the electricity industry for the long-term benefit of consumers.

First year priorities

The Authority was established with a considerable set of challenges for its first year of operation (to 1 November 2011). These have been refined into a set of strategic priorities with a focus on delivering results against these priorities.

Good progress has been made with these strategic priorities up to 30 June 2011, as outlined in table 1.

Table 1: Progress against strategic priorities

First year priority	Status at 30 June 2011	Comment	More information
New matters—section 42		On track: Section 42 of the Act instructs the Authority to complete a series of actions by 1 November 2011. Sound progress has been made on all of the section 42 new matters in the Act. The customer compensation scheme has been completed and the Board has signed off the locational price risk management Code amendments, which were gazetted in August.	Page 9
New functions implemented		On track: There are some areas in which the responsibilities of the Authority were new or expanded from those of the Electricity Commission including: <ul style="list-style-type: none"> • Developing its analytical capacity—being progressed. • Developing and implementing programmes to promote customer switching, in order to enhance retail market competition—programmes well underway. • Carrying out monitoring, compliance and exemption requirements for lines and energy separation provisions for distribution companies—implementation completed and now business-as-usual. 	Page 15 Page 11
New Advisory Group arrangements implemented		On track: Advisory group arrangements are now almost complete. The Security and Reliability Council (SRC), the Retail Advisory Group (RAG) and the Wholesale Advisory Group (WAG) have been established. The Transmission Advisory Group (TAG) may be established at a later date. The Transmission Pricing Advisory Group (TPAG) was set up to provide advice on transmission pricing. TPAG provided a report on its analysis and recommendations to the Authority Board on 2 September 2011.	Page 56
Adopt statutory objective interpretation and Consultation Charter		Completed: the following were drafted, consulted on and finalised: <ul style="list-style-type: none"> • <i>Charter about Advisory Groups.</i> • <i>Consultation Charter</i>, which includes Code amendment principles. • <i>Interpretation of the Authority's statutory objective.</i> 	Page 8
Proactively engage with the sector		On track: The Authority is undertaking wide engagement with sector interests. The Board has been on a programme of visiting consumer and industry sites throughout New Zealand, as well as meeting with key stakeholder groups. Staff have been actively engaging with the sector and consumer groups in the development of Code amendment proposals and market facilitation measures.	Page 5
Build constructive relationships, especially with the system operator		On track: The Authority has been developing constructive relationships with service providers, in particular the system operator, which is a key industry service provider and an important contributor to the Authority's achievement of various goals. Since 1 November 2010, more formalised arrangements have been bedded in for joint work planning between the system operator and the Authority to progress projects of common interest in a timely, prioritised and efficient manner.	Page 15
Position the Authority to deliver productivity gains		On track: The Authority has finalised its internal structure into business groups aligned with its key market functions—design, operation and review—to deliver efficiencies and value for money as it carries out its work programme.	Page 59
Begin educating interested parties about the electricity sector		On track: Research and planning is being undertaken on the most effective ways to deliver education initiatives. Communication initiatives to date include <ul style="list-style-type: none"> • <i>Electricity in New Zealand</i> has been published and will be regularly updated. • Explanatory papers have been published on some of the priority matters in the Act. • Summaries have been produced to explain key reports, such as the March 26 UTS decision, to non-technical audiences. 	Page 14

Proactive engagement

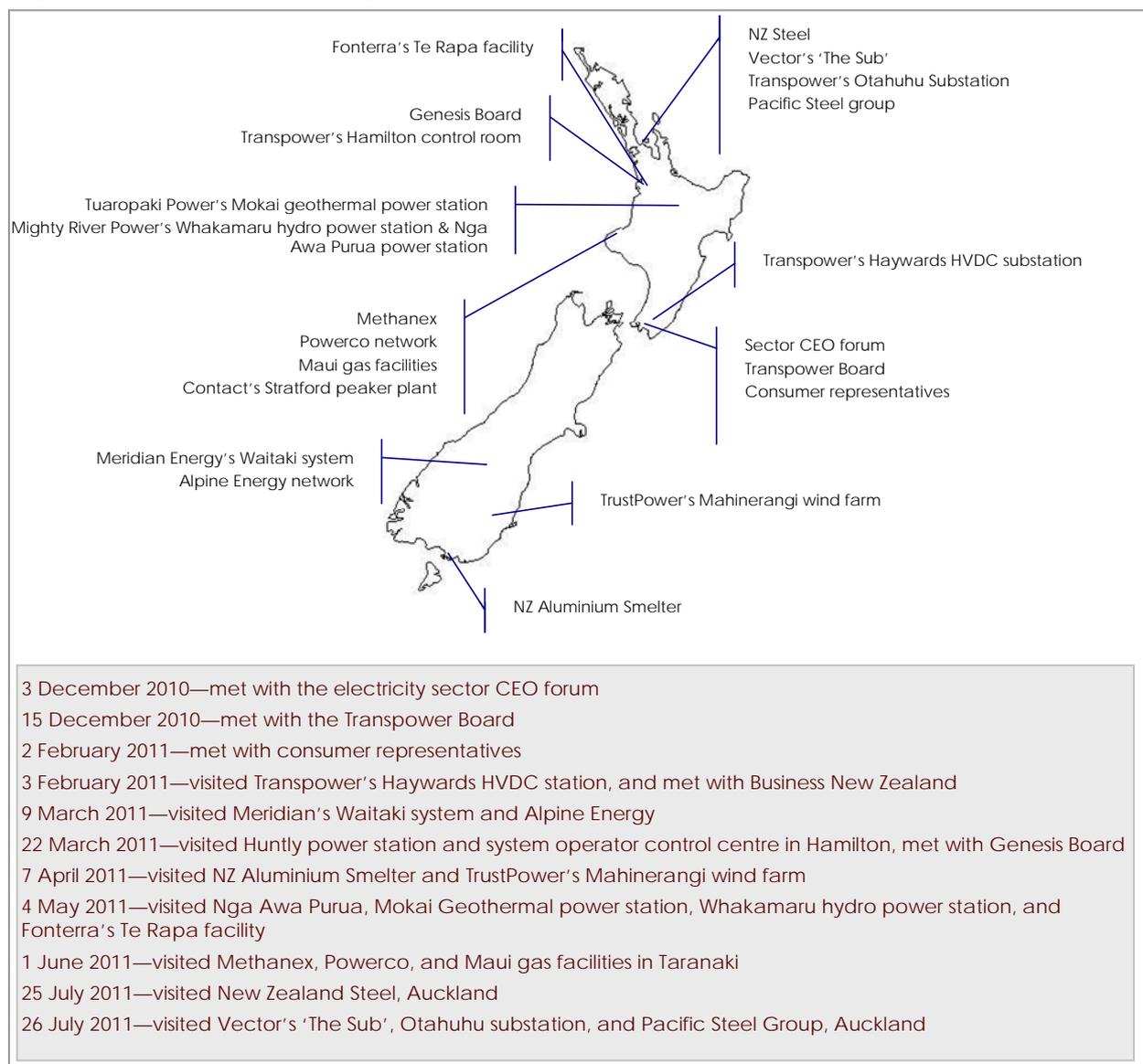
The Authority is undertaking wide engagement with sector interests. The Board has commenced a programme of visiting consumer and industry sites throughout New Zealand, as well as meeting with key stakeholder groups, as illustrated in figure 1. These have provided valuable insights into the industry and stakeholder views, and, we hope, have also provided stakeholders with an opportunity to gain insight into the Authority's functions and projects.

The Board is planning an ongoing programme of site visits and meetings with stakeholders.

In addition staff continue to meet a wide range of industry participants, including undertaking stakeholder, regulatory manager, consumer representative and media briefings and speaking engagements. One-off briefings and workshops have been held on all the priority matters, and a range of other Code development projects in the Authority's work programme, such as the Part 10 metering Code.

Industry groups have also been established and meet on an ongoing basis to progress specific matters in the work programme. Examples include the scarcity pricing forum, the scarcity pricing technical group, the locational price risk technical group, and the standing data formats group.

Figure 1: Board visits and meetings



Looking forward

By the time this Annual Report is tabled in Parliament and released to the public, the Authority will have passed the 1 November 2011 deadline for completing the section 42 Code amendments, or reporting to the Minister on why the Code has not been amended at that stage.

It is anticipated that the Authority will report on 31 October that it believes two of the section 42 matters are better addressed through different approaches than required in the Act. In particular, the Authority is likely to report that price floors should not be introduced for public conservation campaigns, and that instead the Authority has introduced 'stress tests' to more directly target the underlying issue. The Authority is also unlikely to amend the Code to achieve or facilitate a more liquid electricity hedge market, as good progress is currently being achieved through voluntary initiatives with ASX and the largest generators.

Having made good progress with its initial priorities, the Authority has now commenced the development of a robust, well prioritised long-term work programme that optimises our contribution to desired outcomes and delivers value-for-money for levy payers. It is also committed to working with the industry and consumer representatives in establishing the work programme for market development. We will also use our consultation process and work with Advisory Groups to develop more detailed plans for market facilitation measures and initiatives to improve the Code.

Words of thanks

I would also like to take this opportunity to thank all of those who have made contributions to the success of our work in this first eight months, including industry and consumer representatives who have provided contributions and feedback. Without your input the Authority would not have been able to make the progress it has.

The Board values the commitment, knowledge and skills contributed by members of the SRC and Advisory Groups. The professionalism and diversity of these groups has and will continue to assist greatly with the Authority's work, and the Board looks forward to ongoing, well founded and robust recommendations being presented to it by the advisory groups.

A big thank you also goes to the Authority staff who have ensured our challenging work programme stayed on track, and continues to do so. In addition staff have contributed to the transition from the Electricity Commission to the Authority without hitch and without pause in the delivery against both project and business-as-usual workload. This has taken great dedication, effort and talent, for which the Board is greatly appreciative.

I am indebted to my colleagues on the Board and the Chief Executive for their support and hard work, and thank them for their contributions.



Dr Brent Layton
Chair

Authority Board



The Board of the new independent Crown entity, seen here in Wellington with Board Secretary, Rachel Hope (left), scheduled regular, regional meetings to facilitate interaction with a cross-section of consumers and industry participants. Chairperson, Brent Layton, is flanked on his right by Board members Hon Roger Sowry and Susan Paterson and by Elena Trout and David Bull on his left.

Authority Senior Leadership Team



The Authority's Senior Leadership Team, seen here discussing Competition, Reliability and Efficiency initiatives with Business Planning Manager, Torsten Baker (standing), was established following a restructure designed to align resources with the market-related focus of the new organisation. Left to right: John Rampton, GM Market Design; Fraser Clark, GM Operations Development; Carl Hansen, Chief Executive; Ross Hill, GM Legal and Compliance; Kevin Lampen-Smith, GM Corporate Services; and Bruce Smith, GM Market Performance.

Part One—The Year in Review

The first eight months of operation for the Electricity Authority has been a busy and eventful time. Considerable effort has been put in by staff, industry, consumer representatives and advisors to the Authority to progress the important priorities in a significant workload.

In this year in review I would like to look at some of the key successes and challenges faced during the first eight months.

Foundation documents

The Authority has consulted on and finalised a *Charter about Advisory Groups*¹, which sets out the Authority's policy on advisory groups, including the Security and Reliability Council (SRC).²

In addition, a *Consultation Charter* has been consulted on and finalised.³ It sets out the Authority's policy and processes for consulting interested parties on proposals to amend the Code and other matters, and the Code amendment principles the Authority and its advisory groups will adhere to in considering proposals to amend the Code.

An *Interpretation of the Authority's statutory objective* was consulted on in December 2010 and finalised in January 2011.⁴ It clarifies how the Authority interprets its statutory objective. It will assist the Board to make consistent decisions, and staff and advisory groups to develop Code amendments and market facilitation measures for the Board's consideration.

These documents form important foundations for how the Authority works towards the delivery of the vision and outcomes.



¹ Available at: www.ea.govt.nz/about-us/documents-publications/foundation-documents/

² See www.ea.govt.nz/our-work/advisory-working-groups/

³ See www.ea.govt.nz/act-code-regs/code-regs/code-changes/

⁴ While not specifically required by the Act, the Authority considers it important to be clear about interpretation of its statutory objective. See www.ea.govt.nz/about-us/documents-publications/foundation-documents/

On track for completion of new matters—section 42

Section 42 of the Act instructs the Authority to complete a series of actions before 1 November 2011. Top priority has been given to these section 42 new matters and to setting up the new and expanded functions for the Authority.

Figure 2: Section 42 of the Electricity Industry Act 2010

42	<i>Specific new matters to be in Code</i>
(1)	Before the date that is 1 year after this section comes into force, the Authority must either—
	(a) have amended the Code so that it includes all the matters described in subsection (2) (the new matters); or
	(b) to the extent that the Code does not include all the new matters, have delivered to the Minister a report described in subsection (3).
(2)	The new matters are as follows:
	(a) provision of compensation by retailers to consumers during public conservation campaigns;
	(b) imposing a floor or floors on spot prices for electricity in the wholesale market during supply emergencies (including public conservation campaigns);
	(c) mechanisms to help wholesale market participants manage price risks caused by constraints on the national grid;
	(d) mechanisms to allow participants who buy electricity on the wholesale market (commonly called the demand side) to benefit from demand reductions;
	(e) requirements for distributors that do not send accounts to consumers directly to use more standardised tariff structures;
	(f) requirements for all distributors to use more standardised use-of-system agreements, and for those use-of-system agreements to include provisions indemnifying retailers in respect of liability under the Consumer Guarantees Act 1993 for breaches of acceptable quality of supply, where those breaches were caused by faults on a distributor's network;
	(g) facilitating, or providing for, an active market for trading financial hedge contracts for electricity.
(3)	A report provided under subsection (1)(b) must—
	(a) identify which new matters are not included in the Code; and
	(b) explain why the Authority has not amended the Code to include those matters; and
	(c) suggest alternative methods by which the matters are or may be provided for; and
	(d) set out if, when, and how the Authority proposes to provide for the matters.

I am very pleased to report that sound progress has been made on all of the section 42 new matters in the Act.

Table 2 addresses each of the section 42 requirements, and provides detailed reporting in relation to the 2010–2013 Statement of Intent performance measure 4 (see page 31).

Towards the end of the 2010/11 financial year the Authority commenced planning for the implementation phase of the section 42 matters. Implementation will involve varying degrees of effort and for several of the projects includes significant input from service providers and industry. The Authority's approach involves ongoing communication and consultation with stakeholders, not just for the Code development phase, but right through the implementation, and including post-implementation evaluation for major projects.

Table 2: Progress against section 42(2) new matters

Project & Act section	Status	Completion date	Comment
<p>Customer compensation scheme: s42(2)(a)</p> <p>This scheme requires retailers to pay customers when a public conservation campaign (PCC) is called by the system operator.</p>		Completed. Comes into effect on 1 April 2011	The Code amendments were gazetted on 3 March 2011. The scheme started in winter 2011.
<p>Scarcity pricing: s42(2)(b)</p> <p>Setting spot market prices during outages, PCCs and other scarcity situations</p>		On track for Code amendment before 1 November 2011	<p>Final consultation on Code amendments took place in July–August 2011. The proposal was changed to exclude price floors during public conservation campaigns or rolling outages, instead including a ‘stress test’ regime to more directly address the underlying issues.</p> <p>Code amendments are expected to be completed by the end of October 2011.</p> <p>Implementation is expected to be completed by June 2013, although the Authority is discussing earlier implementation with Transpower.</p>
<p>Locational price risk management: s42(2)(c)</p> <p>Introduction of inter-island FTRs to assist parties to manage spot price risks created by transmission congestion.</p>		On track for Code amendment by the end of August 2011	<p>Code amendments were approved on 6 July and gazetted on 11 August 2011. The amendments come into effect on 1 October 2011.</p> <p>The Authority issued a request for proposals at the end of August 2011 for an FTR manager, with the aim of trading commencing by October 2012.</p>
<p>Dispatchable demand (DD): s42(2)(d)</p> <p>A project to develop the necessary rules to allow demand to be dispatched in a similar fashion to generation.</p>		On track for Code amendment before 1 November 2011	<p>Final consultation on Code amendments took place in July–August 2011. Code amendments are expected to be completed in October 2011.</p> <p>Implementation is expected to be completed by June 2013.</p>
<p>Demand-side bidding and forecasting (DSBF): s42(2)(d)</p> <p>A project to improve demand forecasting, scheduled information and price sensitivities to changes in demand.</p>		On track for Code amendment before 1 November 2011	<p>Final consultation on Code amendments was completed in July 2011. Code amendments are expected to be completed in September or October 2011.</p> <p>Implementation is expected to be completed by June 2012.</p>
<p>More standardised tariff structures & use of system agreements: s42(2)(e) and (f)</p> <p>Work on the following projects has been brought together to investigate standardisation issues: model use of system agreements (MUOSA) and distribution pricing principles.</p>		On track for Code amendment before 1 November 2011	<p>Final consultation on Code amendments relating to key policy issues will be consulted on in August–September 2011 and Code amendments are expected to be completed before 1 November 2011.</p> <p>Implementation is to commence in January 2012.</p> <p>Other related matters will continue to be a priority for the Authority including:</p> <ul style="list-style-type: none"> • Updating the model use of system agreements • Addressing retailer indemnity matters (delayed as a result of reforms to the Consumer Guarantees Act, which are outside the Authority’s influence).
<p>Hedge market liquidity: s42(2)(g)</p> <p>Establishing or facilitating an active market for electricity hedges.</p>		On track for Code completion before 1 November 2011 (if needed)	<p>EnergyLink were commissioned as an expert adviser to provide advice on options for developing the hedge market. The report was published in June 2011.</p> <p>A consultation paper, including Code amendments, was consulted on in August 2011.</p> <p>However, at this stage Code amendment is considered a fallback option as the Authority has also been working with ASX and the five largest generators to facilitate industry action in this area, and as a result voluntary measures are expected to result in the target of 3,000 unmatched GWh being reached by June 2012.</p>

Promoting consumer switching

The Authority has been tasked with promoting to consumers the benefits of comparing and switching retailers (section 16(1)(i) of the Act). This work is being carried out in conjunction with the Ministry of Consumer Affairs (MCA).

The key objectives of the Authority programmes are to:

- Create a more competitive retail market;
- Ensure better informed and more active consumers, leading to increased propensity to switch; and
- Encourage consumers to compare and switch electricity retailers.

The Authority has funding of \$10.5 million for a three and a half year programme to promote the benefits of comparing and switching retailers.

During 2010/11 the Authority launched the 'What's My Number' campaign, and finalised contracts for three other programmes that will become fully operational in 2011/12.

'What's My Number' launched

The Authority launched the 'What's My Number' campaign on 29 May 2011 in partnership with the MCA and Consumer New Zealand.

The 'What's My Number' campaign encourages New Zealanders to shop around for electricity in order to enhance retail market competition. The campaign has been developed to provide consumers with information about the ability to switch electricity suppliers, the ease of switching and the potential savings consumers can make on their electricity bills by switching.

The campaign includes a website⁵ which allows consumers to see how much they may be able to save on their electricity bills by switching retailers. A simple calculator, provided by Consumer's Powerswitch website, helps consumers assess their potential savings. Users can then click through to the Powerswitch website to allow them to see details of the different offers available and decide whether to switch.

The campaign had a very promising start. Within three days of launch, 50,000 consumers—the number targeted for the first three months—had visited the website.

By the end of the financial year (30 June 2011)—four and a half weeks into the campaign—over 213,000 calculations had been made on the website, identifying potential savings for New Zealanders of over \$35 million.



⁵ The What's My Number website is: www.whatsmynumber.org.nz

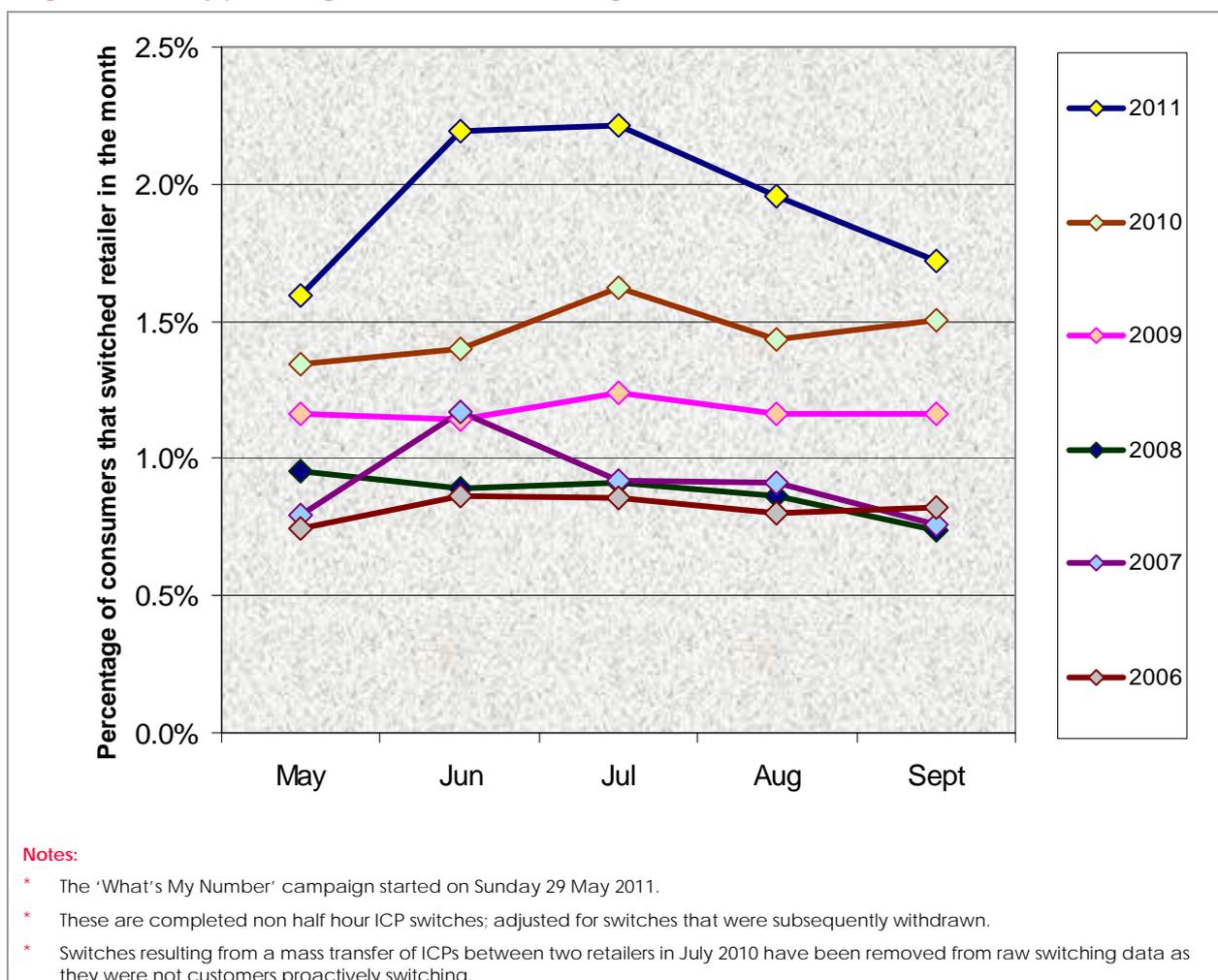
Figure 3: 'What's My Number' campaign statistics from 29 May 2011 launch date

Statistic	30 June 2011	11 September 2011
Unique visitors to the website	223,440	398,447
Estimated savings on 'What's My Number' calculator	\$35 million	\$62 – 62.5 million
Clicks through to Powerswitch from the 'What's My Number' site	188,000	241,819
Completed switches	43,920	127,966 to 30 August

The 'What's My Number' website activity is also translated into a substantial increase in actual consumer switches during the advertising campaign period (with the campaign substantially cut back in September), as illustrated by figure 4. Customer switching jumped by nearly 50% over the same period last year. The campaign resulted in electricity retailers being more innovative in their pricing with at least one offering a big online discount to staunch the flow of customers to other suppliers.

The campaign aim, to empower consumers, has been a success with a growing appreciation of how simple and effective the process is to switch electricity providers. This in turn increases competition within the industry. The Authority will now give consideration to how to ensure that consumers continue to check and make sure they are on the most suitable plan on an ongoing basis.

Figure 4: Monthly percentage of consumers switching retailer



Other switching programmes initiated

In addition to 'What's My Number', contracts have also been signed with three providers to deliver programmes to facilitate switching and provide online switching tools as outlined in table 3.

These initiatives will ensure that the consumer switching programme is able to reach a wider range of target consumers (including residential consumers who don't have access to the internet, those who want support in considering their options, and small to medium enterprises).

Table 3: Programmes to facilitate switching and provide online switching tools

Party and role	Details
Price comparison website provider: Switchme Limited	Switchme Limited has been contracted to build and supply an online business comparison tool.
Switching facilitator: Citizens Advice Bureau (CAB)	CAB has been contracted to assist clients to compare and switch electricity retailers, by explaining to them the benefits of comparing and switching electricity retailers and, if required, taking them through the 'What's My Number' and Powerswitch websites. The Authority is working with CAB to develop and implement this service.
Switching facilitator: Vendor Support Sales Limited	Vendor Support Sales Limited has been engaged to train nominated budget advice centres on how to assist their clients to compare and switch electricity retailers. The Authority is working with Vendor Support Sales Limited to develop and implement this service.

Litigation

The Authority is currently party to two cases before the Courts, one relating to a decision made by the Electricity Commission (Commission) and the other relating to the Authority's decision in relation to 26 March 2011 UTS claims. Both cases continue into the 2011/12 financial year. Costs in relation to these cases are met from the Electricity litigation fund appropriation.

Bay of Plenty Energy proceedings

In November 2010, Bay of Plenty Energy Limited commenced two sets of proceedings (an appeal and a judicial review) in the High Court at Wellington about the Commission's decision to grant an exemption to the reconciliation manager.

The Authority is named as a respondent/defendant in its capacity as the Commission's successor. TrustPower Limited, Contact Energy Limited, NZX Limited and Energy Clearing House Limited are named as the other respondents/defendants.

A two week hearing for this case is set down for April 2012.

26 March 2010 undesirable trading situation (UTS)

The dominant electricity market issue over the last quarter of the 2010/11 financial year was the historically high spot-market prices on Saturday 26 March 2011. Provisional prices on the electricity spot market north of Hamilton were around \$20,000/MWh for several hours, and reached \$8,000/MWh in the lower North Island.

In all, 35 parties claimed the events of 26 March constituted an undesirable trading situation (UTS), as defined in Part 1 of the Electricity Industry Participation Code (Code). The Authority released a draft decision on 6 May that a UTS occurred and on 4 July 2011 the Authority published its final decision that a UTS occurred and actions to correct the UTS.⁶ The Authority sought to make the March 26 UTS decision as expeditiously as possible. Actions involved included:

- Receipt and analysis of 35 claims that the events of 26 March constituted a UTS;
- The Authority issuing 52 information requests and analysing the responses;
- Although the Code does not require consultation on a decision as to whether a UTS has occurred, submissions and cross-submissions on the Authority's preliminary view were sought from interested parties and 29 responses were received and analysed; and
- Modelling undertaken as part of the analysis looked at wholesale electricity market trading data for every half hour since 1 May 2004.

On 13 July 2011 Genesis Energy, Contact Energy, Bay of Plenty Energy/Todd Energy initiated a High Court challenge to the UTS decision.

The following have filed notices in the High Court in support of the Authority decision: Meridian Energy, Mighty River Power, Pulse Utilities, Fletcher Building, Smart Power, Air New Zealand, New Zealand Steel, New Zealand Sugar Company, Powershop New Zealand, Switch Utilities, and the New Zealand Refining Company. Vodafone has also indicated a wish to be heard by the Court.

The High Court has ordered a stay on publication of final prices for 26 March 2011 until a further order of the Court. In practical terms, this means until the UTS appeals are determined, though the Court has the discretion to review this if the need arises.

A five-day hearing of the appeals is scheduled for November 2011.

Information provision

A key challenge for the Authority is to develop its analytical capacity to proactively monitor and investigate the performance of the industry, and to respond to Ministerial review requests.

Some of the key work carried out to date is summarised below.

Monitoring market performance

The Authority has established a Market Performance team to carry out industry and market monitoring, and will also contribute to identifying areas of the Code requiring further development.

Transparency is a key aspect of the function, both in information provision and making reviews, studies and inquiries publicly available.

During the reporting period the Market Performance team gave priority to urgent review work, including the December high price review (paper published on 28 January 2011), a report on the Huntly constrained on event (paper published 5 April 2011), and analysis to support the 26 March UTS investigation (decision published 4 July 2011).

⁶ Further information on the UTS is available at: www.ea.govt.nz/act-code-regs/uts/decisions-and-claims/

Work continues on the development of a comprehensive data warehouse, with a version for use by participants and other interested parties expected to be available within the 2011/12 year. Supplementing this is an Electricity Market Information (EMI) system, which is being developed as a user interface for accessing the Authority's data and models. This is currently being tested with a pilot group of outside users prior to being made more widely available.⁷

Electricity in New Zealand publication

Information about the electricity sector, and the context of much of our work, is summarised in the publication *Electricity in New Zealand*.⁸ This publication explains how the physical system works (generation through to consumption), how the wholesale and retail markets work, and provides a range of useful factual information about the electricity sector. Positive feedback has been received from a wide audience and approximately 3,000 copies have been distributed up to September 2011. This publication will be regularly updated to ensure that it remains current and accurate.

Explanatory papers

The Authority has produced explanatory papers on some of the priority matters in the Act and these have been well received by stakeholders. Summaries have also been produced to explain key reports, including the March 26 UTS decision, to non-technical audiences.

I on the market

In July 2011 the Authority commenced an '(information) on the market' programme within Market Brief newsletters. These items provide information and insights into topical matters. The Authority is also planning the release of 'fact sheets' on the market and the Authority's regulatory arrangements.

Developing analytical capability

The Authority is conscious of the work to be done to fully develop its capability in this area. Feedback from participants and other stakeholders strongly supports the development of this capability and the delivery of improved information as a result.

Over the next year our capability will be consolidated and key outputs, such as market performance reports, will be delivered.

Service providers

The Authority is responsible for ensuring the effective day-to-day operation of the electricity system and markets through the operation of core system and market services in accordance with the Code. It contracts a number of market operation service providers, and these are listed in part four. These services account for a significant proportion, approximately \$40 million per annum, of our costs.

⁷ Further information about the Authority's market monitoring is available at: www.ea.govt.nz/industry/monitoring/

⁸ See <http://www.ea.govt.nz/about-us/documents-publications/>

Service providers also play an advisory role in the development and implementation of the Code where potential amendments require changes to the way the electricity system and markets operate, as well as changes to computer systems used. Service provider capacity and capability can therefore be critical to the timing and quality of successful Code development and implementation. This is particularly so for the system operator as a significant proportion of current and planned initiatives involve changes to the way the electricity system is operated.

As part of its proactive engagement with the sector, the Authority has been developing constructive relationships with service providers both in relation to day-to-day operation and development work, such as implementation of a number of the section 42 initiatives.

Since 1 November 2010, more formalised arrangements have been bedded in for joint work planning between the system operator and the Authority to progress projects of common interest in a timely, prioritised and efficient manner. A joint management team provides strategic oversight for these projects, and, in turn, reports to a joint steering committee.

The Authority considers that working collaboratively and in partnership with its service providers will deliver better outcomes in a timely manner.



Carl Hansen
Chief Executive

Part Two—Report Against Objectives

This report is against the 2010–2013 Statement of Intent, developed by the Electricity Authority Establishment Board and approved by the Electricity Authority Board shortly after the Authority was formed. Since that time the Authority has developed its foundation documents (as outlined in the Foreword) and commenced the development of a long-term strategy.

The 2011–2014 Statement of Intent set out progress with developing the Authority’s strategy, which is summarised below. The strategy is a work in progress and we expect to refine the framework further as we learn from experience.

Strategy and setting work priorities

The Authority’s initial focus has been on the section 42 priorities and developing a highly effective organisation to deliver world-class regulatory oversight of the electricity sector for the long-term benefit of consumers. This included developing our strategy, encompassing:

- What the Authority aims to achieve (vision and outcomes);
- The links between the Authority’s work and the outcomes (impacts);
- What the Authority is delivering (outputs); and
- How inputs are converted to outputs (operational model).

The Authority is increasing its emphasis on how it assesses and prioritises its work programme over the medium to longer-term. This includes focussing on the results of our work, in particular monitoring changes in the context of our statutory objective and value-for-money on levy expenditure. The Authority is also engaging with stakeholders to develop a long-term plan for its market development work.

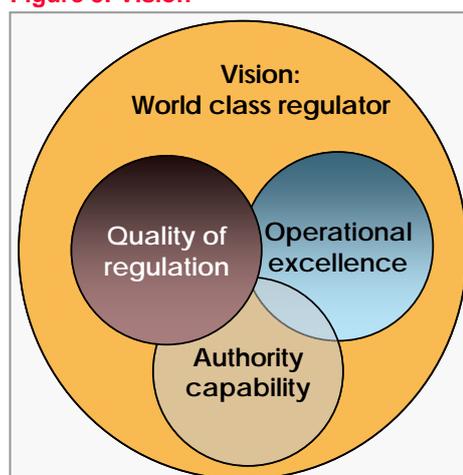
Vision

The Authority’s vision is **to be recognised as a world class regulator**. This is illustrated in figure 5, and means:

- **Quality of regulation:** a Code that meets all three dimensions of the statutory objective—competitive, reliable and efficient—and is consistent with international best practice. Principles of quality of regulation such as fairness of process, sound consultation, credibility, predictability and transparency are consistently applied.
- **Operational excellence:** a high standard of outputs, clearly aligned to the desired outcomes.
- **Authority capability:** an operational model that meets:

- Government expectations of being cost effective for the delivered services;
- The Authority’s requirements for attracting and retaining appropriately skilled, knowledgeable staff; and
- Industry expectations of consultation, consistency, fairness, and a clear understanding of the commercial environment.

Figure 5: Vision



Applying the statutory objective

The Authority's statutory objective is **to promote competition in, reliable supply by, and the efficient operation of, the electricity industry for the long-term benefit of consumers.**

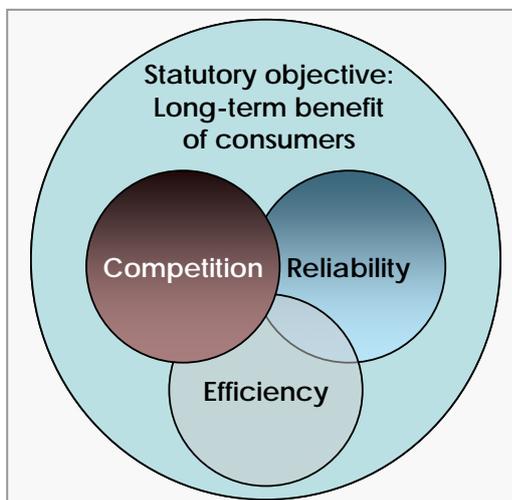
In February 2011 we published our *Interpretation of the Authority's statutory objective*. In summary, we interpret the Authority's statutory objective as requiring it to exercise its functions in ways that, **for the long-term benefit of electricity consumers:**

- Facilitate or encourage increased **competition** in the markets for electricity and electricity-related services, taking into account long-term opportunities and incentives for efficient entry, exit, investment and innovation in those markets;
- Encourage industry participants to efficiently develop and operate the electricity system to manage security and **reliability** in ways that minimise total costs whilst being robust to adverse events; and
- Increase the **efficiency** of the electricity industry, taking into account the transaction costs of market arrangements; the administration and compliance costs of regulation; and Commerce Act implications for the non-competitive parts of the electricity industry, particularly in regard to preserving efficient incentives for investment and innovation.

The competition, reliability and efficiency dimensions of our statutory objective will therefore play a major part in determining market development priorities, and in monitoring the impact of our work.

Derived from the objective set out in the Act (see figure 6), the Authority is seeking the following outcomes:

Figure 6: Statutory objective



- **Competition:** Widespread consumer and investor confidence in the competitiveness of New Zealand's wholesale⁹ and retail electricity markets (within the bounds of a small economy that cannot import electricity). We work to ensure that arrangements are in place that facilitate competition, and to ensure consumers know how to get the best deal for themselves.
- **Reliability:** Widespread consumer and investor acceptance of efficient levels of supply reliability across the 'supply chain' (generation, transmission, distribution, and retailing). This includes developing a wider appreciation and understanding of the trade-offs between cost and reliability.¹⁰
- **Efficiency:** Widespread recognition that New Zealand's wholesale and retail electricity markets, and transmission and distribution arrangements are efficient mechanisms for coordinating electricity production and consumption, and for facilitating timely and innovative investment in the electricity system. We want to ensure that the electricity sector is efficient, and that this is recognised.

⁹ The wholesale market comprises the energy (spot), ancillary services and secondary (hedge) markets.

¹⁰ Noting that consumer concerns about security and reliability may not be constant over time, with concerns growing when events become proximate and receding when events pass.

Strategic framework

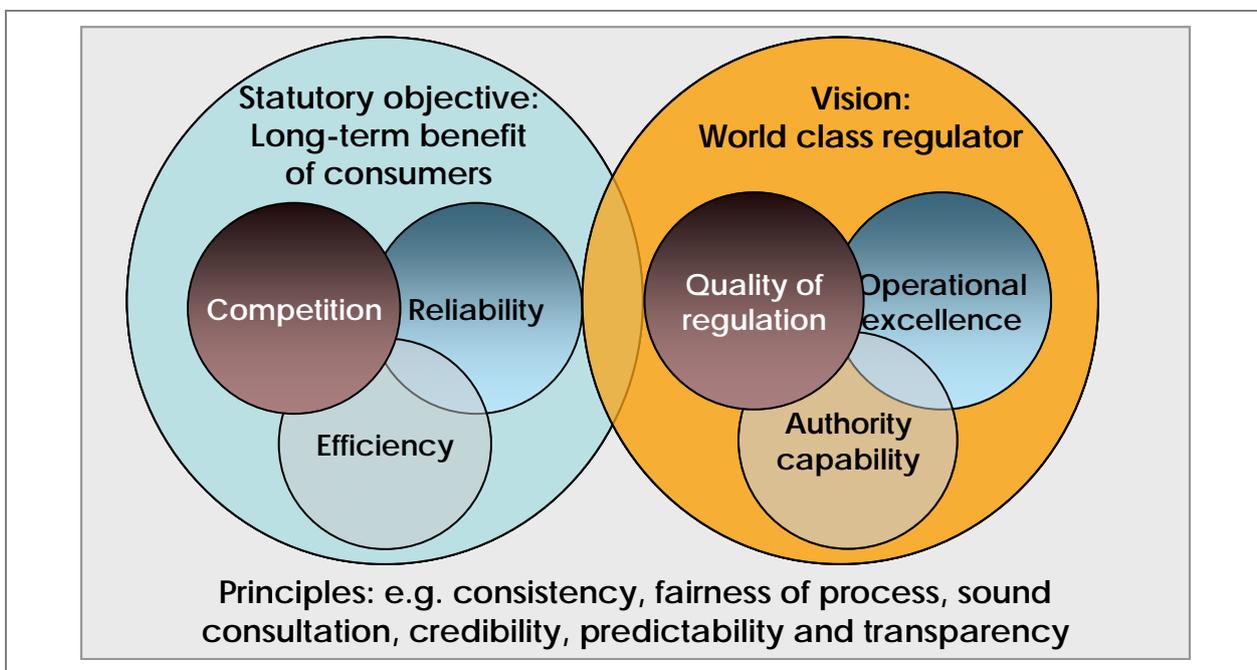
The vision, statutory objective, and how we will work are addressed together in the strategic framework in figure 7. The diagram illustrates how the **statutory objective** and **vision** depend on each other—one is not achieved without the other.

Within the **statutory objective** are the three dimensions of competition, reliability and efficiency. All contribute to the long-term benefit of consumers. Individual projects or outputs may contribute to one or more of these dimensions, as illustrated in the section below (**Desired Authority impacts on outcomes**).

Within the **vision** the three dimensions of quality of regulation, operational excellence and Authority capability are all essential to achieve the vision and statutory objective. They are interdependent parts.

Principles such as consistency, fairness of process, sound consultation, credibility, predictability and transparency are common threads through these dimensions of the statutory objective and vision.

Figure 7: Electricity Authority strategic framework

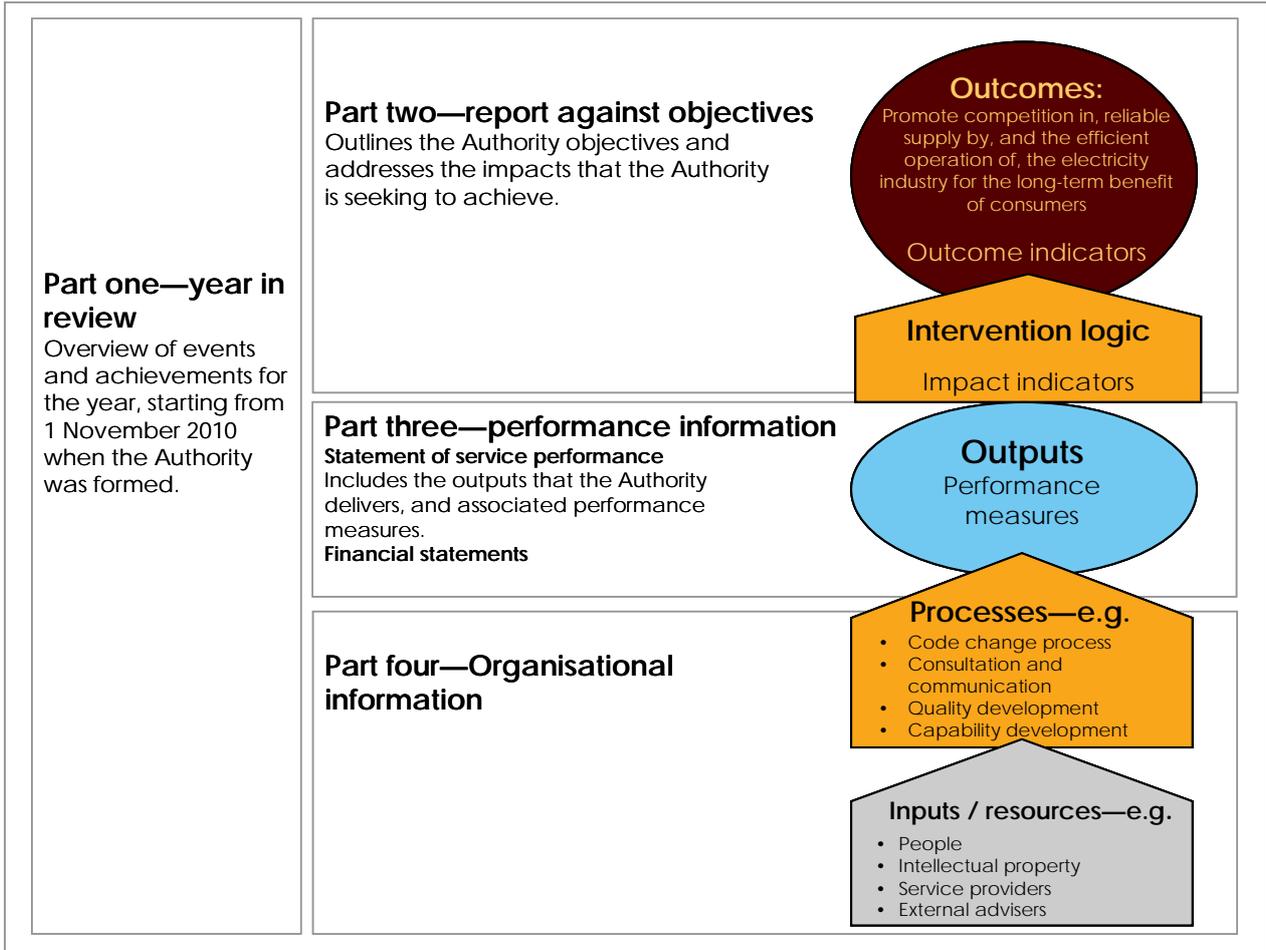


Performance measurement framework

The Authority's performance measurement framework determines how we measure achievement against the statutory objective and the Authority's vision. This framework is in development, and information is included in this Annual Report, where currently available.

In the parts of this Annual Report that follow, **performance measurement framework key** diagrams are used to identify how the information in that section relates to the framework in figure 8. The first of these diagrams can be found at the bottom of the following page.

Figure 8: Performance measurement framework

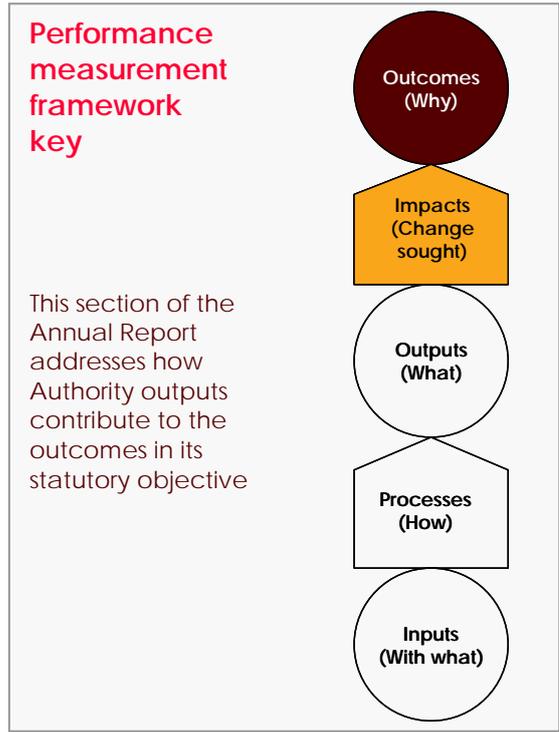


Desired Authority impacts on outcomes

This section addresses the Authority’s contributions to achieving the desired outcomes. Authority impact indicators address the changes we are seeking to bring about in the outcomes.

In the following section the Authority’s outputs are set out in relation to the contributions made to the competition, reliability and efficiency dimensions of the statutory objective:

- Outputs that contribute to the three objective dimensions of competition, reliability and efficiency;
- Outputs that contribute primarily to reliability; and
- Outputs that contribute primarily to competition.

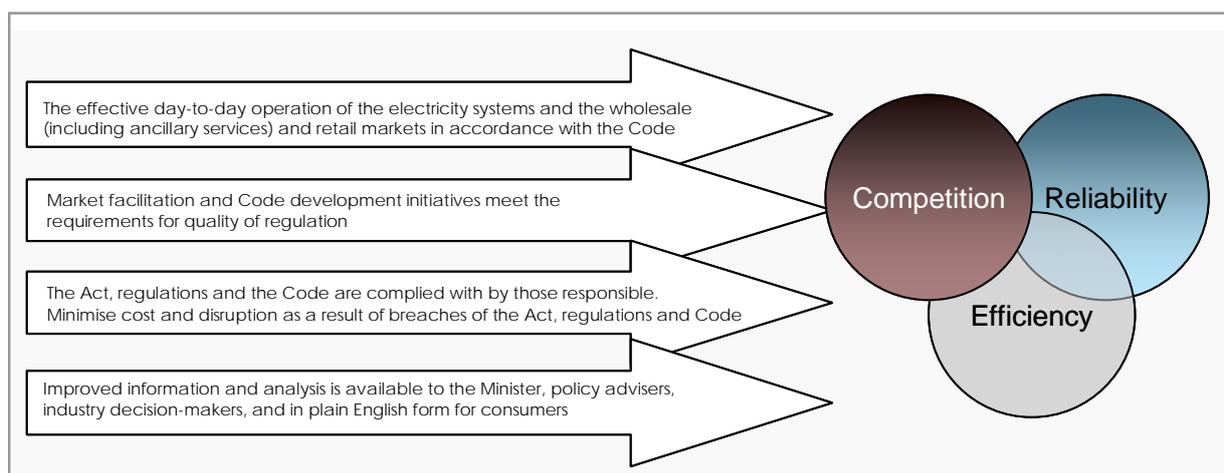


Contributing to competition, reliability and efficiency

The following Authority outputs contribute to competition, reliability and efficiency:

- Market facilitation and Code development:** A major challenge up to 1 November 2011 is completing the section 42 requirements. This will be followed by working with service providers and the industry to ensure they are effectively implemented.
- Market operations:** The Authority is responsible for efficient and effective day-to-day operation of the electricity system and the wholesale (including ancillary services) and retail markets. Delivery is through contracts with external service providers, which are contestable (with the exception of the system operator). The Authority is also progressing a number of potential common quality improvements and intends to put increased emphasis on this area in the 2011/12 financial year. There are significant potential gains from these projects in terms of efficiency (including cost savings) and reliability.
- Compliance:** Our compliance team focuses on ensuring industry participants comply with the Act, regulations and the Code. Lessons learned are made widely available to the industry to promote improved compliance, and also contribute to development work to improve market facilitation measures and the Code.
- Industry monitoring and information:** The Authority seeks to ensure appropriate information is available to industry participants and improve the quality of analysis of market performance. Communicating this information in plain English will increase its value to the industry and consumers. The initial focus of the Authority’s monitoring function has been on the competition dimension of the statutory objective. The focus will be progressively broadened to cover the reliability and efficiency dimensions of the statutory objective.

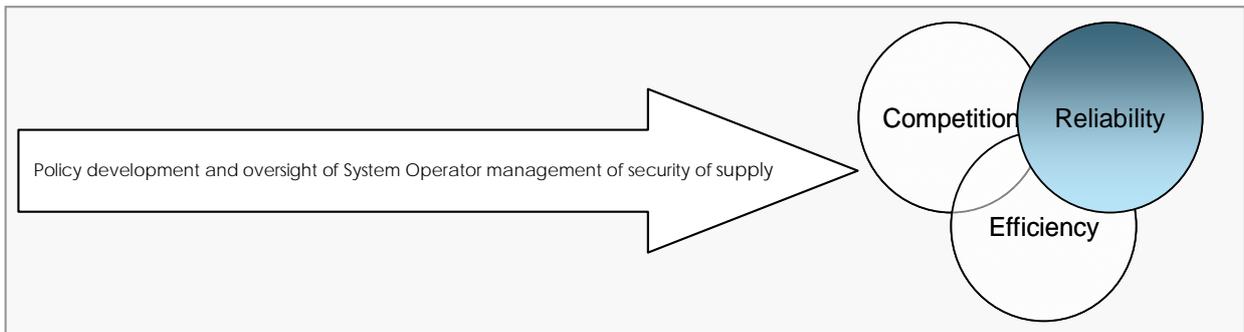
Figure 9: Authority contributions to competition, reliability and efficiency



Contributing primarily to reliability

The Authority develops security of supply policy and oversees the system operator's management of security of supply, which contributes to reliability. Support is provided to the Security and Reliability Council (SRC) in carrying out its responsibilities.

Figure 10: Authority contributions to reliability

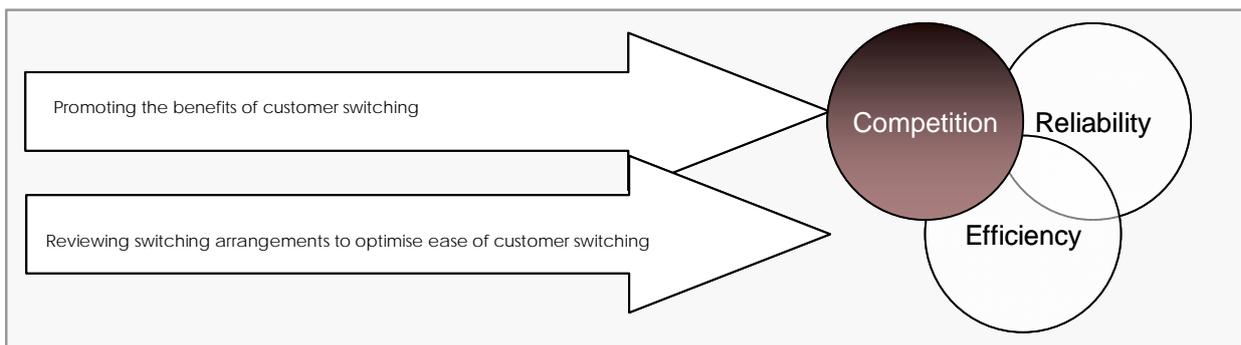


Contributing primarily to competition

The Authority promotes the benefits of customer switching, which contributes to competition.

Market facilitation by the Authority includes reviewing timeframes for consumers switching between retailers to see if there is potential for retailers to improve on the current government target of 50 percent of switches processed within five business days and 75 percent within ten business days.

Figure 11: Authority contributions to competition

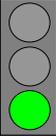


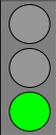
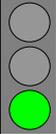
Authority impact indicators

In the 2011–2014 Statement of Intent we identified impact indicators that address the change that we are seeking to bring about in the outcomes. Reading from left to right across table 4 below, the indicators relate to the change in outcome that is sought through delivering our outputs.

The 2011–2014 Statement of Intent was published in May 2011 and these indicators will be reported against in the 2011/12 Annual Report. The following table sets out the progress that the Authority has made in implementing and measuring these indicators during the months since publication of the 2011–2014 Statement of Intent.

Table 4: Authority impacts and progress during 2010/11

Authority outputs lead to.....→	Authority impact indicators which contribute to.....→	Impact comment for the 2010/11 year	The outcomes sought which contribute to.....→	Competition	Reliability	Efficiency
Operation of the electricity system and markets see page 30	Electricity system and market services delivered in accordance with contracts, or appropriate action taken by the Authority to address contract breaches	 Achieved (monitored through contract management operations)	Efficient, reliable, and secure system and market operation Electricity system and market services delivered to the agreed standards	✓	✓	✓
	Contestable tendering of relevant market services delivers value-for-money over the life of the contracts	NA NA in period. No tendering was required during 2010/11	Cost-effective electricity market services	✓	✓	✓
Market development see page 31	Code amendments meet quality standards, as assessed through post-implementation assessment for major projects	 Quality standards have been developed and put in place, including the Consultation Charter (with Code amendment principles) No post-implementation assessment for major projects carried out to date	Quality and cost-effective regulation Code amendments effectively implemented	✓	✓	✓
	Switching arrangements reviewed to optimise ease of switching	 The Authority is reviewing switching times and plans to report in October 2011 whether these can be reduced further	Increased ease of switching for consumers	✓		✓
Compliance see page 31	Authority feedback that can be used by participants to improve compliance (e.g. conferences and case studies)	 The Authority publishes an update after each Compliance Committee meeting with information on key decisions, and compliance activities Annual conference planned for November 2011	Sound awareness of the Act, regulations and Code amongst those responsible for complying with them	✓	✓	✓

Authority outputs lead to.....→	Authority impact indicators which contribute to.....→	Impact comment for the 2010/11 year	The outcomes sought which contribute to.....→	Competition	Reliability	Efficiency
Industry and market monitoring and information see page 32	Authority monitoring reports meet or exceed user expectations	NA Annual assessment of market performance not completed in the period	Improved market information and analysis of market performance are available	✓	✓	✓
	Number of Code improvement proposals arising from monitoring and analysis work Value assessment (e.g. NPV) of Code improvement proposals arising from monitoring and analysis work	 Thirteen Code amendment proposals arising from monitoring and analysis work have been added to the Code Amendment Register. Initial assessment, including the value assessments, are yet to be carried out on these proposals	Potential Code improvements are identified that contribute to improved competition, reliability and efficiency	✓	✓	✓
Security of supply governance see page 32	The Authority sets appropriate standards for security of supply	 Projects to review security of supply standards were put on hold while resources were focussed on the section 42 matters Existing security standards continue to apply	Less frequent public conservation campaigns Security standards are met		✓	
	The Authority effectively monitors and reports on system operator performance	 Achieved (monitored through contract management and compliance operations)	The system operator effectively manages emerging and actual shortage of supply situations		✓	
	The Authority approves/declines security of supply policy from the system operator, as appropriate (e.g. Emergency Management Policy)	NA The first system operator Emergency Management Plan is due to the Authority in November 2011	The system operator has appropriate security of supply policies and plans in place		✓	
	Promoting and facilitating customer switching see page 32	Increased consumer awareness of possible benefits and how to switch as a result of Authority information programmes / campaigns	 In progress: programme initiated and measurement framework developed. Baseline measurement carried out	Increased consumer awareness of the possible benefits of comparing and switching retailers	✓	
Increased propensity ¹¹ for consumer switching in the medium term		 In progress: programme initiated and measurement framework developed. Baseline measurement being carried out	Increased competitive behaviour by electricity retailers (e.g. pricing, customer seeking, customer retention)	✓		

¹¹ Greater propensity for switching means that consumers switch more readily when there are financial gains from switching. The Authority is not focused on increasing consumer switching activity per se as greater competitive pressure on electricity retailers may narrow differences in retail tariffs, reducing the financial gains from switching.

Part Three—Performance Information

Statement of responsibility

The Board is responsible for the preparation of the Electricity Authority's financial statements and statement of service performance, and for the judgments made in them.

The Board of the Electricity Authority has the responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of the Electricity Authority's financial reporting.

In the Board's opinion the financial statements and statement of service performance fairly reflect financial position and operations of the Electricity Authority for the period 1 November 2010 to 30 June 2011.

Signed on behalf of the Board:



Dr Brent Layton
Chair
Electricity Authority



Hon Roger Sowry
Member
Electricity Authority

31 October 2011

Independent Auditor's report

To the readers of the Electricity Authority's financial statements and statement of service performance for the 8 months ended 30 June 2011

The Auditor-General is the auditor of the Electricity Authority (the Authority). The Auditor-General has appointed me, Phil Kennerley, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and statement of service performance of the Authority on her behalf.

We have audited:

- the financial statements of the Authority on pages 34 to 53, that comprise the statement of financial position, statement of commitments and statement of contingent liabilities and contingent assets as at 30 June 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the 8 months ended on that date and notes to the financial statements that include accounting policies and other explanatory information; and
- the statement of service performance of the Authority on pages 29 to 33 for the 8 months ended 30 June 2011.

Opinion

In our opinion:

- the financial statements of the Authority on pages 34 to 53:
 - comply with generally accepted accounting practice in New Zealand; and
 - fairly reflect the Authority's:
 - financial position as at 30 June 2011; and
 - financial performance and cash flows for the 8 months ended on that date.
- the statement of service performance of the Authority on pages 29 to 33:
 - complies with generally accepted accounting practice in New Zealand; and
 - fairly reflects, for each class of outputs for the 8 months 30 June 2011, the Authority's
 - service performance compared with the forecasts in the statement of forecast service performance at the start of the period; and
 - actual revenue and output expenses compared with the forecasts in the statement of forecast service performance at the start of the period.

Our audit was completed on 31 October 2011. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board and our responsibilities, and we explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and statement of service performance are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements and statement of service performance. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and statement of service performance. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and statement of service performance, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Authority's preparation of the financial statements and statement of service performance that fairly reflect the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board;
- the adequacy of all disclosures in the financial statements and statement of service performance; and
- the overall presentation of the financial statements and statement of service performance.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and statement of service performance. We have obtained all the information and explanations we have required and we believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board

The Board is responsible for preparing financial statements and a statement of service performance that:

- comply with generally accepted accounting practice in New Zealand;
- fairly reflect the Authority's financial position, financial performance and cash flows; and
- fairly reflect its service performance.

The Board is also responsible for such internal control as is determined necessary to enable the preparation of financial statements and a statement of service performance that are free from material misstatement, whether due to fraud or error.

The Board's responsibilities arise from the Crown Entities Act 2004 and the Public Finance Act 1989.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and statement of service performance and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and the Crown Entities Act 2004.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

In addition to the audit, we have carried out an assignment to provide assurance over the procurement process for the selection of a Financial Transmissions Manager. This assignment is compatible with those independence requirements.

Other than the audit, and the additional assignment, we have no relationship with, or interests in, the Authority.



Phil Kennerley
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand

Matters relating to the electronic presentation of the audited financial statements and statement of service performance

This audit report relates to the financial statements and statement of service performance of Electricity Authority (the Authority) for the year ended 30 June 2011 included on the Authority's website. The Board is responsible for the maintenance and integrity of the Authority's website. We have not been engaged to report on the integrity of the Authority's website. We accept no responsibility for any changes that may have occurred to the financial statements and statement of service performance since they were initially presented on the website.

The audit report refers only to the financial statements and statement of service performance named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements and statement of service performance. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and statement of service performance as well as the related audit report dated 31 October 2011 to confirm the information included in the audited financial statements and statement of service performance presented on this website.

Legislation in New Zealand governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

Statement of service performance

This statement of service performance (SSP) contains the information required by section 151 of the Crown Entities Act 2004. This section includes:

- A summary of the Authority's appropriations and output classes;
- Specification of the Authority's quality standard for written documents; and
- Detailed specification of the Authority's output classes and results for the 1 November 2010 to 30 June 2011 period. Where applicable, performance variance explanations are provided.

Figure 12 summarises the Authority's appropriations and output classes. Figure 13 on the following page provides more detail about the breakdown of budgeted costs within the **electricity industry governance and market operations** appropriation. Note that in both figures 12 and 13 the 2010/11 amounts are for eight months, covering the period from the establishment of the Authority to the end of the 2010/11 financial year.

Performance measurement framework key

This part of the Annual Report addresses the Authority's outputs and performance measures

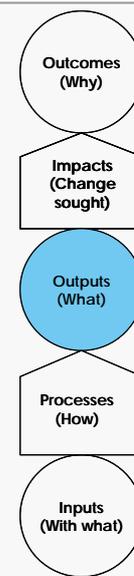


Figure 12: Summary of appropriations, output classes and main activities

Appropriation and output class	(\$ 000)				
	2010/11 actual: 1 Nov 2010– 30 Jun 2011 (8 months)	2010/11 budget: 1 Nov 2010– 30 Jun 2011 (8 months)	2011/12 appropriations: 1 Jul 2011 – 30 Jun 2012	2012/13 forecast: 1 Jul 2012 – 30 Jun 2013	2013/14 forecast: 1 Jul 2013 – 30 Jun 2014
1. Electricity industry governance and market operations (see figure 13 for detail)	37,698	38,181	62,535	63,214	63,913
2. Promoting and facilitating customer switching	1,499	10,500 over the period 1 November 2010 – 30 April 2014	10,500 over the period 1 November 2010 – 30 April 2014		
3. Reserve energy and emergency measures—availability costs *	15,687	16,142	6,245	-	-
4. Reserve energy and emergency measures—variable costs **	0,205	4,867 over the period 1 November 2010 – 30 June 2012	4,867 over the period 1 November 2010 – 30 June 2012	-	-
5. Security management	NA	NA	NA	6,000 over the period 1 July 2012 – 30 June 2017	
6. Electricity litigation fund ***	0,111	0,296	0,444	0,444	0,444

Notes:

* This appropriation will end on 30 June 2012.

** This appropriation is to be replaced by the new security management appropriation to take effect from 1 July 2012.

*** The Electricity litigation fund appropriation is to provide funding to ensure that the Authority is able to participate in litigation effectively and without delay. This is a Crown expense appropriation, which is drawn on only for major litigation. There is no output class for this appropriation.

Figure 13: Electricity Industry Governance and Market Operations appropriation budget

Budget item	(\$ 000)				
	2010/11 actual: 1 Nov 2010– 30 Jun 2011 (8 months)	2010/11 budget: 1 Nov 2010– 30 Jun 2011 (8 months)	2011/12 budget: 1 Jul 2011 – 30 Jun 2012	2012/13 forecast: 1 Jul 2012 – 30 Jun 2013	2013/14 forecast: 1 Jul 2013 – 30 Jun 2014
Service provider—system operator	20,529	19,919	33,876	34,545	35,232
Service provider—clearing manager	1,140	1,140	1,783	1,522	1,568
Service provider—wholesale information and trading system (WITS)	1,007	989	1,540	1,264	1,302
Service provider—pricing manager	1,107	1,133	1,691	1,601	1,150
Service provider—reconciliation manager	878	854	1,332	1,095	1,128
Service provider—registry	263	259	432	500	458
Sub total—service providers	24,924	24,294	40,654	40,527	40,838
Authority operations—external advice	4,295	4,756	8,556	8,326	8,089
Authority operations—personnel	5,132	4,616	7,646	7,876	8,113
Authority operations—other operating costs	3,347	4,515	5,679	5,679	5,679
Sub total—Authority operations	12,774	13,887	21,881	21,881	21,881
Available for Code change implementation costs	0	-	-	861	1,194
Total—appropriation budget	37,698	38,181	62,535	63,214	63,913

Electricity industry governance and market operations output class

The electricity industry governance and market operations output class provides for the operation and governance of New Zealand's electricity market under the Act, Code and regulations. This output class includes the general operations of the Authority, including members' costs, the Security and Reliability Council (SRC), Rulings Panel, along with operation of the electricity system and market operations.

Table 5: Operation of the electricity system and markets

Performance measure	Target: 1 November 2010 – 30 June 2011		Result: 1 November 2010 to 30 June 2011
1. The system operator meets the requirements of the Code (Principal Performance Obligations-PPOs), regulations and service provider contract.	Contract management and monitoring actions completed as appropriate.		Achieved. Contract management and monitoring actions include annual performance reviews, system audits, monitoring of service provider reports, and addressing significant issues, as necessary. The Authority also monitors maintenance of insurance certificates for wholesale and retail market service providers.
2. Operation of the wholesale and retail markets by the clearing manager, pricing manager, wholesale information and trading services, reconciliation manager and registry meet the requirements of the Code, regulations and service provider contracts.	Contract management and monitoring actions completed as appropriate.		Achieved. Contract management and monitoring actions include annual performance reviews, system audits, monitoring of service provider reports, and addressing significant issues, as necessary. The Authority also monitors maintenance of insurance certificates for wholesale and retail market service providers.
3. The Security and Reliability Council (SRC) is established and meets at least twice annually (section 20).	Established by 31 March 2011.		Achieved. The SRC was established in March 2011 and met for the first time on 27 April 2011.

Table 6: Market development

Performance measure	Target: 1 November 2010 – 30 June 2011		Result: 1 November 2010 to 30 June 2011
4. Complete Code changes for new matters in section 42(2) of the Act, where appropriate and possible, or report to the Minister on why the matters have not been addressed in the Code.	Publish quarterly updates. On track for completion of Code changes or report to Minister by 1 November 2011.		Achieved. Updates have been provided on a regular basis including detailed Market Commentary newsletters from the Chief Executive. Achieved. All s42 matters are considered on track for 1 November 2011. See table 2 on page 10 for details.
5. Publish a consultation charter relating to Code change processes (section 41).	Draft consulted on Charter published.		Achieved. The draft consultation charter was consulted on in November 2010 and the final was published in December 2010.
6. Publish an advisory group charter (section 19).	Draft consulted on Charter published.		Achieved. The draft advisory group charter was consulted on in November 2010 and the final was published in December 2010.
7. The number of successful legal challenges to the Electricity Authority's exercise of statutory functions.	No successful legal challenges.		Achieved. No successful challenges. A legal challenge is in train relating to the Authority's 26 March UTS decision (see page 13). In addition a judicial review is underway relating to the work of the Electricity Commission (BOPE case also addressed in page 13).

Table 7: Compliance

Performance measure	Target: 1 November 2010 – 30 June 2011		Result: 1 November 2010 to 30 June 2011
8. The number of Act, Code and regulation breach notifications closed.	100–130.		Not achieved: 85 notifications closed. Note this is a demand driven statistic. The Authority publishes an update after each Compliance Committee meeting with information on key decisions and other activities occurring within the Compliance team at the Authority.
9. The percentage of notifications of alleged breaches completed within three months of notification.	70%.		Not achieved: 57%—The low percentage arises from gaps between Compliance Committee meetings in the transition from the Electricity Commission to the Authority. The result has been improving since the Authority was established and regular meetings are now being held.
10. The percentage of notifications of alleged breaches completed within six months of notification.	85%.		Achieved: 90%.

Table 8: Industry and market monitoring and information

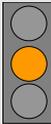
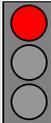
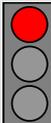
Performance measure	Target: 1 November 2010 – 30 June 2011	Result: 1 November 2010 to 30 June 2011
11. Authority monitoring function implemented and monitoring approach published.	31 December 2010.	 <p>Partly achieved. The core functions have been established and guidelines on information gathering powers for compliance purposes were published on the Authority's website on 23 December 2010.</p> <p>An information paper on the Authority's approach to monitoring was published in September 2011.</p>
12. Annual assessment of market performance published.	30 June 2011.	 <p>Not achieved. The first annual assessment will now be completed in the 2011/12 year. Priority was given to urgent review work during the year, including the December high price review (paper published on 28 January 2011, a report on the Huntly constrained on event (paper published 5 April 2011, and analysis to support the 26 March UTS investigation (decision published 4 July 2011).</p>

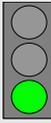
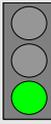
Table 9: Security of supply governance

Performance measure	Target: 1 November 2010 – 30 June 2011	Result: 1 November 2010 to 30 June 2011
13. Review the security of supply standards, including adding a summer capacity standard.	Summer capacity standard completed.	 <p>Not achieved. This project was given a lower priority while focus was maintained on section 42 matters.</p>

Promoting and facilitating customer switching output class

Funded by an appropriation of \$10.5 million over four years (commences: 1 November 2010, expires: 30 April 2014), this output class allows for facilitating/promoting the increased switching of electricity suppliers to consumers.

Table 10: Promoting and facilitating customer switching

Performance measure	Target: 1 November 2010 – 30 June 2011	Result: 1 November 2010 to 30 June 2011
14. Joint customer switching fund strategy agreed with the MCA.	By 31 December 2010.	 <p>Achieved. Joint strategy with MCA signed 21 December 2010.</p>
15. Request for proposals process completed and contracts awarded for initial programme delivery.	31 March 2011.	 <p>Achieved. Tender process completed and provider selected in March 2011. "What's my number" information campaign launched in May 2011.</p>

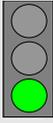
Reserve energy and emergency measures—availability costs output class

Table 11: Reserve energy and emergency measures—availability

Performance measure	Target: 1 November 2010 – 30 June 2011		Result: 1 November 2010 to 30 June 2011
16. Whirinaki power station availability is delivered in accordance with the contract.	Contract management and monitoring actions completed as appropriate.		Achieved. Contract management and monitoring actions include system audits, monitoring of monthly reports, approval/decline of requests in accordance with the contract, and completion of the annual review.

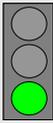
Reserve energy and emergency measures—variable costs output class

Table 12: Reserve energy and emergency measures—variable

Performance measure	Target: 1 November 2010 – 30 June 2011		Result: 1 November 2010 to 30 June 2011
17. Whirinaki power station generation is delivered in accordance with the contract.	Contract management and monitoring actions completed as appropriate.		Achieved. Contract management and monitoring actions include system audits, monitoring of monthly reports, approval/decline of requests in accordance with the contract, and completion of the annual review.

Quality standard

Table 13: Quality standard report

Performance measure	Target: 1 November 2010 – 30 June 2011		Result: 1 November 2010 to 30 June 2011
18. Publications and reports for all output classes meet the quality standard (aggregate result).	100%.		Achieved. 100%.

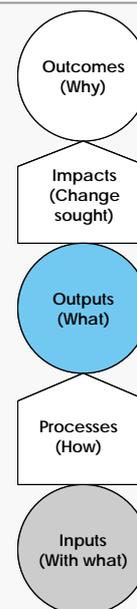
Financial Statements

The financial statements report actual results against budget information in the Authority's 2010–2013 Statement of Intent.

These statements are provided in accordance with section 151 of the Crown Entities Act 2004.

Performance measurement framework key

This part of the Annual Report sets out the Authority's financial results—key output and input information



Statement of comprehensive income for the period 1 November 2010 to 30 June 2011

	Note	Actual 2011 (8 months) \$000	Budget 2011 (8 months) \$000
Crown appropriations	2	54,995	56,119
Whirinaki spot revenue		619	-
Interest income		356	133
Other income		-	-
Total income		55,970	56,252
Personnel costs	3	5,132	4,616
Depreciation and amortisation	8,9	1,415	1,377
Whirinaki fuel		205	-
Other expenses	4	48,448	50,126
Total expenditure		55,200	56,119
Distribution of Whirinaki net spot revenue to levy payers	5	(414)	-
Net operating surplus	6	356	133
Other comprehensive income		-	-
Total comprehensive income		356	133

Explanation of major variances to budget are provided in Note 24.

The statement of accounting policies and notes form an integral part of, and should be read in conjunction with, these financial statements.

Statement of changes in equity

for the period 1 November 2010 to 30 June 2011

	Note	Actual 2011 (8 months) \$000	Budget 2011 (8 months) \$000
Opening balance at 1 November 2010		9,011	9,000
Total comprehensive income		356	133
Closing balance at 30 June 2011		9,367	9,133

The statement of accounting policies and notes form an integral part of, and should be read in conjunction with, these financial statements.

Statement of financial position

as at 30 June 2011

	Note	Actual 2011 \$000	Budget 2011 \$000
Taxpayers' funds		9,367	9,133
Assets			
<i>Current assets</i>			
Cash and cash equivalents	7	10,016	10,509
Appropriation receivable from the Crown	12	1,326	-
Spot revenue receivable from the Crown		75	-
GST receivable		146	-
		11,563	10,509
<i>Non-current assets</i>			
Property, plant and equipment	8	729	992
Intangible assets	9	7,148	7,934
		7,877	8,926
Total assets		19,440	19,435
Liabilities			
<i>Current liabilities</i>			
Payables and accruals	10	8,814	9,500
Employee entitlements	11	585	609
Distribution of net spot revenue to levy payers	5	414	-
Other provisions	13	55	193
		9,868	10,302
<i>Non-current liabilities</i>			
Employee entitlements	11	67	-
Other provisions	13	138	-
		205	-
Total liabilities		10,073	10,302
Net assets		9,367	9,133

Explanation of major variances to budget are provided in Note 24.

Statement of cash flows

for the period 1 November 2010 to 30 June 2011

	Note	Actual 2011 (8 months) \$000	Budget 2011 (8 months) \$000
Cash flows from operating activities			
Receipts from the Crown		53,669	56,119
Receipts from Whirinaki spot revenue		860	-
Interest from investments		356	133
Receipts from third parties		-	-
Repayment of appropriation to the Crown		(6,901)	(5,000)
Distribution of net spot revenue to levy payers		(4,682)	(500)
Payments to suppliers		(45,925)	(50,162)
Payments to personnel		(4,999)	(4,606)
Goods and services tax (net)		(698)	-
Net cash flows from operating activities	14	(8,320)	(4,016)
Cash flows from investing activities			
Cash injection from the Electricity Commission		18,580	-
Purchase of property, plant and equipment		(46)	(288)
Purchase of intangibles		(198)	(855)
Net cash flows from investing activities		(18,336)	(1,143)
Net increase/(decrease) in cash and cash equivalents		10,016	(5,159)
Cash and cash equivalents at beginning of year		-	15,668
Cash and cash equivalents at end of year		10,016	10,509

The GST (net) component of operating activity reflects the net GST paid and received with the Inland Revenue Department. It has been presented on a net basis as the gross amounts do not provide meaningful information for financial statement purposes, and this presentation is consistent with the other primary financial statements.

Statement of commitments

as at 30 June 2011

The Authority has operating leases for two full floors and one partial floor in ASB Bank Tower, Wellington until September 2013.

Service provider agreements exist for the clearing manager, pricing manager, reconciliation manager, registry, wholesale and information trading system, and system operator.

The system operator service provider agreement commenced on 1 July 2009. The agreement has no fixed expiry date. The figures below represent the minimum three year notice period. The other service provider contracts all end during the 2012/13 financial year.

The Reserve Generation Capacity Agreement for the generation of reserve energy by the Whirinaki power station commenced on 1 April 2005 and ends on 14 June 2015. As a result of the Ministerial Review carried out in 2010, the Crown intends to sell its interest in Whirinaki during the 2011/12 financial year. At 30 June 2011 no sale date has been confirmed, therefore the commitment represents the full contract term.

	Actual 2011 \$000
Operating commitments	
<i>Building lease commitments</i>	
Not later than one year	593
Later than one year but not later than five years	740
	1,333
<i>Service provider contract commitments</i>	
Not later than one year	38,546
Later than one year but not later than five years	70,036
	108,582
<i>Whirinaki contract commitments</i>	
Not later than one year	24,842
Later than one year but not later than five years	51,421
	76,263
<i>Customer switching commitments</i>	
Not later than one year	1,350
	1,350
Total operating commitments	187,528

At 30 June 2011 the Authority has no capital commitments.

Statement of contingent liabilities and contingent assets

at 30 June 2011

At 30 June 2011 the Authority was involved in a judicial review with multiple other parties in relation to an exemption granted by the Commission. There is a possibility that this case may give rise to a contingent liability, however, this cannot be determined or quantified at this stage. Refer to the Litigation section on page 13 for further detail.

There are no known contingent liabilities or contingent assets and no guarantees under the Crown Entities Act 2004.

Notes to the financial statements

1. Accounting policies

Reporting entity

The Electricity Authority (the Authority) is a Crown agent in terms of the Crown Entities Act 2004 and the Public Finance Act 1989. The Authority was established under the Electricity Industry Act 2010.

The Authority's primary objective is to provide public services to the New Zealand public, as opposed to that of making a financial return. Accordingly, it has designated itself a public benefit entity for the purposes of New Zealand Equivalents to International Reporting Standards (NZ IFRS).

The financial statements for the Electricity Authority are for the period 1 November 2010 to 30 June 2011, and were approved by the Board on 31 October 2011.

Basis of preparation

Statement of compliance

The financial statements of the Electricity Authority have been prepared in accordance with the requirements of the Crown Entities Act 2004, which includes the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP).

The financial statements comply with NZ IFRS and other applicable Financial Reporting Standards, as appropriate for public benefit entities.

Measurement base

The financial statements have been prepared on an historical cost basis. The accounting policies that materially affect the measurement of financial performance, financial position and cash flows are set out below and have been applied consistently to all periods presented in these financial statements.

Functional and presentation currency

The financial statements are presented in New Zealand dollars rounded to the nearest thousand dollars (\$000). The functional currency of the Electricity Authority is New Zealand dollars.

Budget figures

The budget figures are derived from the 2010–2013 Statement of Intent as approved by the Board. The budget figures have been prepared in accordance with NZ IFRS using accounting policies that are consistent with those adopted by the Authority for the preparation of the financial statements.

Comparative figures

Comparative figures are zero as the Authority did not exist prior to 1 November 2010.

Actual figures

Actual figures are for the eight months of the Authority from 1 November 2010 to 30 June 2011.

Accounting estimates and assumptions

In preparing these financial statements the Authority has made estimates and assumptions concerning the future. These estimates and assumptions may differ from actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events.

Standards, amendments and interpretations issued that are not yet effective and have not been early adopted

Standards, amendments, and interpretations issued but not yet effective, that are relevant to the Authority, but which have not been early adopted, are:

- NZ IAS 24 *Related Party Disclosures (Revised 2009)* replaces NZ IAS 24 *Related Party Disclosures (Issued 2004)* and is effective for reporting periods commencing on or after 1 January 2011. The revised standard:
 - i Removes the previous disclosure concessions applied by the Authority for arms-length transactions between the Authority and entities controlled or significantly influenced by the Crown. The effect of the revised standard is that more information is required to be disclosed about transactions between the Authority and entities controlled or significantly influenced by the Crown.
 - ii Provides clarity on the disclosure of related party transactions with Ministers of the Crown. Further, with the exception of the Minister of Energy and Resources, the Authority will be provided with an exemption from certain disclosure requirements relating to transactions with other Ministers of the Crown. The clarification could result in additional disclosures should there be any related party transactions with Ministers of the Crown.
 - iii Clarifies that related party transactions include commitments with related parties.

NZ IFRS 9 Financial Instruments will eventually replace NZ IAS 39 Financial Instruments: Recognition and Measurement. NZ IAS 39 is being replaced through the following 3 main phases: Phase 1 Classification and Measurement, Phase 2 Impairment Methodology, and Phase 3 Hedge Accounting. Phase 1 on the classification and measurement of financial assets has been completed and has been published in the new financial instrument standard NZ IFRS 9. This uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in NZ IAS 39. The approach in NZ IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in NZ IAS 39. The new standard is required to be adopted for the year ending 30 June 2014. The Authority has not yet assessed the effect of the new standard and expects it will not be adopted early.

Significant accounting policies

The following particular accounting policies, which materially affect the measurement of financial performance and financial position, have been applied consistently over the period.

Revenue

Crown revenue

The Authority receives appropriations from the Crown. These are restricted in their use to the purpose of meeting the Authority's objective, as outlined in the Statement of Intent. Appropriations received but not spent are refunded to the Crown after year end.

Appropriations from the Crown are recognised as revenue to the extent that they are spent in any particular month. Appropriations received but not spent are treated as a Crown creditor and shown in the statement of comprehensive income as a provision for refund of appropriation to the Crown.

Levies

The Authority administers a levy on industry participants under the Electricity Industry (Levy of Industry Participants) Regulations 2010. Levies are paid directly to the Crown for reimbursement of funding provided to the Authority. Levies are not recognised as revenue in the Authority's accounts.

Spot revenue

Spot revenue is earned when the Whirinaki power station generates electricity under pre-defined conditions. Spot revenue is recognised when earned and is reported in the financial period to which it relates. Spot revenue less the cost of diesel is refunded to levy payers, and is shown in the statement of financial position as a provision for distribution of net spot revenue.

Interest

Interest is earned on bank deposits and is recognised in the period to which it relates.

The statement of accounting policies and notes form an integral part of, and should be read in conjunction with, these financial statements.

Leases

Operating leases

Leases are classified as operating leases where the lessor retains all the risks and rewards incident to ownership. Lease payments under an operating lease are recognised as an operating expense on a straight line basis over the period of the lease.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and bank deposits held on call with original maturities of three months or less.

Receivables and prepayments

Receivables and prepayments are initially measured at fair value, and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

Property, plant and equipment

Property, plant and equipment classes consist of computer hardware, furniture and fittings, office equipment and leasehold improvements.

Property, plant and equipment are shown at cost or valuation, less any accumulated depreciation and impairment losses.

All fixed assets costing \$1,000 (excluding GST) or more are capitalised and recorded at historical cost. Capital work in progress is recognised as costs are incurred.

Additions

The cost of an item of property, plant and equipment is recognised as an asset only when it is probable that future economic benefits or service potential associated with the item will flow to the Authority, and the cost of the item can be measured reliably.

Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are reported net in the surplus or deficit.

Depreciation

Depreciation of fixed assets is on a straight-line basis at rates that write off the depreciable amount of an asset over its useful life. The depreciable amount of an asset is the historical cost or revalued amount less the residual value. All assets are assumed to have no residual value. The estimated useful life of each asset class is listed below.

Computer hardware	3–5 years
Furniture and fittings	5 years
Office equipment	5 years
Leasehold improvements	Unexpired period of the lease

Intangible assets

Software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation

Amortisation of intangible assets is on a straight-line basis over their useful life. The estimated useful life of each asset class is listed below.

Computer software	3–8 years
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Impairment of non-financial assets

Property, plant and equipment and intangible assets that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss would be recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Payables and accruals

Payables and accruals are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

Employee entitlements

Employee entitlements include salaries, wages and superannuation contributions accrued up to balance date, annual leave, sick leave and long-service leave entitlements.

Annual leave

Annual leave earned but not yet taken is recognised as it accrues to employees at current rates of pay.

Sick leave

Sick leave is recognised to the extent that compensated absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent that the Authority anticipates it likely to be used by staff to cover those future absences.

Long service leave

Long-service leave is calculated on an actuarial basis as the likely future entitlements accruing to staff taking into consideration years of service, years to entitlement, and the likelihood that staff would reach the point of entitlement.

Superannuation

Obligations for contributions to KiwiSaver and the State Sector Retirement Savings Scheme are accounted for as a defined contribution superannuation scheme and are recognised as an expense in the statement of comprehensive income as incurred.

Goods and services tax (GST)

All items in the financial statements are presented exclusive of GST, except for payables and receivables, which are presented on a GST-inclusive basis. Where GST is not recoverable as input tax then it is recognised as part of the related asset or expense.

The amount of GST owing to or from the Inland Revenue Department at balance date, being the difference between output GST and input GST, is included in payables or receivables in the statement of financial position. Commitments and contingencies are disclosed exclusive of GST

Provisions

A provision is recognised for future expenditure of uncertain timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that expenditure will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived from a contract are lower than the unavoidable cost of meeting the obligations under the contract.

Income tax

The Authority is a public authority in terms of the Income Tax Act 2007 and is therefore exempt from income tax.

2. Crown appropriations

The Authority has been provided with funding from the Crown for specific purposes as set out in the Electricity Industry Act 2010, and in the scope of the appropriations as set out in Vote: Energy (see page 29 for a summary of appropriations). Appropriations are recognised as revenue to the extent that they are spent.

	30 Jun 2011 (8 months) \$000
Electricity industry governance and market operations	37,698
Reserve energy and emergency measures – availability costs	15,687
Reserve energy and emergency measures – variable costs	-
Promote and facilitate customer switching	1,499
Electricity litigation fund	111
	54,995

3. Personnel costs

	30 Jun 2011 (8 months) \$000
Salaries and contractors	4,952
Contributions to defined contribution plans	115
Increase/(decrease) in annual and long service leave provision	65
	5,132

4. Other expenses

	30 Jun 2011 (8 months) \$000
Service provider contracts	24,924
Whirinaki contract	15,687
External advice	4,295
Litigation fund	111
Customer switching	1,469
Audit fees	39
Auditor fees for other services	-
Advisory and working group fees	79
Board members' fees	305
Rulings Panel fees	83
Operating lease expenses	359
Travel expenses	97
Other operating expenses	1,000
	48,448

5. Levy payer position

Levies collected from industry participants during the financial year are deposited into a Crown bank account administered by the Ministry of Economic Development. After the end of the financial year a reconciliation is carried out between levies collected and expenditure to be recovered by the levy. Based on this reconciliation, the Crown will either provide a refund to, or request additional payment from, individual industry levy payers.

Furthermore, if the Whirinaki power station is required to operate, the cost of fuel is likely to be more than offset by spot revenue received from the sale of the electricity generated. The resulting net spot revenue will be distributed to levy payers as part of the annual levy reconciliation process.

From 1 November 2010 to 30 June 2011 levies collected were greater than the expenditure to be recovered. The overcollection is expected to be \$1.584 million, however, the exact amount will not be finalised until the levy reconciliation is performed.

In addition, net spot revenue of \$0.414 million was earned from the Whirinaki power station resulting in a total expected refund to levy payers of around \$1.998 million. The final figure may vary from this amount, and some levy payers may still be required to pay additional levies while others receive a refund, depending on whether they are generators, retailers or distributors, and based on variations from estimated volumes of dispatches, sales and customer connections.

	30 Jun 2011 (8 months) \$000
Total Authority expenditure	55,200
Exclude Whirinaki fuel (covered by spot revenue)	(205)
Net Authority expenditure	54,995
Electricity and Energy Efficiency Authority (electricity efficiency)	8,570
Ministry of Consumer Affairs (upgrading and promoting the Consumer Powerswitch website)	1,498
Ministry of Economic Development (Authority establishment costs)	1,228
Total expenditure to be recovered by levy	66,291
Actual levies collected	67,875
Over-collection of levies to be refunded to levy payers	1,584
Whirinaki spot revenue	619
Less Whirinaki fuel	(205)
Net spot revenue to be distributed to levy payers	414
Total owed to levy payers	1,998

6. Net operating surplus

The Authority may elect to retain interest income and other revenue (excluding spot revenue from Whirinaki) in order to maintain an appropriate level of working capital. The Authority has exercised this option in the period 1 November 2010 to 30 June 2011 and the operating surplus of \$0.356 million has been used to increase equity. Net operating surplus is made up as follows:

	30 Jun 2011 (8 months) \$000
Interest income	356
Other income	-
Net operating surplus	356

The statement of accounting policies and notes form an integral part of, and should be read in conjunction with, these financial statements.

7. Cash and cash equivalents

	30 Jun 2011 \$000
Cash in current account	116
Cash on call in interest-bearing money market account	9,900
Total cash and cash equivalents	10,016

The carrying value of cash at bank and short term deposits with maturities of less than three months approximates their fair value.

8. Property, plant and equipment

	Computer hardware \$000	Office equipment \$000	Furniture and fittings \$000	Leasehold improvement \$000	Total \$000
Cost or valuation					
Balance transferred from Electricity Commission on 1 November 2010	1,513	200	253	637	2,603
Additions	42	-	4	-	46
Balance at 30 June 2011	1,555	200	257	637	2,649
Accumulated depreciation					
Balance transferred from Electricity Commission on 1 November 2010	911	132	216	397	1,656
Depreciation expense	180	16	13	55	264
Balance at 30 June 2011	1,091	148	229	452	1,920
Carrying amounts					
Balance transferred from Electricity Commission on 1 November 2010	602	68	37	240	947
At 30 June 2011	464	52	28	185	729

There are no restrictions over the title of the Authority's fixed assets, nor any fixed assets pledged as security for liabilities.

9. Intangible assets

	Acquired software \$000
Cost or valuation	
Balance transferred from Electricity Commission on 1 November 2010	12,855
Additions	198
Balance at 30 June 2011	13,053
Accumulated amortisation	
Balance transferred from Electricity Commission on 1 November 2010	4,754
Amortisation expense	1,151
Balance at 30 June 2011	5,905
Carrying amounts	
Balance transferred from Electricity Commission on 1 November 2010	8,101
At 30 June 2011	7,148

There are no restrictions over the title of the Authority's intangible assets, nor any intangible assets pledged as security for liabilities.

10. Creditors and other payables

	30 Jun 2011 \$000
Whirinaki diesel	13
Whirinaki contract payments	2,685
Service providers	3,482
Customer switching	662
Other creditors and other payables	1,972
	8,814

Payables and accruals are non-interest bearing and are normally settled on 30 day terms, therefore the carrying value of payables and accruals approximates their fair value.

11. Employee entitlements

	30 Jun 2011 \$000
Current portion	
Annual leave	457
Accrued salary	128
Total current portion	585
Non-current portion	
Long service leave	67
Total non-current portion	67
Total employee entitlements	652

A provision for sick leave was calculated and assessed as immaterial.

12. Appropriation receivable from the Crown

The Electricity Authority receives funding by way of appropriations from the Crown. The Crown is reimbursed for this funding by levies collected from industry participants.

The Authority receives its appropriations monthly according to a funding profile agreed at the start of the financial year. At the end of the year the difference between funding drawn down and total Authority expenditure is recorded as a payable or receivable with the Crown. If all appropriations are fully drawn down the amount will be a payable representing unspent funding to be returned to the Crown. In the current year the amount is a receivable because the Authority did not fully draw down its appropriations.

	30 Jun 2011 \$000
Total Crown appropriations drawn down	53,669
Less appropriation surplus repaid during the period	-
Net Crown appropriations drawn down	53,669
Total Authority expenditure (excluding Whirinaki diesel)	54,995
Appropriation receivable from the Crown	(1,326)

13. Other provisions

	30 Jun 2011 \$000
Current portion	
Onerous contracts	55
Total current portion	55
Non-current portion	
Onerous contracts	68
Lease make-good	70
Total non-current portion	138
Total other provisions	193

The statement of accounting policies and notes form an integral part of, and should be read in conjunction with, these financial statements.

Movements by class of provision	Onerous contracts \$000	Lease make-good \$000	Total \$000
Balance at 1 November 2011	-	-	-
Transferred from Electricity Commission	160	70	230
Additional provisions made	-	-	-
Amounts used	(37)	-	(37)
Unused amounts reversed	-	-	-
Balance at 30 June 2011	123	70	193

Lease make-good provision

In respect of the lease of its premises in ASB Bank Tower, the Authority is required to make good any damage caused to the premises, and to remove any fixtures and fittings installed by the Electricity Commission or the Authority, at the expiry of the lease term.

Onerous contracts provision

The Authority took over a non-cancellable lease for office space from the Electricity Commission. The space on level 8, ASB Bank Tower is not required by the Authority and is not likely to be sublet prior to the expiry of the lease on 30 September 2013. A provision has been recognised for the future rental payments up to the lease expiry date.

14. Reconciliation of net operating surplus to net cash flows

	30 Jun 2011 (8 months) \$000
Net operating surplus	356
Add non-cash items	
Depreciation and amortisation	1,415
Total non-cash items	1,415
Add movements in working capital items	
(Increase) decrease in receivables and prepayments	586
Increase (decrease) in payables and accruals	2,420
Increase (decrease) in GST on operations	(698)
Increase (decrease) in employee entitlements	133
Increase (decrease) in provisions	(37)
Increase (decrease) in provision for refund of appropriation	(8,227)
Increase (decrease) in provision for distribution of net spot revenue	(4,268)
Net working capital movements	10,091
Net cash flow from operating activities	8,320

The statement of accounting policies and notes form an integral part of, and should be read in conjunction with, these financial statements.

15. Employee remuneration

The Chief Executive's remuneration and benefits are in the \$240,000–249,999 band.

During the period 1 November 2010 to 30 June 2011, one employee received compensation and other benefits in relation to cessation totalling \$37,125. No Board members received compensation or other benefits in relation to cessation.

The remuneration bands for the current year are based on annual salary rather than actual salary received in the eight month period 1 November 2010 – 30 June 2011.

Remuneration band	Number of employees 2011
\$100,000–\$109,999	3
\$110,000–\$119,999	4
\$120,000–\$129,999	5
\$130,000–\$139,999	5
\$140,000–\$149,999	2
\$150,000–\$159,999	1
\$160,000–\$169,999	1
\$170,000–\$179,999	2
\$180,000–\$189,999	3
\$190,000–\$199,999	2
\$200,000–\$209,999	1
\$240,000–\$249,999	1
\$270,000–\$279,999	1
Total number of employees	31

16. Key management remuneration

Key management personnel include Board members, the Chief Executive, and five general managers who report directly to the Chief Executive.

	30 Jun 2011 (8 months) \$000
Salaries and other short-term employee benefits	1,085
Post-employment benefits	18
Other long-term benefits	-
Termination benefits	-
Total key management remuneration	1,102

17. Board members' remuneration

The total value of remuneration paid or payable to each Board member during the year.

	30 Jun 2011 (8 months) \$000
Dr Brent Layton	126
David Bull	48
Susan Paterson	49
Hon Roger Sowry	30
Elena Trout	52
Total Board member remuneration	305

The Authority has Directors' and Officers' Liability and Professional Indemnity insurance cover in respect of the liability or costs of Board members and employees. No Board members received compensation or other benefits in relation to cessation.

18. Rulings Panel remuneration

The total value of remuneration paid or payable to each Rulings Panel member during the year.

	30 Jun 2011 (8 months) \$000
Gael Webster	19
Peter Dengate Thrush	16
John Isles	16
John O'Sullivan	16
Craig Taylor	16
Total Rulings Panel remuneration	83

19. Advisory group and working group fees

		30 Jun 2011 (8 months) \$000
Market Development Advisory Group	James Moulder (Chair) Stephen Peterson Sue Chetwin	1 1 1
Locational Price Risk Technical Group	Bill Heaps (Chair) Ralph Matthes	15 3
Scarcity Pricing and Default Buyback Technical Group	James Moulder (Chair) Graham Pinnell Molly Melhuish Sue Chetwin	19 8 2 2
Security and Reliability Council	Kevin Thompson (Chair) David Russell	2 1
Transmission Pricing Technical Group	John Scott (Chair)	2
Transmission Pricing Advisory Group	Graham Scott (Chair)	13
Standing Data Formats Group	Nick Bennetts (Chair)	9
Total advisory and working group fees		79

Advisory groups and working groups comprise members paid by the Authority and members working in the industry who are paid by their own organisation. The members listed above are those paid by the Authority and do not represent the complete membership of each group.

20. Related party transactions

The Electricity Authority is a wholly-owned entity of the Crown and receives funding by way of appropriation from the Crown.

The Authority enters into transactions with government departments, Crown agencies, and state-owned enterprises. These transactions are not considered to be related party transactions.

The following transactions were carried out with related parties other than those described above. All related party transactions have been entered into on an arm's length basis.

		30 Jun 2011 (8 months) \$000
Hon Roger Sowry (Board member)	Director of Citylink (provider of broadband services to the Authority)	3

21. Financial instrument risks

The Authority is party to financial instrument arrangements as part of its everyday operations. These financial instruments include bank accounts, accounts receivable, and accounts payable.

Interest rate risk

Interest rate risk is the risk that the return on funds invested and the cost of borrowed funds fluctuate due to changes in market interest rates.

The Authority's exposure to interest rate risk on funds invested is limited to on-call bank deposits which are subject to variable interest rates.

Under the Crown Entities Act 2004, the Authority requires ministerial approval to enter into a borrowing arrangement. The Authority has no borrowings and accordingly there is no interest rate exposure on borrowed funds.

Credit risk

Credit risk is the risk that a third party defaults on its obligations to the Authority causing the Authority to incur a loss.

The Authority does not have significant concentrations of credit risk as it only has a small number of debtors and only invests in financial institutions that have high credit ratings.

Liquidity risk

Liquidity risk is the risk that the Authority encounters difficulties raising liquid funds to meet commitments as they fall due. The Authority has a low exposure to liquidity risk as it does not enter into credit arrangements, except those available from suppliers as part of normal operating agreements, and aims to maintain sufficient funds available on-call to meet its liquidity requirements.

Currency risk

Currency risk is the risk that debtors and creditors due in foreign currency fluctuate because of changes in foreign exchange rates. The Authority has no significant exposure to currency risk on its financial instruments.

22. Capital management

The Authority's capital is its equity, which comprises accumulated funds and is represented by net assets.

The Authority is subject to the financial management and accountability provisions of the Crown Entities Act 2004, which impose restrictions in relation to borrowings, acquisition of securities, issuing guarantees and indemnities, and the use of derivatives.

The Authority manages its equity by prudently managing revenues, expenses, assets, liabilities and general financial dealings to ensure the Authority effectively achieves its objectives and purpose, whilst remaining a going concern.

23. Post balance date events

On 13 July 2011 the Authority's decision on an undesirable trading situation (UTS) was appealed by four parties. The appeals are set down for hearing in the High Court in the week beginning 28 November 2011. Refer to the Litigation section on page 13 for further detail.

24. Explanation of major variances against budget

These financial statements report actual results for the eight month period from 1 November 2010 to 30 June 2011. The Authority's 2010–2013 Statement of Intent provides budget information for the same eight month period.

Statement of comprehensive income

Crown appropriations

Crown funding is equal to Authority expenditure (excluding Whirinaki fuel) since unspent appropriations are returned to the Crown. Appropriation revenue will therefore be under budget when expenditure is under budget.

Interest income

Interest income was higher than budget because the final reconciliation and settlement of Electricity Commission funding did not occur until after July 2011. Cash balances were therefore significantly higher than expected for the period under review, and interest income was correspondingly higher.

Personnel

Personnel costs exceeded budget in the first eight months of the Authority due to the increased use of contractors covering permanent positions while recruitment to new roles was being undertaken.

Other expenses

A range of underspends in different categories contribute to this variance. Some activities, such as the formation of advisory groups, were initiated later than allowed for in the budget as a result of the one month deferral of the Authority establishment date. Some projects, such as the completion of the summer security standard, were delayed as internal staff time was diverted to responding to the 26 March UTS event.

Statement of financial position

Appropriation receivable from the Crown

The budget assumed all appropriations would be fully drawn down and spent during the period. However, by year end the Authority had drawn down less than its full appropriation, and the amount received was less than Authority expenditure for the period. This resulted in a Crown debtor for the difference between funding received and expenditure. The Authority remained within budget at all times.

Statement of cash flows

Cash and cash equivalents at the start of the year

The budget assumed the assets and liabilities transferred from the Electricity Commission to the Authority would be reflected in the Authority's opening balances. The statement of cash flows was prepared on the basis that the transfer of assets and liabilities took place on 1 November 2010 and therefore opening balances were zero.

Receipts from the Crown

Receipts from the Crown were below budget because the Authority drew down less than its full appropriation during the period.

Repayment of appropriation to the Crown

The budget figure represented the expected Electricity Commission surplus appropriation to be repaid to the Crown after the final audit. Settlement took place in July 2011 and is therefore not included in the period under review.

Payments to suppliers

Payments to suppliers were below budget for the reason explained under *Cash and cash equivalents at the start of the year*. The Commission's payables and accruals balance of \$6.5 million was transferred on 1 November for accounting purposes, which decreased the payments to suppliers by the same amount.

Purchase of intangibles

Capital expenditure was budgeted for the Registry service provider database in relation to Part 10 changes. This expenditure did not eventuate in the period under review.

Part Four—Organisation and Capability

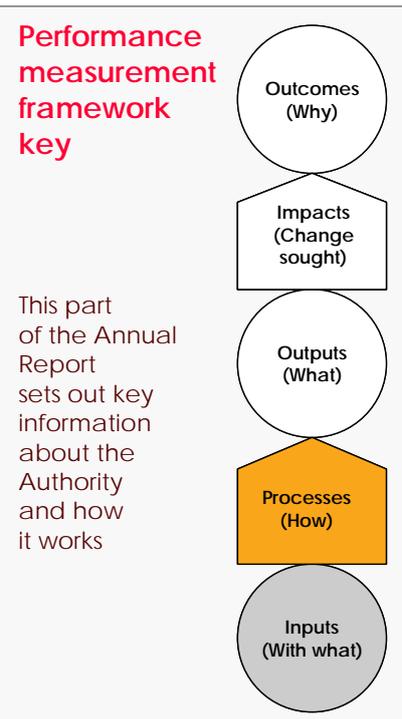
This part of the Annual Report provides key information about the Authority, how it works, and how it is developing its capability to meet its vision of becoming recognised as a world-class regulator within the next three to five years.

The Electricity Authority

The Electricity Industry Act established the Authority from 1 November 2010 as an independent Crown entity. The Act dissolved the Electricity Commission, transferring its functions to the Authority, and other agencies (see the section on transferred functions below).

The Authority is headed by a Board, which is supported by the Chief Executive and other staff. Advice is provided by the Security and Reliability Council (SRC) and Advisory Groups.

Further information is provided below, and more detail is available on the Authority’s website: www.ea.govt.nz



The Authority’s statutory objective

Section 15 of the Act provides the Authority with a clear objective:

The objective of the Authority is to promote competition in, reliable supply by, and the efficient operation of, the electricity industry for the long-term benefit of consumers.

The Authority’s functions

Section 16 of the Act sets out the Authority’s functions:

- 16 Functions of Authority**
- (1) The Authority’s functions are as follows:
- (a) To maintain a register of industry participants in accordance with subpart 2, and to exempt individual industry participants from the obligation to be registered
 - (b) To make and administer the Electricity Industry Participation Code in accordance with subpart 3
 - (c) To monitor compliance with the Act, the regulations, and the Code, and to exempt individual industry participants from the obligation to comply with the Code or specific provisions of the Code
 - (d) To investigate, and enforce compliance with this Part, Part 4, the regulations, and the Code
 - (e) To investigate and enforce compliance with Part 3
 - (f) To undertake market-facilitation measures (such as providing education, guidelines, information, and model arrangements), and to monitor the operation and effectiveness of market facilitation measures
 - (g) To undertake industry and market monitoring, and carry out and make publicly available reviews, studies, and inquiries into any matter relating to the electricity industry
 - (h) To contract for market operation services and system operator services
 - (i) To promote to consumers the benefits of comparing and switching retailers
 - (j) To perform any other specific functions imposed on it under this or any other Act.
- (2) Instead of, or as well as, contracting for market operation services, the Authority may itself perform—
- (a) The functions of the market administrator, if the Authority considers it desirable to do so
 - (b) Any other market operation service, but only on a temporary basis (such as when there is no current contract, or the contractor is unable or unwilling to perform the service).

Section 18 of the Act requires the Authority to carry out reviews at the written request of the Minister on any matter relating to the electricity industry.

The Authority is responsible for overall operation of the electricity system and market systems, and providing independent governance of the electricity industry (primarily developing and enforcing the Code). Transpower manages the day-to-day operation of the electricity system, as system operator, and the Authority contracts NZX and Jade Software Corporation (Jade) to operate the electricity market systems. Further information about these service providers is included in part five.

Transferred functions

Some former Electricity Commission tasks have been transferred to other agencies:

- The system operator is responsible for operational management of security of supply including medium-term forecasting and managing supply emergencies;
- EECA is responsible for levy-funded electricity efficiency programmes;
- The Commerce Commission is responsible for considering grid upgrade plan proposals from Transpower, as grid owner;
- MED is responsible for developing and publishing supply and demand scenarios;
- The Minister of Energy and Resources is responsible for recommending regulations on some consumer fairness and equity issues that do not fit within the Authority's objective, and are not covered by the Electricity Industry Participation Code (the Code); and
- The Minister of Consumer Affairs, in consultation with the Minister of Energy and Resources, is responsible for provisions relating to electricity and gas consumer complaints schemes.

New and expanded functions

There are some areas in which the responsibilities of the Authority are either new or expanded from those of the Commission. New and expanded responsibilities for the Authority have been implemented, and include:

- Developing its analytical capacity to proactively monitor and investigate the performance of the industry in relation to the statutory objective, and to respond to Ministerial review requests. This has been progressed, and over the next year our capability will be consolidated and key outputs delivered—for example, market performance reports.
- Developing and implementing programmes to promote customer switching, in order to enhance retail market competition. This function has been established.
- Carrying out monitoring, compliance and exemption requirements for lines and energy separation provisions for distribution companies. (This was previously undertaken by the Commerce Commission under the Electricity Industry Reform Act (EIRA), which has now been repealed.) The Authority has commenced this work, which is an ongoing function.

Authority Members, Rulings Panel, Security and Reliability Council and Advisory Groups

Authority members

The Authority is made up of between five and seven members appointed by the Governor-General. Members hold office for a term of up to five years and may be reappointed.

Authority members are: Dr Brent Layton (Chair), Susan Paterson, Elena Trout (appointed for terms of five years—expiring 1 November 2015), and David Bull and Hon Roger Sowry (appointed for terms of 18 months—expiring 1 May 2012).

Rulings Panel

The Act continues the Rulings Panel (the industry dispute resolution and disciplinary body established under the Electricity Governance Regulations 2003) and sets out its membership, functions and funding arrangements.

The Governor-General appoints the members of the Rulings Panel. The Act carried over the former Rulings Panel membership.

As at 30 June 2011 the Rulings Panel members were: Gael Webster (chair), Peter Dengate Thrush (deputy chair), Craig Taylor, John Isles, and John O'Sullivan.

A new Rulings Panel was appointed in August 2011: Peter Dengate Thrush (chair), Geraldine Baumann (deputy chair), Sue Roberts, Nicola Wills, and John O'Sullivan.

Security and Reliability Council and Advisory Groups

The Act sets requirements to establish the Security and Reliability Council (SRC) and other Advisory Groups.

The Act requires the Authority to publish a *Charter on Advisory Groups*, which was published on 14 February 2011.

The SRC was established in March 2011. Its function is to provide independent advice to the Authority on the performance of the electricity system and the system operator, and reliability of supply issues. Members are Dr Kevin Thompson (chair), Dennis Barnes, Terrence Currie, Tim Lusk, Albert Brantley, Patrick Strange, Bruce Turner, David Russell, and Roger Sutton.

The Authority has established two standing advisory groups: the Wholesale Advisory Group (WAG) and Retail Advisory Group (RAG). Peter Allport is chair of RAG and James Moulder is chair of WAG.

An ad hoc advisory group, the Transmission Pricing Advisory Group (TPAG), was established for a limited time period and was chaired by Dr Graham Scott. The group reported to the Board on 2 September 2011 and ceased operation on that date.

A Transmission Advisory Group may be established at a later date.

Communication and stakeholder relationships

Sound, professional ongoing relationships with companies in the electricity industry are fostered and assist the Authority with developing effective improvements to the operation of the New Zealand electricity market.

As part of its proactive engagement with the sector, the Authority has been developing constructive relationships with all service providers, including more formalised arrangements for joint work planning between the system operator and the Authority to progress projects of common interest in a timely, prioritised and efficient manner.

The Authority is also conscious of the work to be done educating interested parties about the electricity sector. Feedback from participants and other stakeholders supports the requirement. As the focus turns to strategic planning beyond 2011, research and planning is being undertaken on the most effective ways to deliver value in this area.

The Authority has produced explanatory papers on some of the priority matters in the Act and these have been well received by stakeholders. Summaries have also been produced to explain key reports, such as the 26 March UTS, to non-technical audiences. The Authority is intending to prepare 'fact sheets' on the market and the Authority's regulatory arrangements.

Strategy and performance improvement

Part two of the Authority's 2011–2014 Statement of Intent set out its work to date and direction in developing its strategy. The Authority is continuing development of its strategy, setting out clear vision and value statements, and progressing the development of complementary strategies for regulatory development and organisational development.

Regulatory framework

The Act provides the overarching regulatory framework for the Authority, and the Authority has published its *Interpretation of the Statutory Objective*, the *Charter for Advisory Groups* and the *Consultation Charter*, which elaborate on the framework provided by the Act.

To the extent the Authority needs to amend the Code to achieve the statutory objective, the Authority has a set of *Code Amendment Principles* (CAPs) which emphasise clear problem identification and quantified cost-benefit assessments, plus tie-breaker principles which apply when cost-benefit assessments are inconclusive.

The Authority will review its regulatory framework in light of its current work on determining priorities beyond November 2011 as set out below.

Determining priorities beyond November 2011

The Authority has begun strategic planning to determine its work programme priorities for the period beyond November 2011. The Authority's Statement of Intent explained that it is seeking the following outcomes, which it has termed CRE aspirations, in pursuing its statutory objective:

- **Competition:** widespread consumer and investor confidence in the competitiveness of New Zealand's wholesale and retail electricity markets (within the bounds of a small open economy that cannot import electricity);
- **Reliability:** widespread consumer and investor acceptance of efficient levels of supply reliability across the 'supply chain' (generation, transmission, distribution and retailing); and

- **Efficiency:** widespread recognition that New Zealand wholesale and retail electricity markets, and transmission and distribution arrangements, are efficient mechanisms for coordinating electricity production and consumption, and for facilitating timely and innovative investment in the electricity system.

The first step is assessing the sector's views related to the CRE aspirations. It is doing this by:

- Conducting a survey of consumers, investors and industry participants; and
- Holding strategy fora to review survey information; identify key regulatory issues and possible new work programme items.

A second step will involve consulting on a proposed multi-year work programme in conjunction with its annual appropriations consultation (required by section 129 of the Act).

Following that process, the programme, including key projects, will be published.

Value-for-money

In the forward of the 2011–2014 Statement of Intent the Authority committed an ongoing focus on value-for-money:

“The Authority will manage its funding prudently. We intend to make every effort to restrain our own spending while not delaying important work. We will also continue to work hard with our service providers to ensure value-for-money for the services provided.”

The cost-effectiveness of the Authority's work is assured through:

- Appropriation consultation—planned work priorities and appropriations are scrutinised through public consultation in accordance with section 129 of the Act.
- Review of priorities, costs and benefits for major projects and business as usual activities as part of the development of a detailed internal work programme and project plans for significant projects. Value-for-money and performance improvement initiatives are included in this internal work programme.
- Assessment of proposed Code changes—benefits and costs of proposed Code changes are scrutinised through public consultation in accordance with the Authority's consultation charter, once published.

Performance improvement actions

In line with its vision for global recognition as an exemplary electricity regulator, the Authority is embarking on a review of its performance framework, with initiatives identified in part five of the 2011–2014 SOI.

Completing a review of performance information

Developing an effective performance framework that is informative for stakeholders and useful for decision-making is a challenge across all public sector agencies. Review of this framework commenced in 2010/2011 and updated performance information was included in the 2011–2014 Statement of Intent (SOI). Further development of performance information was also outlined in the SOI.

Authority planning and reporting

The Crown Entities Act 2004 sets out the major planning and reporting requirements for the Authority, including preparation and publication of the Statement of Intent and Annual Report.

In addition, section 129 of the Act places a requirement on the Authority to consult levy payers in relation to proposed appropriations.

Section 141(1)(g) of the Crown Entities Act requires the SOI to include certain matters as follows:

- **The Authority will consult or notify the Minister of Energy and Resources before making a decision**—there are no specific matters on which the Authority is required to so consult. The Authority provides the Minister with briefings and advice voluntarily or as requested.
- **The matters on which the Authority will report to the Minister, and the frequency of reporting**—the Authority provides ad hoc reports as agreed and a quarterly report that includes:
 - Year-to-date progress against outputs as set out in part two of the Statement of Intent;
 - Year-to-date financial performance; and
 - Listing of published consultation papers and completed Code changes.

Electricity Commission residual reporting

The Authority completed a final four month report to the Minister and the final Annual Report for the Electricity Commission.

The Authority also responded to financial review questions and attended a Commerce Select Committee hearing in relation to the 2009/10 financial year, on behalf of the Commission.

Organisational health and capability

The Authority has commenced developing its ‘path to world class’—a roadmap for achieving regulatory and operational excellence. This will include initiatives covered in the organisational health and capability sections of future Statements of Intent and Annual Reports.

Structure and staffing

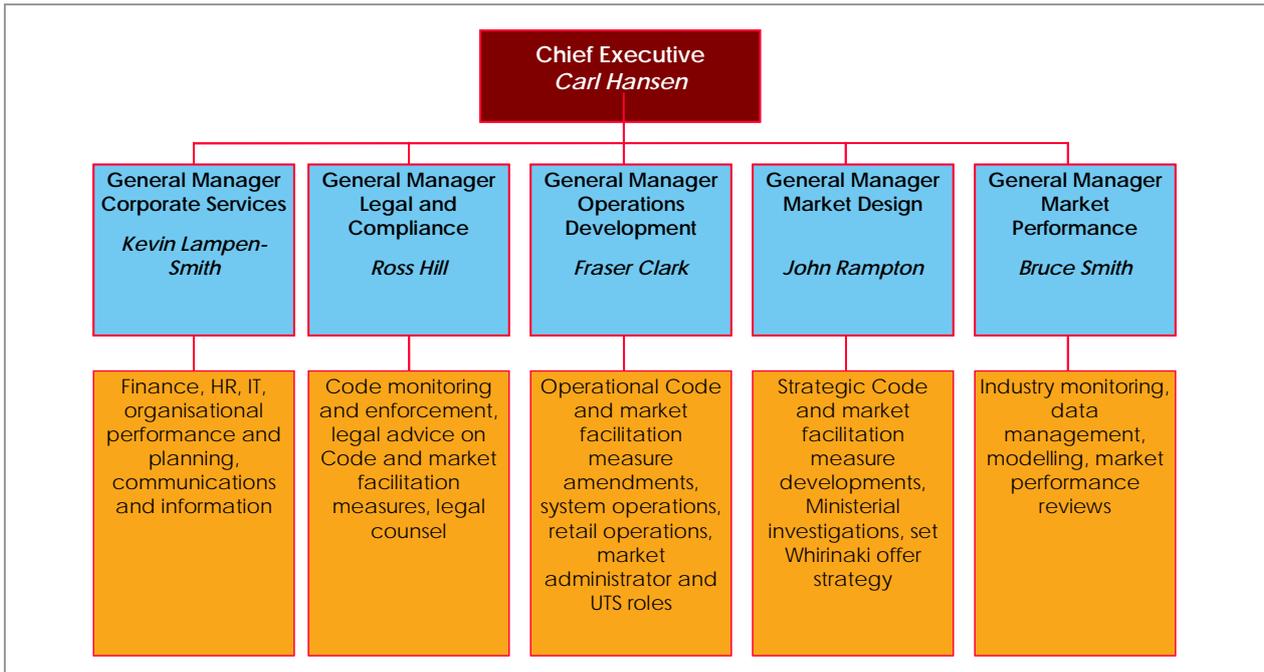
The Authority has finalised its internal structure into business groups aligned with its key market functions—design, operation and review—to deliver efficiencies and value for money as it carries out its work programme.

The Authority’s organisational structure is designed to ensure a clear focus on each of its core activities. In developing the structure a number of new roles have been added. The Authority has a talented team with diverse backgrounds, skill sets and knowledge, which will prove invaluable to completing its current challenging projects and moving forward with a new strategic work programme.

The Authority’s workforce is based in Wellington and comprises forty-eight permanent staff.

Turnover from 1 November 2010 to 30 June 2011 was 19.1 percent.

Figure 14: Organisation structure



Good employer and capability development

The Authority values its staff and is committed to providing a work environment that allows employees to achieve their full potential by maintaining a culture of excellence, mutual respect and flexibility and providing opportunities for personal development.

Work standards at the Authority are high in keeping with the magnitude of issues considered and rely on strong leadership and teamwork.

Monitoring of policies and procedures that reinforce the Authority's goal to comply with good employer obligations is ongoing. The Authority supports the good employer concept by continually reviewing related operating policies and maintaining sight of its obligations in development and implementation of these. Regular staff meetings provide a forum for staff participation and comment.

The Authority operates a transparent, fair recruitment process which is mindful of EEO principles and policies, which results in the best person for the role being appointed whether this is an internal or external applicant.

A comprehensive induction process is provided for all new staff and Authority members which in addition to familiarisation with processes and practices introduces objectives, vision and values.

Recognising the importance of a healthy, balanced lifestyle, the Authority provides a staff support package and encourages an awareness of health and fitness issues. Regular reviews ensure ongoing relevance.

Appropriate training and development is available for all staff. In addition to both internal and external courses, staff are provided development opportunities in either permanent or project roles within the Authority. Leadership development is a priority for the management team, along with formalised development plans for all staff and succession planning.

Non-standard work arrangements are considered, usually on the basis of exceptional circumstances, and are implemented where reasonable and practical. Staff dealing with exceptional circumstances, and those returning from maternity leave, injury, or serious illness are supported in their integration back into the workforce.

All staff have an annual review of salary. There is moderation in the process to ensure it is as fair, consistent and objective as possible.

The Authority provides a supportive work environment in which there is ongoing recognition of milestones, as appropriate, and success is celebrated.

The Authority has no significant internal capability issues to report.

Safe and healthy environment

The Authority has a proactive health and safety committee comprising staff and management.

An active, healthy lifestyle is encouraged and supported. An employee assistance programme scheme is available to staff, reference material including stress management, is available on the Authority intranet and professional advice on workstation set-up is available to all.

The harassment and bullying policy is provided to staff at induction.

The Code of Conduct alerts staff to acceptable standards of behaviour and processes and consequences of breaches.

Risk and audit

Audit issues

The Authority has consulted with the Office of the Controller and Auditor General (OAG), Audit New Zealand and the Ministry of Economic Development (MED) on its draft 2011–2014 Statement of Intent during March 2011.

Risk management

The Authority has no significant risk management matters to report.

The Audit and Finance Committee of the Board have approved a review of the risk framework to ensure it is fit for purpose for the Authority.

The risk register is being reviewed and updated on an ongoing basis. An update is in progress following the transition from the Commission to the Authority.

Directions issued by ministers

There were no directions issued by ministers in 2010/11 applicable to the Authority.

Service providers

Contracts and reports

Output class one includes performance measures and targets relating to services contracted out by the Authority for the real-time operation of the electricity system, and the operation of wholesale and retail markets—i.e. service providers.

For more on service provider contracts, which include detailed performance specifications, and reports, see <http://www.ea.govt.nz/industry/mo-service-providers/>

Service provider roles

The **system operator** schedules and dispatches electricity in a manner that avoids undue fluctuations in frequency and voltage on the transmission grid. Responsible for the real-time coordination of the electricity system, the system operator gives instructions as to when and how much electricity to generate (i.e. it 'dispatches' generation) so that injections of electricity into the system match uptake by electricity consumers at each moment in time. The system operator also publishes very short-term price forecasts and real-time prices, and is responsible for the operation of security of supply forecasting, monitoring and emergency management functions.

The **clearing manager** monitors prudential security requirements, as well as invoicing and settling electricity and ancillary service payments.

The **wholesale information and trading system (WITS)** service provider is the software system used to transfer information among participants, as required by the Code, especially the uploading of bids and offers.

The **pricing manager** calculates and publishes final prices, which are used by the clearing manager to calculate invoices.

The **reconciliation manager** facilitates the monthly reconciliation process, reconciling metering data against a register of contracts.

The **registry** service provider database identifies every point of electricity connection, allowing electricity flows between retailers to be reconciled, and also informs retailers when a customer switches supplier.

The Authority carries out the role of **market administrator**, providing a number of operational and administrative services to the market under the wholesale and retail sections 10, 11, 13, 14 and 15 of the Code.

