

Electricity Authority appropriations for 2012/13

Purpose

To recommend the Electricity Authority appropriations for 2012/13.

Date:		Priority:	High
Security Level:	Confidential—Budget sensitive	File number: 706875	Plan-appropriation

Action sought

	Action sought	Deadline
Minister of Energy and Resources	Agree to the Authority appropriations for the 2012/13 Budget	At the earliest opportunity
	Agree to the publication of this report	At your convenience

Contact for telephone discussions

Contact	Position	First contact	Telephone	
			Work	After hours
Carl Hansen	Chief Executive	✓	04 460 8842	027 2588748
Kevin Lampen-Smith	General Manager Corporate Services		04 460 8869	021 356 623



3 February 2012

Minister of Energy and Resources

Electricity Authority appropriations for 2012/13

Executive summary

The Electricity Authority has consulted on its appropriations proposal for 2012/13. No changes are proposed to the appropriations following consultation. The recommended appropriations are set out below.

Appropriations proposal

Appropriation	(\$ million)		
	2010/11 8 months actual	2011/12 appropriations	2012/13 appropriations proposal
Electricity industry governance and market operations	37.698	62.535	63.906
Reserve energy and emergency measures—availability costs*	15.687	6.200	-
Reserve energy and emergency measures—variable costs**	0.205	4.662	-
Security management	NA	NA	6.000 over 5 years
Promoting and facilitating customer switching	1.499	3.500	3.500
Electricity Authority litigation fund***	0.111	0.444	0.444

Notes:

- * No appropriation will be sought for 2012/13. This appropriation previously funded the Whirinaki supply agreement with the Crown.
- ** This appropriation is to be replaced by the Security management appropriation to take effect from 1 July 2012.
- *** The Electricity Authority litigation fund appropriation is to provide funding to ensure that the Electricity 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.

The 2012/13 appropriation bids are in line with Cabinet approved baselines except for the Electricity industry governance and market operations appropriation.

The request for the Electricity industry governance and market operations appropriation represents a bid for \$0.692m above the approved baseline to cover part of the costs of implementing the financial transmission rights (FTR) market. Operating savings of \$1.496m have been identified to fund the remainder of FTR market and other Code implementation projects.

Separate Cabinet approval is currently being sought for changes to regulations and the \$0.692m funding required in 2012/13 for the establishment of the FTR market, this has also been included in the four year plan.

Electricity Authority appropriations for 2012/13

Purpose of report

1. Section 129 of the Electricity Industry Act 2010 (the Act) requires the Electricity Authority (the Authority) and the Energy Efficiency and Conservation Authority (EECA) to consult on proposed appropriations for the coming year. A combined consultation paper was published.
2. Consultation has been completed and the submissions considered. The purpose of this paper is to set out the Authority's appropriations proposal for 2012/13 now that submissions have been considered.
3. EECA will provide a separate report to you on its proposed levy-funded electricity efficiency appropriation.

Consultation

4. The appropriation consultation paper was released on 29 November 2011 and submissions closed on 9 January 2012.
5. In conjunction with seeking submissions on the appropriations themselves, the Authority sought feedback regarding its work priorities.
6. The submissions will be published on the Authority website shortly.

Submissions on the consultation document

7. Thirteen submissions were received, from:
 - (a) Consumers: Major Electricity Users' Group (MEUG), Grey Power, Domestic Energy Users' Network (DEUN), Rio Tinto Alcan; and
 - (b) Electricity industry: Energy Trusts NZ, Genesis Energy, Meridian Energy, Mighty River Power (MRP), Orion, PowerCo, Vector, Kapiti Coast District Council, and Transpower.

Appropriation levels generally

8. There was general support for appropriation levels sought and no submitters suggested that they should be reduced.
9. Several submissions noted the proposed savings in Authority operating costs and the stated desire of the Authority Board to keep a lid on the level of core operating costs. Submitters supported a continued Authority focus on value-for-money, including one suggestion that staff numbers should be increased to reduce reliance on external consultants (note the Authority has previously communicated to stakeholders that it will be increasing staff numbers to reduce reliance on contractors and consultants).

Service provider costs

10. Increases in service provider costs were noted, in particular for the system operator and to fund the implementation of the new Financial Transmission Rights (FTR) market. As noted in the consultation paper, these cost increases are related to implementation costs for section 42 projects and a contractual CPI adjustment in the System Operator Service Provider Agreement (SOSPA).
11. These costs were generally accepted. However, some submissions indicated a desire to see more cost-control pressure exerted on the monopoly system operator.

Security management appropriation

12. The security management appropriation was consulted on by the Authority in the 2011/12 budget round. The following comments were noted at that stage:
 - (a) MEUG supported the need for the appropriation, but considered more detailed justification was required before it comes into operation in 2012/13.
 - (b) Meridian supported the separate appropriation for security management, noting that the costs will not be levied unless incurred.
13. In response to the 2012/13 appropriations proposal, the following specific comments were noted:
 - (a) MEUG stated that it had no comment to make on the appropriation; and
 - (b) MRP supported the proposed appropriation for the 2012/13 year.
14. It is recommended that the security management appropriation remain at \$6m as agreed by Cabinet when the Authority was established.

Project detail

15. A large number of project-specific comments were provided. These comments are being considered by the Authority as part of the process for developing its Statement of Intent (SOI) and internal work programme.
16. There was general appreciation of the improved work programme information provided by the Authority.

Improving the planning process

17. In response to the 2011/12 consultation, some submitters noted that the Authority had limited time to prepare its first appropriations consultation and indicated an expectation for an improved consultation process for future years. In particular, Business NZ indicated its expectations for more comprehensive and detailed information. MEUG also suggested improving the cost/benefit information provided in the consultation.
18. The Authority responded to these suggestions with more comprehensive information in the 2012/13 consultation paper. MEUG welcomed in their submission the inclusion of an initial assessment of the net public benefit and project cost. No submission was received from Business NZ.

19. Several submissions commented positively on the increased level of information provided in this consultation process, and also in general about the transparency of the Authority's work. Several sought even more information.
20. In the normal course of events the Authority provides more detailed project information to stakeholders as it becomes available. It is noted that transparent and comprehensive analysis of issues, options, costs and benefits are integral components of the process for considering potential Code amendments, as indicated by the Authority's *Consultation Charter*¹.
21. It was also noted that several submissions also supported work to improve monitoring of the impacts and outcomes from the Authority's work programme. Particular interest was expressed in monitoring progress against the statutory objective and vision, and in undertaking robust, objective post-implementation reviews of major projects. These views are being taken into account in the development of the draft Statement of Intent (scheduled to be provided to you for comment in March), and in developing the more detailed internal work programme and individual project plans.
22. In conclusion, it is considered that, where appropriate, the Authority can address these matters about project detail and improving processes and other suggestions in the submissions without impact on the appropriations being sought.

A note regarding financial transmission rights (FTR) implementation

23. Costs relating to the implementation of the FTR market role are included in the proposed appropriations for the 2012/13 year.
24. Regulations and costs relating to implementing the FTR market, and also the ongoing operating costs of the FTR market, are also the subject of a separate paper to Cabinet being prepared by MED with input from the Authority.

Appropriation proposal after consultation

25. Table 1 sets out the appropriations being sought by the Authority. Key points to note in the proposed appropriations are:
 - (a) Cabinet has previously approved baseline funding for the Authority in 2012/13 of \$63.214m. (CBC Min (10)11/13)
 - (b) a new **security management** appropriation was established in the 2011 Budget, for the Authority to fund public conservation campaigns run by the system operator should they arise. The appropriation is \$6m over five years;
 - (c) the Authority's **reserve energy and emergency measures—availability costs** and **reserve energy and emergency measures—variable costs** appropriations end on 30 June 2012 and therefore no funding is sought for these for 2012/13; and
 - (d) the Authority's **electricity industry governance and market operations** appropriation is increased by \$0.692m to part fund implementation costs for the FTR Market.
26. There are no changes to the proposed levels for the appropriations from those the Authority included in its consultation paper to stakeholders.

¹ Available at: <http://www.ea.govt.nz/our-work/consultations/corporate/consultation-charter/>

Table 1: appropriations proposal after consultation

Appropriation	(\$ million)		
	2010/11 8 months actual	2011/12 appropriations	2012/13 appropriations proposal
Electricity industry governance and market operations	37.698	62.535	63.906*
Reserve energy and emergency measures—availability costs**	15.687	6.200	-
Reserve energy and emergency measures—variable costs***	0.205	4.662	-
Security management	NA	NA	6,000 over 5 years
Promoting and facilitating customer switching	1,499	3,500	3,500
Electricity Authority litigation fund****	0.111	0.444	0.444

Notes:

- * This represents an increase of \$0.692m above the Cabinet approved baseline for 2012/13
- ** No appropriation will be sought for 2012/13. This appropriation previously funded the Whirinaki supply agreement with the Crown.
- *** This appropriation is to be replaced by the Security management appropriation to take effect from 1 July 2012.
- **** The Electricity Authority litigation fund appropriation is to provide funding to ensure that the Electricity 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.

Electricity industry governance and market operations

27. The **electricity industry governance and market operations** appropriation covers the operation and governance of New Zealand's electricity market under the Act, Code and regulations. This includes Board member costs, costs for advisory groups and the Security and Reliability Council, supporting the Rulings Panel, and the general operations of the Authority, including the following functions required by the Act:
 - (a) operation of the electricity system and markets;
 - (b) market development;
 - (c) compliance;
 - (d) industry monitoring and information; and
 - (e) security of supply governance.
28. Two-thirds of the appropriation is to fund service provider contracts—\$42.392m of the proposed appropriation. Of that amount \$34.030m, or 53 percent of the appropriation, is for system operator costs excluding emergency management actions.
29. The Authority has achieved operational savings of \$1.496m. These partially offset the Code amendment implementation costs of \$2.188m, resulting in a net increase over the 2012/13 Cabinet approved baseline appropriation of \$0.692m.
30. Increased costs are to implement Code amendments that the Authority completed as required by 1 November 2011 in accordance with s42 of the Electricity Industry Act. The majority of those costs relate to the implementation of the FTR market.

Security management

31. As part of the 2011/12 Budget process, Cabinet agreed to establish a new **security management** appropriation to cover the system operator's responsibilities for emergency management, including monitoring security levels and taking progressively escalating actions, as necessary.
32. A new multi-year security management appropriation of \$6m was approved to continue covering costs of emergency measures after the expiration of the reserve energy and emergency measures—variable appropriation. The scope of the proposed appropriation is:
 - (a) increased monitoring and analysis in the event of an emerging security situation;
 - (b) increased management responsibilities during security events; and
 - (c) planning and running an emergency conservation campaign, if needed.
33. There is no cost to the Crown from this proposal as the Crown is reimbursed for the costs incurred by the Authority through a levy on the electricity industry and consumers.
34. In the normal course of events, when there are no emerging security events, it is not expected that this appropriation would incur costs. Therefore it will not be included in indicative levy rates that are used for invoicing during a year.

Promoting and facilitating customer switching

35. The proposal for funding for this appropriation is unchanged from that approved by Cabinet as a part of the electricity reforms in 2010. A \$15m fund was established covering the period from November 2010 to April 2014 to promote to consumers the benefits of comparing and switching electricity retailers. Of this:
 - \$4.5m is administered by the Ministry of Consumer Affairs (MCA) in a multi-year appropriation through Vote Consumer Affairs for upgrading and promoting the Powerswitch website; and
 - \$10.5m is administered by the Authority to encourage consumers to compare the benefits of switching retailers.
36. In 2012/13 we expect to be continuing with the successful What's My Number campaign that was launched in May 2011. Planning is currently underway around revising the programme design and delivery. Most of the campaign activity will again take place over the winter months across the 2011/12 and 2012/13 financial years.
37. Joint programmes with welfare organisations, such as the Citizens Advice Bureau, will also be reviewed and considered for extension during 2012/13. Further work is also being undertaken in the remainder of 2011/12 on establishing a suitable tool to increase the propensity of small business customers to 'shop around' amongst retailers for the best deal.

Conclusions

38. The Authority has consulted levy payers on its proposed appropriations for 2012/13 as required by the Electricity Industry Act 2010.

39. The Authority has taken into consideration the views expressed in submissions. Although the appropriations proposal has not been changed, detailed project priorities will be reviewed to address the feedback prior to finalisation of the Authority's internal work programme for the year.
40. The appropriations and key projects will be reflected in the Authority's draft Statement of Intent (SOI), to be provided to you in late March or early April 2012.

Communication

41. In the interests of transparency, the Authority recommends that you agree to the publication of this report.

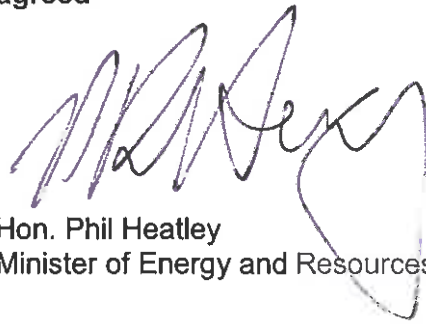
Recommendations

42. The Authority recommends that you:
 - a. **note** that the Authority has completed consultation on its proposed appropriations in accordance with section 129 of the Electricity Industry Act 2010 and has considered submissions received;
 - b. **note** that, having considered submissions, the Authority recommends the following appropriations:
 - i. \$63.906m for electricity industry governance and market operations;
 - ii. \$6.000m for the new security management multi-year appropriation starting on 1 July 2012;
 - iii. continuation of the \$10.500m (1 November 2010 – 30 April 2014 multi-year appropriation) for consumer switching fund;
 - iv. \$0.444m for the Electricity Authority litigation fund;
 - c. **note** that the proposed electricity industry governance and market operations appropriation includes an increase of \$0.692m to the approved baseline to fund implementation costs for the FTR market.
 - d. **note** that operational savings of \$1.496m identified by the Authority have partially offset the \$2.188m cost of implementing Code amendments, resulting in the net increase over the 2012/13 Cabinet approved baseline appropriation of \$0.692m;
 - e. **note** this specific increase is being considered by Cabinet in conjunction with proposed changes to regulations required to implement the FTR market;
 - f. **agree** to submission of the above appropriations into the Budget process;
 - g. **agree** to publication of this report; and
 - h. **note** that the Authority's work priorities will be further refined and a draft Statement of Intent will be provided to you for comment in late March or early April 2012.



Brent Layton
Chair
Electricity Authority

Agreed / ~~agreed with amendments / not~~
~~agreed~~



Hon. Phil Heatley
Minister of Energy and Resources