



OUR PLAN FOR 1 JULY 2015–30 JUNE 2016

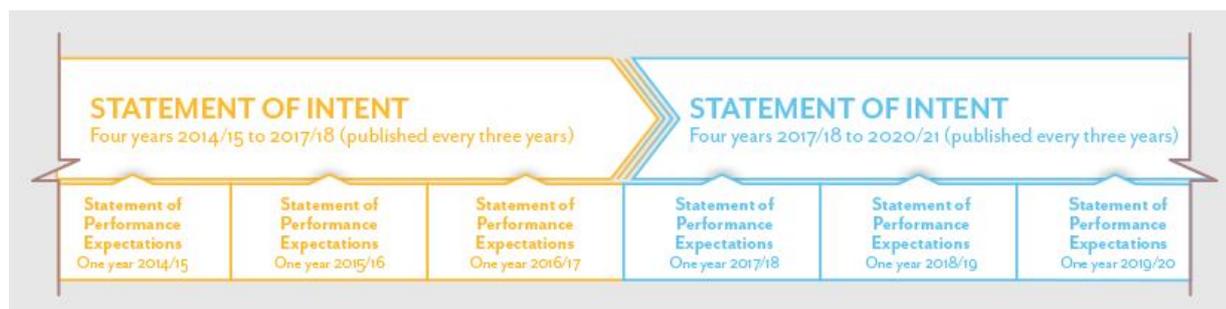
STATEMENT OF PERFORMANCE EXPECTATIONS



This *Statement of Performance Expectations* (SPE) is a partner document to the *Statement of Intent 2014–2018* (SOI) published in June 2014.

The SOI sets out our long-term strategic intentions for a four-year period. It is published at least each three years.

The SPE details our planned work and financial forecasts for one year.



The SOI is available at: <http://www.ea.govt.nz/about-us/strategic-planning-and-reporting/statement-of-intent/>

For further information about our work, visit www.ea.govt.nz

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Glossary and abbreviations

There are many technical terms used in the electricity sector, and some of these occur in this document. To assist readers, a glossary and list of abbreviations is provided at the end of the document. In addition, we have a glossary of common electricity industry terms on our website at www.ea.govt.nz/glossary/

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FOREWORD

Our *Statement of Performance Expectations* (SPE) outlines the Electricity Authority's (the Authority's) plan for the 2015/16 financial year. It includes information about our key projects and outputs, as well as our forecast financial statements.

The Authority was established in November 2010. Our early focus was on projects to ensure the reliability of New Zealand's electricity sector. Our priority then moved to improving retail competition, and this remains a focus for the 2015/16 year. This year we are also increasing our focus on the efficient operation of the electricity industry. This work includes the transmission pricing review and initiatives relating to distribution networks. We will also take a wider look at ensuring the market provides efficient price signals and how we can encourage more consumer participation.

This SPE has been informed by the submissions we received on our 2015/16 appropriations and work programme consultation. It outlines how we plan to use each of our appropriations and what we are aiming to achieve.

The SPE is a partner document to our *Statement of Intent 2014–2018* (SOI) published in June 2014. The SOI sets out our long-term strategic intentions for a four-year period while the SPE details our planned work and financial forecasts for one year.



Dr Brent Layton

Chair

STATEMENT OF RESPONSIBILITY

The Crown Entities Act 2004 requires the Electricity Authority to prepare a *Statement of Performance Expectations*, including prospective financial and non-financial information, before the start of each year, to promote our accountability to the public. The prospective financial and non-financial information may not be appropriate for any other purpose and is unaudited.

We acknowledge responsibility for the preparation of the prospective financial and non-financial performance statements included in this *Statement of Performance Expectations for 1 July 2015–30 June 2016*. This includes the appropriateness of the assumptions underlying the prospective financial statements and all other required disclosures, pursuant to the Crown Entities Act 2004.

We acknowledge the responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of the Authority's performance and financial reporting.

In our opinion, the prospective statements fairly reflect the forecast financial position of the Authority at 30 June 2016, and results of our financial and service performance for the period ending on that date. We therefore authorise the issue of the prospective statements.



Dr Brent Layton

Chair

4 June 2015



Hon Roger Sowry

Member

4 June 2015

OUR STRATEGIC INTENTIONS

Our strategic intentions and strategic framework are outlined in detail in our *Statement of Intent 2014–2018*, and are summarised in Figure 1.

Figure 1: Our strategic framework



Our strategic journey

The Authority was established on 1 November 2010 to promote competition in, reliable supply by and the efficient operation of the electricity industry for the long-term benefit of consumers.

Our strategic focus has developed during the relatively short life of the Authority to reflect progress in developing the electricity sector.

OUTCOME MEASURES

(see pages 19–21 of the
Statement of Intent)

IMPACT MEASURES

(see pages 9–11)

TOP PRIORITY PROJECTS AND OUTPUT MEASURES

(see pages 12–22)

HOW WE MEASURE RESULTS

Phase 1: November 2010–November 2011

Our initial focus was on completing and implementing the changes required by section 42 of the Electricity Industry Act 2010 (the Act). This phase included a strong focus on improving reliability of supply and on initiatives to enhance retail market competition. A notable success was the creation of the *What's My Number* campaign which had an immediate and ongoing impact.

Phase 2: November 2011–June 2013

In this phase our focus on retail competition intensified. Significant initiatives focused on wholesale market development to make it easier for new electricity retailers to enter and expand and existing retailers to offer their services more actively over a wider area.

Phase 3: June 2013–2015

More recently we have put emphasis on initiatives to enhance retail competition by enhancing consumer participation. This has included projects to improve the transparency of electricity charges and to make it easier for consumers to confidently find the best deal in the market.

Phase 4: 2015/16 and beyond

Retail competition remains our top priority but we are also increasing our focus on the efficient operation of the electricity industry including completing and implementing the transmission pricing review and initiatives relating to distribution networks. We will also take a wider look at ensuring the market provides efficient price signals.

How we are funded

We are funded by the Crown from three appropriations within Vote Business, Science and Innovation:

- Electricity industry governance and market operations
- Security management
- Electricity litigation fund.

This SPE provides prospective information for each appropriation on the services that will be provided, the results to be achieved, and the costs of delivering these.

The Crown is reimbursed through a levy

The Crown is reimbursed for the cost of funding the Authority through a levy on industry participants. This levy also funds electricity efficiency programmes delivered by the Energy Efficiency and Conservation Authority (EECA).

We administer the collection of the levy on behalf of the Crown in accordance with the requirements set out in the Electricity Industry (Levy of Industry Participants) Regulations 2010.

Each year the Authority makes a request to the Minister of Energy and Resources seeking an appropriation of public money. Prior to making this request we consult on the proposed appropriation levels with those affected by the levy, and the outcome of this consultation is reported to the Minister at the time the request is submitted.

For each financial year the Crown recovers levy revenue up to the level of actual expenditure incurred against appropriations. Any over-recovery of levy revenue is refunded to levy payers.

Changes we want to bring about

To achieve our strategic intentions, we are working across six broad strategies. The strategies are outlined below, along with the impact measures we will use to track progress. These impact measures were set out in our *Statement of Intent 2014–2018* and have been reviewed for 2015/16.

We measure these impacts through both statistical analysis and qualitative assessments. We also undertake post-implementation reviews once development initiatives have been in place long enough to have had a measurable impact. We report on results against these impact measures in our annual report.

1. Reducing barriers

Our reducing barriers strategy involves facilitating the entry, expansion and exit of parties in electricity markets. In 2015/16 our focus is on ensuring that regulatory frameworks support market entry, exit, innovation and technological change such as electric vehicles, and also on making data and information available to assist informed investment and electricity consumption decisions. The key projects here focus on enhancing the performance of the hedge and spot electricity markets.

Impact measures

- A more level playing field for all retailers.*
- Improved information availability.
- Improved spot market risk and risk management.**
- Improved participation in ancillary services markets.***

Notes:

* A level playing field occurs when the rules and regulatory practices treat all players neutrally. We are looking at reducing any unnecessary barriers in this area. The SOI measure 'Reduced set-up costs for new retailers' is to be covered by this broader measure.

** The buying and selling of wholesale electricity is done via a 'pool' for each half-hour for each grid point of connection, where electricity generators offer electricity to the market and retailers and direct-connects bid to buy electricity. This market is called the spot market. This can expose buyers to very high (or very low) prices at times. Risk management is used to manage the risk of high and low prices (for example through futures/hedge contracts).

*** The system operator contracts individual participants to provide five services essential to maintaining the common quality of electricity supply. These ancillary services are black start, over-frequency reserve, frequency-keeping reserve, instantaneous reserve and voltage support. Improving the ability and willingness of participants to compete in these markets will improve reliability and efficiency.

2. Facilitating consumer participation

Our facilitating consumer participation strategy involves making it easier for consumers to choose the electricity supplier and tariff that is right for them and ultimately increase demand-side participation in electricity markets. In 2015/16 we will focus on making it easier for consumers to access and share data about their electricity consumption (retail data project) and make it easier for them to find the best price and service offering (including the *What's My Number*). This work will facilitate greater demand-side participation in electricity markets.

Impact measures

- Increased consumer awareness, understanding and motivation to participate in markets.
- Increased consumer participation in both wholesale and retail markets.

3. Providing efficient price signals

Our providing efficient price signals strategy helps inform the investment and consumption decisions of industry participants and consumers. In 2015/16 we will increase our focus on promoting efficient prices for electricity services. We will achieve this through our work on transmission and distribution pricing where the focus is on ensuring these prices are more reflective of costs and consumer benefits. We are also working to establish markets (where efficient and practicable) and disseminating price data and information.

Impact measures

- Increased range of products or services with prices.*
- Increased accuracy of price forecasts.**
- Reduced instances of inefficient prices, including during scarcity events.
- More efficient price signals for residential and small and medium enterprise (SME) consumers.

Notes:

The SOI measure 'Improved efficiency in transmission and distribution networks' has been removed as we are unable to measure it at this stage.

* For example the ASX NZ electricity futures market has a quarterly hedge product with prices listed for every quarter for 3.5—4 years in the future, which are traded and settled daily. The Authority encourages the development of new products to meet consumer risk management needs, such as new hedge products on the futures market.

** The wholesale electricity market produces forecast electricity prices ahead of and during each half-hour trading period. Prices are typically finalised two days after the trading period. The Authority seeks to ensure that the design and operation of the wholesale electricity market encourages accurate forecast prices.

4. Ensuring fit-for-purpose market services

Our ensuring fit-for-purpose market services strategy supports the efficient and effective operation of the wholesale and retail electricity markets. We work with our market operations service providers and the system operator, to provide services and systems that:

- increase market efficiency through enabling interoperability to participant systems, adapting to changes in IT technology and automating transaction processes
- ensure effective market operation through appropriate system reliability and resilience
- facilitate market development through the use of flexible and scalable systems.

In 2015/16 we will be focussing on renegotiation of the system operator service provider agreement (SOSPA), bringing appropriate commercial arrangements to this monopoly service. We also expect to implement the results of the 2014/15 tender for market operations service providers and tender the registry service. During the year we will also be implementing the national market for instantaneous reserves and extended reserves.

Impact measures

- Market services are resilient to adverse events, as measured by case-by-case analysis.
- Effective implementation of market development initiatives, as measured by case-by-case analysis, including participant feedback.
- Cost of significant system changes/enhancements independently reviewed for value for money.

Note: The SOI measure 'Participants consider services meet their needs' has been removed as it duplicated output measures for market services.

5. Promoting flexibility and resilience

Our promoting flexibility and resilience strategy aims to ensure the electricity sector is able to respond efficiently to changing market circumstances (including emerging disruptive technologies like solar and electric vehicles) and to efficiently respond to unexpected events affecting the market.

In 2015/16 work in this area will focus on improving the capture and distribution of price and non-price data and information to help facilitate broad participation in electricity markets and to help facilitate efficient responses to changing market circumstances.

Impact measures

- The customer transfer process works effectively in the event of retailer default.
- Improving the cost and effectiveness of the frequency management regime.*

Notes:

The SOI measure 'Effective management of security of supply events' has been removed as it duplicated an outcome measure on page 20 of the 2014–2018 SOI.

* Frequency management services are ancillary services contracted by the system operator (see glossary for more information).

6. Increasing compliance

Our compliance strategy plays an integral role in ensuring the integrity of the electricity market. We take a risk-based and proportionate approach to compliance, recognising that most industry participants want to comply with their regulatory obligations voluntarily, or can be encouraged or induced to do so. Our focus is on facilitating voluntary compliance by providing information, education, encouragement and assistance. Serious compliance matters are formally investigated and may be subject to enforcement action.

In 2015/16 we will continue to seek improvements in our business-as-usual compliance functions.

Updated impact measures

- Downward trend in frequency of non-compliance (same type of event, same participant).
- Downward trend in the number of serious breaches.
- Increased awareness of the Act, regulations and Code among participants.*

Note:

* Previously an output measure. This is measured by a survey of participants.

OUR SERVICES: THE THINGS WE DO

To realise our strategies, we undertake a range of project and business-as-usual activity. The high-level details of what we plan to achieve in 2015/16 and how we'll assess this, are outlined below.

Electricity industry governance and market operations appropriation

The Electricity industry governance and market operations appropriation covers our statutory functions under the Electricity Industry Act 2010. This appropriation includes our four main services, as outlined below.

1. Market development

Our market development work focuses on promoting the competitive, reliable and efficient operation of the electricity system and markets. The key tools at our disposal to develop the market are making amendments to the Electricity Industry Participation Code (Code) and market facilitation measures.¹

Top priority market development projects in 2015/16

| Strategy | Project | Why we are doing this project | Scheduled timeframe for 2015/16 | Contribution to statutory objective | | |
|-------------------------------------|-----------------------------------|--|--|-------------------------------------|-------------|------------|
| | | | | Competition | Reliability | Efficiency |
| Facilitating consumer participation | <i>What's My Number</i> programme | We are seeking increased retail competition through increased consumer awareness of savings to be made by shopping around for electricity and that it is easy to switch. | Successful programme delivery as indicated by the annual monitoring survey for the 2015 calendar year. | ✓ | | ✓ |
| | Retail data project | We are seeking to increase consumer engagement by making it easier for consumers to access and share data and information. Improving access to retail data will enhance price comparison, product and service innovation, and retail market analysis and monitoring. | Implement Code amendment to allow consumers, or their agents, access to consumption data to come into effect in 2016. Decide on a direction for the provision of tariff and connection data to consumers and their agents, and commence implementation. | ✓ | | ✓ |

¹ Market facilitation measures (MFM) include non-Code initiatives such as guidelines or model arrangements or working directly with participants to develop desired results.

| Strategy | Project | Why we are doing this project | Scheduled timeframe for 2015/16 | Contribution to statutory objective | | |
|--|------------------------------------|---|---|-------------------------------------|-------------|------------|
| | | | | Competition | Reliability | Efficiency |
| Facilitating consumer participation (cont.) | Hedge market development | We are seeking to improve retail competition by providing market participants with greater certainty about forward price expectations, thereby enhancing decision making and promoting greater reliability and efficiency.. | Progress enhancements to the hedge market , specifically: <ul style="list-style-type: none"> - consider market making arrangements for Australian Securities Exchange (ASX) products - evaluate if ASX positions can offset energy market prudential security requirements. | ✓ | ✓ | ✓ |
| | Spot market refinements | We want to reduce any barriers to retail competition arising from current spot market arrangements. Refinements to the spot market have the potential to enhance competition in both the hedge and retail markets. | Following from the high-level assessment of options completed in 2014/15: <ul style="list-style-type: none"> - identify spot market refinements for further evaluation - complete a detailed cost benefit assessment for all refinements being evaluated. | ✓ | ✓ | ✓ |
| Efficient pricing | Transmission pricing investigation | We are reviewing the current arrangements in order to better promote operational and investment efficiency in the transmission sector and the broader electricity market. | Complete consultation on options and issues relating to Transmission pricing. Develop a decisions and reasons paper. | | | ✓ |
| | Distribution pricing review | We will review the current arrangements in order to achieve better operational and investment efficiency in the distribution sector and the broader electricity market. | Develop options and consult on a recommended approach for identified issues relating to distribution pricing. | | ✓ | ✓ |

Performance measures for market development

| Desired result | 2013/14 result | 2014/15 target | 2015/16 target |
|--|--|--|---|
| Market development projects* achieve planned deliverables for the year. | 90% of key market development projects, as listed in the 2013-2016 SOI, met their timetable and deliverables for the year. | At least five of the six top priority market development projects, as listed above, meet their timetable and deliverables for the year. | At least five of the top six (83%) top priority market development projects achieve their deliverables for the year as listed above.** |
| Code development decisions meet statutory requirements and the quality standards set out in our foundation documents.*** | Six reviews completed against a target of eight. Three reports assessed as very good, two as good and one as average. | At least four draft consultation and decision papers externally reviewed. All of reviewed reports achieve a rating of good or better. At least three of the four receive a very good rating. | At least four draft consultation and decision papers externally reviewed. All of the reviewed reports achieve a rating of good or better and at least three of the four receive a very good rating.**** |
| No legal challenges resulting in an Authority decision being overturned. | Zero (0) successful challenges. | Zero (0) successful challenges. | Zero (0) successful challenges. |
| Code amendments deliver intended benefits and impacts on market behaviour. | Suite of post-implementation reviews show that market behaviour altered in intended direction. | Post-implementation reviews show that market behaviour altered in intended direction identified when the Code or market facilitation measure was approved. Reviews planned for completion in 2014/15 are metering (Part 10) and multiple frequency keeping in the North Island. | Post-implementation reviews show that market behaviour altered in intended direction identified when the Code or market facilitation measure was approved. In 2015/16 we plan to complete a post-implementation review of the demand-side bidding and forecasting Code amendments that went live on 28 June 2012. |

Notes:

- * Includes Code and market facilitation initiatives funded from the new facilitating consumer participation funding approved in the 2014 Budget. The new funding was \$2 million in 2014/15, \$3 million in 2015/16 and \$2.5 million in 2016/17.
- ** In 2013/14 we had 10 top priority projects and the target represented meeting timetables and deliverables for nine of the 10. In 2014/15 and 2015/16 there are six top priority projects and so retaining a 90% target would mean 100% of the six projects would have to meet milestones.
- *** Including meeting the requirements of section 39 of the Act and the processes and standards included in our foundation documents. This includes cost benefit analysis.
- **** On a five-point scale of: very poor, poor, average, good, very good.

2. Monitoring, information and education

Our work in this includes market monitoring, and improving the availability of data, information and tools and improving awareness and understanding of how electricity markets function. We may also undertake reviews of anomalous events or reviews as requested by the Minister under section 18 of the Act. We also undertake promotion, information provision and education outreach targeted to both consumers and industry participants. This work aims to help improve understanding and engagement in the electricity market.

Performance measures for monitoring, information and education

| Desired result | 2013/14 result | 2014/15 target | 2015/16 target |
|---|--|--|--|
| Robust and timely investigation, analysis and reporting on anomalous events. | Five reports published. Three further enquiries underway. | Two to four reports completed per annum. | Minimum of two reports completed per annum. At least one report externally reviewed against the Authority writing quality standard. Reports externally reviewed achieve a rating of good or better. |
| Reviews requested by the Minister under section 18 of the Act. | No section 18 reports requested. | Reports under section 18 of the Act meet the timeframe, scope, and quality standards agreed with the Minister.* | Reports under section 18 of the Act meet the timeframe, scope and quality standards agreed with the Minister.* |
| Electricity market performance reviews that provide an understanding of progress against our statutory objective. | Annual assessment report <i>Electricity market performance: 2013 year in review</i> published in March 2014. | Electricity market performance review of 2014 completed by 30 June 2015. | Electricity market performance review of 2015 completed by 31 March 2016. |
| | Annual assessment report met the Authority's quality standards. | Electricity market performance review report meets the Authority's writing quality standard. | Electricity market performance review meets the Authority's writing quality standard. |
| Making information available to enable consumers to understand electricity market performance. | Two fact sheets published. Two further fact sheets under development. | One or more fact sheets published or updated. One or more consumer guides published or updated. | Increase the amount of information available to consumers via the Authority website.** Increase the number of visits to the consumer section of the Authority website by 5%. |
| Making available data, insights data and analysis tools. | - | 99% availability of the Electricity Market Information (EMI) website during business hours. 20–30 datasets available on the EMI website.*** | 99% availability of the EMI website during business hours. Develop and make available six or more new reports on the EMI website.*** |

Notes:

* Aggregate response to survey for each report.

** Reporting will be a list of new or updated content placed on the website during the year.

*** The EMI website is explained and is available, at www.emi.ea.govt.nz

3. Market services

We are responsible for the day-to-day (real-time) efficient and reliable operation of the electricity system and markets. Our work includes managing and monitoring the service provider contracts and carrying out a range of day-to-day operational functions. This output also includes implementation of Code amendments and market facilitation measures (MFM), in particular where this involves changes to the system operator or market operations service providers' (MOSP) systems and processes.

Top priority projects for market services in 2015/16

| Strategy | Project | Why we are doing this project | Scheduled timeframe for 2015/16 | Contribution to statutory objective | | |
|--|---|--|--|-------------------------------------|-------------|------------|
| | | | | Competition | Reliability | Efficiency |
| Fit-for-purpose market services | Renegotiation of the system operator service provider agreement (SOSPA) | We are renegotiating the SOSPA to ensure that its arrangements bring appropriate commercial disciplines to the services being provided. We are also seeking to improve the system operator's strategic alignment with the Authority's statutory objective. | Commence the transition to the new SOSPA that is expected to become fully effective from 1 July 2016. Complete any necessary Code amendments to give effect to the new arrangements. | | ✓ | ✓ |
| | Market operations service provider tender | We want to ensure that services and systems remain suitable for evolving market requirements, remain value-for-money, can be developed in a timely and cost-effective manner and are suitably resilient to potential systems failures and outages. | New contract arrangements for pricing manager, clearing manager, reconciliation manager and wholesale information and trading system (WITS) manager in place, or existing contracts renewed, effective 1 May 2016. Tender process for registry in progress. | | ✓ | ✓ |
| | National market for instantaneous reserve implementation | We are seeking to enable parties in the North Island to compete in the South Island and vice versa. We also expect efficiency gains as national markets are expected to reduce total procurement requirements. | Development of the national market is completed. Commence implementation. | ✓ | ✓ | ✓ |
| | Extended reserve arrangements implementation | We are seeking more efficient provision and use of extended reserves. | Complete implementation of relevant milestones for 2015/16. Commence operations in 2016/17. | ✓ | ✓ | ✓ |

Performance measures for market services

| Desired result | 2013/14 result | 2014/15 target | 2015/16 target |
|--|--|---|---|
| Electricity system performance will be assessed by monitoring system operator performance to ensure that contract, Code and principal performance obligations are met. | <p>The system operator met the requirements of the principal performance obligations.</p> <p>The annual assessment of system operator performance did not reveal any significant issues.</p> | System operator meets the requirements of contract, Code and principal performance obligations. | System operator meets the requirements of contract, Code and principal performance obligations.* |
| | User satisfaction with overall performance of system operator service (measured by user survey) baseline and target established in 2013/14. | User satisfaction with overall performance of system operator service (measured by user survey). | User satisfaction with overall performance of system operator service (measured by user survey). |
| Market operation performance will be assessed by monitoring service provider performance to ensure that contract, Code and performance standards are met. | Market operation service providers' Code and contract performance standards met. | Market operation service providers' Code and contract performance standards met. | Market operation performance will be assessed by monitoring service provider performance to ensure that contract, Code and performance standards are met.** |
| | Annual audits did not reveal any significant issues. | Annual audits do not reveal any significant issues. | Annual audits do not reveal any significant issues. |
| | User satisfaction with overall performance of market service that are directly used by participants (measured by user survey) baseline and targets established in 2013/14. | <p>Market operation performance will be assessed by monitoring service provider performance to ensure that contract, Code and performance standards are met.</p> <p>User satisfaction with overall performance of market services that are directly used by participants (measured by user survey).</p> | User satisfaction with overall performance of market services that are directly used by participants (measured by user survey). |
| Market administrator services delivered in accordance with Code. | No significant breaches as a result of Authority carrying out its market administration function. | No significant breaches as a result of Authority carrying out its market administration function. | No significant breaches as a result of the Authority carrying out its market administration function.*** |

| Desired result | 2013/14 result | 2014/15 target | 2015/16 target |
|---|--|---|---|
| Successful implementation of Code amendments or market facilitation measures. | Implementation completed for dispatchable demand (go live was 15 May 2014). Implementation of section 42 matters completed within overall budget. | At least 90% of implementation projects for Code amendments meet timeframe and budget targets for the year. | At least 90% of implementation projects meet timeframe and budget targets for the year. |

Notes:

- * Principal performance obligations (PPOs) are contained in the Code, available at: www.ea.govt.nz/code-and-compliance/the-code/. Breaches of the PPOs result in a breach notification recorded by the Compliance team. Measurement of contract performance includes the annual assessment of the system operator's performance published on our website at: www.ea.govt.nz/operations/market-operation-service-providers/system-operator/annual-system-operator-reviews-and-assessments/.
- ** Market operation service providers' Code and contract performance standards, including availability standards, vary between the various providers. Details are available on the Authority's website.
- *** Breaches by the market administrator result in a breach notification recorded by the Compliance team. The absence of breaches is an indicator that standards are met. A significant breach is one that results in either a warning letter to the CEO or an adverse finding by the Rulings Panel.

4. Compliance

We are responsible for monitoring, investigating and enforcing compliance with the Act, regulations made under the Act, and the Code. We are increasing our pro-active compliance monitoring to ensure the Act, regulations, and the Code are accurately and consistently applied.

Performance measures for compliance

| Desired result | 2013/14 result | 2014/15 target | 2015/16 target |
|---|--|---|--|
| Percentage of notifications of alleged breaches completed or referred to the Rulings Panel within three months of notification. | 77.5% | 85% | 85% |
| Percentage of notifications of alleged breaches completed or referred to the Rulings Panel within six months of notification. | 87.5% | 90% | 90% |
| Percentage of notifications of alleged breaches completed or referred to the Rulings Panel within 12 months of notification. | 98% | 98% | 98% |
| Sound compliance processes followed. | All reports to the Compliance Committee included a statement of compliance with the Authority's quality standards. | All reports to the Compliance Committee include a statement of compliance with the Authority's quality standards. | All reports to the Compliance Committee comply with the Authority's quality standards. |

| Desired result | 2013/14 result | 2014/15 target | 2015/16 target |
|--|---|---|---|
| Sound compliance processes followed (continued). | All reports to the Compliance Committee included a statement that compliance case management procedures were met. | All reports to the Compliance Committee include a statement that compliance case management procedures are met. | All reports to the Compliance Committee comply with case management procedures. |

Appropriation and cost breakdown

| Electricity industry governance and market operations appropriation | Actual 2013/14 \$000 | Budget 2014/15 \$000 | Budget 2015/16 \$000 |
|---|----------------------------|----------------------------|----------------------------|
| Revenue from the Crown | 65,799 | 72,899 | 76,974 |
| Expenditure | 65,799 | 72,899 | 76,974 |

The above table includes the amount approved in the Government's Estimates of appropriations for 2015/16 of \$76.974 million; representing the maximum expenditure that can be incurred. For 2015/16 we are forecasting expenditure of \$76.7 million will be required to deliver the desired results and service performance. The Authority is intending to hold its own expenditure at last year's level, at \$18.7 million. The table below provides a breakdown of the components of this forecast expenditure.

| Electricity industry governance and market operations expenditure | Actual 2013/14 \$000 | Budget 2014/15 \$000 | Budget 2015/16 \$000 |
|--|-------------------------------------|-------------------------------------|-------------------------------------|
| System operator—operating expenses | 23,565 | 24,251 | 24,633 |
| System operator—capital-related expenses | 12,980 | 15,345 | 16,885 |
| System operator expenses | 36,545 | 39,596 | 41,518 |
| Service provider—clearing manager* | 1,970 | 2,085 | 2,141 |
| Service provider—wholesale information and trading system* | 1,378 | 1,418 | 1,460 |
| Service provider—pricing manager* | 1,592 | 1,606 | 1,621 |
| Service provider—reconciliation manager* | 1,102 | 1,198 | 1,233 |
| Service provider—registry | 503 | 530 | 547 |
| Service provider—FTR manager | 860 | 788 | 812 |
| Service provider—extended reserves manager** | - | - | - |
| Service provider—depreciation and amortisation* | 3,157 | 4,741 | 5,512 |
| Service provider—IT costs | 85 | 139 | 127 |
| Other service provider expenses | 10,647 | 12,505 | 13,453 |
| Facilitating consumer participation expenses*** | - | 2,000 | 3,000 |
| Authority operations—external work programme support | 6,517 | 4,965 | 4,959 |
| Authority operations—personnel | 9,109 | 10,033 | 9,778 |
| Authority operations—other operating costs | 2,981 | 3,800 | 3,992 |
| Authority operating expenses | 18,607 | 18,798 | 18,729 |
| Total expenses | 65,799 | 72,899 | 76,700 |

Notes:

- * There are significant budget uncertainties in respect to several of the market operations service provider roles and the associated system assets. Refer to the statement of significant assumptions on page 24.
- ** The extended reserves manager role is expected to become operational in 2016/17. During 2015/16 it is anticipated that the costs associated with implementing this new service provider role will be funded from within the Authority's work programme budget. Refer to the statement of significant assumptions on page 24.
- *** In 2013/14 costs of \$2.111 million relating to promoting and facilitating customer switching were funded through a separate appropriation, and are therefore not included in the above table.

Security management appropriation

Security management is a multi-year appropriation for the period 1 July 2012 to 30 June 2017, to achieve enhanced security of supply in the electricity system during periods of emerging or actual security situations. The Authority is responsible for approvals in respect to use of this appropriation.

The system operator is responsible for on-going security monitoring and emergency management.

Performance measures for security management

| Desired result | 2013/14 result | 2014/15 target | 2015/16 target |
|---|--|---|---|
| Timely and effective decision for system operator requests for funding under the security management appropriation. | No requests for funding during the period. | Authority decisions in relation to the security management appropriation made in accordance with the agreed process and criteria for use of the fund. | Decisions in relation to the <i>security management</i> appropriation made in accordance with the agreed process and criteria for use of the fund.* |
| | | Decisions made on requests from the system operator for funding under this appropriation within 15 working days. | Decisions made on requests from the system operator for funding under this appropriation within 15 working days. |

Note:

* Process and criteria agreed between the Authority and the system operator.

Appropriation

| Security management appropriation | Actual 2013/14 \$000 | Budget 2014/15 \$000 | Budget 2015/16 \$000 |
|-----------------------------------|----------------------------|----------------------------|----------------------------|
| Revenue from the Crown | - | 1,200 | 1,200 |
| Expenditure | - | 1,200 | 1,200 |

Note:

This is a multi-year appropriation of \$6 million over five years (commencing on 1 July 2012 and expiring on 30 June 2017). This appropriation is not routinely utilised however, annual budgeted amounts are provided for in the Authority's *Statement of Performance Expectations*, to provide consistency with the appropriations contained in the Government's Estimates documents for Vote Business, Science and Innovation.

Electricity litigation fund appropriation

This appropriation is limited to ensuring that the regulatory body for the electricity industry is able to participate in litigation effectively and without delay. This includes taking prosecutions in accordance with our powers under the Electricity Industry Act 2010.

Performance measures for the Electricity litigation fund

| Desired result | 2013/14 result | 2014/15 target | 2015/16 target |
|--|---|---|--|
| The Electricity Authority uses the litigation fund in accordance with the criteria for its use. | Litigation fund used in accordance with the criteria. | Litigation fund used in accordance with the criteria. | Litigation fund used in accordance with the criteria.* |
| Note: | | | |
| * The criteria are set out in the output agreement between the Minister of Energy and Resources and the Authority. | | | |

Appropriation

| Electricity litigation fund appropriation | Actual 2013/14 \$000 | Budget 2014/15 \$000 | Budget 2015/16 \$000 |
|---|----------------------------|----------------------------|----------------------------|
| Revenue from the Crown | 48 | 444 | 444 |
| Expenditure | 48 | 444 | 444 |

Writing quality standards

We have a writing quality standard that applies to all reports and publications. Performance is measured using external review of a sample of reports and publications.

| Desired result | 2013/14 result | 2014/15 target | 2015/16 target |
|--|---|--|--|
| A sample of major reports will be subjected to external review for compliance with the writing quality standard. | Seven reviews completed against a target of eight. Three reports assessed as very good, three as good and one as average. | At least eight reports externally reviewed. | At least eight reports externally reviewed. |
| | | All of reviewed reports achieve a rating of good or better.* | All of reviewed reports achieve a rating of good or better.* |
| | | At least six of the eight receive a very good rating.* | At least six of the eight receive a very good rating.* |
| Note: | | | |
| * On a five-point scale of: very poor, poor, average, good, very good. | | | |

HOW WE WORK: CAPABILITY FOCUS AREAS

Our vision is to be a world-class electricity regulator, delivering long-term benefits for consumers and contributing to the New Zealand economy.

Our stakeholders

Strong, professional and ongoing relationships with consumers and stakeholders are vital to assist us to develop effective improvements to the New Zealand electricity market. Our foundation document provided information about how we interpret our statutory objective, consult, develop Code and market facilitation measures and how we work with advisory groups.

Our people

We value our people and strive to provide a workplace and culture that is open and supportive. Our work standards are high, in keeping with the magnitude of the issues we are addressing.

Our processes

We strive to ensure our systems, tools and processes are in line with international best practice. We aim for improved efficiency, productivity and quality.

FINANCIAL INFORMATION

This part of the SPE is the forecast financial statements required by section 149G of the Crown Entities Act 2004.

Prospective financial statements

The purpose of these financial statements is to provide a base against which the Authority's actual financial performance can be assessed to promote public accountability.

These prospective financial statements are prepared for the purpose described above, and the information may not be appropriate for any other purpose. Actual financial results achieved for the period covered may vary from the information presented, and the variations may be material. The information in the prospective financial statements is unaudited.

These prospective financial statements have been prepared in accordance with Public Benefit Entity Financial Reporting Standard 42 *Prospective Financial Statements*.

There is no intention to update the prospective financial statements subsequent to presentation.

Reporting entity

The reporting entity is the Electricity Authority, which is an independent Crown entity 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 is a Tier 1 public benefit entity, as defined under the External Reporting Board Accounting Standards Framework, and a reporting entity for the purposes of the Financial Reporting Act 1993, the Public Finance Act 1989 and the Crown Entities Act 2004.

Statement of compliance and basis of preparation

These prospective financial statements have been prepared in accordance with the requirements of the applicable International Public Sector Accounting Standards.

The financial statements are presented in New Zealand dollars rounded to the nearest thousand.

The accounting policies below have been applied consistently to all periods presented in the financial statements.

The financial information presented for the 2013/14 year reflects the actual results for that year. The financial information presented for the 2014/15 and 2015/16 years reflects the budgeted results for these years, and therefore does not include actual transactions and events.

Statement of significant assumptions

These prospective financial statements have been compiled on the basis of government policies and legislation at the time the statements were finalised.

The statement of significant accounting policies forms an integral part of, and should be read in conjunction with, the financial statements.

The prospective financial statements are consistent with the delivery of strategies and impacts disclosed in this SPE and the programme of work the Authority expects to undertake during the forecast period.

A conservative view has been adopted with the assumption that funding will remain at the currently appropriated levels over the forecast period of these statements.

Budget expenditure is based on the assumption that the cost of certain inputs will increase in line with general inflation, while others will decrease as cost saving measures are implemented.

The prospective financial statements have been prepared using the most appropriate assumptions at the time the statements were prepared. As the statements are prospective in nature, actual results will vary from those presented in this SPE.

Factors that may lead to material differences between the prospective financial statements and the subsequent actual financial results reported include:

- The outcome of the re-negotiation of the SOSPA. The prospective financial statements assume that system operator costs will be in line with those payable under the existing agreement.
- The outcome of the retender of four market operations service provider roles. The existing contractual arrangements for the clearing manager, wholesale information and trading system provider, pricing manager, and reconciliation manager roles end on 30 April 2016. The Authority released the request for proposal (RFP) for these services in March 2015. The tender closes on 25 May 2015, and the Authority will make decisions on the future contractual arrangements in early 2015/16. The prospective financial statements assume that the costs of these roles from May to June 2016 will be at the same level as payable under the existing contracts expiring 30 April 2016. The prospective financial statements also assume the system assets associated with these services have a useful life, for amortisation purposes, ending 30 April 2016.
- The implementation of the extended reserves manager role. This role is expected to become operational in 2016/17. During the 2015/16 year work will be undertaken to implement this new role, and the prospective financial statements assume these costs will be funded from within the Authority's work programme budget. At the time the prospective financial statements were prepared, the Authority was in contractual negotiations with the extended reserves manager service provider, and therefore the actual costs associated with the implementation may vary from those assumed in the prospective financial statements. The Authority may incur additional costs from other service providers as a result of implementing this role, and the amount and presentation of the actual costs may be different from those assumed in the prospective financial statements.

Prospective statement of comprehensive revenue and expense

| | Note | Actual 2013/14 \$000 | Budget 2014/15 \$000 | Budget 2015/16 \$000 |
|------------------------------------|------|----------------------------|----------------------------|----------------------------|
| Crown appropriations | 1 | 67,958 | 74,543 | 78,344 |
| Interest income | | 373 | 350 | 350 |
| Total revenue | | 68,331 | 74,893 | 78,694 |
| Personnel costs | 2 | 9,109 | 10,033 | 9,778 |
| Depreciation and amortisation | | 3,568 | 5,145 | 5,941 |
| Service provider contracts | | 44,034 | 47,360 | 49,459 |
| Other expenses | 3 | 11,247 | 12,005 | 13,166 |
| Total expenditure | | 67,958 | 74,543 | 78,344 |
| Total comprehensive revenue | | 373 | 350 | 350 |

Prospective statement of changes in equity

| | Actual 2013/14 \$000 | Budget 2014/15 \$000 | Budget 2015/16 \$000 |
|-----------------------------------|----------------------------|----------------------------|----------------------------|
| Opening balance at 1 July | 10,129 | 10,479 | 10,829 |
| Total comprehensive revenue | 373 | 350 | 350 |
| Closing balance at 30 June | 10,502 | 10,829 | 11,179 |

The statement of significant accounting policies forms an integral part of, and should be read in conjunction with, the financial statements.

Prospective statement of financial position

| | Note | Actual 2013/14 \$000 | Budget 2014/15 \$000 | Budget 2015/16 \$000 |
|---------------------------------------|------|----------------------------|----------------------------|----------------------------|
| Taxpayers' funds | | 10,502 | 10,829 | 11,179 |
| Assets | | | | |
| <i>Current assets</i> | | | | |
| Cash and cash equivalents | | 10,424 | 11,089 | 13,940 |
| Receivables and prepayments | | 186 | - | 200 |
| GST receivable | | 22 | - | - |
| Total current assets | | 10,632 | 11,089 | 14,140 |
| <i>Non-current assets</i> | | | | |
| Property, plant and equipment | 4 | 766 | 563 | 881 |
| Intangible assets | 5 | 9,054 | 4,640 | 4,358 |
| Total non-current assets | | 9,820 | 5,203 | 5,239 |
| Total assets | | 20,452 | 16,292 | 19,379 |
| Liabilities | | | | |
| <i>Current liabilities</i> | | | | |
| Payables and accruals | | 6,728 | 5,000 | 7,000 |
| Employee entitlements | | 1,011 | 463 | 1,000 |
| GST payable | | - | - | 200 |
| Appropriation repayable to the Crown | | 2,187 | - | - |
| Total current liabilities | | 9,926 | 5,463 | 8,200 |
| <i>Non-current liabilities</i> | | | | |
| Employee entitlements | | 24 | - | - |
| Total liabilities | | 9,950 | 5,463 | 8,200 |
| Net assets employed | | 10,502 | 10,829 | 11,179 |

The statement of significant accounting policies forms an integral part of, and should be read in conjunction with, the financial statements.

Prospective statement of cash flows

| | Actual 2013/14 \$000 | Budget 2014/15 \$000 | Budget 2015/16 \$000 |
|---|----------------------------|----------------------------|----------------------------|
| Cash flows from operating activities | | | |
| Receipts from the Crown | 70,148 | 74,543 | 78,344 |
| Interest from investments | 372 | 350 | 350 |
| Repayment of appropriations to the Crown | (2,093) | - | - |
| Distribution of net spot revenue to levy payers | (4) | - | - |
| Payments to suppliers | (58,125) | (59,620) | (64,849) |
| Payments to personnel | (8,953) | (9,268) | (9,241) |
| Goods and services tax (net)* | 442 | - | 200 |
| Net cash flows from operating activities | 1,787 | 6,005 | 4,804 |
| Cash flows from investing activities | | | |
| Receipts from the sale of fixed assets | 3 | - | - |
| Purchase of property, plant and equipment | (364) | (48) | (505) |
| Purchase of intangibles | (2,177) | (3,000) | (1,448) |
| Net cash flows from investing activities | (2,538) | (3,048) | (1,953) |
| Net increase/(decrease) in cash and cash equivalents | (751) | 2,957 | 2,851 |
| Cash and cash equivalents at the beginning of the year | 11,175 | 8,132 | 11,089 |
| Cash and cash equivalents at the end of the year | 10,424 | 11,089 | 13,940 |

Note:

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

The statement of significant accounting policies forms an integral part of, and should be read in conjunction with, the financial statements.

Notes to the financial statements

| 1. Appropriation revenue | Actual 2013/14 \$000 | Budget 2014/15 \$000 | Budget 2015/16 \$000 |
|---|-------------------------------------|-------------------------------------|-------------------------------------|
| Electricity industry governance and market operations | 65,799 | 72,899 | 76,700 |
| Promoting and facilitating customer switching | 2,111 | - | - |
| Security management | - | 1,200 | 1,200 |
| Electricity litigation fund | 48 | 444 | 444 |
| | 67,958 | 74,543 | 78,344 |

| 2. Personnel costs | Actual 2013/14 \$000 | Budget 2014/15 \$000 | Budget 2015/16 \$000 |
|---|-------------------------------------|-------------------------------------|-------------------------------------|
| Salaries and contractors | 8,722 | 9,662 | 9,361 |
| Contributions to defined contribution plans | 342 | 371 | 417 |
| Increase/(decrease) in leave provisions | 45 | - | - |
| | 9,109 | 10,033 | 9,778 |

| 3. Other expenses | Actual 2013/14 \$000 | Budget 2014/15 \$000 | Budget 2015/16 \$000 |
|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| Security management | - | 1,200 | 1,200 |
| Litigation fund | 48 | 444 | 444 |
| Facilitating consumer participation | 2,111 | 2,000 | 3,000 |
| External work programme support | 6,517 | 4,965 | 4,959 |
| Auditor fees | 45 | 44 | 46 |
| Auditor fees for other services | - | - | - |
| Advisory and working group fees | 44 | 91 | 40 |
| Board members' fees | 485 | 520 | 582 |
| Rulings Panel fees | 90 | 112 | 100 |
| Operating lease expenses | 197 | 573 | 573 |
| Travel expenses | 138 | 196 | 245 |
| Other operating expenses | 1,572 | 1,860 | 1,977 |
| | 11,247 | 12,005 | 13,166 |

| 4. Property, plant and equipment | Actual 2013/14 \$000 | Budget 2014/15 \$000 | Budget 2015/16 \$000 |
|---|-------------------------------------|-------------------------------------|-------------------------------------|
| Computer hardware | 38 | 46 | 169 |
| Computer hardware (service provider) | 436 | 264 | 439 |
| Office equipment | 7 | 10 | 25 |
| Furniture and fittings | 135 | 112 | 87 |
| Leasehold improvements | 150 | 131 | 161 |
| Net book value at 30 June | 766 | 563 | 881 |

The statement of significant accounting policies forms an integral part of, and should be read in conjunction with, the financial statements.

| 5. Intangible assets | Actual | Budget | Budget |
|----------------------------------|------------------|------------------|------------------|
| | 2013/14 \$000 | 2014/15 \$000 | 2015/16 \$000 |
| Software | 486 | 192 | 451 |
| Software (service provider) | 8,568 | 4,448 | 3,907 |
| Net book value at 30 June | 9,054 | 4,640 | 4,358 |

Statement of significant accounting policies

(a) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to New Zealand dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive revenue and expense.

(b) Property, plant and equipment

Classes of property, plant and equipment

The major classes of property, plant and equipment are:

- leasehold improvements
- computer hardware
- furniture and fittings
- office equipment.

Owned assets

Items of property, plant and equipment are stated at cost, less accumulated depreciation and impairment losses. Where material parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Disposal of property, plant and equipment

Where an item of property, plant and equipment is disposed of, the gain or loss recognised in the statement of comprehensive revenue and expense is calculated as the difference between the net sale price and the carrying amount of the asset.

Subsequent costs

Subsequent costs are added to the carrying amount of an item of property, plant and equipment when that cost is incurred if it is probable that future economic benefits embodied in the item will flow to the Authority. All other costs are recognised in the statement of comprehensive revenue and expense as an expense as incurred.

The statement of significant accounting policies forms an integral part of, and should be read in conjunction with, the financial statements.

Depreciation

Depreciation is charged to the statement of comprehensive revenue and expense using the straight-line method at rates that will write off the cost of the assets, less their estimated residual values, over their useful lives. The estimated useful lives of major classes of assets and resulting rates are as follows:

| Type of asset | Estimated life | Depreciation rate |
|------------------------|----------------|-------------------|
| Computer hardware | 3–5 years | 20–33% |
| Furniture and fittings | 5 years | 20% |
| Office equipment | 5 years | 20% |

The cost of leasehold improvements is capitalised and depreciated over the unexpired period of the lease. All assets are assumed to have no residual value. Capital work in progress is recognised as costs are incurred and not depreciated until the asset is completed and fully operational.

(c) Intangible assets

Software

Software applications acquired by the Authority are stated at cost, less accumulated amortisation and impairment losses.

Subsequent expenditure

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation

Amortisation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of intangible assets.

| Type of asset | Estimated life | Depreciation rate |
|---------------|----------------|-------------------|
| Software | 3–9 years | 11–33% |

(d) Receivables and prepayments

Receivables and prepayments are stated at cost, less impairment losses. Bad debts are written off during the period in which they are identified.

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, deposits held on call and short-term investments with maturities of normally three months or less.

(f) Impairment

The carrying amounts of the Authority's assets are reviewed at each balance date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount for the asset is estimated. The estimated recoverable amount is the greater of the fair value for the asset, less costs to sell and value in use.

If the estimated recoverable amount of an asset is less than its carrying amount, the asset is written down to its estimated recoverable amount and an impairment loss is recognised in the statement of comprehensive revenue and expense.

(g) Employee benefits

Employee entitlements include accrued salaries and bonuses, contributions to superannuation schemes, annual leave earned but not yet taken and liabilities for sick leave and long-service leave.

Superannuation schemes

Obligations for contributions to KiwiSaver and the State Sector Retirement Savings Scheme are accounted for as defined contribution schemes and are recognised as incurred.

Long-service leave

A liability for long-service leave has been calculated on an actuarial basis based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement and contractual entitlement information.

Presentation of employee entitlements

Accrued salaries and bonuses, sick leave, annual leave, vested long-service leave and non-vested long-service leave expected to be settled within 12 months of balance date are classified as current liabilities. All other employee entitlements are classified as non-current liabilities.

(h) Provisions

A provision is recognised when the Authority has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

(i) Payables and accruals

Payables and accruals are stated at cost.

(j) Income tax

The Authority is a public authority under the Income Tax Act 2007 and is exempt from income tax.

(k) Goods and services tax

All amounts are shown exclusive of goods and services tax (GST), except for receivables and payables, which are stated inclusive of GST. Where GST is not recoverable as an input tax, it is recognised as part of the related asset or expense.

The statement of significant accounting policies forms an integral part of, and should be read in conjunction with, the financial statements.

(l) Revenue**Crown revenue**

The Authority is funded by appropriations from Parliament that cover the range of outputs the Authority provides to the Crown. Revenue from appropriations is recognised when matched by expenditure in the period in which it is incurred.

The Crown is fully reimbursed for appropriation funding provided to the Authority by levies collected from industry participants. The levies are paid directly to the Crown and do not appear as revenue to the Authority.

Interest income

Interest income is recognised in the statement of comprehensive revenue and expense as it accrues, using the effective interest method.

(m) Expenses**Operating lease payments**

Payments made under operating leases are recognised in the statement of comprehensive revenue and expense on a straight-line basis over the term of the lease.

Changes in accounting policies

There have been no changes to accounting policies.

GLOSSARY AND ABBREVIATIONS

A detailed glossary is available at www.ea.govt.nz/glossary/

| | |
|--------------------------------------|---|
| Act | Electricity Industry Act 2010. |
| Ancillary services | The system operator contracts individual participants to provide five services essential to maintaining the common quality of electricity supply. These ancillary services are black start, over-frequency reserve, frequency-keeping reserve, instantaneous reserve and voltage support. Improving the ability and willingness of participants to compete in these markets will improve reliability and efficiency. |
| Authority | Electricity Authority. |
| Code | Electricity Industry Participation Code 2010. |
| Consumer | Any person who is supplied with electricity other than for resupply. |
| CRE | Competition, reliability and efficiency (components of the Authority's statutory objective). |
| Direct connect | A direct connect or direct consumer is a consumer that purchases electricity from the spot market for its own consumption or a consumer with a grid connection (for example, a large industrial user). |
| DSBF | Demand-side bidding and forecasting. |
| EECA | Energy Efficiency and Conservation Authority. |
| Frequency keeping /management | The frequency of the New Zealand grid is normally maintained at 50 Hertz, which is the number of cycles per second. Frequency keeping refers to the process used to keep the frequency of the grid within its normal band. Frequency-keeping power stations are used to increase or decrease generation within a set band to ensure that supply equals demand on a second-by-second basis. The system operator purchases frequency management services to maintain frequency within the prescribed tolerances. |
| FTR | Financial transmission right. |
| Hedge market | A market through which hedge contracts are bought and sold. A hedge contract is a financial risk management product or contract for sale and purchase of electricity that shifts the price risks associated with the spot price of electricity. For example, a common hedge contract is a contract for differences (CFDs). CFDs set a price at which a buyer will purchase a specific quantity of electricity at a specified node for a set period. The buyer of the CFD pays this price regardless of whether the spot market price is higher or lower than the set price. |
| Instantaneous reserves | Generation capacity and interruptible load that is made available to be used in the event of a sudden failure of a generation or transmission facility in order to maintain system frequency at 50 Hertz. Fast instantaneous reserve is available within six seconds and must be able to operate for one minute. Sustained instantaneous reserve is available within 60 seconds and must be available for 15 minutes. |
| MBIE | Ministry of Business, Innovation and Employment. MBIE is the policy adviser to Ministers on energy matters. MBIE also acts as the purchase adviser to the Minister of Energy and Resources regarding the Electricity Authority. |
| MFM | Market facilitation measures. These are actions the Authority can take short of amending the Code or recommending changes to regulations. This can include discussion with participants, education programmes, publication of guidelines and publication of model agreements. |

| | |
|-----------------------------------|---|
| Outcome, impact and output | <p>Accountability terms used in the state sector that link the work we do with the results we are contributing to.</p> <ul style="list-style-type: none"> • Outcome: a state or condition of society, the economy or the environment and includes a change in that state or condition. • Impact: the contribution made to an outcome by a specified set of outputs, or actions, or both. • Output: the goods or services that we supply. |
| Participant | <p>A person, or a person belonging to a class of persons, identified in section 7 of the Electricity Industry Act 2010 as being a participant in the electricity industry. These include generators, Transpower, distributors, retailers, other lines owners, consumers directly connected to the national grid, buyers of electricity from the clearing manager and service providers.</p> |
| Service providers | <p>Parties contracted by the Authority to manage the electricity system (system operator) and market services, as described in Part 3 of the Code. See below for more details.</p> |
| SOI | <p><i>Statement of Intent</i>. Prepared in accordance with the Crown Entitles Act 2004.</p> |
| SPE | <p><i>Statement of Performance Expectations</i>. Prepared in accordance with the Crown Entitles Act 2004.</p> |

Service providers

The **system operator** is responsible for the real-time operation of the power system, including scheduling and dispatching electricity, in a manner that avoids undue fluctuations in frequency and voltage on the transmission grid. System operator responsibilities include giving instructions as to when and how much electricity to generate (ie 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 the generator dispatch schedules, and is responsible for the operation of security of supply forecasting, monitoring and emergency management functions. The system operator is also responsible for ancillary services: five services essential to maintaining the common quality of electricity supply. These ancillary services are black start, over-frequency reserve, frequency-keeping reserve, instantaneous reserve and voltage support. Improving the ability and willingness of participants to compete in these markets will improve reliability and efficiency.

The **wholesale information and trading system (WITS)** is used to transfer information among participants, especially the uploading of bids and offers.

The **reconciliation manager** allocates volumes of electricity to generators and purchasers. It uses metering information supplied by participants and calculates unaccounted for electricity.

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

The **clearing manager** invoices and settles physical electricity sales and purchases identified by the reconciliation manager, ancillary service payments and any financial hedges required to be taken into account in the prudential calculation. It also maintains prudential security requirements.

The **registry** is a database that identifies every customer point of electricity connection to a local or embedded network. It enables customer switching between traders and contains key information for the reconciliation process.

The **FTR manager** creates, auctions and allocates financial transmission rights (FTRs).

The Authority is in the process of establishing the **extended reserve manager** as a new market operation service provider. The extended reserve manager will develop the methodology used to select industry participants to provide extended reserve, and manage the process of procuring extended reserve.

The Authority carries out the role of **market administrator**, providing several operational and administrative services to the market under the Code.

For more information on service provider contracts, which include detailed performance specifications, and reports, see the operations section of our website at: www.ea.govt.nz/operations/market-operation-service-providers/