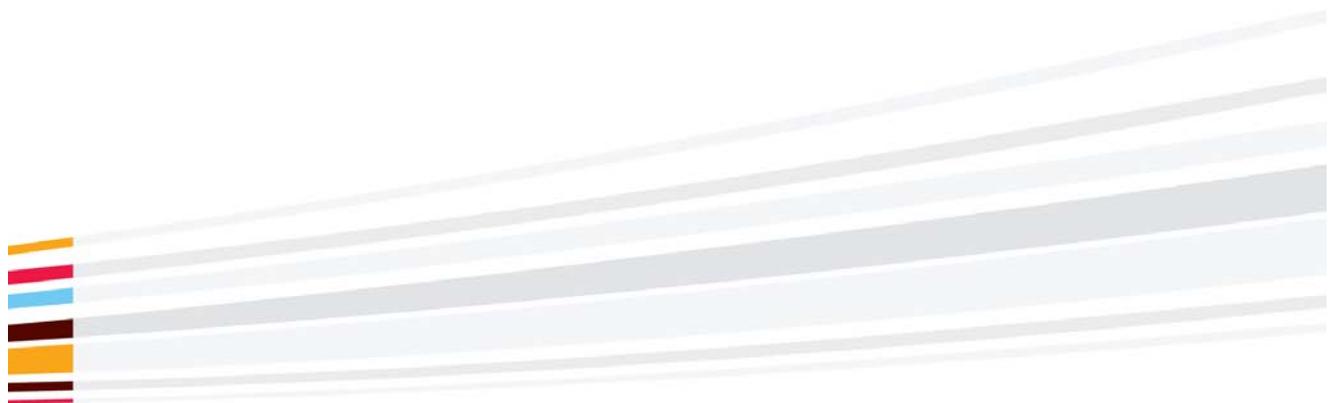


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Our plan for
1 July 2016–30 June 2017

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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An Introduction from our Chair

Our *Statement of Performance Expectations* (SPE) outlines our plan for the 2016/17 financial year. It includes information about our key projects and business as usual functions, as well as our forecast financial statements.

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.

This SPE has been informed by the submissions we received on our 2016/17 appropriations and work programme consultation.¹ It outlines how we plan to use each of our appropriations and what we are aiming to achieve.

We also publish on our website a more detailed work programme, setting out our projects and their key deliverables for the 2016/17 year.

Our journey so far

We were established in November 2010. Our initial focus was on completing and implementing the changes required by section 42 of the Electricity Industry Act 2010 (the Act). This 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.

We then moved our focus to ways we could improve wholesale market competition, including through an enhanced hedge market. We continued work to enhance retail competition. This 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.

In 2015/16 we placed an increased focus on the efficiency limb of our statutory objective, including looking at the efficient operation of the electricity industry and the efficient pricing of transmission and distribution services.

Our strategic focus for 2016/17

In addition to completing our review of the guidelines for transmission pricing in 2016/17, we are also looking at two broad areas that could have a significant impact over the medium term: the implications of new technology and potential security of supply issues.

In regard to new technology, the electricity industry faces potentially far-reaching changes in the near future from evolving technology. These technologies could create a wide range of options for how electricity is generated and used, giving consumers far greater choice and individual control than ever before. It could also have significant implications for market participants, with the potential for new and disruptive players to enter and grow market share.

¹ The consultation paper, submissions and summary of submissions are available at www.ea.govt.nz/about-us/corporate-projects/201617-planning-and-reporting/

The uptake of these technologies is expected to result in significant change for the electricity industry and require changes to the Electricity Industry Participation Code 2010 (Code) and our market systems. The Authority aims to:

- ensure there are no inefficient barriers to the adoption of new technologies, whether by existing market participants, new entrants or consumers
- ensure, as far as practicable, that decision makers face efficient prices for inputs and outputs regarding new technologies.

Security of supply issues arose in the second half of 2015 when Contact Energy and Mighty River Power announced the closure of the Otahuhu B and Southdown thermal generation plants. At the same time, Genesis Energy was considering the future of its remaining coal-fired plants at Huntly. It has now announced these units will be retained until at least December 2022.

The electricity market is facing unprecedented uncertainty about future levels of demand for electricity due to the world prices received by some of New Zealand's largest industrial consumers but also due to potential uptake of new generation, such as solar panels and battery storage technology. The Authority has been pursuing the introduction of standardised cap products in the electricity futures market to further promote the efficient provision of backup generation plant (and demand response capability) suitable for covering dry-year risks. To that end, the Australian Securities Exchange (ASX) announced recently that it intends to list such a product on its New Zealand trading platform by the end of 2016.

In light of the uncertainties about future demand and supply the Authority has decided it would be prudent to review the customer compensation and stress testing regimes to ensure they are consistent with delivering ongoing security of supply. We will also continue our active monitoring of all market developments and we are advancing several other projects that will promote an efficient level of security of supply.

Ultimately, the focus of all our work is always on promoting long-term benefits for consumers.

Dr Brent Layton
Chair

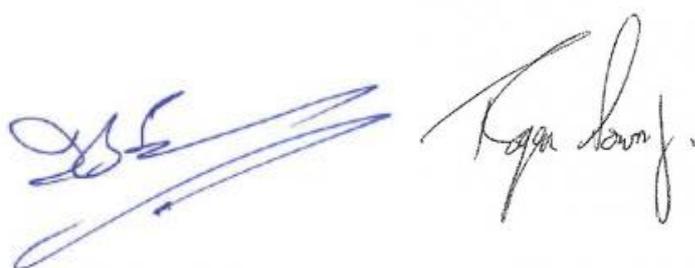
Statement of Responsibility

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 2016–30 June 2017*. 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 2017, 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

9 June 2016

Hon Roger Sowry

Member

9 June 2016

Our Strategies

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



Reduce barriers

Facilitating the entry, expansion and exit of parties in electricity markets is the purpose of this strategy. In 2016/17 we will continue our focus on ensuring that regulatory frameworks support market entry, exit, innovation and technological change.

We will also continue to make data and information available to assist informed investment and electricity consumption decisions. The key projects under this heading focus on enhancing the performance of the hedge and spot electricity markets.

Improve consumer participation

We want to make it easier for consumers to choose the electricity supplier and tariff that is right for them. We also aim to enable consumers to use new technologies when it is efficient to do so.

Key projects include the What's My Number campaign and initiatives to provide greater access to retail data, enabling new and evolving technologies, and improving consumers' access to markets.

Improve price signals

Improving price signals helps inform the investment and consumption decisions of industry participants and consumers. We also work to establish markets (where efficient and practicable) and disseminate price data and information.

Projects include transmission and distribution pricing, where the focus is on ensuring these prices are more reflective of: costs; the services being provided; and consumer benefits.

Increase flexibility and resilience

Enabling the electricity sector to respond efficiently to change is the purpose of this strategy. Change may be, for example, market circumstances, unexpected events, or new technologies and business practices. It includes ensuring security of supply arrangements are providing the information and incentives participants need to make efficient decisions.

Projects include continuing to progress the implementation of the extended reserve regime and a broader look at long-term security of supply and associated regulatory settings (including reviews of the customer compensation scheme and stress testing).

Ensure fit-for-purpose market services

Fit-for purpose market services support the efficient and effective operation of the wholesale and retail electricity markets. Ensuring that our market operations service providers and the system operator provide efficient, effective, flexible and scalable systems and services is the purpose of this strategy.

We have recently entered into new agreements for the majority of our market operations service providers, including the system operator. A focus for 2016/17 will be on ensuring these new agreements deliver the anticipated performance and service delivery improvements. We will complete the tender for the registry service provider contract in 2016/17.

Improve compliance

Improving compliance plays a key role in ensuring the integrity of the electricity markets. 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.

How We Work

Our vision is to be a world-class electricity regulator, delivering long-term benefits for consumers and contributing to the New Zealand economy. We work to achieve this across the following three capability focus areas.

Our stakeholders

Strong, professional and ongoing relationships with consumers and stakeholders are vital in assisting us to develop effective improvements to the New Zealand electricity market.

Our foundation documents provide information about how we interpret our statutory objective, consult, develop Code and market facilitation measures and how we work with advisory groups.²

We have an active consumer education programme. Our dedicated consumer section in our website provides a wide range of information aimed at electricity consumers as part of this programme.³

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.

² The foundation documents are available at www.ea.govt.nz/about-us/strategic-planning-and-reporting/foundation-documents/

³ The consumer section of our website is available at www.ea.govt.nz/consumers/

Our Functions

We undertake a range of project and business-as-usual activity to progress the strategies. What we plan to achieve in 2016/17, and how we'll assess this, are outlined below. The bold performance measures in the tables that follow are those contained in the Estimates.⁴

Electricity industry governance and market operations appropriation

What is intended to be achieved

This appropriation is intended to achieve effective promotion of competition in, reliable supply by, and the efficient operation of the electricity industry for the long-term benefit of consumers.

Scope of appropriation

This appropriation is limited to formulating, monitoring and enforcing compliance with the regulations and rules governing the electricity industry and other functions in accordance with the statutory functions under the Electricity Industry Act 2010 (the Act); and delivery of core electricity system and market operation functions, carried out under service provider contracts.

Our functions under this appropriation

This appropriation funds our operations, including Board members' costs, the Rulings Panel, the Security and Reliability Council, advisory groups and the operation of the electricity system and market operations as detailed below. This includes our four main functions, which are specified in the sections that follow:

1. **Promote market development:** we promote development of the electricity markets by making amendments to the Electricity Industry Participation Code 2010 (Code) and through market facilitation measures.⁵
2. **Monitor, inform and educate:** we monitor market behaviour, make data, information and tools available, and educate consumers and participants.
3. **Operate the electricity system and markets:** we are responsible for the day-to-day operation of the electricity system and markets, delivered through contracts with service providers.
4. **Enforce compliance:** we monitor, investigate and enforce compliance with the Act, relevant regulations and the Code.

⁴ The Estimates of Appropriations for the Government of New Zealand for the Year Ending 30 June 2017 is the Government-level budget, available at www.treasury.govt.nz/budget

⁵ Market facilitation measures are actions we can take short of amending the Code or recommending changes to regulations. This can include working directly with participants to develop desired results, education programmes, publication of guidelines and publication of model agreements.

Our market development cycle

The Electricity Authority is broadly split into three functional groups, supported by legal, compliance and corporate teams.

The functions of the three groups work cyclically; our market design team **initiates** investigations into potential problems or opportunities, and **develops** amendments to the Electricity Industry Participation Code 2010 (the Code) or market facilitation measures, if appropriate. We work closely with advisory groups, participants, consumers and service providers to develop and refine these initiatives. Suggestions about design changes from other stakeholders are also evaluated by market design. We closely follow the requirements in the Electricity Industry Act 2010 and our own foundation documents in carrying out this work.

The changes are passed to our market services team for **implementation**. The market services team is also responsible for the efficient and effective **operation** of the electricity system and markets.

Our market performance team monitors the electricity industry for competitiveness, reliability and efficiency to see if the outcomes are as expected and if any improvements can be made for the long-term benefit of consumers. The market performance team will also carry out project-specific **reviews** for key projects. If opportunities for improvement are identified as a result of monitoring and evaluation, these feed back into the market design process. We are rigorously assessing the market to see what's working, what may need tweaking and whether regulatory intervention or market facilitation is desirable, or not. This review function is vital in such a dynamic market.

Figure 2: Our market development cycle

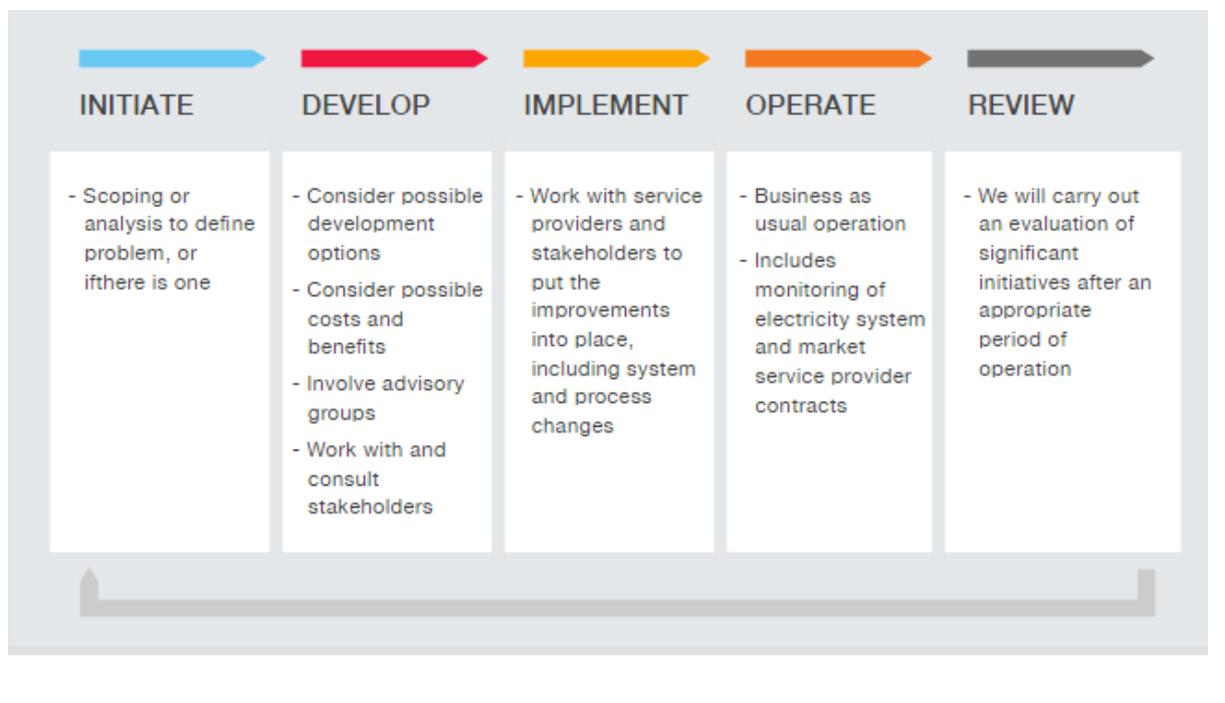
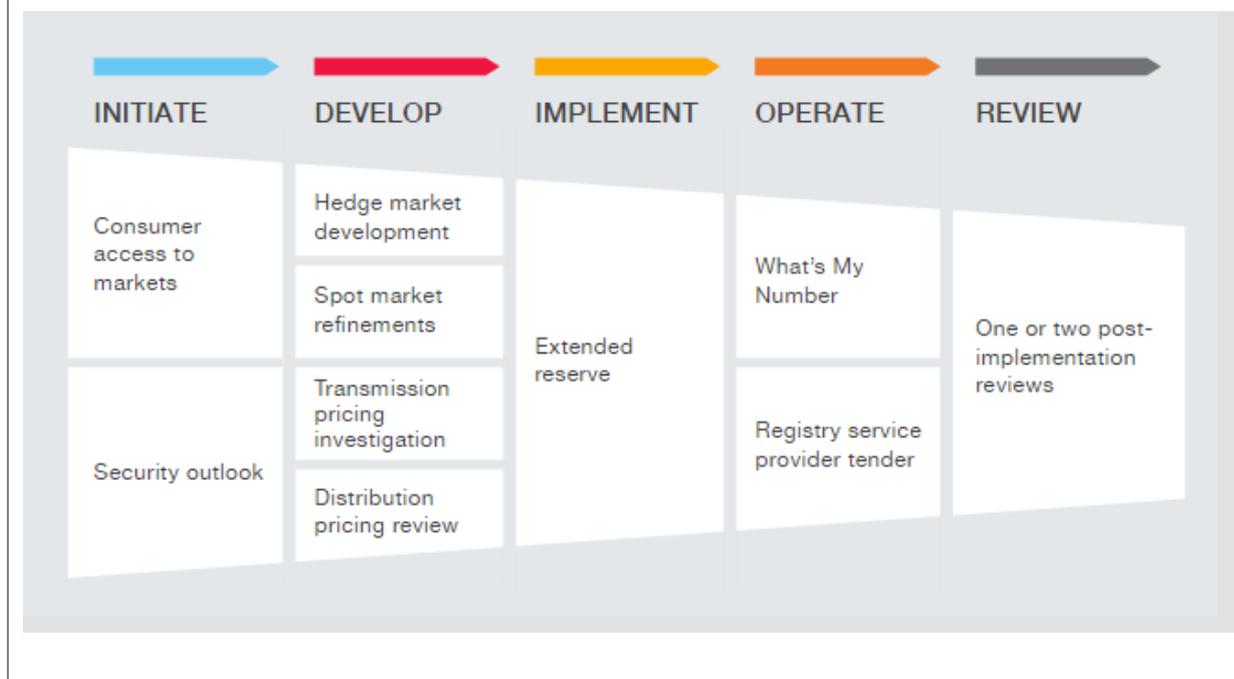


Figure 3: Key projects for 2016/17

1. Promote market development

Our market development work promotes competition in, reliable supply by, and the efficient operation of, the electricity industry for the long-term benefit of consumers.

We have two key tools at our disposal to develop the market: amending the Code; and adopting market facilitation measures. We use these tools to ensure market arrangements are appropriate for today's needs and flexible enough to enable tomorrow's innovations.

We use post-implementation reviews of key projects to assess whether our initiatives deliver the expected benefits. We also carry out overall monitoring of the performance of the market under our Monitor, inform and educate function, see page 15.

The Wholesale Advisory Group (WAG), Retail Advisory Group (RAG), stakeholders, and contracted service providers all make significant contributions to market development.

Top priority projects for 2016/17

Strategy	Project	Why we are doing this project	Scheduled timeframe for 2016/17	Contribution to statutory objective		
				Competition	Reliability	Efficiency
Reduce barriers	Hedge market development	We seek to improve retail competition by providing market participants with greater certainty about forward price expectations, thereby enhancing decision making. This will also promote greater reliability and efficiency. We will progress enhancements to the hedge market on an ongoing basis.	Work with ASX to design and set up a cap product with robust and frequent pricing. Evaluate if ASX positions can offset energy market prudential security requirements. Decide enhancements to arrangements for ASX products.	✓	✓	✓
Reduce barriers	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. There are reliability benefits from potential increases in demand-side participation.	Real-time pricing: complete consultation on Code amendment proposal, if required. Hours-ahead market: complete assessment of options and decide whether to develop a Code amendment proposal. Start development of Code amendment proposal, if required.	✓	✓	✓
Improve consumer participation	Consumer access to markets	Emerging consumer and digital technologies will enable consumers to play a greater role in a range of electricity markets. Consumers and their agents require efficient means of accessing these markets in order for the potential benefits of participation to be realised.	Identify issues and scope potential options for: <ul style="list-style-type: none"> • data and data exchange • multiple trading arrangements at an ICP • barriers to consumer participation in electricity markets. 	✓	✓	✓
Improve consumer participation	What's My Number	We seek 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 survey for the 2016 calendar year.	✓	-	✓

Strategy	Project	Why we are doing this project	Scheduled timeframe for 2016/17	Contribution to statutory objective		
				Competition	Reliability	Efficiency
Improve price signals	Transmission pricing investigation	We are reviewing the current arrangements to better promote operational and investment efficiency in the transmission sector and the broader electricity market.	Complete decision and reasons paper. Finalise transmission pricing guidelines.	-	✓	✓
Improve price signals	Distribution pricing review	We will review the current arrangements to achieve better operational and investment efficiency in the distribution sector and the broader electricity market.	Hold a conference in August 2016 to discuss the work to date and results of consultation in 2015/16. Determine next steps by the first quarter of the 2017 calendar year.	✓	✓	✓
Increase flexibility and resilience	Security outlook	We are reviewing the customer compensation and stress testing regimes to ensure they are consistent with delivering ongoing security of supply. We are also encouraging regular and robust pricing of a standardised cap product (see the hedge market development project above).	Consult on and complete decisions on initial reviews of the customer compensation and stress testing regimes.	✓	✓	✓

Performance measures

Desired result	2014/15 result	2015/16 target	2016/17 target
Top priority market development projects achieve planned deliverables for the year, as listed above.	Partly achieved. Three projects achieved their targets, one partly achieved and, for one, the timetable was changed.	At least five of the top six (83%) top priority market development projects achieve their deliverables for the year as listed above.	80%.*

Desired result	2014/15 result	2015/16 target	2016/17 target
Code development decisions meet statutory requirements and internal quality standards, including cost benefit assessment, as assessed by external review.	Four reports were reviewed. Two reports were rated good and two were rated very good.	At least four draft consultation or 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.	Key consultation and decision papers: 75% rated as very good, 100% as good or very good against quality of regulation standards.** Key consultation and decision papers: 75% rated as very good, 100% as good or very good against writing quality standards.***
No legal challenges that result 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.	Achieved. The multiple frequency-keeping report was completed and considered by the Board in February. The Board increased the scope for the review and an updated report is being prepared, for finalisation in 2015/16. The metering review report was completed in June 2015 and was provided to affected parties for consultation.	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.	Post-implementation reviews show that market behaviour altered in intended direction identified when the Code or market facilitation measure was approved. In 2016/17 we plan to complete one to two post-implementation reviews.

Notes:

* Estimates performance measure.

** Estimates performance measure. The standards include meeting the requirements of section 39 of the Act and the processes and standards included in our foundation documents, available at www.ea.govt.nz/about-us/strategic-planning-and-reporting/foundation-documents/. Assessment is by external expert reviewers using a 5-point scale of: very poor, poor, average, good, very good.

*** Assessment is by external expert reviewers using a 5-point scale of: very poor, poor, average, good, very good.

**** This measure relates to Code amendment decisions, which may be challenged in court through judicial review. Our processes and all subsequent decisions are expected to be able to withstand scrutiny through the judicial review process.

2. Monitor, inform and educate

Our market monitoring, information and education work focuses on improving the availability of data, information and tools and improving awareness and understanding of how electricity markets function. Transparency and understanding are vital to ensure the competitive, reliable and efficient operation of the electricity market.

Our market analysis function improves understanding by identifying behaviours that are potentially inconsistent with our objective. It also provides appropriate feedback into the market development work.

We may also undertake reviews of any matters relating to the electricity industry that are specified by the Minister under section 18 of the Electricity Industry Act 2010.

We have an ongoing commitment to consumer and participant education. A consumer education programme commenced in 2015/16 and will continue in 2016/17. We also have an ongoing commitment to participant education, including providing information on the operation of the Code, the market and market systems and processes, through workshops, training, publications and the web.

Performance measures

Desired result	2014/15 result	2015/16 target	2016/17 target
Robust investigation, analysis and reporting on anomalous events.	Four reports completed.	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.	Minimum of two reports completed per annum. Key reports rated as good or very good against writing quality standards.*
Reviews requested by the Minister under section 18 of the Act.	Section 18 report requested on 7 October into Auckland power outage. Although we were not able to meet the initial timeframe, this was due to delays in receiving technical reports from Vector and Transpower. The Minister was advised of the revised timetable.	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 rated as good or very good by independent peer review.*
Electricity market performance reviews that provide an understanding of progress against our statutory objective.	Electricity market performance review of 2014 published in March 2015.	Electricity market performance review of 2015 completed by 31 March 2016.	Electricity market performance review of 2016 completed by 31 March 2017.
	Quality review of the draft report was completed. A rating of very good was achieved.	Electricity market performance review meets the Authority's writing quality standard.	Electricity market performance review rated as good or very good against writing quality standards.*

Desired result	2014/15 result	2015/16 target	2016/17 target
Making information available to enable consumers to understand electricity market performance.	Two fact sheets and two consumer guides published. Target met of 99% availability of Electricity Market Information (EMI) website during business hours. Target met of 20–30 datasets available on the EMI website.	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%.	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 and analytical tools.	Target met of 99% availability of EMI website during business hours.*** Target met of 20–30 datasets available on the EMI website.	Ninety nine per cent availability of the EMI website during business hours. Develop and make available six or more new reports on the EMI website.	Develop and make available six or more new reports on the EMI website.

Notes:

* Assessment is by external expert reviewers using a 5-point scale of: very poor, poor, average, good, very good.

** 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. Operate the electricity system and markets

We are responsible for the day-to-day (real-time) efficient and reliable operation of the electricity system and markets. To achieve this, we contract out all the functions of:

- The **system operator** who 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.⁶
- The **wholesale information and trading system (WITS)** which is used to transfer information among participants, especially the uploading of bids and offers.
- The **reconciliation manager** who allocates volumes of electricity to generators and purchasers. It uses metering information supplied by participants and calculates unaccounted for electricity.
- The **pricing manager** who calculates and publishes final prices, which are used by the clearing manager to calculate invoices.

⁶ 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 **clearing manager** who 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**, 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** who conducts regular auctions of FTRs, which are a locational hedge product.
- The 2016/17 year will see the commencement of the new **extended reserve manager** service provider. This new role plays an important part in the operation of the new extended reserve regime, which is being implemented to improve the way in which the power system responds to major outages and other events.⁷

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

The Security management output class, described on page 22 also contributes to the operation of the electricity system and markets.

Top priority projects for 2016/17

Strategy	Project	Why we are doing this project	Scheduled timeframe for 2016/17	Contribution to statutory objective		
				Competition	Reliability	Efficiency
Increase flexibility and resilience	Extended reserve	Code amended in June 2014 to provide a framework for the efficient procurement of extended reserve. Implementation includes establishment of the extended reserve manager market operations service providers (MOSPs).	Complete consultation on selection methodology. Complete consultation on technical requirements schedule. Complete consultation on draft procurement schedule.	-	✓	✓

⁷ For more information on service provider contracts, which include detailed performance specifications, and reports, see the operations section of our website www.ea.govt.nz

Strategy	Project	Why we are doing this project	Scheduled timeframe for 2016/17	Contribution to statutory objective		
				Competition	Reliability	Efficiency
Ensure fit-for-purpose market services	Registry service provider tender	The registry is the last service provider tender, the others being completed in 2015/16. 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.	Negotiations with the preferred tenderer completed by September 2016. New agreement becomes effective in May 2017.	-	✓	✓

Performance measures

Desired result	2014/15 result	2015/16 target	2016/17 target
Electricity system and market services performance will be assessed by monitoring provider performance to ensure that contract, Code and other relevant performance obligations are met.	The system operator met the requirements of contract, Code and principal performance obligations.	System operator meets the requirements of contract, Code and principal performance obligations.	Contract, Code and performance standards met.*
	Market operation performance met requirements.	Market operation service providers' Code and contract performance standards met.	*
	Annual audits of market service providers completed. No material issues identified.	Annual audits of market service providers do not reveal any significant issues.	Annual audits of market service providers do not reveal any significant issues.
Electricity system and market services performance will be assessed by monitoring provider performance to ensure that contract, Code and other relevant performance obligations are met. (continued)	User satisfaction with overall performance of system operator service (measured by user survey—September 2014) indicated satisfactory results.	User satisfaction with overall performance of system operator service (measured by user survey).	The percentage of system operator and market service users who rate the overall services provided as good or very good.**
	User survey results (measured by user survey—April 2015) indicated overall satisfaction.	User satisfaction with overall performance of market services that are directly used by participants (measured by user survey).	**

Desired result	2014/15 result	2015/16 target	2016/17 target
Market administrator services delivered in accordance with Code.	No significant breaches as a result of the Authority carrying out its market administration function.	No significant breaches as a result of the Authority carrying out its market administration function.	No significant breaches as a result of the Authority carrying out its market administration function.***
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:

- * Estimates performance measure. Previous measures for the system operator and market service providers have been combined. Performance standards for the system operator include the principal performance obligations (PPOs), which are contained in the Code, available at: www.ea.govt.nz/code-and-compliance/the-code/. Breaches of the PPOs are investigated 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.
- ** Measured by user surveys carried out by the system operator and market service providers. Users are asked to rate services using a 5-point scale of: very poor, poor, average, good, very good. Previous measures for the system operator and market service providers have been combined.
- *** Breaches by the market administrator are investigated by the Compliance team. The absence of breaches is an indicator that standards are met. A significant breach is one that results in at least a warning letter to the CEO.

4. Enforce compliance

We are responsible for monitoring, investigating and enforcing compliance with the Act, regulations made under the Act, and the Code.

Performance measures

Desired result	2014/15 result	2015/16 target	2016/17 target
Percentage of investigations decided within 12 months of the investigation being opened.	98%	98%	100%*
Percentage of investigations decided within eight months of the investigation being opened.	92%**	90%**	90%

Desired result	2014/15 result	2015/16 target	2016/17 target
Percentage of investigations decided within four months of the investigation being opened.	89% ***	85% ***	85%
Sound compliance processes are 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 and case management procedures. ****
	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.	****

Note:

- * Estimates performance measure. The target for 2016/17 excludes cases on hand at 1 July 2016 that are over six months old.
- ** The previous timeframe was six months. This has also been changed because of the increasing complexity of compliance investigations and to better reflect the Authority's emphasis on robust process and quality decision-making.
- *** The previous timeframe was three months, which overly emphasised speed over quality decision making. This has been changed because of the increasing complexity of compliance investigations and to better reflect the Authority's emphasis on robust process and quality decision-making.
- **** Previous quality and case management measures combined for 2016/17.

Appropriation and cost breakdown

Electricity industry governance and market operations appropriation	Actual 2014/15 \$000	Budget 2015/16 \$000	Budget 2016/17 \$000
Revenue from the Crown	71,047	76,974	76,037
Expenditure	71,047	76,974	76,037

Note:

The above table includes the amount approved in the Government's Estimates of appropriations; representing the maximum expenditure that can be incurred.

Electricity industry governance and market operations expenditure	Actual 2014/15 \$000	Budget 2015/16 \$000	Budget 2016/17 \$000
System operator—operating expenses	23,951	24,633	25,760
System operator—capital-related expenses	15,497	16,885	20,130
System operator expenses	39,448	41,518	45,890

Service provider—clearing manager	1,986	2,141	2,245
Service provider—wholesale information and trading system	1,398	1,460	1,604
Service provider—pricing manager	1,598	1,621	736
Service provider—reconciliation manager	1,116	1,233	882
Service provider—registry*	528	547	562
Service provider—FTR manager	848	812	914
Service provider—extended reserves manager**	-	-	25
Service provider—depreciation and amortisation*	4,595	5,512	1,799
Service provider—IT costs	99	127	151
Other service provider expenses	12,168	13,453	8,918
Facilitating consumer participation expenses	2,007	3,000	2,500
Authority operations—external work programme support	4,641	4,959	4,952
Authority operations—personnel	9,441	9,778	9,895
Authority operations—other operating costs	3,342	3,992	3,882
Authority operating expenses	17,424	18,729	18,729
Total expenses	71,047	76,700	76,037

Notes:

- * The existing contract for the registry manager service provider expires on 30 April 2017. There are therefore budget uncertainties beyond this date for the costs of the service provider role, and the amortisation expenses relating to the system asset that underpins the role. Refer to the Statement of significant assumptions on page 27.
- ** The date that the extended reserves manager role will become operational has not yet been determined; for the purpose of preparing these forecasts it has been assumed it will be operational in the final quarter of 2016/17.

System operator expenditure under the renegotiated SOSPA is forecast to peak in 2016/17 before settling at lower levels in 2017/18 and out-years. Service provider depreciation and amortisation expenses are forecast to reduce in 2016/17, due to the estimated useful life of several systems being extended from the assumption used in the 2015/16 budget. The Authority is intending to hold its own expenditure at last year's level, at \$18.7 million.

Security management appropriation

What is intended to be achieved

This appropriation is intended to achieve enhanced security of supply in the electricity system during periods of emerging or actual security situations. These are expected to be rare. This appropriation will not be drawn on in the normal course of events.

Scope of appropriation

The appropriation is limited to the management of electricity supply emergency events by the system operator, if required, including:

- increased monitoring and management responsibilities in the event of an emerging or actual security situation
- planning and running an official conservation campaign.

Security management is a multi-year appropriation for the period 2012/13 to 2016/17. Expenses under this appropriation can only be incurred by the system operator. The Authority itself cannot incur expenses under this appropriation.

Our functions under this appropriation

The system operator is responsible for ongoing security monitoring and emergency management.⁸ The security management functions of the system operator include the preparation of the emergency management policy, which is incorporated into the Code by reference following our review and approval. The policy sets out the steps the system operator will take, and encourage industry participants to undertake, during an extended emergency.

Our primary role in respect to security of electricity supply is to ensure that the Code promotes an efficient level of supply reliability. This includes specifying the functions of the system operator, how the functions are to be performed, and to set requirements for transparency and performance. We also monitor system operator performance. This work is covered under the **promoting market development** and **operating the electricity system and markets** functions respectively of the electricity industry and market operations appropriation.

Our role in respect to this security management appropriation is limited to addressing requests from the system operator to use these funds. Our approval of any request is subject to an agreed process and criteria. The process requires the system operator to provide evidence that there is an actual or emerging security event, and to describe the actions it intends to take using the funds and how the use of these funds will be monitored. Agreeing this information in advance can help enable the Authority to assess the effectiveness of the actions and the funding during and after the event.

The system operator would seek our approval for funding from this appropriation on a case-by-case basis, when it considers increased monitoring or security management actions are justified. However, the system operator can, acting on a 'good faith' basis, incur up to \$300,000 of costs in this area without prior approval if it is not reasonably practicable to seek that approval.

Performance measures

Security management contributes to our reliability outcome (see pages 19–20 of the *2014–2018 Statement of Intent*). The effective management of dry years and emergency events, as measured by case-by-case-analysis, is one of a suite of statistics we use to measure whether there are efficient levels of reliable electricity supply. Should the system operator seek funding under this appropriation to manage the dry-year or emergency event, its utilisation of that funding would be reviewed as part of the subsequent analysis. The results of the review would be published on our website and a summary would be reported in the outcomes section of our *Annual Report*.

⁸ Section 8(2) of the Electricity Industry Act 2010 states that as well as acting as system operator for the electricity industry, the system operator must (a) provide information, and short- to medium-term forecasting on all aspects of security of supply; and (b) manage supply emergencies.

Information about the system operator's security management role is available on its website at www.systemoperator.co.nz/security-supply

Given that the relevant outcome and function performance measures are already captured elsewhere, the measures below are limited to those that demonstrate that the Authority has fulfilled its obligations in relation to this appropriation.

Desired result	2014/15 result	2014/15 target	2015/16 target
Timely and effective Authority decision-making 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.	Process and criteria met.*
		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:

* Estimates performance measure. Process and criteria agreed between the Authority and the system operator, for example: correct documentation is provided; appropriate signoff by system operator management; evidence that there is an actual or emerging security event; intended actions are clearly described; and monitoring and reporting is specified.

Appropriation

Security management appropriation	Actual 2014/15 \$000	Budget 2015/16 \$000	Budget 2016/17 \$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 contingent in nature and is not routinely utilised. To provide consistency with the appropriations contained in the Government's Estimates documents for Vote Business, Science and Innovation, annual budgeted amounts have been included in the above appropriation table. However, as it is not routinely utilised, no amounts in relation to this appropriation have been included in the 2016/17 budgets within the other prospective financial statements contained in this SPE.

Electricity litigation fund appropriation

What is intended to be achieved

This appropriation is intended to ensure that the Authority is able to participate in litigation effectively and without delay.

Scope of appropriation

This appropriation is limited to the costs and expenses the Authority incurs in participating in litigation.

Our functions under this appropriation

Our functions under this appropriation include defending cases against the Authority and taking enforcement action under our enforcing compliance function.

Performance measures

Desired result	2014/15 result	2015/16 target	2016/17 target
The Electricity Authority uses the litigation fund in accordance with the criteria for use of the fund.	Litigation fund used in accordance with the criteria.	Litigation fund used in accordance with the criteria.	Criteria met.*

Note:

* Estimates performance measure. 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 2014/15 \$000	Budget 2015/16 \$000	Budget 2016/17 \$000
Revenue from the Crown	46	444	444
Expenditure	46	444	444

Financial information

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

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 functions that will be provided, the results to be achieved, and the costs of delivering these.

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 under 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 appropriations 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.

Prospective financial statements

The purpose of these prospective 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 to comply with the Public Benefit Entity Financial Reporting Standard 42 *Prospective Financial Statements*.

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

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

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 on a going concern basis 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 2014/15 year reflects the actual results as published in the Authority's *2014/15 Annual Report*. The financial information presented for the 2015/16 year reflects the budget as published in the Authority's SPE for 2015/16. The financial information presented for the 2016/17 year reflects the Authority's intended budget for that year. Budgeted financial information 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 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 retender for the registry manager service provider. The existing contractual arrangement for this role expires on 30 April 2017. The Authority released the request for proposal (RFP) on 15 January 2016. The tender closed on 26 February

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

2016 and, subject to decisions by the Authority's Board, it is expected that contractual arrangements with the future service provider will be in place early in the 2016/17 year. The prospective financial statements assume that the cost of the role from May to June 2017 will be at the same level as payable under the existing contract expiring 30 April 2017. The prospective financial statements also assume the system assets associated with these services have a useful life, for amortisation purposes, ending 30 April 2017.

- The level of litigation activity. In the 2016/17 year the Electricity litigation fund appropriation provides the Authority funding of up to \$0.444 million to ensure that it is able to participate in litigation effectively and without delay. This amount is considered sufficient to meet a low to medium level of litigation activity and has been included in the budget for 2016/17 in the prospective financial statements. However, if a significant litigation event arose the actual costs associated with this may exceed the amount budgeted.
- Security of supply emergency events. The Authority has the Security management appropriation available to fund the management of emergency events by the system operator. This is a multi-year appropriation of \$6 million over five years (commencing on 1 July 2012 and expiring on 30 June 2017). As this appropriation is contingent in nature and is not routinely utilised, no revenue or expenditure in relation to this appropriation has been included in the 2016/17 budgets in the prospective financial statements.

Prospective statement of comprehensive revenue and expense

	Note	Actual 2014/15 \$000	Budget 2015/16 \$000	Budget 2016/17 \$000
Funding from the Crown	1	71,093	78,344	76,481
Interest revenue		597	350	350
Total revenue		71,690	78,694	76,831
Personnel costs	2	9,441	9,778	9,895
Depreciation and amortisation		4,967	5,941	2,177
Service provider contracts		47,021	49,459	53,009
Other expenses	3	9,664	13,166	11,400
Total expenditure		71,093	78,344	76,481
Total comprehensive revenue and expense		597	350	350

Prospective statement of changes in equity

	Actual 2014/15 \$000	Budget 2015/16 \$000	Budget 2016/17 \$000
Opening balance at 1 July	10,502	10,829	11,599
Total comprehensive revenue and expense	597	350	350
Closing balance at 30 June	11,099	11,179	11,949

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 2014/15 \$000	Budget 2015/16 \$000	Budget 2016/17 \$000
Assets				
Current assets				
Cash and cash equivalents		12,368	13,940	13,080
Receivables and prepayments		140	200	200
Total current assets		12,508	14,140	13,280
Non-current assets				
Property, plant and equipment	4	802	881	273
Intangible assets	5	7,765	4,358	6,596
Total non-current assets		8,567	5,239	6,869
Total assets		21,075	19,379	20,149
Liabilities				
Current liabilities				
Payables and accruals		7,410	7,000	7,000
Employee entitlements		733	1,000	1,000
GST payable		3	200	200
Appropriation repayable to the Crown		1,806	-	-
Total current liabilities		9,952	8,200	8,200
Non-current liabilities				
Employee entitlements		24	-	-
Total liabilities		9,976	8,200	8,200
Net assets		11,099	11,179	11,949
Equity				
Contributed capital		9,011	9,011	9,011
Accumulated surplus/(deficit)		2,088	2,168	2,938
Total Equity		11,099	11,179	11,949

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 2014/15 \$000	Budget 2015/16 \$000	Budget 2016/17 \$000
Cash flows from operating activities			
Receipts from the Crown	72,899	78,344	76,481
Interest from investments	598	350	350
Repayment of appropriations to the Crown	(2,187)	-	-
Payments to suppliers	(55,958)	(64,849)	(64,409)
Payments to personnel	(9,719)	(9,241)	(9,895)
Goods and services tax (net)	25	200	-
Net cash flows from operating activities	5,658	4,804	2,527
Cash flows from investing activities			
Purchase of property, plant and equipment	(317)	(505)	(125)
Purchase of intangibles	(3,397)	(1,448)	(1,998)
Net cash flows from investing activities	(3,714)	(1,953)	(2,123)
Net increase/(decrease) in cash and cash equivalents	1,944	2,851	404
Cash and cash equivalents at the beginning of the year	10,424	11,089	12,676
Cash and cash equivalents at the end of the year	12,368	13,940	13,080

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

Notes to the prospective financial statements

1. Appropriation revenue	Actual 2014/15 \$000	Budget 2015/16 \$000	Budget 2016/17 \$000
Electricity industry governance and market operations	71,047	76,700	76,037
Security management*	-	1,200	-
Electricity litigation fund	46	444	444
	71,093	78,344	76,481

Note:

* This appropriation is contingent in nature and is not routinely utilised. Therefore no revenue in relation to it has been included in the 2016/17 budget. This approach differs from that used when the 2015/16 budget was prepared; where a notional budget of \$1.2 million was included to provide consistency with the appropriations contained in the Government's Estimates documents for Vote Business, Science and Innovation.

2. Personnel costs	Actual 2014/15 \$000	Budget 2015/16 \$000	Budget 2016/17 \$000
Salaries and contractors	9,027	9,361	9,483
Contributions to defined contribution plans	370	417	412
Increase/(decrease) in leave provisions	44	-	-
	9,441	9,778	9,895

3. Other expenses	Actual 2014/15 \$000	Budget 2015/16 \$000	Budget 2016/17 \$000
Security management*	-	1,200	-
Litigation fund	46	444	444
Facilitating consumer participation	2,007	3,000	2,500
External work programme support	4,641	4,959	4,952
Auditor fees	46	46	46
Auditor fees for other services	12	-	-
Advisory and working group fees	29	40	52
Board members' fees	487	582	582
Rulings Panel fees	76	100	100
Operating lease expenses	554	573	515
Travel expenses	224	245	257
Other operating expenses	1,542	1,977	1,952
	9,664	13,166	11,400

Note:

* This appropriation is contingent in nature and is not routinely utilised. Therefore no expenditure in relation to it has been included in the 2016/17 budget. This approach differs from that used when the 2015/16 budget was prepared; where a notional budget of \$1.2 million was included.

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

4. Property, plant and equipment	Actual 2014/15 \$000	Budget 2015/16 \$000	Budget 2016/17 \$000
Computer hardware*	529	608	91
Office equipment	18	25	14
Furniture and fittings	123	87	71
Leasehold improvements	132	161	97
Net book value at 30 June	802	881	273

Note:

* The reduction in the net book value of computer hardware is due to the Authority moving away from the ownership of the physical IT infrastructure that supports the market operations service provider systems. The provision of IT infrastructure will become part of the complete service that is purchased.

5. Intangible assets	Actual 2014/15 \$000	Budget 2015/16 \$000	Budget 2016/17 \$000
Software	7,765	4,358	6,596
Net book value at 30 June	7,765	4,358	6,596

Statement of significant accounting policies

Revenue

The specific accounting policies for significant revenue items are explained below.

Funding from the Crown

The Authority is primarily funded from the Crown. This funding is restricted in its use for the purpose of the Authority meeting the objectives specified in its founding legislation and the scope of the relevant appropriations of the funder.

The Authority considers there are no conditions attached to the funding and it is recognised as non-exchange revenue at the point of entitlement. Appropriations received from the Crown are recognised as revenue to the extent that expenditure has been incurred. Appropriations received but not spent are treated as a Crown creditor and shown in the statement of financial position as a provision for refund of appropriations 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 financial statements.

Interest

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

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

Leases

Operating leases

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset to the lessee.

Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held on call with banks, and other short-term highly liquid investments with original maturities of normally three months or less.

Receivables and prepayments

Short-term receivables and prepayments are recorded at their face value, less any provision for impairment.

A receivable is considered impaired when there is evidence that the Authority will not be able to collect the amount due. The amount of the impairment is the difference between the carrying amount of the receivable and the present value of the amounts expected to be collected.

Property, plant and equipment

Property, plant and equipment consists of the following asset classes: 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.

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 is provided on a straight-line basis on all property, plant and equipment at rates that will write-off the cost (or valuation) of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of each asset class have been estimated as follows:

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

Computer hardware	3–5 years	20%–33%
Furniture and fittings	5 years	20%
Office equipment	5 years	20%
Leasehold improvements	Unexpired period of the lease	

Intangible assets

Software acquisition and development

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

Costs that are directly associated with the development of software are recognised as an intangible asset when the software becomes operational. Work in progress is recognised at cost less impairment.

Staff training costs are recognised as an expense when incurred.

Costs associated with maintaining software are recognised as an expense when incurred.

Costs associated with development and maintenance of the Authority's corporate website are recognised as an expense when incurred.

Amortisation

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each financial year is recognised in the surplus or deficit. The value of additions made to an existing asset are amortised over the remaining useful life of the existing asset.

The useful lives and associated amortisation rates of each asset class are estimated as follows:

Computer software	3–9 years	11%–33%
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Impairment of capital assets

The Authority does not hold any cash-generating assets. Assets are considered cash-generating where their primary objective is to generate a commercial return.

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

Short-term payables and accruals are recorded as exchange transactions at their face value.

Employee entitlements

Short-term employee entitlements

Employee benefits that are due to be settled within 12 months after the end of the period in which the employee renders the related service are measured based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date, annual leave earned but not yet taken at balance date, and sick leave.

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

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.

A liability and an expense are recognised for bonuses where there is a contractual obligation or where there is a past practice that has created a constructive obligation and a reliable estimate of the obligation can be made.

Long-term employee entitlements

Employee benefits that are due to be settled beyond 12 months after the end of period in which the employee renders the related service, such as long service leave, are calculated on an actuarial basis. The calculations are based on:

- likely future entitlements accruing to staff, based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement, and contractual entitlement information
- the present value of the estimated future cash flows.

Presentation of employee entitlements

Sick leave, annual leave and vested long service leave are classified as a current liability. Non-vested long service leave and retirement gratuities expected to be settled within 12 months of balance date are classified as a current liability. All other employee entitlements are classified as a non-current liability.

Superannuation schemes

Defined contribution schemes

Obligations for contributions to KiwiSaver and the State Sector Retirement Savings Scheme are accounted for as defined contribution superannuation schemes and are recognised as an expense in the surplus or deficit as incurred.

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

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.

Equity

Equity is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified into the following components:

- contributed capital
- accumulated surplus/(deficit).

Goods and services tax (GST)

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

The net amount of GST recoverable from, or payable to, the IRD is included as part of receivables or payables in the statement of financial position.

The net GST paid to, or received from, the IRD, including the GST relating to investing and financing activities, is classified as a net operating cash flow in the statement of cash flows.

Income tax

The Authority is a public authority and consequently is exempt from the payment of income tax. Accordingly, no provision are been made for income tax.

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.
Cap product	A hedge product that allows participants to contract ahead for electricity, which includes a guaranteed maximum (cap) price. If the wholesale price goes above the cap price on any trading period within the contract duration, the holder of the cap contract is paid the difference between the cap price and wholesale price. Each trading period (half hour) is assessed separately. The buyer pays the seller a 'premium', analogous to an insurance premium, and any settlement payments are made by the seller only.
Code	Electricity Industry Participation Code 2010.
Consumer	Any person who is supplied with electricity other than for resupply.
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 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.
MOSP	Market operation service provider.

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. For us this is expressed in our statutory objective. Outcomes are assessed over the long-term. • Impact: the contribution made to an outcome by a specified set of outputs, or actions, or both. We use our strategic priorities, and specific changes we seek through our projects and business-as-usual functions to assess the impact we are making. These changes can usually only be assessed over the medium to long-term. • Output: the goods or services that we supply. We have called these 'our functions' in this SPE. These are measured and reported on annually.
Participant	<p>A person, or a person belonging to a class of persons, identified in section 7 of the Act 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>We contract third parties to manage the electricity system (system operator) and market services, as described in Part 3 of the Code. Descriptions are provided on page 17.</p>
SOI	<p><i>Statement of Intent</i>. Prepared in accordance with the Crown Entitles Act 2004.</p>
SOSPA	<p>The system operator service provider agreement is the contract we have with Transpower to operate the electricity system to schedule and dispatch electricity in real-time.</p>
SPE	<p><i>Statement of Performance Expectations</i>. Prepared in accordance with the Crown Entitles Act 2004.</p>