

Electricity Authority

Te Mana Hiko

Statement of Intent

1 November 2010 – 30 June 2013



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Prepared in accordance with Part 4 of the Crown Entities Act 2004

Statement of Intent

This Statement of Intent 2010–2013 (SOI) is the formal public accountability document for the Electricity Authority (the Authority) outlining its plans for the period 1 November 2010 to 30 June 2013, as required by the Crown Entities Act 2004.

The SOI takes effect from the date the Authority was formed on 1 November 2010, from which time the Authority assumes some of the functions previously undertaken by the Electricity Commission. For further details on the Authority, see www.ea.govt.nz

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Foreword

The Authority is a new independent Crown entity, responsible for regulation of the electricity sector. This SOI addresses the significant challenges to be met in the Authority's first year.

The Authority looks forward to working with a wide range of relevant parties to develop an efficient and effective regulatory body, and to communicate its vision and future direction.

Establishment of the Authority

The Electricity Industry Act 2010 (the Act) established the Authority from 1 November 2010 as an independent Crown entity. The Act dissolved the Electricity Commission, transferring its functions to the Authority, Transpower New Zealand Limited (Transpower) as System Operator, the Commerce Commission, the Energy Efficiency and Conservation Authority (EECA), the Ministry of Consumer Affairs (MCA), and the Ministry of Economic Development (MED).

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

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

Overall, the Authority has fewer responsibilities than the former Electricity Commission, but new requirements to be implemented in the first year of operation include:

- Establishing the Security and Reliability Council (SRC) (section 20) and other advisory groups (section 21)
- Developing a charter about advisory groups (section 19)
- Developing a consultation charter (section 41)
- Developing its analytical capacity to proactively monitor and investigate the performance of the industry in relation to competition, reliability and efficiency, and to respond to Ministerial review requests (section 18)
- Developing and implementing programmes to promote and facilitate customer switching, in order to enhance retail market competition
- Carrying out monitoring, compliance and exemption requirements for lines and energy separation provisions for distribution companies in Part 3 of the Act (previously undertaken by the Commerce Commission under the Electricity Industry Reform Act (EIRA)).

Former Electricity Commission tasks have been transferred to other agencies:

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

Authority functions as set out in the Act are included in part one of this SOI (see page 4).

Key Priorities

The Authority's highest priority is ensuring the effective day-to-day operation of the electricity system and markets.

Key development initiatives for the first 12 months are included in section 42(2) of the Act:

- (a) Provision of compensation by retailers to consumers during public conservation campaigns.
- (b) Imposing a floor or floors on spot prices for electricity in the wholesale market during supply emergencies (including public conservation campaigns).
- (c) Mechanisms to help wholesale market participants manage price risks caused by constraints on the national grid.
- (d) Mechanisms to allow participants who buy electricity on the wholesale market (commonly called the demand-side) to benefit from demand reductions.
- (e) Requirements for distributors that do not send accounts to consumers directly to use more standardised tariff structures.
- (f) Requirements for all distributors to use more standardised use-of-system agreements, and for those use-of-system agreements to include provisions indemnifying retailers in respect of liability under the Consumers Guarantees Act 1993 for breaches of acceptable quality of supply, where those breaches were caused by faults on a distributor's network.
- (g) Facilitating, or providing for, an active market for trading financial hedge contracts for electricity.

While the Act focuses on completing changes to the Code, development work will also include ensuring the timely, efficient and effective implementation of changes in conjunction with the electricity industry, consumers and service providers.

A further priority will be supporting the Government's objectives of completing the sale of the Whirinaki power plant, and ending the reserve energy regime.

Strategy Development

The vision of the Authority is to be viewed as a world-class electricity regulator within the next three years.

In its first year the Authority will focus on developing a highly effective organisation to deliver the best possible regulatory oversight of the electricity sector for the long-term benefit of all New Zealanders. This includes the communication of a clear strategy outlining:

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

To support its vision the Authority will review its performance information, benchmarking internationally wherever appropriate. Systems will be put in place to gain objective measurement, including stakeholder feedback and external quality assessments. The comprehensive quantitative and qualitative information gathered will form the basis of the Authority's 2011-2014 SOI.



Brent Layton
Chair
Electricity Authority

Part One—Context

The SOI takes into account the context in which the Electricity Authority operates, with input from the Government, the electricity industry and electricity consumers.

Authority Roles and Functions

Since 2008 the Government's stated priorities have included enabling economic growth, infrastructure development and ensuring value-for-money public services. In the 2010 Budget, the Government set out high-level goals, outcomes and impacts for the energy sector, which are addressed in this part of the SOI.¹

On 9 December 2009 the Minister of Energy and Resources announced the disestablishment of the Electricity Commission and formation of the Authority as a result of the Ministerial Review of Electricity Market Performance 2009 (the Review). The Authority is established under the Electricity Industry Act 2010 (the Act), with its primary focus that of providing independent governance of the electricity industry (primarily Code-making and enforcement of the Electricity Industry Participation Code (the Code)).

Section 16 of the Act sets out the Authority's responsibilities:

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

¹ This summary of Government priorities has been taken from a number of sources including speech notes for the opening of Parliament and the 2010 Budget. Goals, outcomes and impacts for the energy sector are included in *Performance Information for Appropriations - Vote Energy*, part of the 2010 Budget documentation, which is available at: <http://www.treasury.govt.nz/budget/2010/ise/v1/ise10-v1-pia-ener.pdf>

In addition section 18 of the Act provides for the Authority to carry out reviews at the written request of the Minister on any matter relating to the electricity industry.

Outcomes and Outcome Indicators

Derived from the objective set out in the Act, the outcomes sought by the Authority are:

- *Competition*: Widespread confidence in the competitiveness of New Zealand's wholesale and retail electricity markets (within the bounds of a small economy that is unable to import electricity)²
- *Reliability*: Widespread acceptance of efficient levels of supply reliability across the 'supply chain' (generation, transmission, distribution, and retailing)
- *Efficiency*: Widespread recognition that New Zealand's wholesale and retail electricity markets, and transmission and distribution arrangements, are efficient mechanisms for coordinating electricity production and consumption, and for facilitating timely and innovative investment in the electricity system.

The Authority intends to develop **outcome indicators** and, wherever feasible, to measure actual levels of competition, reliability and efficiency. In addition it will identify **impact indicators** addressing how outputs contribute to desired outcomes, to be discussed with various parties, including the electricity industry, consumers and other government agencies working in the energy sector. Initial outcome and impact indicators will be presented in the 2011–2014 SOI.

² The wholesale market comprises the energy (spot), ancillary services and secondary (hedge) markets.

Statement of Responsibility

Parts two and three of this SOI contain the Authority's forecast financial and non-financial performance information required by the Crown Entities Act 2004.

Pursuant to the Crown Entities Act 2004, we acknowledge responsibility for the preparation of the statement of forecast service performance and forecast financial statements included in these parts of the Statement of Intent 1 November 2010 – 30 June 2013, including the appropriateness of the assumptions underlying the forecast financial statements and all other required disclosures.

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.

We certify that the information contained in this report is consistent with the appropriations contained in the Estimates for the year ending 30 June 2011 that were laid before the House of Representatives under section 9 of the Public Finance Act 1989.



Brent Layton

Chair

17 November 2010



Roger Sowry

Member

17 November 2010

Part Two—Statement of Forecast Service Performance

This statement of forecast service performance (SSP) contains the information required by sections 141(1)(f) and 142(1)(b) of the Crown Entities Act 2004, to be reported against in the Authority's Annual Report for 2010/11 and also audited. This section includes:

- A summary of the Authority's appropriations and output classes
- Specification of the Authority's quality standard for written documents
- Detailed specification of the Authority's output classes.

Output Classes

Figure 1 summarises the Authority's appropriations and output classes, followed by detailed specifications.

Figure 1: Summary of appropriations, output classes and main activities

Appropriation and output class	(\$ million)		
	2010/11	2011/12	2012/13
	Appropriations: 1 Nov 2010– 30 Jun 2011	forecast: 1 Jul 2011 – 30 Jun 2012	forecast: 1 Jul 2012 – 30 Jun 2013
Electricity industry governance and market operations	38.181	62.535	63.214
Promoting and facilitating customer switching	10.500 over the period 1 November 2010 - 30 April 2014		
Electricity litigation fund *	0.296	0.444	0.444
Reserve energy and emergency measures—availability costs	16.156	6.245	0
Reserve energy and emergency measures—variable costs	4.867 over the period 1 November 2010 - 30 June 2012		

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

Electricity Industry Governance and Market Operations Output Class

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

- Operation of the electricity system and markets
- Market development
- Compliance
- Industry monitoring and information
- Security of supply governance.

Operation of the Electricity System and Markets

The Authority is responsible for:

- Ensuring the effective day-to-day operation of the electricity system and the wholesale (including ancillary services) and retail markets in accordance with the Code through contracts with third parties or ‘service providers’
- Appointing and supporting the work of the SRC and other advisory groups
- Performing the functions of the Market Administrator
- Maintaining the register of industry participants
- Granting individual exemptions to the Code where justified³
- Providing education and developing guidelines or model arrangements to improve knowledge across the market
- Investigating and resolving alleged undesirable trading situations.

Transpower is responsible for scheduling and dispatching electricity in a manner that maintains frequency and voltage fluctuations within specified ranges. Its System Operator contract includes meeting all relevant requirements of the Code and regulations.

Operation of the wholesale and retail markets is delivered through the management of contracts with NZX Limited (Clearing and Settlement, Pricing, Wholesale Information and Trading System, and Reconciliation) and Jade Limited (Registry), which include meeting all relevant requirements of the Code and regulations.

Performance measure	1 November 2010 – 30 June 2011 target	1 July 2011 – 30 June 2012 forecast	1 July 2012 – 30 June 2013 forecast
1. The System Operator meets the requirements of the Code (Principal Performance Obligations-PPOs), regulations and service provider contract.	Contract management and monitoring actions completed as appropriate*		
2. Operation of the wholesale and retail markets by the Clearing Manager, Pricing Manager, Wholesale Information and Trading Services, Reconciliation Manager and Registry meet the requirements of the Code, regulations and service provider contracts.	Contract management and monitoring actions completed as appropriate*		
3. The Security and Reliability Council is established and meets at least twice annually. (section 20)	Established by 31 March 2011	2 meetings a year	2 meetings a year

Note: * Contract management and monitoring actions include annual performance reviews, system audits, monitoring of service provider reports, and addressing significant issues, as necessary. The Authority also monitors maintenance of insurance certificates for wholesale and retail market service providers.

Market Development

The Authority develops market facilitation measures (voluntary) and the Code relating to the electricity sector. It may also advise the Minister of Energy and Resources on changes to statutory regulations and statutory provisions. Market development work is undertaken by the Authority in conjunction with advisory groups comprising market participants and consumer representatives, including substantial consultation with stakeholders. Deliverables include:

- Developing and amending the Code and market facilitation measures to improve the performance of the electricity industry. The Authority’s highest priority is the ‘new matters’ in section 42(2) of the Act, and the board will be focussing on completion of Code changes by 1 November 2011, where possible. The ‘new matters’ are:
 - (a) Provision of compensation by retailers to consumers during public conservation campaigns.
 - (b) Imposing a floor or floors on spot prices for electricity in the wholesale market during supply emergencies (including public conservation campaigns).
 - (c) Mechanisms to help wholesale market participants manage price risks caused by constraints

³ Class exemptions are made by Order in Council on the recommendation of the Minister (section 110 of the Act).

- on the national grid.
- (d) Mechanisms to allow participants who buy electricity on the wholesale market (commonly called the demand-side) to benefit from demand reductions.
 - (e) Requirements for distributors that do not send accounts to consumers directly to use more standardised tariff structures.
 - (f) Requirements for all distributors to use more standardised use-of-system agreements, and for those use-of-system agreements to include provisions indemnifying retailers in respect of liability under the Consumers Guarantees Act 1993 for breaches of acceptable quality of supply, where those breaches were caused by faults on a distributor's network.
 - (g) Facilitating, or providing for, an active market for trading financial hedge contracts for electricity.
- Priority is also being given to completing key Code development and market facilitation initiatives begun by the Electricity Commission
 - Overseeing service provider implementation of Code amendments.

Performance measure	1 November 2010 – 30 June 2011 target	1 July 2011 – 30 June 2012 forecast	1 July 2012 – 30 June 2013 forecast
4. Complete Code changes for new matters in section 42(2) of the Act, where appropriate and possible, or report to the Minister on why the matters have not been addressed in the Code	Publish quarterly updates On track for completion of Code changes or report to Minister by 1 November 2011	Code changes completed or report provided to the Minister by 1 November 2011	NA
5. Publish a consultation charter relating to Code change processes. (section 41)	Draft consulted on Charter published		
6. Publish an advisory group charter. (section 19)	Draft consulted on Charter published		
7. The number of successful legal challenges to the Electricity Authority's exercise of statutory functions.	No successful legal challenges	No successful legal challenges	No successful legal challenges

Compliance

The Authority is responsible for:

- Monitoring compliance with the Act, the Code and regulations
- Investigating and enforcing compliance with Parts 2-4 of the Act, the Code and regulations⁴.

Performance measure	1 November 2010 – 30 June 2011 target	1 July 2011 – 30 June 2012 forecast	1 July 2012 – 30 June 2013 forecast
8. The number of Act, Code and regulation breach notifications closed	100-130	150-200	150-200
9. The percentage of notifications of alleged breaches completed within three months of notification	70%	70%	70%

⁴ Some restrictions on lines businesses, previously contained in the Electricity Industry Reform Act, are replaced by Part 3 of the Electricity Industry Act. Exemption applications under the Act provisions are to be assessed by the Authority. Previously Electricity Industry Reform Act exemptions were assessed by the Commerce Commission.

Performance measure	1 November 2010 – 30 June 2011 target	1 July 2011 – 30 June 2012 forecast	1 July 2012 – 30 June 2013 forecast
10. The percentage of notifications of alleged breaches completed within six months of notification	85%	85%	85%

Industry Monitoring and Information

The Authority collects and publishes wide-ranging information to facilitate the efficient operation of the electricity system and markets, which may include:

- Monitoring the competitiveness, reliability, and efficiency of the electricity industry to identify areas for further Code development, publishing relevant reports, and undertaking any reviews requested by the Minister under section 18 of the Act
- Providing information to the market, ranging from real-time through to time-series analysis
- Monitoring the implementation of voluntary arrangements, model agreements and guidelines.

Performance measure	1 November 2010 – 30 June 2011 target	1 July 2011 – 30 June 2012 forecast	1 July 2012 – 30 June 2013 forecast
11. Authority monitoring function implemented and monitoring approach published.	31 December 2010		
12. Annual assessment of market performance published.	30 June 2011	30 June 2012	30 June 2013

Security of Supply Governance

The Authority is required to provide an overview of the state of security of supply, in accordance with the Code. Functions include:

- Reviewing and extending the security of supply standards (in Part 7 of the Code)
- Approving/declining security of supply policies and plans proposed by the System Operator (Parts 7 and 9 of the Code)
- Carrying out responsibilities for supply shortage declarations, if needed (Part 9 of the Code).

Performance measure	1 November 2010 – 30 June 2011 target	1 July 2011 – 30 June 2012 forecast	1 July 2012 – 30 June 2013 forecast
13. Review the security of supply standards, including adding a summer capacity standard.	Summer capacity standard completed	Potential addition of winter capacity standard	

Promoting and Facilitating Customer Switching Output Class

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

The Authority will coordinate its work, as appropriate, with the Ministry of Consumer Affairs (MCA), which is responsible for upgrading the capability of Consumer New Zealand's Powerswitch website and promoting and facilitating the use of the website to consumers.

Performance measure	1 November 2010 – 30 June 2011 target	1 July 2011 – 30 June 2012 forecast	1 July 2012 – 30 June 2013 forecast
14. Joint customer switching fund strategy agreed with the MCA.	By 31 December 2010		
15. Request for proposals process completed and contracts awarded for initial programme delivery.	31 March 2011	Ongoing programme delivery	Ongoing programme delivery

Reserve Energy and Emergency Measures—Availability Costs Output Class

This is a residual function, to ensure the availability of Whirinaki is delivered until the Crown divests the power station as announced in the Ministerial Review.

Performance measure	2010/11 target
16. Whirinaki power station availability is delivered in accordance with the contract.	Contract management and monitoring actions completed as appropriate *

Note: * Contract management and monitoring actions include system audits, monitoring of monthly reports, approval/decline of requests in accordance with the contract, and completion of the annual review.

Reserve Energy and Emergency Measures—Variable Costs Output Class

This appropriation will cover two main functions:

- The net variable operating costs of the Whirinaki reserve energy plant, including fuel, until the Crown divests ownership
- Implementation of emergency measures if required, including meeting the costs of the System Operator running an emergency conservation campaign.

Performance measure	2010/11 target
17. Whirinaki power station generation is delivered in accordance with the contract.	Contract management and monitoring actions completed as appropriate *

Note: * Contract management and monitoring actions include system audits, monitoring of monthly reports, approval/decline of requests in accordance with the contract, and completion of the annual review.

Quality Standard

Impeccably presented documents reflect the quality of decisions made and form the basis for communicating with the Authority's stakeholders and service providers.

The Authority has a policy standard that requires that all reports must include a logical statement of the issue; clear definitions; assessment of the options; relevant information including the results of consultation; conclusions reached; recommendations based on the evidence; and meet all other appropriate requirements. Articles for publication are also reviewed to ensure they are appropriately pitched to the intended audience.

Performance measure	1 November 2010 – 30 June 2011 target	1 July 2011 – 30 June 2012 forecast	1 July 2012 – 30 June 2013 forecast
18. Publications and reports for all output classes meet the quality standard (aggregate result).	100%	100%	100%

Part Three—Prospective Financial Statements

The Crown Entities Act 2004 requires prospective financial statements to be presented in the SOI. 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.

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 public benefit entity, as defined under NZIAS 1 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 Generally Accepted Accounting Practice (GAAP) in New Zealand, adopting the New Zealand equivalents to International Financial Reporting Standards (NZIFRS) and its interpretations approved by the Accounting Standards Review Board.

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.

These prospective financial statements comply with FRS42.

Statement of Significant Assumptions

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

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.

Prospective Statement of Comprehensive Income

	Note	Budget 2010/11 \$000	Forecast 2011/12 \$000	Forecast 2012/13 \$000
		<i>(8 months)</i>		
Crown appropriations	1	56,119	72,724	67,158
Whirinaki spot revenue ⁵		-	-	-
Interest income		133	360	360
Other income		-	-	-
Total income		56,252	73,084	67,518
Employee benefits	3	4,616	7,042	7,181
Depreciation and amortisation		1,377	2,252	2,367
Finance costs		-	-	-
Other expenses	2	50,126	63,430	57,610
Total expenditure		56,119	72,724	67,158
Surplus/(deficit) for the year		133	360	360
Other comprehensive income		-	-	-
Total comprehensive income for the year		133	360	360

Prospective Statement of Movements in Equity

	Note	Budget 2010/11 \$000	Forecast 2011/12 \$000	Forecast 2012/13 \$000
Opening balance at 1 November		9,000	9,133	9,493
Comprehensive income by appropriation				
Electricity industry governance and market operations		133	360	360
Reserve energy and emergency measures – availability costs		-	-	-
Reserve energy and emergency measures – variable costs		-	-	-
Promote and facilitate customer switching		-	-	-
Electricity litigation fund		-	-	-
Total comprehensive income		133	360	360
Closing balance at 30 June		9,133	9,493	9,853

⁵ Spot revenue is earned when the Whirinaki power station generates electricity. Whirinaki only generates electricity under specific conditions that may or may not occur. Due to the unpredictable nature of its operation, these figures are not able to be estimated with any degree of certainty. For this reason they are not included in the forecast financial statements.

Prospective Statement of Financial Position

	Note	Opening 1 Nov 2010 \$000	Budget 2010/11 \$000	Forecast 2011/12 \$000	Forecast 2012/13 \$000
Taxpayers' funds		9,000	9,133	9,493	9,853
Assets					
<i>Current assets</i>					
Cash and cash equivalents		15,668	10,509	10,485	12,077
Receivables and prepayments		-	-	-	-
		15,668	10,509	10,485	12,077
<i>Non-current assets</i>					
Property, plant and equipment	4	963	992	865	719
Intangible assets	5	8,198	7,934	6,901	5,772
		9,161	8,926	7,766	6,491
Total assets		24,829	19,435	18,251	18,568
Liabilities					
<i>Current liabilities</i>					
Payables and accruals		9,500	9,500	8,000	8,000
Employee benefits		600	609	619	631
Refund of appropriation to the Crown		5,000	-	-	-
Distribution of net spot revenue to levy		500	-	-	-
Other provisions		229	193	139	84
		15,829	10,302	8,758	8,715
Total liabilities		15,829	10,302	8,758	8,715
Net assets employed		9,000	9,133	9,493	9,853

Prospective Statement of Cash Flows

	Note	Budget 2010/11 \$000	Forecast 2011/12 \$000	Forecast 2012/13 \$000
		<i>(8 months)</i>		
Cash flows from operating activities				
Receipts from the Crown		56,119	72,724	67,158
Repayment of surplus receipts to the Crown		(5,000)	-	-
Interest received from investments		133	360	360
Receipts from Whirinaki spot revenue		-	-	-
Distribution of Whirinaki spot revenue to levy payers		(500)	-	-
Payments to suppliers		(50,162)	(64,984)	(57,665)
Payments to employees		(4,606)	(7,032)	(7,169)
Net cash flows from operating activities		(4,016)	1,068	2,684
Cash flows from investing activities				
Acquisition of property, plant and equipment		(288)	(292)	(292)
Acquisition of intangibles		(855)	(800)	(800)
Net cash flows from investing activities		(1,143)	(1,092)	(1,092)
Net increase/(decrease) in cash and cash equivalents		(5,159)	(24)	1,592
Cash and cash equivalents at beginning of year		15,668	10,509	10,485
Cash and cash equivalents at end of year		10,509	10,485	12,077

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

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 income.

(b) Property, Plant, and Equipment

Classes of Property, Plant and Equipment

The major classes of property, plant, and equipment are as follows:

- 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 plant and equipment is disposed of, the gain or loss recognised in the statement of comprehensive income is calculated as the difference between the net sale price and the carrying amount of the asset.

Leased Assets

Leases where the Authority assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

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 with the item will flow to the Authority. All other costs are recognised in the statement of comprehensive income as an expense as incurred.

Depreciation

Depreciation is charged to the statement of comprehensive income 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	3–8 years	12.5%–33%

(d) Receivables and Prepayment

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 and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(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 income.

(g) Employee Benefits

Defined Contribution Plans

Obligations for contributions to defined contribution plans are recognised as an expense in the statement of comprehensive income as incurred.

Long Service Leave

The Authority's net obligation for long service leave is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and discounted to its present value. The discount rate is the market yield on relevant New Zealand government bonds at the balance sheet date.

Annual Leave

Annual leave is a short-term obligation calculated based on the actual amount the Authority expects to pay.

Sick Leave

The Authority provides for accumulating sick leave to the extent that it is probable that the employees will take more than their future annual entitlements. The calculation of the provision for sick leave is based on historical payroll information, using remuneration rates current as at the reporting date to measure the liability.

(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 1994 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.

(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.

Whirinaki Spot Revenue

The Authority earns spot revenue from the sale of electricity generated by the Whirinaki power station. This revenue is recognised when earned and is reported in the financial period to which it relates.

Interest Income

Interest income is recognised in the income statement as it accrues, using the effective interest method.

Other Revenue

Other revenue is for services provided to third parties. Such revenue is recognised when earned and is reported in the financial period to which it relates.

(m) Expenses**Operating Lease Payments**

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

Changes in Accounting Policies

There have been no changes to accounting policies.

Notes to the Financial Statements

1 Crown Appropriations

	Budget 2010/11 \$000	Forecast 2011/12 \$000	Forecast 2012/13 \$000
	<i>(8 months)</i>		
Electricity industry governance and market operations	38,181	62,535	63,214
Reserve energy and emergency measures— availability costs ⁶	16,142	6,245	-
Reserve energy and emergency measures— variable costs ⁷	-	-	-
Promote and facilitate customer switching	1,500	3,500	3,500
Electricity litigation fund	296	444	444
	56,119	72,724	67,158

2 Other Expenses

	Budget 2010/11 \$000	Forecast 2011/12 \$000	Forecast 2012/13 \$000
	<i>(8 months)</i>		
Service provider contracts	24,639	41,257	42,133
Whirinaki contract	15,709	6,245	-
Whirinaki fuel costs ⁸	-	-	-
External advice	5,579	8,373	7,922
Customer switching	1,500	3,500	3,500
Audit fees	40	40	40
Auditor fees for other services	10	10	10
Advisory and working group fees	106	158	158
Authority members' fees	363	545	545
Rulings Panel fees	91	137	137
Operating lease expenses	406	640	640
Travel expenses	103	155	155
Other operating expenses	1,580	2,370	2,370
	50,126	63,430	57,610

⁶ *Reserve energy and emergency measures—availability costs* is an annual appropriation to fund the availability of reserve energy if security of supply is at risk. Costs forecast under this appropriation are primarily to maintain the Whirinaki power station on standby for the generation of reserve energy. Section 127 of the Electricity Industry Act 2010 provides for the termination of the Whirinaki contract by the Minister at any time before its termination date by notice in writing to the Authority. While a termination date has not yet been set, the forecast provides for costs up to 30 September 2011.

⁷ *Reserve energy and emergency measures—variable costs* is a multi-year appropriation to cover the cost of fuel for Whirinaki and the purchase of load reduction during periods of supply risk. A nil forecast is presented in the prospective statement of comprehensive performance because spot revenue earned from the sale of electricity generated by Whirinaki is likely to exceed the cost of fuel, and forecasting for any other outcome is unreliable due to the unpredictable nature and magnitude of load purchasing.

⁸ Whirinaki fuel costs arise when electricity is generated. The Whirinaki power station only generates electricity under specific conditions that may or may not occur. Due to the unpredictable nature of its operation, these figures are not able to be estimated with any degree of certainty. For this reason they are not included in the forecast financial statements.

3 Employee Benefits	Budget 2010/11 \$000	Forecast 2011/12 \$000	Forecast 2012/13 \$000
	<i>(8 months)</i>		
Salaries and wages	4,477	6,849	6,986
Contributions to defined contribution plans	130	183	183
Increase/(decrease) in employee benefit provisions	9	10	12
	4,616	7,042	7,181

4 Property, Plant and Equipment	Budget 2010/11 \$000	Forecast 2011/12 \$000	Forecast 2012/13 \$000
	<i>(8 months)</i>		
Computer hardware	80	59	49
Computer hardware (service provider)	588	580	534
Office equipment	61	43	29
Furniture and fittings	30	23	19
Leasehold improvements	233	160	88
Net book value at 30 June	992	865	719

5 Intangible Assets	Budget 2010/11 \$000	Forecast 2011/12 \$000	Forecast 2012/13 \$000
	<i>(8 months)</i>		
Software	761	585	406
Software (service provider)	7,173	6,316	5,366
Net book value at 30 June	7,934	6,901	5,772

Part four—Organisational Information

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

Authority Members

The Authority is made up of between five and seven members appointed by the Governor-General. Members hold office for a term of up to five years and may be reappointed. Members' fees are funded from the levy on the electricity industry, which also funds the Authority's operations.

Authority members are: Dr Brent Layton (Chair), Susan Paterson, Elena Trout (appointed for terms of five years), and David Bull and Roger Sowry (appointed for terms of 18 months).

Rulings Panel

The Governor-General appoints the members of the Rulings Panel (the industry dispute resolution and disciplinary body established under the Electricity Governance Regulations 2003) and is responsible for its funding. The Act carries over the former Rulings Panel membership (section 23).

The Rulings Panel members are: Gael Webster (Chair), Peter Dengate Thrush (Deputy Chair), Craig Taylor, John Isles, and John O'Sullivan.

Security and Reliability Council

The Authority is to set up the Security and Reliability Council. A draft terms of reference has been prepared and released for consultation.

Advisory Groups

The Authority expects to establish standing Advisory Groups under section 21 of the Act to provide consumer, industry and expert input into its market development work. The Authority will make final decisions on these matters after consulting interested parties on a draft Advisory Group charter.

In the interim the Authority will continue with many of the advisory and technical groups established by the Electricity Commission, under transitional terms of references.

Organisational Health and Capability

The Authority values its staff and is committed to providing a work environment that allows employees to achieve their full potential.

Work standards at the Authority are high in keeping with the magnitude of the issues. Employees must meet required standards in both work ethic and workplace behaviour.

Monitoring of policies and procedures that reinforce the Authority's goal to comply with good employer obligations is ongoing.

Organisational Structure

The Authority is currently reviewing the structure inherited from the Electricity Commission to align it with the needs of the Authority. As the Authority has a heavy work programme ahead of it, particularly in relation to achieving the requirements of section 42 of the Act, the review is not intended to result in redundancies.

Staff Retention and Recruitment

The Authority is aware of the need to retain staff as well as to provide an inviting work environment. The focus is on maintaining a culture of excellence, mutual respect, enthusiasm and personal development.

Recognising the importance of a healthy work/life balance, the Authority also provides a staff support package encouraging an awareness of health and fitness issues. Regular reviews will ensure ongoing relevance.

Employee Development

The Authority encourages personal development within staffing roles, including potential moves within the organisation. Leadership development is a priority for the management team, along with formalised development plans for all staff and succession planning.

Business and Information Systems

Out-sourcing the management of the Authority's desktop and server environment is proving worthwhile.

Risk Management

A risk policy and regularly updated risk register are in place. Recorded mitigation actions are monitored by the Chief Financial Officer, Chief Executive and the Audit and Risk Audit Committee.

The Authority's business continuity plan contains guidance for staff, including specific steps to be taken in the event of a pandemic or other major event.

Communication and Stakeholder Relationships

The Authority greatly relies on its ongoing relationship with companies in the electricity industry for feedback on suggested improvements to the operation of the New Zealand electricity market.

Value-for-Money of the Authority's Work

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

- Appropriation consultation—planned work priorities and appropriations are scrutinised through public consultation in accordance with section 129 of the Electricity Industry Act 2010.
- Assessment of proposed Code changes—benefits and costs of proposed Code changes are scrutinised through public consultation in accordance with the Authority's consultation charter, once published.

Performance Improvement Actions

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

Completing a Review of Performance Information

Developing an effective performance framework that is informative for stakeholders and useful for decision-making is a challenge across all public sector agencies. This framework is a key priority for 2010/2011.

Careful consideration will be given to the information to be included in the 2011–2014 SOI, addressing in particular:

- The Authority's vision and values
- High-level outcome indicators to monitor the competition, reliability and efficiency dimensions of the Authority objective

- Impact indicators that seek to monitor the direct impact of the Authority's work
- Output performance measures
- Performance improvement actions.

Authority Planning and Reporting

Section 141(g) of the Crown Entities Act 2004 requires the SOI to include certain matters as follows:

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

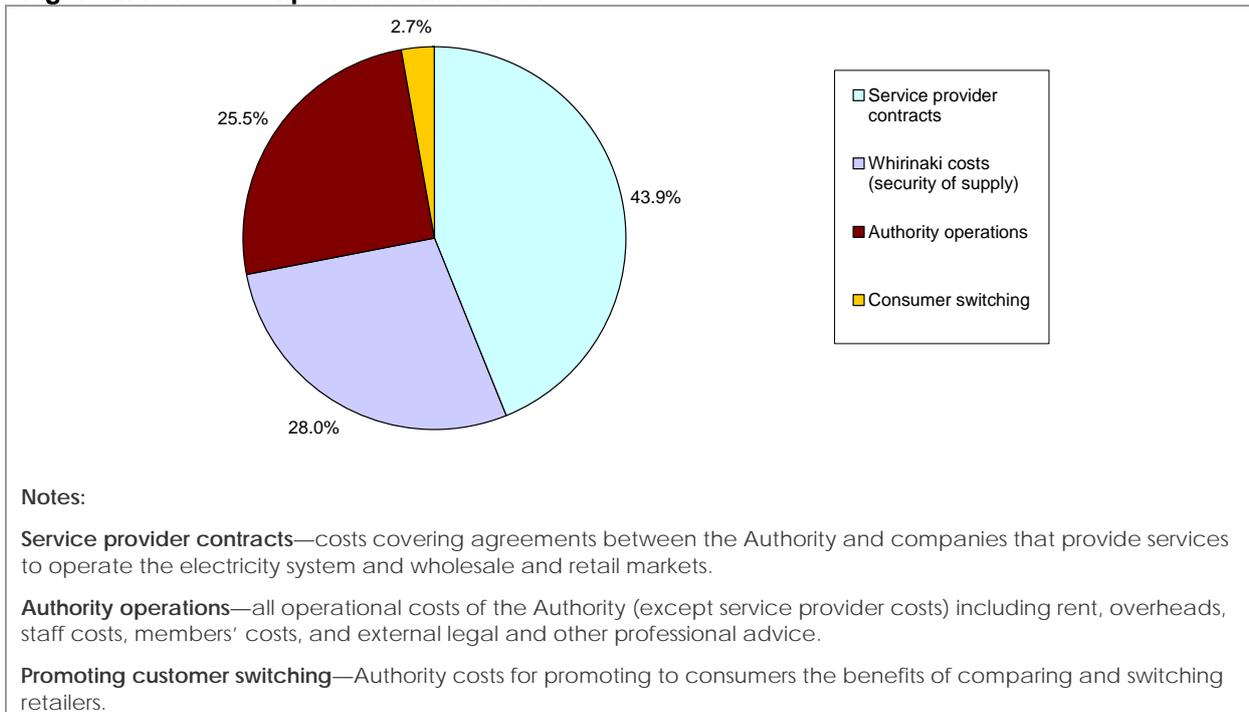
The Authority prepares an Annual Report in accordance with section 150 of the Crown Entities Act 2004.

Electricity Authority Funding and Levy

Expenditure

The Authority is funded by appropriations from Parliament under Vote Energy, which cover all services and activities. Figure 2 shows the broad areas of the Authority’s planned expenditure for 2010/2011. Note that expenditure by EECA and MCA is not included in the figure 2, but their levy funding is included in figure 3.

Figure 2: Forecast expenditure 2010/2011

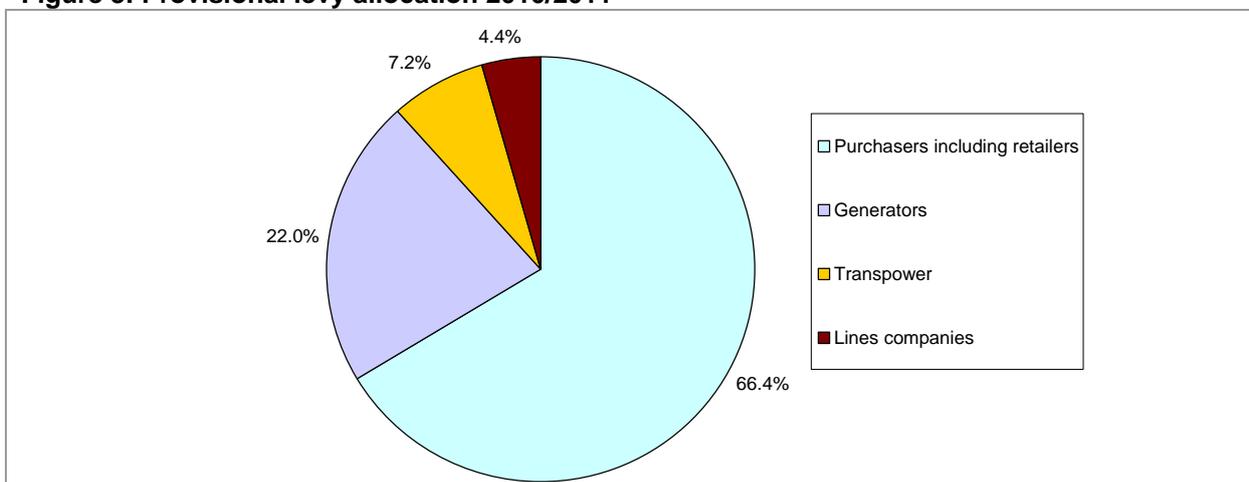


Levy Allocation

The Crown is reimbursed for the cost of the Authority by way of a levy on the electricity industry, collected by the Authority on its behalf, with amounts paid directly related to the volume of activity of individual electricity companies. Provisional allocation of the levy to electricity industry sectors is shown in figure 3.

Note that levy funding for EECA and MCA is included in the graph.

Figure 3: Provisional levy allocation 2010/2011



Service Providers

Contracts and Reports

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

For more on service provider contracts, which include detailed performance specifications, and reports, see www.ea.govt.nz

Service Provider Roles

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

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

The **Wholesale Information and Trading System (WITS)** is the software system used to transfer information among participants, as required by the Code, especially the uploading of bids and offers.

The **Pricing Manager** calculates and publishes final prices, which are used by the Clearing Manager to calculate invoices.

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

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

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

Contribution to Development Work

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

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