



2021/22 and 2022/23 Levy-funded Appropriations

Ngā tahua kua utua e ngā moni

Consultation paper

Pepa whakawhitiwhitinga

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Executive summary

Whakarāpopototanga whakahaere

Scope of consultation

This consultation paper sets out and seeks feedback on the Electricity Authority's (the Authority) appropriations for the:

- 2021/22 Electricity Industry Governance and Market Operations appropriation
- 2021/22 Electricity Litigation Fund appropriation
- forthcoming 2022/23 financial year.

Our refined Statement of Intent (SOI) sets out our strategic framework and reflects our long-term strategic intentions for the next four years. This includes our integrated framework (figure one) which highlights our five strategic ambitions for the sector that guide the prioritisation of our work. The ambitions provide focus in both achieving our statutory objective and our purpose – creating wider long-term benefit for New Zealand. We will focus on these five key ambitions to ensure the work we do achieves measurable results.

Refined Statement of Intent 2021–2025

As the kaitiaki of electricity, the Authority's purpose is to enhance New Zealanders' lives, prosperity, and environment through electricity. We use our position to make positive changes that enable investment in the sector, all the while ensuring a level playing field. We also provide a stable regulatory regime and allow the market to grow with minimal reactionary interventions.

The Authority is a strategy-led organisation that takes a proactive, forward-looking regulatory approach to match the pace of change and help innovation flourish. Our strategic goals are intentionally ambitious as they represent our aspirations for the sector in the future. They include:

- **consumer centricity** that guides regulation and the industry
- supporting **low-emissions energy** to electrify the economy

- building all stakeholders' **trust and confidence** in the industry
- **thriving competition** across the system
- supporting **innovation**.

The Authority refined the way it measures progress against these ambitions in the SOI 2021–2025. Our updated survey-based outcome measures in the SOI also enable us to better understand the Authority's performance against our statutory objective. In the refined SOI, we aim to provide a more holistic view of how our statutory objective and strategic ambitions link and crossover, and where the measures for our statutory objective feed into our strategic ambitions.

Responding to change in the interests of consumers

The external context in which the electricity industry operates is changing, impacting the operations and priorities of the Authority as kaitiaki of electricity. In June 2021, the Climate Change Commission published its final advice on *a low emissions future for Aotearoa*.

This advice represents a defining moment for New Zealand, setting out a blueprint for how our country can transition to a low-emissions economy that serves New Zealanders for many generations to come.

The Authority recognises the transformation of the energy sector is critical to the transition, and the electricity sector has a significant role to play. Our interest is to ensure the transition happens efficiently, and, critically, that security of supply is maintained as New Zealand's energy system evolves.

The Commission's vision requires the electricity industry to deliver access to "abundant, affordable, and reliable low-emissions electricity." This vision aligns well with our own organisational purpose. The transformation must take place at a rate faster than has been achieved before in New Zealand.

This year was challenging and uncertain as we navigated through dry year risk due to low lake levels, gas supply constraints and little wind. While the system reacted as intended, the situation was serious and required a cross-agency, full industry response to secure continued supply.

During the year the Authority provided in-depth analysis and commentary and progressed/delivered key wholesale market enhancement projects to address concerns around the efficiency of the electricity system and its ability to meet consumer demand in the face of constrained energy supply and dry year risk. It is expected that further work will be completed in response to the investigations and reviews the Authority is undertaking.

The Government's aspirational targets of 100 percent renewable electricity generation by 2030 and net zero emissions of long-lived greenhouse gases by 2050 demand an unprecedented pace and extent of change. The Authority will work to ensure reliability of supply throughout this transition.

The impacts on participants and consumers are front of mind for the Authority as we navigate these new opportunities, and the challenges and benefits they bring. The Authority is focusing on key areas that we consider will deliver the most benefit for consumers and for the system as a whole to ensure that the industry remains flexible, and that New Zealand maintains a supportive and stable investment environment, with robust rules and clear price signals.

An increase in funding through the Electricity Industry Governance and Market Operations appropriation is required to enable us to respond to the recommendations in the Climate Change Commission's report, and at the pace required. We are confident that the appropriations proposed in this consultation paper will enable us to undertake our functions; support us to deliver against the agreed sector ambitions and contribute to long-term benefits for consumers.

Proposed appropriations

The Crown funds us through appropriations of public money. The Crown recovers the cost of this funding, up to the level of actual expenditure incurred, through a levy on electricity industry participants. The proposed appropriations for 2021/22 and 2022/23 are outlined in table one.

Electricity Industry Governance and Market Operations

The Authority's main operational appropriation is the Electricity Industry Governance and Market Operations appropriation.

2021/22 – An additional \$2.000 million is being requested for 2021/22. The \$2.000 million sought is to cover additional costs associated with the 9 August event, implementation of trading conduct rules, and the wholesale market competition review. The additional \$2.000 million brings the total 2021/22 appropriation to \$83.757 million. Further detail is provided in section three.

2022/23 – An additional \$2.000 million is being requested for 2022/23, which would be a permanent increase to the baseline and outyears. The appropriation has remained relatively stable over the past ten years. The majority of this appropriation is used to fund the operation of the electricity system and market, with the remainder used to fund the Authority's operations. The additional \$2.000 million is required to fund costs associated with organisational capability and moving to a commercial IT Service Management (ITSM) arrangement and brings the total 2022/23 appropriation to \$94.397 million. Further detail is provided in section three.

Real-time pricing

In February 2019, Cabinet Economic Development Committee approved funding to implement real-time pricing (RTP). The Authority's operational appropriation has increased by at least \$3.000 million per year from 2021/22 and outyears. We are not seeking feedback on RTP in the consultation process.

Contingent appropriations

The Authority has two appropriations that are contingent in nature:

- Electricity Litigation Fund
- Managing the Security of New Zealand's Electricity Supply

We do not incur expenditure against these appropriations as part of our normal operations, however they allow us to respond quickly and effectively should certain events or situations arise.

Electricity Litigation Fund

2021/22 – The Authority proposes the Electricity Litigation Fund be increased in 2021/22 by \$1.000 million. This is to cover litigation currently underway and to ensure that the Authority can respond to litigation effectively and without delay in the future.

The increase of \$1.000 million will bring the total appropriation to \$1.500 million. Further details provided in section five.

2022/23 – The Authority proposes the Electricity Litigation Fund for 2022/23 remains at \$1.500 million.

Managing the Security of New Zealand's Electricity Supply

2022/23 – No changes are proposed to the five-year Managing the Security of New Zealand's Electricity Supply appropriation of \$6.000 million. The Authority will request a new multi-year appropriation of \$6.000 million for the period 1 July 2022 to 30 June 2027. It will remain contingent in nature and will not be drawn down on in the normal course of events.

Table One: Summary of proposed appropriations

Electricity Authority	Appropriation 2021/22	Proposed appropriation 2021/22	\$ million
			Proposed appropriation 2022/23
Operational appropriation			
Electricity Industry Governance and Market Operations	74.936	74.936	74.936
Real-time pricing project	3.221	3.221	3.061
Market-making scheme	-	3.600	14.400
Additional increase	-	2.000	2.000
Total operational appropriation	78.157*	83.757**	94.397***
Contingent appropriations			
Managing the Security of New Zealand's Electricity Supply (1 July 2017 to 30 June 2022)	6.000 over five years	6.000 over five years	
Managing the Security of New Zealand's Electricity Supply (1 July 2022 to 30 June 2027)			6.000 over five years
Electricity Litigation Fund	0.500	1.500****	1.500****

*An in-principle expense transfer of up to \$2.000 million from 2020/21 to 2021/22 was approved and will be confirmed in the October 2021 baseline update

**We are seeking an increase of \$2.000 million in 2021/22 to cover increased costs associated with the 9 August event, implementation of trading conduct rules and wholesale market competition review

***We are seeking an increase of \$2.000 million in 2022/23 to cover increased costs associated with organisational capability and IT services

****We are seeking an increase of \$1.000 million in 2021/22 and 2022/23 to cover increased costs associated with litigation currently underway

1 What you need to know to make a submission

Tāu e hiahia ana kia mōhio koe ki te tuku tukunga

What this consultation paper is about

- 1.1 We welcome and request submissions on our proposal for additional funding for the Electricity Industry Governance and Market Operations and the Electricity Litigation Fund appropriations for the current 2021/22 financial year.
- 1.2 We welcome and request submissions on our proposed appropriations for the 2022/23 financial year, which covers the period 1 July 2022 to 30 June 2023.
- 1.3 This consultation paper contains information about each of our three appropriations. We are required to consult on our proposed appropriations under section 129 of the Electricity Industry Act 2010 (the Act). The legal context for this consultation is set out in Appendix A.
- 1.4 Consultation on this paper starts on 26 October 2021 and closes at 5pm on 30 November 2021.

Why we're seeking your submissions

- 1.5 Submissions received on this consultation paper will inform our:
 - increase to the 2021/22 Electricity Industry Governance and Market Operations appropriation and Electricity Litigation Fund appropriation request to the Minister
 - upcoming 2022/23 financial year appropriations request to the Minister
 - 2022/23 Statement of Performance Expectations (SPE).

How to make a submission

- 1.6 We are looking for specific feedback on our appropriations. We request submissions include a response to the consultation questions in section six.
- 1.7 You can email your submission to appropriations@ea.govt.nz with **"Consultation Paper – 2021/22 and 2022/23 Appropriations"** in the subject line.
- 1.8 If you cannot send your submission by email, please post it to:

Submissions
Electricity Authority
PO Box 10041
Wellington 6143
- 1.9 Please include your name on your submission. If you are submitting on behalf of an organisation/group, include the name of the organisation/group and your position.
- 1.10 All received submissions will be acknowledged on receipt.
- 1.11 We will publish all submissions on our website following the Budget 2022 announcement. If required, please indicate any information you wish to provide on a confidential basis and do not want published. The Authority is subject to the Official Information Act 1982 and this means we may be required to release information, unless there is a good reason to withhold it.

Submission deadline

1.12 The consultation period starts on 26 October 2021 and **all submissions must be received by 5pm on 30 November 2021.**

Next steps

1.13 We will consider all submissions before submitting our request for appropriations to the Minister of Energy and Resources in early 2022.

1.14 The approved appropriations will be announced by the Government on Budget Day, which is usually in May. This information will also be included in our SPE 2022/23, which will be published in mid-2022.

Authority contact

1.15 If you have any questions regarding the contents of this consultation paper or the submission process, please email us at appropriations@ea.govt.nz.

2 Introduction

Kupu Whakataki

2.1 This section outlines the strategic context of our work and the appropriations required to support this.

Our statutory objective

- 2.2 Our statutory objective is to promote competition in, reliable supply by, and the efficient operation of, the New Zealand electricity industry for the long-term benefit of consumers.
- 2.3 Our primary role is to regulate New Zealand's electricity system and markets, enforcing the rules, and holding industry participants to account through active monitoring and enforcement. Where required, we facilitate the development and enhancement of the markets to ensure their robustness and the delivery of long-term benefits to consumers.

Our strategic framework

- 2.4 Our 2021–2025 Statement of Intent (SOI) was finalised in June 2021. The SOI sets out our strategic framework, along with numerous measures and targets reflecting our long-term strategic intentions for the next four years.
- 2.5 Our integrated framework (figure one) – aligns to the tikanga-based values of kaitiakitanga (long-term sustainability), manaakitanga (social responsibility), whanaungatanga (social connections) and whairawa (thriving whānau) and sets out five strategic ambitions for the sector that guide the prioritisation of our work.

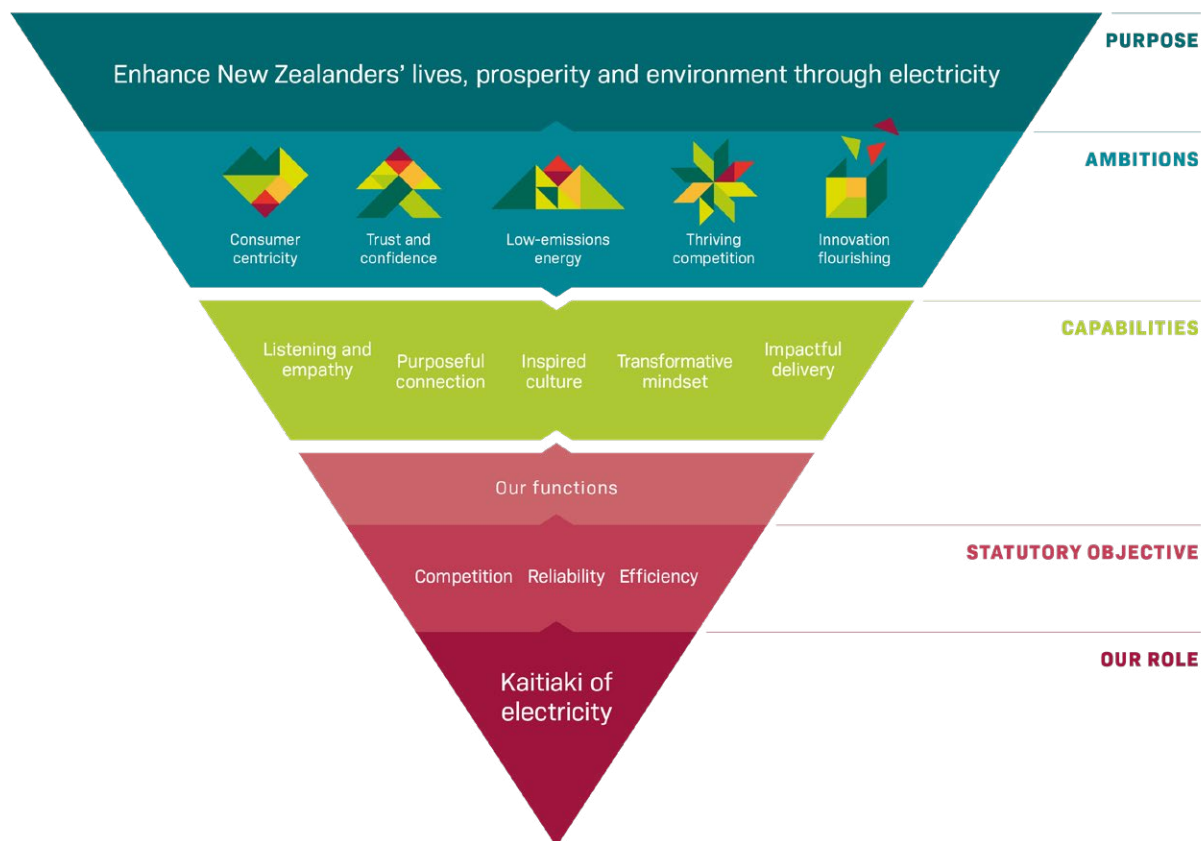
2.6 The five key interrelated sector ambitions focus us to ensure electricity regulation creates a platform for economic recovery, accelerating growth and wider long-term benefit for New Zealand:

- We want **low-emissions energy** to enable the transition to a low-emissions economy.
- We want **consumer centricity** to guide regulation and decision-making to be centred around consumer outcomes.
- We want to build **trust and confidence** in the industry for all stakeholders.
- We want to see **thriving competition** delivering a better energy future – driving progress, affordability, efficiency and valuable outcomes for New Zealand.
- We want to see **innovation flourishing** so we think beyond the status quo.

2.7 The ambitions provide focus in both the pursuit of our statutory objective and our strategic ambitions – ensuring we create wider long-term benefit for New Zealand. We will focus on these five key capabilities to ensure the work we do achieves measurable results and underpins our success.

2.8 The operational funding requested in the Electricity Industry Governance and Market Operations appropriation will help us to continue to achieve the above.

Figure One: Our Integrated Strategic Framework



Electricity industry context – challenges and opportunities

- 2.9 The Authority plays a critical role for all New Zealanders. We oversee the operation of the electricity system and markets, developing, setting and enforcing the rules the market must follow and holding industry to account by actively monitoring the market's behaviour and performance.
- 2.10 The Authority's purpose is to enhance New Zealanders' lives, prosperity and environment through electricity. The breadth of our purpose reflects the broader social and

economic framework in which we operate. As kaitiaki of electricity, we steward the electricity system on behalf of all New Zealanders.

- 2.11 Stewardship of the sector is even more critical as we steer through the next few years. Mass electrification, retirement of thermal generation, a volatile climate and a pandemic puts unprecedented pressure on the system. The Authority has a core role to ensure the system adapts and the lights stay on.

Navigating dry year risk while transitioning towards a low-emissions economy

- 2.12 While the New Zealand electricity system has successfully navigated periods of supply-side stress over the past decade, there is increasing uncertainty over the future of gas supply and the impact this may have on the electricity system.
- 2.13 This year we have experienced the impact of a La Niña weather pattern, highlighting our system's reliance on hydro generation. Low hydro inflows resulted in lower than average hydro storage levels leading into winter and, while the system is set up to respond, a combination of factors put extra pressure on the system.
- 2.14 Constrained gas deliverability, higher carbon prices and variable weather conditions will continue to be reflected in wholesale prices as the market responds to underlying supply conditions by using more expensive fuel options, and demand response, to manage security of supply.
- 2.15 The Authority will continue to work with officials from the Ministry of Business, Innovation and Employment (MBIE) and Transpower to support a coordinated and comprehensive response to managing security of supply.
- 2.16 A key focus for us over the coming years will be ensuring that New Zealand maintains a supportive and stable investment environment, with robust rules and clear price signals. We will also continue working to ensure new technologies play a key role in the sector's future. This will ensure the transition is as efficient as possible while maintaining energy security, system adaptability and affordability for consumers.
- 2.17 The Authority is undertaking work with the system operator to review the ongoing security, reliability and resilience of the system, and the Market Development Advisory Group is investigating market operation under a 100 percent renewable electricity system.

These pieces of work will complement work underway on the New Zealand Battery Project as parties seek certainty for investment and retirement decisions over the medium to long term. We will provide regular updates to officials to manage any potential overlaps and maximise opportunities to share information.

Energy sector capability and capacity to support New Zealand's energy transition

- 2.18 Electricity networks (transmission and distribution) have a critical role in supporting New Zealand's transition to a low-emissions energy system. With the transport and heat sectors electrifying, loads on the networks will increase materially, and it is critical that the long-lived investments made in response are efficient. Efficient infrastructure investment is a core component of our low-emissions energy strategy.
- 2.19 We are currently investigating how best to increase the pace of distribution network pricing reform, and continuing implementation of the new Transmission Pricing Methodology (TPM). This work is ongoing.
- 2.20 Distributed energy resources will have a significant role in providing alternatives to traditional network investment, and the rate at which these resources (and enabling technology) are invested in by consumers and other investors is set to increase rapidly over the coming decade. We want to ensure that competition for investment in, and operation of, these resources is able to thrive, and that the full benefits of these resources are able to be realised – not just for those consumers who own them, but also for those who do not. We will engage with MBIE, the Energy Efficiency & Conservation Authority (EECA) and the Commerce Commission as we continue delivery of this workstream.

Building trust and confidence in the sector

- 2.21 As kaitiaki of the electricity system, the Authority wants to drive a good compliance culture in the industry. To do so, we need the right rules, the right monitoring and the right consequences.
- 2.22 The Authority is focused on an uplift in monitoring capability and capacity, as well as an increased focus on education to support industry compliance. We are increasing resources in these areas and reviewing our strategy, processes and tools.
- 2.23 We have implemented new trading conduct rules which are supported by an increase in active monitoring and reporting of wholesale market behaviour.

Engaging with stakeholders and consumers

- 2.24 The Authority will continue to focus on improved stakeholder engagement. Our SOI 2021–2025 articulates our commitment to consumer centricity and identifies key capabilities required to deliver against our strategic ambitions including listening and empathy, purposeful connection, and impactful delivery.
- 2.25 Over the past year, the Authority has worked closely with consumer groups and industry on the development of the new consumer care guidelines, during which we adopted a consumer-centred design approach. The Authority has also developed and implemented a stakeholder engagement strategy to reinforce the importance of active engagement in regulatory design and to support staff to employ more deliberate and inclusive engagement practices.

Our appropriations

- 2.26 The Crown funds us through appropriations of public money. The Crown recovers the cost of this funding, up to the level of actual expenditure incurred, through a levy on industry participants.
- 2.27 Each year we prepare an appropriations request for the Minister, outlining the costs of performing our functions and exercising our powers and duties under the Act.
- 2.28 The appropriations request covers the three appropriations available to us:

Operational appropriation

- (a) The Electricity Industry Governance and Market Operations appropriation is our main operational appropriation; go to section three for more detail.

Contingent appropriations

We also have two appropriations that are contingent in nature. While we do not incur expenditure against these appropriations as part of our normal operations, they allow us to respond quickly and effectively should certain events or situations arise:

- (b) The Managing the Security of New Zealand's Electricity Supply appropriation; go to section four for more detail.
- (c) The Electricity Litigation Fund appropriation; go to section five for more detail.

3 Electricity Industry Governance and Market Operations appropriation

Te rangatiratanga o te hiko me ngā mahi māketē

3.1 The Electricity Industry Governance and Market Operations appropriation is our main operational appropriation.

What is intended to be achieved

3.2 This appropriation is intended to achieve the 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

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

Our functions under this appropriation

3.4 This appropriation funds our operations, and the operation of the electricity system and market, enabling us to exercise our four main functions:

- **Promote market development:** we promote development of the electricity markets by making amendments to the Code and through market facilitation measures.
- **Monitor, inform and educate:** we monitor market behaviour, make data, information and tools available, and educate consumers and participants.
- **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.
- **Enforce compliance:** we monitor, investigate and enforce compliance with the Act, relevant regulations, and the Code.

Appropriation funding

2021/22

3.5 For the current 2021/22 financial year, the Authority is requesting an increase of \$2.000 million to the Electricity Industry Governance and Market Operations appropriation to cover increased costs associated with:

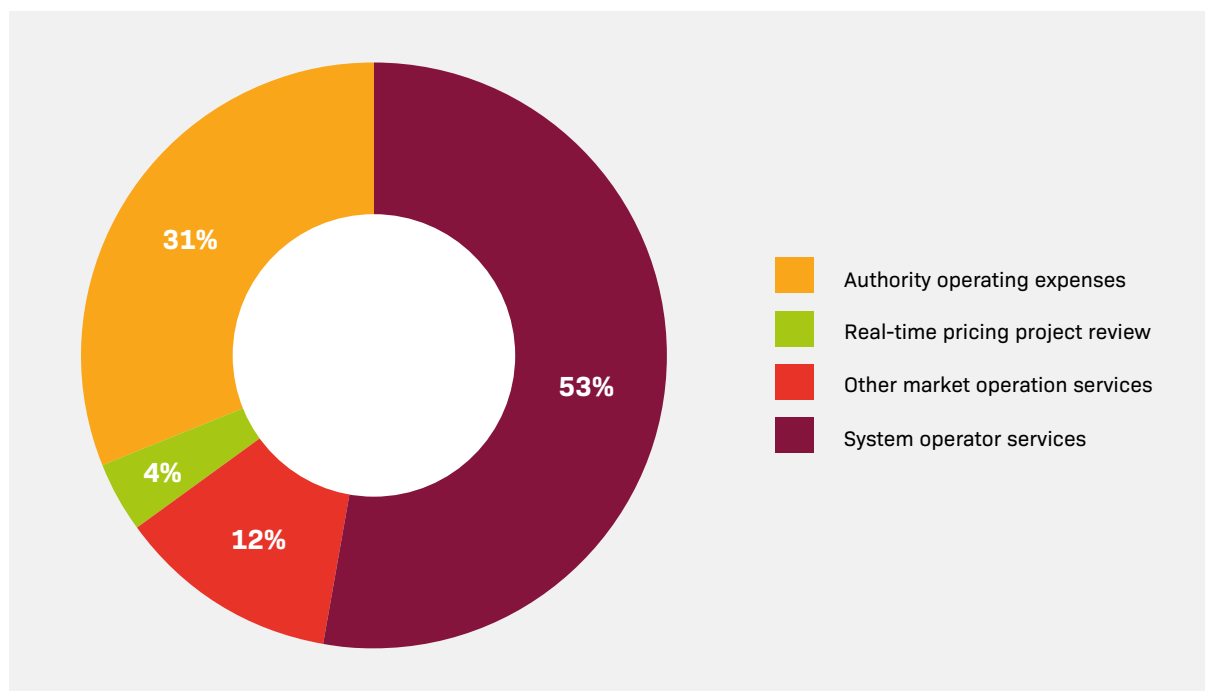
- August 9 event – on Monday 9 August 2021 approximately 34,350 customers across New Zealand experienced an electricity cut without warning. The Authority is using its statutory powers to conduct a two-phased review under section 16(1)(g) of the Act – the first phase sought to give immediate assurance (two weeks) while the second phase will be a broader review informed by findings of phase one. The Authority also received a claim of an undesirable trading situation (UTS) and alleged breaches of the Electricity Industry Participation Code 2010 (Code). The Authority has opened a UTS investigation in response to the claim. The Authority's Compliance team is considering the alleged breaches of the Code. In addition, the Authority continues to work with MBIE to support the investigation directed by the Minister of Energy and Resources, and the Authority is engaging with Transpower in relation to its internal review. All of these activities will require considerable resource and involve external support.

- Implementation of trading conduct rules – in June 2021 new trading conduct rules in the Code came into effect. The Authority is actively monitoring compliance with the new rules and already has focused resources on this. The volume of work involved in establishing new monitoring and considering potential breaches is significant. The Authority’s monitoring and compliance functions are undergoing a reset and uplift already, and this work, along with the implementation of the new rules, will require additional resources.
- Wholesale market competition review, next steps post public – the wholesale market competition review will require ongoing specialist support. This includes specialist commercial, economic regulation and external legal support for at least six months following release of the initial consultation documents in October 2021.
- the Market Development Advisory Group’s investigation of wholesale market operation under 100 percent renewables
- the multi-year work programme addressing future security and resilience of the power system (following phases one and two of this work in the 2021/22 year)
- other key issues that are likely to arise as we enter a period of transition to a low-emissions energy system.
- Organisational capability – the Authority is increasing its organisational capability to ensure optimal resourcing of staff in key areas to deliver on the Authority’s strategic ambitions. The Authority is seeking a critical balance between issue management and sector ambition, with a focus on regulatory certainty in the transition to a low-emissions economy.
- IT services – the Authority’s current IT Shared Services agreement is no longer fit for purpose. The Authority requires a change to an enforceable commercial arrangement with a provider specialising in supporting information technology in order to support impactful delivery. As a result, the Authority will require additional funding to support the move to cloud-based ICT infrastructure.

2022/23

- 3.6 The Electricity Industry Governance and Market Operations appropriation has remained relatively stable over the past ten years. To deliver our statutory functions and progress our statutory objective, we propose a permanent uplift of \$2.000 million to our baseline funding for this appropriation in 2022/23 and outyears.
- 3.7 The Authority is committed to delivering against its strategic ambitions through key initiatives and activities. We are anticipating efficiency gains in 2022/23 as a result of our refreshed strategy. This would result in a total operating expenditure of \$25.343 million.
- 3.8 The additional \$2.000 million requested in the 2022/23 appropriation is required for:
- Increased resourcing, in both internal expertise and external advice, to deliver the work that will be required in response to the multiple, significant reviews that the Authority is undertaking currently, including:
 - the review of the industry response to the 2021 dry hydro sequence and tight gas market
 - the review of the events of 9 August 2021
 - the wholesale market review
- 3.9 The majority of this appropriation is used to fund the operation of the electricity system and market, with the remainder used to fund the Authority’s operating expenses, as outlined in figure two.
- 3.10 Information on the year-on-year changes in the appropriation components is provided in the remainder of this section.

Figure Two: Proposed use of the Electricity Industry Governance and Market Operations appropriation 2022/23 (\$94.397 million)



Expenses relating to the system operator (Transpower)

- 3.11 The system operator is responsible for coordinating electricity supply and demand in real time in a manner that avoids undue fluctuations in frequency and voltage or disruption of supply.¹ Performing this role effectively and reliably requires ongoing investment to maintain and enhance the extensive infrastructure supporting the delivery of the services.
- 3.12 System operator expenses of up to \$42.149 million are provided for in the proposed 2022/23 appropriation. This covers the system operator’s operating costs and a recovery on the investments made in the assets that underpin the services delivered. The contractual arrangements for system operator costs are specified in the System Operator Service Provider Agreement (SOSPA).²
- 3.13 System operator operating expenses are anticipated to be \$0.509 million higher than 2021/22. Capital-related expenses are estimated to be the same, whilst providing sufficient capital for market design initiatives.

Expenses relating to market operation service providers

- 3.14 We contract a range of other market operation service providers to operate the electricity markets.³ Our focus is on creating fit-for-purpose market services that increase market efficiency, ensure effective market operation and facilitate market development.
- 3.15 The component of the proposed 2022/23 appropriation for other market operation service provider expenses is \$9.444 million. This is \$0.174 million higher than 2021/22 due to consumer price index (CPI) linked increases payable under the service provider contracts and higher amortisation expenses. The increase in amortisation expenses reflects investment in the systems that underpin the market operation service provider roles; to ensure the systems keep pace with technological change and continue to be fit-for-purpose. This includes improvements to the Registry manager to improve functionality and incorporate changes due to the switch process review; and development of the Financial Transmission Right (FTR) manager to support expected allocation plan changes.

¹ Further information on the role of the system operator is available on the Authority’s website at <http://www.ea.govt.nz/operations/market-operation-service-providers/system-operator/>

² The SOSPA is available on the Authority’s website at <http://www.ea.govt.nz/operations/market-operation-service-providers/system-operator/what-the-system-operator-does>

³ Information on market operation service providers is available on the Authority’s website at <http://www.ea.govt.nz/operations/market-operation-service-providers/>

Other expenses, market-making scheme

3.16 In June 2021, the market-making scheme for 2022/23 was subject to an out-of-cycle levy consultation.⁴ This consultation sought feedback on the amount of funding for the first year of the commercial scheme, which is spread between the 2021/22 (\$3.600 million) and 2022/23 (\$10.800 million) financial years.

3.17 On 27 September 2021, Cabinet was asked to approve an increase of \$3.600 million to the Authority's 2021/22 appropriation and to agree in principle to an increase of \$14.400 million to the Authority's 2022/23 appropriation and subsequent years.

3.18 Cabinet approved the 2021/22 market-making scheme and the subsequent 2022/23 market-making scheme, including subsequent years.

Appropriation breakdown

3.19 Table two sets out the main items of expenditure within the Electricity Industry Governance and Market Operations appropriation:

Table Two: Breakdown of proposed Electricity Industry Governance and Market Operations appropriation

Operational appropriation – Electricity Authority	Appropriation 2021/22	Proposed appropriation 2021/22	\$ million Proposed appropriation 2022/23
System operator – operating expenses	27.088	27.088	27.597
System operator – capital-related expenses	14.552	14.552	14.552
System operator expenses	41.639	41.639	42.149
Service provider – clearing manager	2.795	2.795	2.847
Service provider – wholesale information and trading system (WITS)	1.838	1.838	1.873
Service provider – pricing manager	0.781	0.781	0.796
Service provider – reconciliation manager	0.958	0.958	0.976
Service provider – registry manager	0.705	0.705	0.719
Service provider – FTR manager	0.832	0.832	0.847
Service provider – extended reserve manager	0.000	0.000	0.000
Service provider – system amortisation	1.301	1.301	1.325
Service provider – IT costs	0.060	0.060	0.061
Other service provider expenses	9.270	9.270	9.444
Real-time pricing review project	3.221	3.221	3.061
Market-making scheme	0.000	3.600	14.400
Authority operating expenses	24.026	26.026	25.343
Total appropriation	78.157*	83.757**	94.397***

*An in-principle expense transfer of up to \$2.000 million from 2020/21 to 2021/22 was approved and will be confirmed in the October 2021 baseline update

**We are seeking an increase of \$2.000 million in 2021/22 to cover increased costs associated with the August 9 event, implementation of trading conduct rules and wholesale market competition review

***We are seeking an increase of \$2.000 million in 2022/23 to cover increased costs associated with organisational capability and IT services

⁴ <https://www.ea.govt.nz/development/work-programme/risk-management/hedge-market-development/consultations/#c18887>

Proposed appropriation is based on assumptions which may change

3.20 Proposed amounts for individual expense items within the Electricity Industry Governance and Market Operations appropriation are subject to variable factors that will influence the actual costs incurred. For example, the impact of future CPI changes, the timing and cost of investments in both ours and the system operator's assets.

Funding to implement real-time pricing (RTP)

3.21 In 2019, Treasury approved funding of approximately \$3.000 million per year from the 2021/22 financial year to deliver the RTP project. This has been added as a separate line item in table two above. This provided certainty to enable the Authority's Board to make a decision to implement RTP.

3.22 New Zealand has the only developed wholesale electricity market where spot prices are not finalised until two days later. As a result, consumers and participants can find that they made decisions based on prices that, when finalised two days later, can be significantly different to forecast prices.

3.23 We will implement RTP to calculate and publish spot prices in real-time, making them timelier and more reliable, and ultimately enabling better electricity consumption and supply decisions by consumers and generators. This means spot prices will be produced and published by the same process used to run the power system, which will provide better price certainty. The implementation of RTP will enable:

- better demand response by end consumers, including through the new 'dispatch notification' product to be introduced as part of RTP
- timely and reliable prices known in real-time, which will allow end consumers to respond to high prices by reducing consumption
- a reduction in high spot prices and reducing emissions
- better integration of new technology into the electricity market.

3.24 We have previously consulted on RTP and we are not seeking feedback on RTP in this process.

4 Managing the Security of New Zealand's Electricity Supply appropriation

Te whakahaere i te haumarutanga o te utu putea hiko o Niu Tirenī

What is intended to be achieved

- 4.1 This appropriation is intended to achieve enhanced security of supply in the electricity system during periods of emerging or actual security situations.

Scope of appropriation

- 4.2 This appropriation is limited to the management by the system operator (Transpower) of actual or emerging emergency events relating to the security of New Zealand's electricity supply.

Our functions under this appropriation

- 4.3 The system operator is responsible for ongoing security monitoring and emergency management.⁵ The system operator's security management functions include preparing the emergency management policy, which is incorporated into the Code by reference following our review and approval. The policy sets out steps the system operator will take, and encourage industry participants to undertake, during an extended emergency.
- 4.4 Our primary role in respect to security of electricity supply is to ensure 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 Governance and Market Operations appropriation.

- 4.5 Our role in respect to this 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 there is an actual or emerging security event, and to describe the actions it intends to take using the funds and how it will monitor the use of these funds. 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.
- 4.6 The system operator can request funding from this appropriation to:
- increase monitoring and management responsibilities in the event of an emerging or actual security situation
 - plan and run an official conservation campaign.
- 4.7 The system operator would seek our approval for funding from this appropriation on a case-by-case basis if it considered increased monitoring or security management actions to be justified. However, the system operator can, acting on a 'good faith' basis, incur up to \$0.300 million of costs in this area without prior approval if it is not reasonably practicable to seek that approval.
- 4.8 Managing the Security of New Zealand's Electricity Supply is a multi-year appropriation for the period 2017/18 to 2021/22. Expenses under this appropriation can only be incurred by the system operator. The Authority itself cannot incur expenses under this appropriation.

⁵ 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 <https://www.transpower.co.nz/system-operator>

Appropriation funding

4.9 This appropriation is contingent in nature and will not be drawn on in the normal course of events. As is the case with our other appropriations, levies are only collected up to the level of actual expenditure incurred.

4.10 In the Government's Budget 2017, a new security management appropriation for the period 1 July 2017 to 30 June 2022 was approved. No expenditure has been incurred against this appropriation to date.

4.11 A new multi-year appropriation (MYA) for this appropriation will be requested in 2022/23, for the period 1 July 2022 – 30 June 2027. This appropriation will remain contingent in nature and will not be drawn on in the normal course of events.

4.12 The table below outlines the proposed appropriation:

Table Three: Managing the Security of New Zealand's Electricity Supply appropriation

Contingent appropriation - Electricity Authority	Appropriation 2021/22	\$ million Proposed appropriation 2022/23
Managing the Security of New Zealand's Electricity Supply (1 July 2017 to 30 June 2022)	6.000 over five years	-
Managing the Security of New Zealand's Electricity Supply (1 July 2022 to 30 June 2027)	-	6.000 over five years

4.13 We intend to renew this multi-year appropriation for the period 1 July 2022 to 30 June 2027.

	2022/23 \$000	2023/24 \$000	2024/25 \$000	2025/26 \$000	2026/27 \$000
Energy and Resources: Managing the Security of New Zealand's Electricity Supply 2022-2027	1.200	1.200	1.200	1.200	1.200

5 Electricity Litigation Fund appropriation

Te tahua a te kaute hiko

What is intended to be achieved

5.1 This appropriation is intended to achieve assurance the Authority is able to participate in litigation effectively and without delay.

Scope of appropriation

5.2 This appropriation is limited to meeting the cost of litigation activity undertaken by the Authority arising from it carrying out its functions under the Electricity Industry Act 2010.

Our functions under this appropriation

5.3 Our functions under this appropriation include defending judicial review and appeal cases taken against us and taking enforcement action against participants under our compliance function.

Appropriation funding

5.4 This appropriation is contingent in nature, and we will only use it if certain events or situations arise. As in previous years, it is difficult to estimate the likely level and timing of litigation.

2021/22

5.5 We are requesting an increase of the Electricity Litigation Fund by \$1.000 million in 2021/22, increasing the total appropriation to \$1.500 million to cover growing costs associated with litigation currently underway:

- Transmission Pricing Methodology (TPM) – the Authority’s TPM decision is the subject of an application for judicial review. The application is complex, with multiple grounds and significant volumes of fact and expert evidence. Costs to continue responding to the application will likely exceed the litigation fund in this financial year.
- Code enforcement – the fund is designed to cover cases the Authority takes to enforce the Code as well as any other litigation (such as judicial review). The Authority is working on a number of key high-profile projects to ensure market settings support the transition to low emissions. The pace and scale of the transition required creates some uncertainty and, as the regulator, the Authority will be working with stakeholders to make decisions to respond to uncertainty and enable change. The Authority needs to ensure we have enough funds for any potential legal action against such decisions, as well as any potential increase in compliance cases.

2022/23

- 5.6 We propose to maintain the previously requested \$1.500 million for the Electricity Litigation Fund in 2022/23.
- 5.7 The table below outlines the proposed appropriation for 2021/22 and 2022/23:

Table Four: Electricity Litigation Fund appropriation

Contingent appropriation – Electricity Authority	\$ million		
	Appropriation 2021/22	Proposed appropriation 2021/22	Proposed appropriation 2022/23
Electricity Litigation Fund	0.500	1.500*	1.500*

*We are seeking an increase of \$1.000 million in 2021/22 and 2022/23 to cover increased costs associated with litigation currently underway

6 Consultation questions

Ngā pātai whakawhitiwhiti whakaaro

- 6.1 What kinds of engagement have you or your organisation had with the Authority over the past 12 months?
- 6.2 Do you support the increase to the Electricity Industry Governance and Market Operations appropriation for 2021/22?
- 6.3 The Authority is proposing that the operational appropriation for Electricity Industry Governance and Market Operations in 2022/23 is \$94.397 million. Do you support the Authority's proposal for funding of \$94.397 million? *Note that the approximately \$3.000 million funding for RTP per year for 2021/22 and outyears was approved in February 2019 and we are not seeking feedback on RTP in this process.*
- 6.4 The Authority is proposing the contingent appropriation for Managing the Security of New Zealand's Electricity Supply renews for another six years. Do you support the Authority's proposal for maintaining this contingent funding at its current level?
- 6.5 The Authority is proposing the contingent appropriation for the Electricity Litigation Fund for 2021/22 and outyears is \$1.500 million. Do you support the Authority's proposal for this contingent funding?
- 6.6 Would you like to provide any other comment on the Authority's proposed 2021/22 or 2022/23 funding?

Glossary of abbreviations and terms

Act	Electricity Industry Act 2010
Authority	Electricity Authority
Code	Electricity Industry Participation Code 2010
CPI	Consumer price index
EECA	Energy Efficiency and Conservation Authority
MBIE	Ministry of Business, Innovation and Employment
Minister	Minister of Energy and Resources
SOI	Statement of Intent
SPE	Statement of Performance Expectations

Appendix A: Legal basis for consultation

Section 129 of the Electricity Industry Act 2010 requires the Electricity Authority to consult with those industry participants who are liable to pay a levy; and any other representatives of persons whom the Authority believes to be significantly affected by a levy:

Section 129

Authority consultation about request for appropriation

- (1) The Authority must, before submitting a request to the Minister seeking an appropriation of public money for the following year, or any change to an appropriation for the current year, that relates to costs that are intended to be recovered by way of levies under section 128, consult about that request with:
 - (a) those industry participants who are liable to pay a levy under that section; and
 - (b) any other representatives of persons whom the Authority believes to be significantly affected by a levy.
- (2) The Authority must, at the time when the request is submitted, report to the Minister on the outcome of that consultation.
- (3) The Ministry must consult in a like manner in respect of a levy to recover costs referred to in section 128(3)(g).
- (4) This section applies to requests in respect of the financial year beginning 1 July 2011 and later financial years.