

# 2021/22 and 2022/23 Levy-funded Appropriations

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## Summary of Submissions and Electricity Authority Responses

1 February 2022



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## Executive summary

The Electricity Authority (the Authority) consults annually on our proposed appropriations (i.e. the level of funding we receive). The feedback from this consultation is included with our request for funding to the Minister of Energy and Resources (the Minister). We would like to thank all submitters for their feedback on our proposed appropriations. Where feedback was not specific to our appropriations, we will use it to inform our 2022/23 planning.

### **Feedback on the proposed appropriations**

The key points relating to our appropriations have been summarised below.

Section 4 includes feedback from five submissions on the *Electricity Industry Governance and Market Operations* appropriation amount for 2021/22:

- Three submissions support the proposed appropriation.
- Two submissions support the proposed appropriation contingent upon the achievement of the proposed outcomes and/or a focus on specific work areas.

Section 5 includes feedback from seven submissions on the *Electricity Industry Governance and Market Operations* appropriation amount for 2022/23. The submissions are mixed in terms of their level of support for the proposed appropriation level:

- Two submissions support the proposed appropriation.
- Three submissions support the proposed appropriation contingent upon the achievement of the proposed outcomes and/or a focus on specific work areas.
- One submission raises concerns about the proposed increase to the appropriation.
- One submission does not comment in support or opposition, noting there was not enough detail provided in the consultation document to make an informed comment.

Section 6 includes feedback from six submissions on the proposed *Managing the Security of New Zealand's Electricity Supply* appropriation for 2022/23. The submissions are mixed in terms of their level of support for the proposed appropriation level:

- Four submissions support the proposed appropriation.
- One submission supports the proposed appropriation contingent upon the achievement of the proposed outcomes.
- One submission suggests the total appropriation be lower than proposed.

Section 7 includes feedback from five submissions on the proposed *Electricity Litigation Fund* appropriation for 2021/22 and 2022/23. The submissions are mixed in terms of their level of support for the proposed appropriation level:

- Three submissions support the proposed appropriation.
- One submission supports the proposed appropriation contingent upon the achievement of the proposed outcomes.
- One submission does not support the proposed increase, stating that resources should guide decision making, rather than being used to defend decisions after the fact.

### **Conclusion**

We have considered all submissions and conclude the 2021/22 and 2022/23 appropriation levels we are requesting are appropriate. These appropriation levels will ensure we can

continue to perform our statutory functions effectively and operate in a financially sustainable manner for the long-term benefit of consumers.

### **Next steps**

The submissions received on this consultation inform the development and finalisation of:

- our appropriations request to the Minister
- our 2022/23 Statement of Performance Expectations (SPE), to be published in June 2022
- our Annual Corporate Plan for 2022/23.

## **1 Introduction**

- 1.1 The Authority is required to consult on proposed appropriations for the coming year before seeking appropriations from the Minister. We have prepared this report to support the process of reporting to the Minister with our recommended appropriations.
- 1.2 The Authority consulted on the proposed 2021/22 and 2022/23 appropriations from 26 October 2021 to 30 November 2021.

## **2 List of respondents**

- 2.1 We received seven submissions on the proposed 2021/22 and 2022/23 appropriations:
  1. Electric Kiwi Limited (Electric Kiwi)
  2. Electricity Retailers' Association of New Zealand (ERANZ)
  3. Major Electricity Users Group (MEUG)
  4. PowerNet Limited (PowerNet)
  5. Transpower New Zealand (Transpower)
  6. Trustpower Limited (Trustpower)
  7. Vector Limited (Vector)

### 3 Submissions on engagement

- 3.1 We received two submissions to Question 1, relating to our engagement with stakeholders.

Q1. What kinds of engagement have you or your organisation had with the Authority over the past 12 months?		
Key points from submissions	Submitters	Authority comment
Various, depending on the role (e.g. as grid owner, system operator, etc.), including raising potential Code amendments, day to day operational activities, change activities such as Transmission Pricing Methodology (TPM) and real-time pricing (RTP) projects	Transpower	<p>We acknowledge and appreciate the engagement with these stakeholders over the past year.</p> <p>We acknowledge the additional feedback received in submissions expressing interest in various regular meetings and forums between participants and the Authority.</p> <p>We will continue to refine our approach to stakeholder engagement to ensure we engage more effectively and more widely with interested parties and consumers.</p>
Various, including making submissions, online briefings and workshops, and discussions with Authority staff	Vector	

## 4 Submissions relating to the *Electricity Industry Governance and Market Operations* appropriation for 2021/22

4.1 Five submissions received provided a response to Question 2. The key points from these submissions are summarised in the table below.

Q2. Do you support the increase to the <i>Electricity Industry Governance and Market Operations</i> appropriation for 2021/22?		
Key points from submissions	Submitters	Authority comment
1. Support	ERANZ Transpower Trustpower	<p>The Authority acknowledges and is grateful for the submissions received in support of the increase in appropriation for 2021/22.</p> <p>The Authority also note the specific projects that some submissions highlighted as key areas for focus in 2021/22.</p> <p>The increase in funding sought is to cover costs associated with:</p> <ul style="list-style-type: none"> <li>9 August event. This was a serious event in which multiple reviews across MBIE, Transpower and the Authority were conducted. The Authority's investigation into the event is made up of two phases with phase one completed in September 2021, and phase two underway. The phase one report <i>Immediate assurance review of the 9 August demand management event</i> is available on the Electricity Authority website. The Authority is considering MBIE's recommendations in their investigation of the 9 August event and working through the best way to address these.</li> </ul>
2. Support, contingent on the Authority achieving the proposed outputs, outcomes and direction outlined in the consultation paper	PowerNet	<ul style="list-style-type: none"> <li>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 as part of an enhanced monitoring, enforcement, and compliance regime.</li> </ul>
3. Support, noting urgent work required to identify all causes of inefficient pricing, and addressing perceived areas of concern in the wholesale market review	Electric Kiwi	<ul style="list-style-type: none"> <li>Wholesale market competition review. Work on the wholesale market competition review is progressing with preliminary work investigating the investment environment as well as two separate consultations (including one on inefficient pricing) completed in 2021.</li> </ul>

## 5 Submissions relating to the *Electricity Industry Governance and Market Operations* appropriation for 2022/23

5.1 All submissions received provided a response to Question 3. The key points from these submissions are summarised in the table below

Q3. The Authority is proposing that the operational appropriation for <i>Electricity Industry Governance and Market Operations</i> 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.		
Key points from submissions	Submitters	Authority comment
1. Support	ERANZ Transpower	<p>The Authority acknowledges and is grateful for the submissions received in support of the increase in appropriation for 2022/23.</p> <p>We also note the specific projects that some submissions highlighted as key areas for focus in 2022/23.</p> <p>The increase in funding sought is to cover costs associated with:</p> <ul style="list-style-type: none"> <li>increased resourcing to deliver work that will be required in response to the significant reviews that the Authority is currently undertaking, 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, the wholesale market review, MDAG's investigation of wholesale market operations under 100% renewables, the multi-year work programme addressing future security and resilience of the power system, and other key issues that are likely to arise as we enter a period of transition to a low-emissions energy system</li> </ul>
2. Support, particularly with focuses on the wholesale market and enforcing compliance	Electric Kiwi	
3. Support, contingent on the Authority achieving the proposed outputs, outcomes and direction outlined in the consultation paper	PowerNet	<ul style="list-style-type: none"> <li>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</li> <li>IT services. The Authority requires a change to an enforceable commercial arrangement with a provider specialising in supporting information technology in order to support impactful delivery.</li> </ul>

<p>4. Support, with encouragement for the Authority to seek cost efficiencies and rigorous prioritisation</p>	<p>Trustpower</p>	<p>Enforcing compliance is one of the Authority's four main functions under the operational appropriation. The Authority is focused on education to achieve voluntary compliance, active monitoring, and timely and proportionate enforcement action. The Authority is continuing to uplift monitoring and compliance capability, by increasing resources in these areas and reviewing our strategy, processes, and tools.</p> <p>The Authority carefully manage funding, balancing efforts to restrain our spending with the need to progress important work in a timely and robust fashion. The Authority continue to work with service providers to ensure value for money. Improving effectiveness and efficiency crosses all functional areas.</p>
<p>5. Do not support, with concerns regarding the level of charges and increased costs from the system operator. Concerns with the rate of increase of appropriation being greater than the rate of inflation</p>	<p>MEUG</p>	<p>The Authority note the concerns of the MEUG. Performing the role of system operator effectively and reliably requires ongoing investment to maintain and enhance the extensive infrastructure supporting the delivery of the services. While the year-on-year operating expenses of the System Operator are higher, the capital-related expenses are estimated to be the same as 2021/22. The increased cost of the system operator covers operating costs and a recovery on the investments made that underpin the services delivered.</p>
<p>6. Not enough detail included in the consultation on planned projects to provide informed feedback</p>	<p>Vector</p>	<p>The proposed appropriation for 2022/23 is relatively consistent with that of the current appropriation for 2021/22. The main increase is seen in the market marking scheme which was subject to an out of cycle levy consultation in June 2021.</p> <p>The Authority notes that the increase to the operational appropriation is greater than the rate of inflation, however Authority's operational appropriation has remained relatively stable over the past ten years.</p> <p>The rationale for the permanent \$2.000 million baseline increase from 2021/22 is outlined in the above Authority responses.</p>



## 6 Submissions relating to *Managing the Security of New Zealand's Electricity Supply* appropriation

6.1 Six submissions included a response to Question 4. The key points from these submissions are summarised in the table below.

Q4. The Authority is proposing the contingent appropriation for <i>Managing the Security of New Zealand's Electricity Supply</i> renews for another 6 years. Do you support the Authority's proposal for maintaining this contingent funding at its current level?		
Key points from submissions	Submitters	Authority comment
1. Support	ERANZ Transpower Trustpower Vector	The Authority acknowledges and is grateful for the submissions received in support of renewing the <i>Managing the Security of New Zealand's Electricity Supply</i> at its current level of funding for another six years.
2. Support, contingent on the Authority achieving the proposed outputs, outcomes and direction outlined in the consultation paper	PowerNet	The Authority note the suggestions for the <i>Managing the Security of New Zealand's Electricity Supply</i> appropriation, while also reiterating the appropriation is limited by its scope of emergency events (actual or emerging).  This appropriation is contingent in nature and will not be drawn down on in the normal course of events. Levies are only collected up to the level of actual expenditure incurred.
3. Do not support at current level. Note some appropriation is required, but at a lower level of funding than proposed	MEUG	

## 7 Submissions relating to the *Electricity Litigation Fund* appropriation

7.1 Five submissions included a response to Question 5. The key points from these submissions are summarised in the table below.

Q5. The Authority is proposing the contingent appropriation for the <i>Electricity Litigation Fund</i> for 2021/22 and outyears is \$1.500 million. Do you support the Authority's proposal for this contingent funding?		
Key points from submissions	Submitters	Authority comment
1. Support	ERANZ MEUG Transpower	The Authority acknowledges and is grateful for the submissions received in support of the increase to the <i>Electricity Litigation Fund</i> .  The Authority note the concerns raised by Transpower and agree in principal that resources should be and are used to guide decisions as they are made. This work is funded through the operational appropriation. However, the Authority needs to be able to respond to litigation appropriately when required.
2. Support, contingent on the Authority achieving the proposed outputs, outcomes and direction outlined in the consultation paper	PowerNet	This appropriation is contingent in nature and will not be drawn down on in the normal course of events. Levies are only collected up to the level of actual expenditure incurred.
3. Do not support, resources should be used to guide decisions as they are made, rather than as a defence after the fact	Trustpower	

## 8 Submissions relating to further comments on the 2021/22 and/or 2022/23 funding

### 8.1 Five submissions provided further comments on our proposed 2021/22 and/or 2022/23 funding.

**Q5. Would you like to provide any other comment on the Authority's proposed 2021/22 and/or 2022/23 funding?**

Key points from submissions	Submitters	Authority comment
1. Concern that the consultation doesn't mention the Authority's funding of Powerswitch. Concerns regarding the delivery of Powerswitch and perceived lack of improvement despite investments made. Participant would like to see appropriate funding and capability of Powerswitch improve	Electric Kiwi	<p>The Authority acknowledges and is grateful for the additional feedback received from participants.</p> <p>Feedback that does not directly relate to the consultation on the levy-funded appropriations will be considered in future 2022/23 planning and in the 2022/23 Statement of Performance Expectations (SPE).</p> <p>The Authority provides funding support for Consumer NZ to operate, maintain, enhance, and promote Powerswitch. The Authority is working closely with Consumer NZ to oversee ongoing improvements to the system to make it easier for consumers and industry to use. Consumer NZ measures and reports to the Authority on the performance of Powerswitch on a regular basis.</p>
2. Preference for more information/evidence on the Authority's efforts to find savings and deliver value for money, to reduce impact of cost on consumers	ERANZ	<p>As mentioned previously, The Authority carefully manage funding, balancing efforts to restrain our spending with the need to progress important work in a timely and robust fashion. The Authority continue to work with service providers to ensure value for money. Improving effectiveness and efficiency crosses all the Authority' functional areas.</p>
3. Waiting to see the impact of market making on future appropriations after first year of operations	MEUG	<p>The Authority is considering the best way to show that funding for the market making scheme is achieving its intended outcomes.</p> <p>The Authority is committed to directing its Code development resources to the highest value regulatory activities that promote the long-term interests of consumers. The Authority gathers evidence and suggestion for regulatory development from a range of sources, including sector-initiated Code amendment proposals. The Authority intends to continue to encourage new forms of engagement with our</p>

<p>4. Preference for a plan to improve Code amendment processes. Advice provided on how the Authority could improve its code change proposal process. Recommendation for the Authority to consider changes to assist with the Code keeping up with technological change</p>	<p>Transpower</p>	<p>stakeholders on proposed Code amendments, where appropriate, and will consider any suggestions for Code development against other demands on our resources to prioritise work that is in the best long-term interests of consumers.</p> <p>The Authority have effective working relationships with a range of existing agencies that affect the electricity sector. Strong relationships at the Board and management level underpin our work with the Commerce Commission. The Authority have similarly close relationships with the Ministry of Business, Innovation and Employment (MBIE), the Gas Industry Company (GIC), and the Energy Efficiency and Conservation Authority (EECA).</p>
<p>5. Suggests the Authority cast a wider lens on capturing issues affecting security of supply. Suggests the Authority coordinates with the Gas Industry Company as it progresses a work programme that includes solutions to ensure that gas supply is available for electricity generation when it is required</p>	<p>Vector</p>	<p>Other key relationships include the Ministry for the Environment (MfE), the New Zealand Transport Agency (NZTA), Treasury, the Productivity Commission, Utilities Disputes Limited and the Climate Change Commission.</p> <p>The Authority is working to ensure we develop and maintain strong track record of working with stakeholders, including consumer representatives, industry participants, and other government agencies.</p>

## 9 Other feedback included within the submissions

9.1 There were several key topics raised in the submissions of this consultation, including:

Topic	Issues Raised	Authority Response
Powerswitch	a) One submission mentioned Powerswitch as an area of interest. The submission highlighted concerns that the consultation paper did not mention the Authority's funding of Powerswitch, as well as concerns with the delivery, level of service provided, and perceived lack of improvements despite the investments made. The submission mentioned a preference for the Authority to ensure that the site is appropriately funded and capable of delivering the service expected.	The Authority note the concerns raised regarding Powerswitch. The Authority provides funding support for Consumer NZ to operate, maintain, enhance, and promote Powerswitch. The Authority is working closely with Consumer NZ to oversee ongoing improvements to the system to make it easier for consumers and industry to use. Consumer NZ measures and reports to the Authority on the performance of Powerswitch on a regular basis.
Code amendments, regulation and guidance	<p>a) Two submissions received noted the importance of the annual omnibus of Code amendments to ensure that the Code remains current and responsive to, and reflective of evolving practices.</p> <p>b) Feedback received from one submission suggested that the Authority set out a clear allocation of resources to respond to Code change proposals that are not linked to major projects. They expressed concerns with the pace of some Code changes and showed interest in the Authority's workplan to set out how it will improve the Code amendment process.</p> <p>c) One submission suggested that the Code change proposal process could be improved by ensuring the list of code change proposals from participants is current, ensuring transparency around the status of a participants Code change proposal, and inviting participants to provide submissions on other participants proposed Code amendments.</p> <p>d) Submissions encouraged the Authority to consider more substantial changes to ensure the Code keeps up with technological change.</p>	<p>The Authority is committed to directing its Code development resources to the highest value regulatory activities that promote the long-term interests of consumers. The Authority gathers evidence and suggestion for regulatory development from a range of sources, including sector-initiated Code amendment proposals. The Authority intends to continue to encourage new forms of engagement with our stakeholders on proposed Code amendments, where appropriate, and will consider any suggestions for Code development against other demands on our resources to priorities work that is in the best long-term interests of consumers.</p> <p>Last year's omnibus was delayed to provide resources for the Authority's response to the Electricity Pricing Review and then the COVID-19 response.</p>

Topic	Issues Raised	Authority Response
Market making scheme	a) Two submissions noted the out of cycle operational appropriation increase for the market making scheme. One of those submissions noted concerns with the large increase.	The Authority notes the increase for the market making scheme. This increase was consulted on previously in June 2021.
Cost efficiencies and prioritisation	<p>a) Two submissions received mentioned concerns with the lack of evidence provided on options to improve efficiency or re-prioritise resources to minimise the cost increase on levy payers incurred through the increase in appropriation funding. Submissions noted that the consultation paper would benefit from the Authority listing savings found in the 2021/22 financial year.</p> <p>b) One submission suggested the Authority should vigorously prioritise its work given the significant amount of policy/regulatory change currently being considered.</p>	<p>The Authority carefully manage funding, balancing efforts to restrain our spending with the need to progress important work in a timely and robust fashion. The Authority continue to work with service providers to ensure value for money. Improving effectiveness and efficiency crosses all functional areas.</p> <p>In late 2021, the Authority underwent a change process to reshape our operating model. The Authority's new operating model includes strategy-led teams, transitioning us from 'an annual work programme' to a focus on results and impact, demonstrating that we are making the most of resources. The restructuring of internal resource will improve efficiency in the long term.</p> <p>The Authority acknowledges the need to prioritise workstreams and notes the significant amount of work currently underway. The workstreams currently underway are prioritised and informed by the letter of expectations set out by the Minister, the Electricity Pricing Review and recommendations that stemmed from the review, and Annual Corporate Plan 2021/22 as agreed by the Authority Board and Senior Leadership Team.</p>

Topic	Issues Raised	Authority Response
Distribution network reform	<p>a) Two submissions mentioned the distribution pricing reform work that the Authority is undertaking. One submission mentioned concerns that there would be little return from developing more sophisticated price signals if these signals are lost when retailers 're-bundle' their prices. The submission suggested that the Authority consider investigating the issue and ensure that retailers pass through efficiencies.</p> <p>b) One submission suggested that distribution businesses can offer significant value to the Authority when understanding the 'information sharing reliance constraints that exist in the current regulatory framework'.</p>	<p>The Authority acknowledges participant feedback on the distribution network reform. The Authority is progressing work on the potential issues relating to distribution networks and potential regulatory options that may be needed to support an affordable transition to a low-emissions economy, and ensure consumers benefit from the changes in technology. Consultation on the discussion paper Updating the Regulatory Settings for Distribution Networks closed in late September 2021. We are considering the submissions received and will continue working closely with MBIE and the Commerce Commission as we update the regulatory settings for distribution networks.</p> <p>Distribution pricing reform is an increasing area of focus for the Authority. We want to see faster progress with distribution pricing reform to realise consumer benefits and to facilitate an efficient transition to a low-emissions future. To support distribution networks with faster pricing reform we have published an updated distribution pricing practice note to provide more guidance on what good distribution pricing looks like, clear examples of good practice for different types of networks in different situations, and to better explain our expectations on the timing of reform.</p> <p>The Authority encourage distribution networks to continue to work closely with the Authority on pricing reform in 2022.</p>
Increased capability	<p>a) We received multiple submissions that suggested increased capability is required in certain areas such as:</p> <ul style="list-style-type: none"> <li>i. education and understanding on how market participants operate at a working and practical level</li> <li>ii. an uplift in monitoring and enforcement capability and capacity within the Authority.</li> </ul>	<p>The Authority acknowledge feedback in relation to increased capability.</p> <p>The Authority's compliance teams has recently taken on functions from other parts of the business to enable a more aligned compliance approach.</p>

Topic	Issues Raised	Authority Response
Monitoring and Compliance	<ul style="list-style-type: none"> <li>a) We received support from one participant on increased funding for activities associated with building capabilities for enforcing rules and regulations that govern the electricity industry. The participant held the view that enforcement is a critical function of the Authority that has been forgotten over recent years.</li> <li>b) One submission received supported an educative approach to compliance and suggested that including stakeholders in the 'compliance journey' would help to ensure that compliance processes better promote the interest of consumers.</li> </ul>	<p>Part of the Authority's change process saw the compliance team take on functions from other parts of the business to enable a more aligned compliance approach.</p> <p>The Authority is developing a compliance strategy which went out for consultation in October 2021. As part of the strategy the Authority is looking to build trust and confidence with the sector.</p> <p>The Authority will look to engage with the relevant parts of the electricity sector and other stakeholders to access their thinking on what strategies and information would be most effective in promoting our competitive, reliable, efficient outcomes.</p> <p>The Authority is developing a risk-based framework to shape our compliance activities. The Authority hosted two workshops in December 2021 to seek input on progress to date.</p>
Stakeholder engagement	<ul style="list-style-type: none"> <li>a) Two submissions highlighted the importance of the Authority engaging with stakeholders to better understand ongoing, new, and emerging issues and what it takes to address them.</li> <li>b) One submission suggested that the Authority gain a better understanding of the impacts and consequences of any proposed change prior to making decisions to implement change.</li> <li>c) One submission expressed interest in the Authority increasing the frequency and level of engagement with the sector to gain an understanding of what is already in place, what is planned and what constraints exist for parties working towards actively supporting New Zealand's energy transition.</li> <li>d) Multiple participants expressed interest in regular engagement on a range of topics with the Authority and other participants.</li> </ul>	<p>Understanding and engaging with stakeholders is fundamental to the Authority's role. Every day, across all levels, we engage with people who have a vested interest in what we do and the decisions we make. The Authority is aware that the quality of these relationships will determine how we fulfil our purpose and deliver against our strategic ambitions. The Authority is committed to increased engagement with stakeholders using a variety of methods. The Authority is developing its engagement practice and welcomes more opportunities to hear from many different voices.</p>



Topic	Issues Raised	Authority Response
Wholesale market review	a) One submission supported the work the Authority has undertaken in the wholesale market review and expressed views that urgent work is needed to clearly identify causes of inefficient pricing, as well as identifying potential solutions and outcomes to address 'lack of competition' in the wholesale market.	Work on the wholesale market competition review is progressing with preliminary work investigating the investment environment as well as two separate consultations (including one on inefficient pricing) completed in 2021.
Strategic ambitions	a) Two submissions highlighted support for the Authority's strategic ambitions for the electricity sector of consumer centricity, trust and confidence, low-emissions energy, thriving competition and innovation flourishing.	<p>The Authority acknowledge and thank submitters for their support of the strategic ambitions for the sector.</p> <p>How the Authority measures progress in relation to each of the ambitions is outlined in the Authority's Statement of Intent (SOI). Achievement of the ambitions requires collective effort and collaboration between the different parts of the sector.</p>