



# 2022/23 and 2023/24 Levy-funded Appropriations

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**Consultation paper**

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# Executive summary

## Scope of consultation

This consultation paper sets out, and seeks feedback on, the Electricity Authority (Authority) appropriations. These are the:

- Electricity Industry Governance and Market Operations appropriation for the 2022/23 financial year
- Authority's appropriations for the forthcoming 2023/24 financial year.

This consultation paper provides contextual information on the Electricity Industry Governance and Market Operations appropriation for the 2024/25 financial year and outyears.

The Authority's Statement of Intent<sup>1</sup> (SOI) sets out our strategic framework and reflects our long-term strategic intentions for the four-year period from July 2021 to June 2025. This includes our integrated framework (**figure three – page 17**), which highlights our five strategic ambitions for the sector that guide the prioritisation of our work. The ambitions provide focus in both achieving our main statutory objective, and our purpose – enhancing New Zealanders' lives, prosperity and environment through electricity. We will focus on these five key ambitions to ensure the work we do achieves measurable results.

## Statement of Intent 2021–2025

As the kaitiaki of 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 main statutory objective. In the SOI, we aim to provide a more holistic view of how our main statutory objective and strategic ambitions link and crossover, and where the measures for our main statutory objective feed into our strategic ambitions.

<sup>1</sup> <https://www.ea.govt.nz/about-us/strategic-planning-and-reporting/statement-of-intent/>

## Electricity Industry Amendment Act 2022

The Electricity Industry Amendment Act 2022 amends the core Act governing the Authority, the Electricity Industry Act 2010. The amendments include an additional statutory objective and function to protect small consumers' interests in relation to their electricity supply.

The additional objective is specifically aimed at the conduct of retailers and other participants that deal directly with domestic consumers and small business consumers. It will come into force on 31 December 2022, four months after the enactment of the Electricity Industry Amendment Act 2022. We are currently working to incorporate the additional objective into our strategy and accountability documents.

## Responding to the Government's target of 100 percent renewable electricity generation by 2030 while protecting the interests of consumers

The electricity system is on the verge of a once-in-a-generation transformation. This is being driven by the decarbonisation of the electricity industry and wider economy. This includes increased adoption of new technologies such as solar panels, batteries, and applications to control electricity use – also known as Distributed Energy Resources (DER).<sup>2</sup>

While this transformation is necessary to increase renewable electricity generation and transition to a net zero emissions economy, it means the risks and opportunities emanating from the electricity system to consumers have increased significantly.

The Authority's ongoing focus is supporting New Zealand's transition to a low-emissions energy system, noting the critical role that electricity networks (both transmission and distribution) play. We are progressing work on potential issues and regulatory options relating to distribution networks, continuing implementation of the new transmission pricing methodology (TPM), and commissioned Transpower as system operator to provide advice on how the electricity system can remain secure and resilient over the coming decades. In addition, we consulted on our review into competition in the

wholesale electricity market, a part of which examines barriers to investment in renewable generation.

The Authority published more information about our role in the energy transition, including a roadmap of key projects powering the transformation. A critical project on the Authority's *Energy Transition Roadmap*<sup>3</sup> is to understand how the wholesale electricity market will operate under a 100 percent renewable system, and whether any changes may be needed.

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 the transition to a net zero emissions economy, and the risks and opportunities it brings.

The Authority was established in a period where the electricity system was simpler. Demand was relatively constant and uptake in new technologies was low. As a result, the Authority has historically been resourced for incremental change as opposed to the structural changes and major regulatory reform that are needed now, and in the future. The change in the Authority's operating expenditure from 2012 to 2023 represents an increase of less than two percent per annum.

A substantial uplift to the Electricity Industry Governance and Market Operations appropriation is required to enable us to respond to the Government's aspirations for a low-emissions future and at the pace required.

The proposed increase to the Authority's Electricity Industry Governance and Market Operations appropriation will fund key workstreams and major regulatory reform from the Government's Emissions Reduction Plan,<sup>4</sup> work arising from the review of the events of 9 August 2021, implementing the Electricity Industry Amendment Act 2022, and the work required to improve wholesale market competition.

<sup>2</sup> Distributed Energy Resources (DER) – this term can be understood by breaking it down into its components: *Distributed* – located with or near homes and businesses and connected to low and medium voltage distribution networks. *Energy* – electricity, stored heat such as hot water, or energy sources such as hydrogen. *Resources* – devices and equipment which generate and consume electricity, including solar PV, Electric Vehicle chargers, battery storage, hot water cylinders, air-conditioning units, and other demand-responsive devices.

<sup>3</sup> <https://www.ea.govt.nz/assets/dms-assets/29/Roadmap-Transition-to-Low-Emissions-Energy-System-v1.0.pdf>

<sup>4</sup> <https://environment.govt.nz/assets/publications/Files/Aotearoa-New-Zealands-first-emissions-reduction-plan-Table-of-actions.pdf>

The Authority is working on some major reforms, including improving wholesale market competition, preparing distribution networks for the future, and future security and resilience workstreams. These are foundational, and complementary to the initiatives the Ministry of Business, Innovation and Employment (MBIE) is working on, such as the development of a national energy strategy as they help to ensure a competitive, efficient, and reliable electricity system.

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 the Authority 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 2022/23 and 2023/24 are outlined in **table two (page 7)**.

Levies are charged to industry participants in accordance with the Electricity Industry (Levy on Industry Participants) Regulations 2010. These regulations are made on the recommendation of the Minister and are administered by MBIE.

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 Electricity Industry Act 2010.

The appropriations request covers the three appropriations available to the Authority:

#### Operational appropriation

- a. The Electricity Industry Governance and Market Operations appropriation is our main operational appropriation; go to **section three (page 18)** 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:

- a. Managing the Security of New Zealand's Electricity Supply appropriation; go to **section four (page 25)** for more detail.
- b. The Electricity Litigation Fund appropriation; go to **section five (page 27)** for more detail.

#### Electricity Industry Governance and Market Operations

The Authority's main operational appropriation is the Electricity Industry Governance and Market Operations appropriation. Most of this appropriation is used to fund the operation of the electricity system and markets, with the remainder used to fund the Authority's operations.

The Authority is seeking a permanent baseline increase of \$0.500 million for 2022/23 and \$7.308 million for 2023/24. The Authority is signalling our intention to consult next year on a further permanent baseline increase of \$3.537 million for 2024/25 and outyears, bringing the total proposed increase to the Electricity Industry Governance and Market Operations appropriation to \$11.345 million as shown in **table one (page 6)**. We are not consulting on the \$3.537 million for 2024/25 and outyears in this process. The Authority will take part in an independent baseline review of the Authority's operations prior to consulting on a specific increase to appropriations for 2024/25.

**Table one:** Breakdown of proposed increase to the Authority’s operating expenditure, \$ million

	2022/23	2023/24	2024/25 and outyears
Current core operating expenditure	24.961	23.490	21.432
Proposed increase	0.500	7.808	11.345
New core operating expenditure	25.461	31.298	32.777
<b>Total Electricity Industry Governance and Market Operations appropriation</b>	<b>95.952</b>	<b>104.021</b>	<b>105.742</b>

Note: The proposed total for each year includes the previous years’ increase. This is to recognise that it will take time to scale-up operations. The year-on-year decrease of current core operating expenditure is due to the increase of system operator and market operation service provider costs being adjusted for inflation. For a breakdown of the Electricity Industry Governance and Market Operations appropriation see **table four (page 22)**.

The intended \$11.345 million levy increase would increase household bills by approximately \$2.04 per year, commercial consumer bills by approximately \$13.30 per year, and industrial consumer bills by approximately \$75.65 per year.<sup>5</sup> These increases are much lower than the benefits of the projects that will flow through to consumers.

### 2022/23

A permanent baseline increase of \$0.500 million is being requested for 2022/23. This is being sought to cover work already underway that cannot be met by re-prioritised resources. The \$0.500 million increase brings the total proposed 2022/23 Electricity Industry Governance and Market Operations appropriation to \$95.952 million. Further details are provided in **section three (page 18)**.

### 2023/24

A permanent baseline increase of \$7.308 million is being requested for 2023/24 (bringing the total permanent increase to \$7.808 million). The increase in funding is being sought to fund key workstreams and major regulatory reform from the Government’s Emissions Reduction Plan, work arising from the review of the events of 9 August 2021, implementing the Electricity Industry Amendment Act 2022, work required to improve wholesale market competition, and Authority support functions.<sup>6</sup> The \$7.308 million increase brings the total proposed 2023/24 Electricity Industry Governance and Market Operations appropriation to \$104.021 million. Further details are provided in **section three (page 18)**.

### 2024/25 and outyears

The Authority is signalling our intention to consult on a permanent baseline increase of \$3.537 million for 2024/25 and outyears (bringing the total permanent increase to \$11.345 million). This funding will be sought to fund the above initiatives, with more funding being allocated to various workstreams under the Government’s Emissions Reduction Plan, improving wholesale market competition, and support function costs. The \$3.537 million permanent baseline increase would bring the total proposed 2024/25 (and outyears) Electricity Industry Governance and Market Operations appropriation to \$105.742 million. We are not consulting on the \$3.537 million for 2024/25 and outyears in this year’s consultation process and will take part in an independent baseline review of the Authority’s operations prior to consulting. Further details are provided in **section three (page 18)**.

<sup>5</sup> The increases are indicative values only. The actual amount will vary based on consumption. The household impact is calculated based on the number of connection points in the network and average annual consumption. Assumes average consumption of 48.4MWh per year for commercial consumers and 276.7MWh per year for industrial consumers.

<sup>6</sup> This includes funding for compliance, legal, communications and engagement, data and information management, monitoring, and shared services.

## Powerswitch

The Authority makes a levy-funded contribution to Consumer NZ for the funding of Powerswitch.<sup>7</sup> The Authority's contribution represents approximately 70 percent of the funding required for Powerswitch, with the balance recouped from electricity retailers by way of a success fee per switch. The Authority is not proposing to increase this funding at this time.

## Managing the Security of New Zealand's Electricity Supply

The Authority proposes to maintain the 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. Further details are provided in **section four (page 25)**.

## Electricity Litigation Fund

The Authority proposes the Electricity Litigation Fund for 2023/24 remains at \$1.500 million. Further details are provided in **section five (page 27)**.

## Summary of proposed appropriations

**Table two:** Summary of proposed appropriations

Electricity Authority	\$ million			
	Appropriation 2022/23	Proposed appropriation 2022/23	Proposed appropriation 2023/24	Signalled appropriation 2024/25 + outyears
<b>Operational appropriation</b>				
Electricity Industry Governance and Market Operations	76.936	76.936	76.936	76.936
Real-time pricing project	4.116	4.116	4.877	3.061
Market-making scheme	14.400	14.400	14.400	14.400
Additional increase	–	0.500**	7.808***	11.345****
<b>Total Electricity Industry Governance and Market Operations appropriation</b>	<b>95.452*</b>	<b>95.952</b>	<b>104.021</b>	<b>105.742</b>
<b>Contingent appropriations</b>				
<b>Managing the Security of New Zealand's Electricity Supply (1 July 2022 to 30 June 2027)</b>	<b>6.000 over five years</b>	<b>6.000 over five years</b>	<b>6.000 over five years</b>	<b>6.000 over five years</b>
<b>Electricity Litigation Fund</b>	<b>1.500</b>	<b>1.500</b>	<b>1.500</b>	<b>1.500</b>

\*An in-principle expense transfer of up to \$2.000 million from 2021/22 to 2022/23 was approved and will be confirmed in the October 2022 baseline update.

\*\*We are seeking an increase of \$0.500 million in 2022/23 to cover work already underway that cannot be met by re-prioritised resources.

\*\*\*We are seeking an increase of \$7.808 million in 2023/24 to fund key workstreams and major regulatory reform from the Government's Emissions Reduction Plan, work arising from the review of the events of 9 August 2021, implementing the Electricity Industry Amendment Act 2022, work required to improve wholesale market competition, and Authority support functions (includes proposed prior year increase).

\*\*\*\*We are signalling our intention to consult on an increase of \$11.345 million for 2024/25 and outyears (post the independent baseline review being undertaken) to fund the above initiatives, with more funding being allocated to various workstreams under the Government's Emissions Reduction Plan, improving wholesale market competition, and support function costs (includes proposed prior year increase).

<sup>7</sup> <https://www.ea.govt.nz/development/work-programme/consumer-choice-competition/raising-consumer-awareness-of-utilities-disputes-and-powerswitch-services/background/>

# 1 What you need to know to make a submission

## What this consultation paper is about

- 1.1 We welcome and request submissions on our proposal for funding for the Electricity Industry Governance and Market Operations appropriation for the current 2022/23 financial year.
- 1.2 We welcome and request submissions on our proposed appropriations for the 2023/24 financial year, which covers the period 1 July 2023 to 30 June 2024.
- 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.<sup>8</sup> The legal context for this consultation is set out in Appendix A.
- 1.4 Consultation on this paper starts on 4 October 2022 and closes at 5pm on 1 November 2022.

## Why we're seeking your submissions

- 1.5 Submissions received on this consultation paper will inform our:
  - increase to the 2022/23 Electricity Industry Governance and Market Operations appropriation request to the Minister
  - upcoming 2023/24 financial year appropriations request to the Minister
  - 2023/24 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 (page 28)**.
- 1.7 You can email your submission to [appropriations@ea.govt.nz](mailto:appropriations@ea.govt.nz) with **'Consultation Paper – 2022/23 and 2023/24 Appropriations'** in the subject line.
- 1.8 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.
- 1.9 All submissions will be acknowledged on receipt.
- 1.10 We will publish all submissions on the Authority website following the Budget 2023 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.

<sup>8</sup> <https://www.legislation.govt.nz/act/public/2010/0116/latest/DLM2634545.html>



## Submission deadline

- 1.11 The consultation period starts on 4 October 2022 and **all submissions must be received by 5pm on 1 November 2022.**

## Next steps

- 1.12 We will consider all submissions before submitting our request for appropriations to the Minister of Energy and Resources in February 2023.
- 1.13 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 2023/24, which will be published in mid-2023.

## Authority contact

- 1.14 If you have any questions regarding the contents of this consultation paper or the submission process, please email us at [appropriations@ea.govt.nz](mailto:appropriations@ea.govt.nz)

# 2 Introduction

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

## Our statutory objectives

- 2.2 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.
- 2.3 Our 'main' 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.
- 2.4 As mentioned in the executive summary, the Authority will have an 'additional' statutory objective to protect small consumers' interests in relation to their electricity supply. This is specifically aimed at the conduct of retailers and other participants that deal directly with domestic consumers and small business consumers. The additional objective will come into force on 31 December 2022, four months after the enactment of the Electricity Industry Amendment Act 2022.

## Our strategic framework

- 2.5 Our SOI 2021–2025 was finalised in June 2021. The SOI sets out our strategic framework, along with numerous measures and targets reflecting our long-term strategic intentions over a four-year period.
- 2.6 Our integrated framework (**figure three – page 17**) – 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.
- 2.7 The five key interrelated strategic 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.
- 2.8 The operational funding requested in the Electricity Industry Governance and Market Operations appropriation will help us to continue to achieve the above.

## Electricity industry context – challenges and opportunities

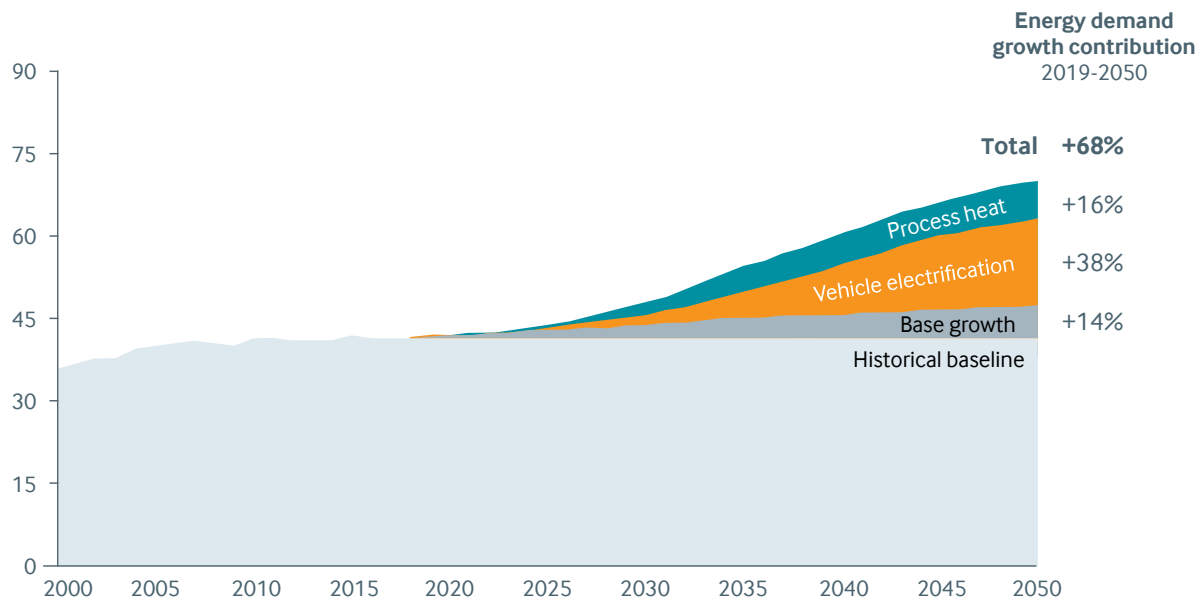
- 2.9 The Authority’s purpose is to enhance New Zealanders’ lives, prosperity, and environment through electricity. We oversee the operation of the electricity system and markets by developing, setting, and enforcing the rules the market must follow. We also hold the industry accountable by actively monitoring the market’s behaviour and performance.
- 2.10 Stewardship of the sector is even more critical as New Zealand transitions to a low-emissions economy and moves towards 100 percent renewable generation. Mass electrification, retirement of thermal generation, a volatile climate, and technological changes will put pressure on the electricity system over the coming decades. The Authority has a core role to ensure the electricity system adapts and the lights stay on.
- 2.11 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 for the long-term benefit of consumers.

## The risks and opportunities to the electricity system has increased significantly

- 2.12 The electricity system is on the verge of a once-in-a-generation transformation. This transformation is being driven by:
- the decarbonisation of New Zealand’s electricity industry and the wider economy as New Zealand transitions to a net zero emissions economy
  - increased adoption of DER
  - increased digitisation of data and use of digital technology.
- 2.13 **Figure one (page 12)** demonstrates that gross energy demand has been reasonably stable over the past two decades but is projected to increase significantly from 2025, driven by the electrification of transport and process heat. New Zealand’s electricity demand is projected to be 68 percent higher in 2050 than 2019.<sup>9</sup>
- 2.14 This transformation will present several risks, challenges, and opportunities. Distribution networks will need to manage the increase in demand in the most efficient way while ensuring reliability. Additionally, the increased demand will be largely met through renewable energy sources that are more intermittent than existing generation, which will create reliability risks that will also need to be managed.
- 2.15 The Authority expects that, in the future, there will be a shift away from large-scale generation of electricity at central power plants, to a more decentralised power system, where more energy sources are located outside the grid. Additionally, we expect to see consumers become more active as they can feed excess generation from DER back into the distribution network and manage their electricity usage. This presents a great opportunity, but it will be a big change that will need to be carefully managed to maximise its potential and avoid any unwanted consequences.

<sup>9</sup> Whakamana i Te Mauri Hiko – Empowering our Energy Future: <https://www.transpower.co.nz/sites/default/files/publications/resources/TP%20Whakamana%20i%20Te%20Mauri%20Hiko.pdf> - March 2020, page 23.

**Figure one:** Gross energy demand (TWh, Accelerated Electrification)



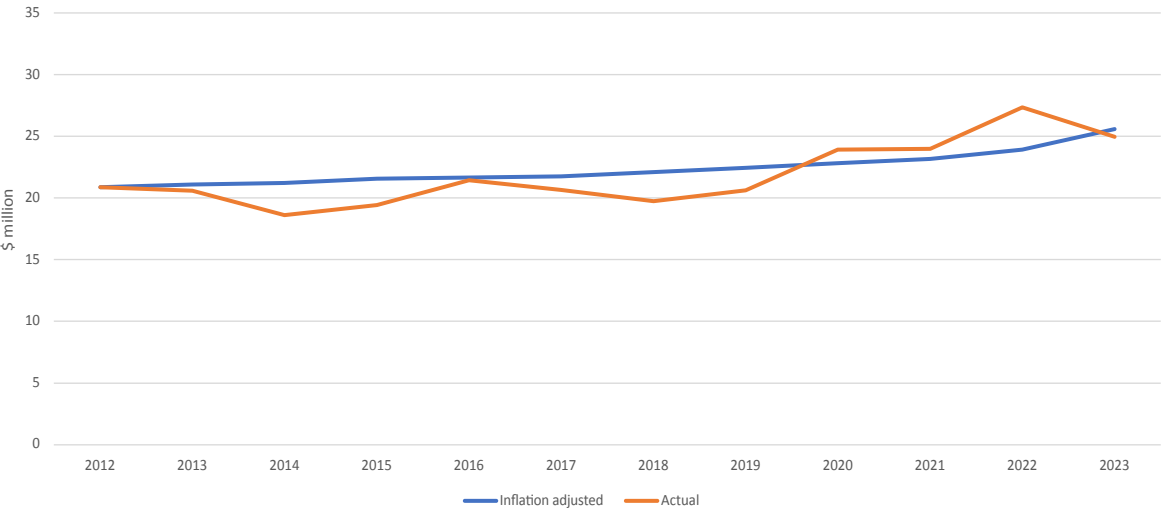
Source: Whakamana i Te Mauri Hiko – Empowering our Energy Future: TP Whakamana i Te Mauri Hiko.pdf ([transpower.co.nz](https://transpower.co.nz))

**The Authority has been resourced for incremental change with an annual funding increase of less than two percent for the Authority’s core operating expenditure**

2.16 The Authority was established in 2010, at a time when electricity demand was relatively constant. New technology was expensive, and its uptake was low. The electricity system was simpler and both the rate of change and the likelihood of risks occurring was lower. In that environment the Authority was only funded for smaller incremental changes rather than the required transformational changes needed to support particularly the transition to a net zero emissions economy by 2050.

2.17 The core operating expenditure of the Authority has increased only incrementally since its establishment (see figure two - page 13). Core operating expenditure covers the Authority’s core operating costs relating to personnel, delivery of Authority initiatives, legal, and all overheads such as building office costs and information technology. The change in operating expenditure from 2012 to 2023 represents an increase of less than two percent per annum which is a reduction when adjusted for inflation.

**Figure two:** Authority core operating expenditure 2012 to 2023



**Note:** This graph excludes funding for system operator expenses, other service provider expenses, the real-time pricing review project, and the market-making scheme. This graph begins in 2011/12 as 2010/11 was not a full financial year for the Authority. The 2021/22 year is forecast. The 2022/23 year is budgeted.

**The Authority is proposing an increase to the Electricity Industry Governance and Market Operations appropriation to ensure it is resourced to deliver major regulatory reform to support the transition**

2.18 **Table one (page 18)** outlines the Authority’s proposed phased permanent increase to its levy-funded appropriation. The intention is to gradually increase the Authority’s baseline by \$11.345 million by 2024/25. The Authority considers that this increase is necessary to ensure it is adequately resourced to achieve its statutory objectives and support the transition to a low-emissions economy. The proposed change of \$7.808 million to 2023/24 represents an increase of approximately 31 percent in the Authority’s operating expenditure or an 8 percent increase in appropriation. The Authority will take part in an independent baseline review of the Authority’s operations prior to consulting on a specific increase to appropriations for 2024/25 and outyears.

2.19 This increase is to adequately resource the Authority to ensure that the electricity system remains competitive, reliable, and efficient for the long-term benefit of consumers. The increase is phased to recognise that it will take several years to expand the Authority’s operations.

2.20 The Authority considers that a permanent increase, as opposed to a temporary increase, is needed to manage the ongoing risks and opportunities associated with the transition. Once the transition ends, then the level of funding that the Authority requires might be less, at that point the levy can be reduced. However, at this stage that end date is unclear and the Authority requires funding certainty to deliver on the major regulatory reform that will come out of the initiatives that the Authority is managing.

## The proposed levy increase will enable the delivery of key Government priorities

2.21 The proposed levy-funded appropriation increase will fund the initiatives and major regulatory reform emanating from:

- the Government's Emissions Reduction Plan – Aotearoa New Zealand's first emissions reduction plan sets the direction for climate action for the next 15 years. It lays out targets and actions across government and sectors, and sets out how Aotearoa will meet the first emissions budget for 2022–2025. Authority-led workstreams from the Emissions Reduction Plan include preparing distribution networks for the future and maximising the value of DER, realising the benefits of real-time pricing, and enabling future security and resilience of the electricity system with high levels of renewables
- work arising from the reviews into the electricity supply interruptions of 9 August 2021 – on 9 August 2021, approximately 34,000 customers across New Zealand experienced an electricity cut without warning. In response, the Authority used its statutory powers under section 16(1)(g) of the Electricity Industry Act 2010 to launch a two-phase review into the outages. The Authority has completed these reviews and is working on progressing the actions that came from them. This includes resourcing to deliver enhanced system operator oversight and scrutiny of system operator performance. Enhancing system operator oversight will contribute to improving the security and resilience of the electricity system
- the wholesale market review – the Authority is reviewing competition in the wholesale market including analysis of spot and forward prices. The review responds to sustained elevated electricity prices since Spring 2018 and focuses on the period from January 2019 to June 2021. The proposed funding will be used to develop solutions aimed at promoting competition in the wholesale electricity market. The Authority requires resources to address issues identified in the review in a timely and robust manner

- implementing the Electricity Industry Amendment Act 2022 – the amendments include an additional statutory objective and function to protect small consumers' interests in relation to their electricity supply. The proposed increase will be used to fund work that comes from implementing the Electricity Industry Amendment Act 2022. The amendments expand the Authority's jurisdiction and enforcement penalties. Changes stemming from the Amendment Act are intended to ensure the Authority and industry will be better placed to respond to rapid growth in DER expected with the transition to a low carbon economy and protect domestic and small business consumers when dealing with industry participants in relation to the supply of electricity. The additional funding will ensure the Authority is resourced to deliver on its existing and new obligations to consumers.

2.22 The Authority now has significant and expanded initiatives. While several of the projects are underway, most of them require material additional resource to be completed adequately in a timely fashion, and/or to implement the options.

2.23 It is also important to highlight the unique commercial, economic, and technical expertise that the Authority requires to deliver fundamental regulatory reform including monitoring, compliance and enforcement. The Authority regulates, among other things, very large and complex commercial businesses, including Transpower whose staff are highly technical and specialised. To effectively regulate these entities, the Authority needs access to highly technical expertise, a lot of which is only available externally as contractors or consultants.

2.24 The Authority is aware of stakeholder concerns regarding the capacity and capability of the Authority. Stakeholders have mentioned the importance of the Authority having the right level of resourcing and the right mix of technical expertise to perform its functions and suggested that where it is not possible to secure that resource in-house, that the Authority outsource it.

## The proposed levy increase will enable the delivery of key regulatory reform by the Authority in the Government's Emissions Reduction Plan

- 2.25 The proposed levy-funded appropriation increase will enable the Authority to carry out work that contributes directly to the transition to a low-emissions energy system and supports New Zealand's commitment to achieving net zero emissions by 2050. Specifically, it will ensure the Authority can deliver the workstreams it is leading in the Government's Emissions Reduction Plan through to implementation, monitoring, and compliance.
- 2.26 It is important to highlight that a number of the Authority-led actions in the Emissions Reduction Plan are multi-year programmes of work and will result in major regulatory reform. For example, the future security and resilience workstream has recently finished consulting on the 10-year roadmap of work to address the challenges and opportunities to ensure that the electricity system remains secure and resilient in the coming decades.<sup>10</sup> The next phase of the project will be to deliver the multi-year programme of work.

## Overall, the benefits to consumers will outweigh the cost of the proposed levy increase

- 2.27 The intended \$11.345 million levy increase would increase household bills by approximately \$2.04 per year, commercial consumer bills by approximately \$13.30 per year, and industrial consumer bills by approximately \$75.65 per year.<sup>11</sup> These increases are much lower than the benefits of the projects that will flow through to consumers. For example:
- it is estimated that if DER were to realise its potential, the net benefit from 2021 to 2050 would be \$6.900 billion. These figures were obtained from the *Cost-benefit analysis of distributed energy resources in New Zealand* report.<sup>12</sup>

- it is estimated that the net benefits of real-time pricing is between \$15.000 million and \$95.000 million over 15 years.<sup>13</sup> These figures were obtained from the real-time pricing cost-benefit model.<sup>14</sup>

- 2.28 Additionally, there are a number of benefits associated with helping manage the risks and capturing the opportunities associated with New Zealand's commitment to net zero emissions by 2050, and the Government's aspirational goal of 100 percent renewable electricity generation by 2030. For example, the benefits to consumers would include, but are not limited to, lower electricity prices, greater choice and autonomy for electricity supply, greater certainty about future electricity costs and the ability to sell generation and discharge batteries into the grid.

## The Authority has taken several steps to reprioritise resources

- 2.29 The Authority reviews the focus of existing resources and has reprioritised resources towards work that will have the greatest impact on the long-term benefit of consumers. For example:
- the Authority has paused the Innovation Participant Advisory Group (IPAG) for the next six months and reprioritised Authority staff to its distribution work
  - the Authority is reviewing its consultation charter and the processes it uses to engage and consult with industry, wider stakeholders and public. This review includes the consultation charter, advisory groups and Code amendment processes. The review is likely to be completed before the end of 2022
  - the primary tools used for distribution reform have been guidance, limited engagement, and scorecards, and these tools have been implemented with reliance, in part, on contractor and consultant resource

<sup>10</sup> <https://www.ea.govt.nz/development/work-programme/risk-management/future-security-and-resilience-project/>

<sup>11</sup> The increases are indicative values only. The actual amount will vary based on consumption. The household impact is calculated based on the number of connection points in the network and average annual consumption. Assumes average consumption of 48.4MWh per year for commercial consumers and 276.7MWh per year for industrial consumers.

<sup>12</sup> <https://www.ea.govt.nz/assets/dms-assets/28/Cost-benefit-analysis-of-distributed-energy-resources-in-New-Zealand-Sapere-Research-Group-final-13September.pdf>

<sup>13</sup> <https://www.ea.govt.nz/assets/dms-assets/25/253582019-RTP-decision-paper.pdf>

<sup>14</sup> <https://www.ea.govt.nz/assets/dms-assets/24/249312019-RTP-updated-cost-benefit-model.xlsx>

- scorecards for distributors have been paused for the 2022/23 pricing year
- at the end of 2021, organisational changes were implemented to better align the Authority's structure with our strategic goals. This involved reprioritising resource towards high-priority functions such as compliance and system operator oversight.

### **Investigating Undesirable Trading Situation claims has become increasingly resource intensive**

2.30 Since 2018, the Authority has needed to divert substantial resource to investigating Undesirable Trading Situation (UTS) claims. The Authority has only been resourced for infrequent and simple UTS investigations. From 2011 to 2018 there were only three UTS claims, and they were relatively straightforward. However, in recent years the frequency and complexity of UTS claims have increased. This has resulted in the Authority diverting significant resources away from other activities to prioritise these investigations. The Authority sees no sign of the frequency and complexity of the UTS claims abating.

### **Building trust and confidence in the sector**

- 2.31 As kaitiaki of the electricity system, the Authority is acutely aware that a stable regulatory regime is essential to steady the sector through uncertainty and pave a way for future investment in New Zealand's renewable future.
- 2.32 The Authority is focused on education to achieve voluntary compliance, active monitoring, as well as timely and proportionate enforcement action.
- 2.33 The Authority published its *Compliance Strategy*<sup>15</sup> and *Compliance Monitoring Framework*<sup>16</sup> in mid-2022. The Strategy establishes guiding principles and objectives for the Authority, under which further policies and procedures will be developed for specific compliance activities such as participant registration, participant auditing, education, monitoring, investigation, and enforcement.
- 2.34 The associated *Compliance Monitoring Framework* sets out how the Authority will proactively monitor participants' compliance with the Code, the Act, and regulations.
- 2.35 The Authority is actively monitoring trading conduct as part of the new trading conduct provisions which came into effect on 30 June 2021. The Authority also publishes weekly reports on our website.<sup>17</sup> These reports regularly identify trading periods that are of interest, which form the basis for further enquiries.

<sup>15</sup> <https://www.ea.govt.nz/assets/dms-assets/30/Compliance-Strategy.pdf>

<sup>16</sup> <https://www.ea.govt.nz/assets/dms-assets/30/Compliance-Monitoring-Framework.pdf>

<sup>17</sup> <https://www.ea.govt.nz/monitoring/market-performance-and-analysis/monitoring-trading-conduct/market-monitoring-weekly-reports-2022/>

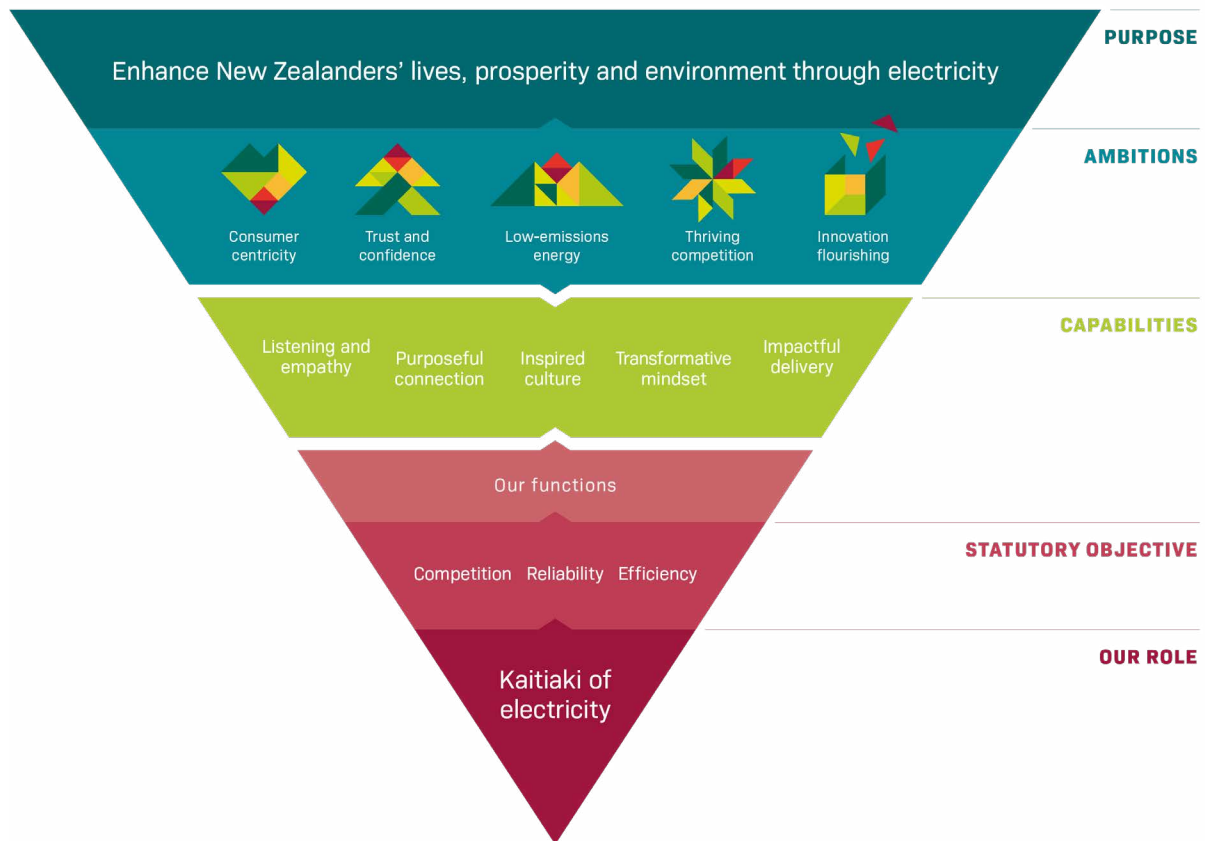


## Engaging with stakeholders and consumers

2.36 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.

2.37 A number of consultations were completed over the past year. Many of these have included additional ways for participants to engage, such as online information sessions, as well as offering opportunities to meet directly with the relevant project teams. The Authority hopes that allowing greater opportunities to engage increases transparency and improves participants trust and confidence in the Authority and the work we do.

**Figure three:** Our integrated strategic framework



# 3 Electricity Industry Governance and Market Operations appropriation

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.

3.3 On 31 December 2022, the Authority's additional statutory objective to protect the interests of domestic consumers and small business consumers in relation to their electricity supply will be in effect. This appropriation will also cover the additional objective.

## Scope of appropriation

3.4 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 2010; and delivery of core electricity system and market operation functions, carried out under service provider contracts.

3.5 Protecting the interests of domestic and small business consumers per the Electricity Industry Amendment Act 2022 will also fall within scope of this appropriation.

## Our functions under this appropriation

3.6 This appropriation funds our operations, and the operation of the electricity system and market, enabling us to exercise our four main functions under the Electricity Industry Act 2010:

- **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.

3.7 This appropriation will also fund our additional operational function to protect the interests of domestic and small business consumers as per the Electricity Industry Amendment Act 2022.

## Appropriation funding

- 3.8 Last year the Authority consulted on and received an uplift in its baseline of \$2.000 million.<sup>18</sup> This was largely used for increased resourcing in both internal expertise and external advice to deliver work required in response to multiple significant reviews, as well as increasing organisational capability to ensure the Authority is able to deliver on our strategic ambitions and to support changes to IT services. Since last year, it has become clear the work and the potential benefits for consumers stemming from the reviews are larger than expected, as mentioned in **section 2.28 (page 15)**.
- 3.9 Additionally, there have been several developments such as the release of the Government's Emissions Reduction Plan and expansion of jurisdiction through the Electricity Industry Amendment Act 2022 that will increase the Authority's workload.
- 3.10 The Authority is proposing an increase to the Electricity Industry Governance and Market Operations appropriation to ensure we can deliver our statutory functions and progress our statutory objectives, support the transition and adequately manage the risks and opportunities emanating from the electricity system over the coming decades. We are confident that the proposed increase will deliver significant long-term benefits for consumers.
- 3.11 To deliver our statutory functions and progress our statutory objectives, the Authority is signalling a permanent uplift of \$11.345 million to our baseline funding for this appropriation.
- 3.12 The proposal is to gradually increase the Authority's baseline by \$11.345 million by 2025 (pending an independent baseline review of the Authority's operations prior to consultation for 2024/25). Table one outlines the breakdown of the proposed increase to the Authority's operating expenditure component of the Electricity Industry Governance and Market Operations appropriation.

**Table one:** Breakdown of proposed increase to the Authority's operating expenditure, \$ million

	2022/23	2023/24	2024/25 and outyears
<b>Current core operating expenditure</b>	24.961	23.490	21.432
<b>Proposed increase</b>	0.500	7.808	11.345
<b>New core operating expenditure</b>	25.461	31.298	32.777
<b>Total Electricity Industry Governance and Market Operations appropriation</b>	<b>95.952</b>	<b>104.021</b>	<b>105.742</b>

**Note:** The proposed total for each year includes the previous year's increase. This is to recognise that it will take time to scale-up operations. The year-on-year decrease of current core operating expenditure is due to the increase of system operator and market operation service provider costs being adjusted for inflation. For a breakdown of the Electricity Industry Governance and Market Operations appropriation see **table four (page 22)**.

<sup>18</sup> <https://www.ea.govt.nz/assets/dms-assets/29/Levy-funded-appropriations-2021-22-and-2022-23-consultation.pdf>

3.13 A breakdown of the components of the proposed increase is in table three.

**Table three:** Breakdown of the components of the proposed levy increase, \$ million

Origin	Workstreams	2022/23	2023/24	2024/25 and outyears
Emissions Reduction Plan	Preparing distribution networks for the future and maximising the value of DER: <i>Pricing reform</i>	0.100	0.675	1.050
	Preparing distribution networks for the future and maximising the value of DER: <i>Regulatory reform</i>	0.000	0.535	1.070
	Realising the benefits of real-time pricing	0.000	0.560	1.120
	Future security and resilience	0.400	1.450	1.450
9 August Review	Enhanced system operator oversight	0.000	0.780	0.780
Minister's Letter of Expectations	Improving wholesale market competition	0.000	1.080	2.160
Electricity Industry Amendment Act 2022	Implementing the Electricity Industry Amendment Act 2022	0.000	0.480	0.480
	Support function <sup>19</sup>	0.000	2.248	3.235
	<b>Total</b>	<b>0.500</b>	<b>7.808</b>	<b>11.345</b>

**Note:** The intention is to phase the increase over three years. \$0.500 million in 2022/23, then \$7.808 million in 2023/24, before consulting on an additional \$3.537 million next year to reach a proposed total increase of \$11.345 million in 2024/25 and outyears, noting that the total for each year includes the previous year's increase. This is to recognise that it will take time to scale-up operations. The Authority will take part in an independent baseline review of the Authority's operations prior to consulting on a specific increase to appropriations for 2024/25.

<sup>19</sup> This includes funding for compliance, legal, communications and engagement, data and information management, monitoring, and shared services. Funding for the support function is based on existing ratios for support of the policy teams.

3.14 The Authority considers that a permanent increase, as opposed to a temporary increase, is needed to manage the ongoing risks and opportunities associated with the transition. Once the transition ends, then the level of funding that the Authority requires might be less, at that point the levy can be reduced. However, at this stage that end date is unclear and the Authority requires funding certainty to deliver on the major regulatory reform that will come out of the initiatives that the Authority is managing.

3.15 As mentioned above and in **section two (page 10)**, the proposed increase to the Electricity Industry Governance and Market Operations appropriation is being sought to fund the initiatives and major regulatory reform emanating from:

- the Government's Emissions Reduction Plan
- work arising from the reviews into the electricity supply interruptions of 9 August 2021

- the wholesale market competition review
- implementing the Electricity Industry Amendment Act 2022.

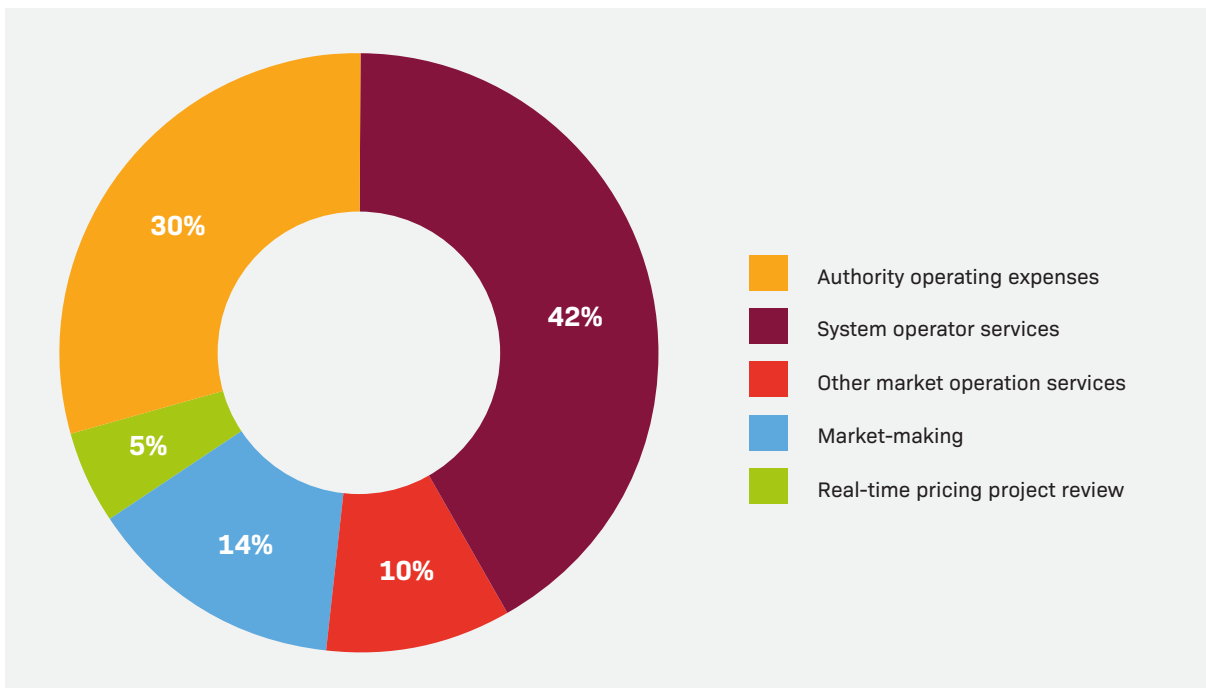
3.16 While several of these initiatives are underway, most of them require significant additional resource to be completed adequately and in a timely fashion, and/or to implement the options. Existing resources allocated to the workstreams are insufficient to achieve their objectives.

3.17 The Authority is committed to continuing to deliver against its strategic ambitions through key initiatives and activities.

3.18 Most of this appropriation is used to fund the operation of the electricity system and markets, with the remainder used to fund the Authority's operating expenses, as outlined in figure four.

3.19 Information on the year-on-year changes in the appropriation components is provided in the remainder of this section.

**Figure four:** Proposed use of the Electricity Industry Governance and Market Operations appropriation 2023/24 (\$104.021 million)



## Expenses relating to the system operator (Transpower)

- 3.20 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.<sup>20</sup> Performing this role effectively and reliably requires ongoing investment to maintain and enhance the extensive infrastructure supporting the delivery of the services.
- 3.21 System operator expenses of up to \$43.365 million are provided for in the proposed 2023/24 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).<sup>21</sup>
- 3.22 System operator operating expenses are anticipated to be \$1.095 million higher than 2022/23. Capital-related expenses are estimated to be the same as 2022/23, whilst providing sufficient capital for market design initiatives.
- 3.23 System operator costs increase year-on-year based on inflation. The flow on impact of this is the Authority's operating expenditure reducing by the same amount.

## Expenses relating to market operation service providers

- 3.24 We contract a range of other market operation service providers to operate the electricity markets.<sup>22</sup> Our focus is on creating fit-for-purpose market services that increase market efficiency, ensure effective market operation and facilitate market development.

- 3.25 The component of the proposed 2023/24 appropriation for other market operation service provider expenses is \$10.081 million. This is \$0.376 million higher than 2022/23 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.
- 3.26 Market operation service provider costs increase year-on-year based on inflation. The flow-on impact of this is the Authority's operating expenditure reducing by the same amount.
- 3.27 As a result of the real-time pricing project commencing, the pricing manager function will cease in the 2022/23 financial year.

## Powerswitch

- 3.28 As mentioned in the executive summary, the Authority makes a levy-funded contribution to Consumer NZ for the funding of Powerswitch. The Authority's contribution represents approximately 70 percent of the funding required for Powerswitch, with the balance recouped from electricity retailers by way of a success fee per switch. The Authority is not proposing an increase to this funding at this time.

## Appropriation breakdown

- 3.29 **Table four (page 23)** sets out the main items of expenditure within the Electricity Industry Governance and Market Operations appropriation:

<sup>20</sup> 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/>

<sup>21</sup> The SOSPA is available on the Authority's website at <https://www.ea.govt.nz/operations/market-operation-service-providers/system-operator/what-the-system-operator-does/>

<sup>22</sup> Information on market operation service providers is available on the Authority's website at <http://www.ea.govt.nz/operations/market-operation-service-providers/>

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

Electricity Industry Governance and Market Operations appropriation	\$ million			
	Appropriation 2022/23	Proposed appropriation 2022/23	Proposed appropriation 2023/24	Signalled appropriation 2024/25 + outyears
System operator – operating expenses	28.309	28.309	29.404	30.172
System operator – capital-related expenses	13.961	13.961	13.961	14.325
<b>System operator expenses</b>	<b>42.270</b>	<b>42.270</b>	<b>43.365</b>	<b>44.497</b>
Service provider – clearing manager	2.753	2.753	3.198	3.944
Service provider – wholesale information trading system (WITS)	1.970	1.970	2.046	2.099
Service provider – pricing manager	0.325	0.325	0.000	0.000
Service provider – reconciliation manager	0.947	0.947	0.984	1.010
Service provider – registry	0.754	0.754	0.783	0.804
Service provider – FTR manager	0.869	0.869	0.903	0.926
Service provider – system amortisation	2.063	2.063	2.143	2.199
Service provider – IT costs	0.024	0.024	0.025	0.026
<b>Other service provider expenses</b>	<b>9.705</b>	<b>9.705</b>	<b>10.081</b>	<b>11.007</b>
<b>Real-time pricing project</b>	<b>4.116</b>	<b>4.116</b>	<b>4.877</b>	<b>3.061</b>
<b>Market-making scheme</b>	<b>14.400</b>	<b>14.400</b>	<b>14.400</b>	<b>14.400</b>
<b>Authority operating expenses</b>	<b>24.961</b>	<b>25.461</b>	<b>31.298</b>	<b>32.777</b>
<b>Total appropriation</b>	<b>95.452*</b>	<b>95.952**</b>	<b>104.021***</b>	<b>105.742****</b>

\*An in-principle expense transfer of up to \$2.000 million from 2021/22 to 2022/23 was approved and will be confirmed in the October 2022 baseline update.

\*\*We are seeking an increase of \$0.500 million in 2022/23 to cover work already underway that cannot be met by re-prioritised resources.

\*\*\*We are seeking an increase of \$7.808 million in 2023/24 to fund key workstreams and major regulatory reform from the Government's Emissions Reduction Plan, work arising from the review of the events of 9 August 2021, implementing the Electricity Industry Amendment Act 2022, work required to improve wholesale market competition, and Authority support functions (includes proposed prior year increase).

\*\*\*\*We are signalling our intention to consult on an increase of \$11.345 million for 2024/25 and outyears (post the independent baseline review being undertaken) to fund the above initiatives, with more funding being allocated to various workstreams under the Government's Emissions Reduction Plan, improving wholesale market competition, and support function costs (includes proposed prior year increase).

**Proposed appropriation is based on assumptions which may change**

3.30 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.



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

## 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.<sup>23</sup> 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 2022/23 to 2026/27. Expenses under this appropriation can only be incurred by the system operator. The Authority itself cannot incur expenses under this appropriation.

<sup>23</sup> 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 2022, a new security management appropriation for the period 1 July 2022 to 30 June 2027 was approved. No expenditure has been incurred against this appropriation to date.

4.11 Table five outlines the proposed appropriation:

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

<b>Contingent appropriation – Electricity Authority</b>	<b>\$ million</b>
	<b>Appropriation 2023/24</b>
Managing the Security of New Zealand's Electricity Supply (1 July 2022 to 30 June 2027)	<b>6.000 over five years</b>

**Table six:** Breakdown of the Managing the Security of New Zealand's Electricity Supply appropriation – 1 July 2022 to 30 June 2027

	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
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

## What is intended to be achieved

5.1 This appropriation is intended to achieve assurance the Authority can 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.

5.5 We propose to maintain the Electricity Litigation Fund at its current level of funding of \$1.500 million in 2023/24.

5.6 Table seven outlines the proposed appropriation for 2023/24.

**Table seven:** Electricity Litigation Fund appropriation

Contingent appropriation – Electricity Authority		\$ million
		Appropriation 2023/24
Electricity Litigation Fund		<b>1.500</b>

# 6 Consultation questions

- 6.1 What kinds of engagement have you or your organisation had with the Authority over the past 12 months?
- 6.2 The Authority is proposing a permanent baseline increase of \$0.500 million to the Electricity Industry Governance and Market Operations appropriation in 2022/23 bringing the total appropriation for 2022/23 to \$95.952 million. Do you support the Authority's proposal for funding of \$95.952 million?
- 6.3 The Authority is proposing a permanent baseline increase of \$7.308 million to the Electricity Industry Governance and Market Operations appropriation in 2023/24 bringing the total appropriation for 2023/24 to \$104.021 million. Do you support the Authority's proposal for funding of \$104.021 million?
- Note:** The Authority is not seeking feedback on the funding received for real-time pricing or market-making in this process.
- 6.4 Would you support a further increase as signalled to funding for the Electricity Industry Governance and Market Operations appropriation for 2024/25 and outyears?
- Note:** The Authority is not seeking feedback on the amount for the Electricity Industry Governance and Market Operations appropriation for 2024/25 and outyears in this consultation as this is pending the baseline review.
- 6.5 Do you have any feedback on the current funding model for Powerswitch? Would you like to see an alternative funding model for Powerswitch?
- 6.6 The Authority is proposing to maintain the contingent appropriation for Managing the Security of New Zealand's Electricity Supply from July 2022 to June 2027. Do you support the Authority's proposal for maintaining this contingent funding at its current level of \$6.000 million over five years?
- 6.7 The Authority is proposing the contingent appropriation for the Electricity Litigation Fund for 2023/24 and outyears is \$1.500 million. Do you support the Authority's proposal for maintaining this contingent funding?
- 6.8 Would you like to provide any other comment on the Authority's proposed 2022/23 or 2023/24 funding?

# Glossary of abbreviations and terms

A full glossary of abbreviations and terms is available at <https://www.ea.govt.nz/glossary/>

<b>Act</b>	Electricity Industry Act 2010
<b>Authority</b>	Electricity Authority
<b>Code</b>	Electricity Industry Participation Code 2010
<b>CPI</b>	Consumer price index
<b>EECA</b>	Energy Efficiency and Conservation Authority
<b>FCP</b>	Facilitating consumer participation
<b>MBIE</b>	Ministry of Business, Innovation and Employment
<b>Minister</b>	Minister of Energy and Resources
<b>SOI</b>	Statement of Intent
<b>SPE</b>	Statement of Performance Expectations

# Appendix A:

## Legal basis for consultation

Section 129 of the Electricity Industry Act 2010<sup>24</sup> requires the 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.

<sup>24</sup> <https://www.legislation.govt.nz/act/public/2010/0116/latest/DLM2634545.html>