
Annual Report Overview 2021/22



ANNUAL REPORT OVERVIEW

2021/22

The Electricity Authority is pleased to provide this Annual Report Overview 2021/22. The full report is available online [here](#).

This past year has seen the world continuing to navigate significant uncertainty and challenges across all aspects of life. The world continues to respond and manage through the COVID pandemic; increasing weather and climate change events; and the impact of the Russia – Ukraine conflict, all of which influence energy price escalation and have seen communities experience tightening global supplies and rising prices on all commodities.

As kaitiaki, the Authority's purpose is to enhance New Zealanders' lives, prosperity and the environment, through electricity.

The Authority's regulatory stewardship aims to protect and progress the strengths of New Zealand's electricity system for generations to come and ensure industry participation continually builds new strengths and delivers the positive outcomes for consumers that Parliament expects of us. On a practical level, this means we make and enforce the rules for the industry. But like all regulators, we are not immune to the wider environment in which we regulate.

Stewardship of the sector is even more crucial as we steer through the next few years. The Government's Emissions Reduction Plan seeks to support a cross-agency, cross-sector approach. Mass electrification, retirement of thermal generation, a volatile climate and a pandemic puts an unprecedented level of pressure on the system. There will be more challenges during the next few years, which will require an all-of-system response — preparedness and clarity of expectations will be critical.

The Authority will continue to put consumers front and centre of what we do and how we do it. We know when consumers are well informed, they are empowered to make good choices. We will continue our focus on market competition and ensuring regulatory settings deliver positive outcomes. Market competition is a key enabler to deliver a better energy future. The Authority is committed to encouraging participation and reinforcing competition in traditional and emerging markets by putting in place the mechanisms needed to maintain a level playing field. The release of our review into competition in the wholesale market and the related issues paper triggered industry engagement on a number of observations and our continued focus on improvement.

The transition to a net zero emissions future will continue to challenge the sector. The Authority has a critical role to play in the transition to the legislated target of net zero emissions by 2050, and the more immediate Government target for 50 percent of all energy consumption to come from renewable sources by 2035. The Authority has developed a transition roadmap that summarises all the initiatives under way to support the transition to a low-emissions future.

The legislative changes in the Electricity Industry Amendment Act 2022 support the Authority's focus. Changes include providing clearer powers to protect the interests of small electricity consumers in relation to their electricity supply, and increasing the Authority's ability to hold industry participants to account.

STRATEGIC AMBITIONS

Vision

Our vision is to be a world-class electricity regulator, delivering long-term benefits for consumers and contributing to the New Zealand economy.

Purpose

Our purpose as the kaitiaki of electricity is to enhance New Zealanders' lives, prosperity, and environment through electricity.

Ambitions

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

- We want **low-emissions energy** to electrify the economy.
- We want **consumer centricity** to guide regulation and the industry.
- We want to build **trust and confidence** in the industry for all stakeholders.
- We want to see **thriving competition** delivering better outcomes for New Zealanders.
- We want to see **innovation flourishing**.

We go into further details of our strategic ambitions in the [*Statement of Intent 2021–2025*](#).



HIGHLIGHTS OF THE YEAR

While the year was filled with uncertainty and change, we have continued to implement key projects to promote a stable investment environment with robust rules and clear price signals, including real-time pricing and our April 2022 decision on the transmission pricing methodology review.

The unprecedented 9 August 2021 event reminded us of the complexity of managing the fine balance of electricity supply and demand while highlighting the importance of simple, timely and easy-to-access communication for

those impacted. Lessons were learned, improvements have been made and we continue to work with Transpower and the industry to avoid another similar event.

We also focused on ensuring that the transition to a low-emission, climate resilient future can occur efficiently over the coming decades, and that New Zealanders can have trust and confidence in the ability of the system to remain affordable and reliable as it carries a greater responsibility for New Zealand's energy needs.



Developing a low-emissions roadmap

We made strides in developing the Energy Transition Roadmap to illustrate our activities and initiatives that will support an efficient transition to a low-emission energy system by addressing key questions and critical issues. As part of our stewardship, we've focused on ensuring that New Zealand can make the transition to low-emissions energy without compromising our future electricity security and reliability.



Implementing a new compliance approach

We implemented a new strategy outlining our compliance approach for participants operating in the electricity sector – helping to ensure all participants play by the rules.



Undertaking the Wholesale Market Review

To ensure we see thriving competition, we carried out a detailed monitoring review into the wholesale electricity markets, to address high spot market prices seen from 2018 to 2021.



Undertaking the 9 August 2021 Review

On one of the coldest nights of the year, about 34,000 consumers had their electricity cut without warning. We immediately launched a two-phase review into the outages and are working closely with Transpower to give New Zealanders confidence that they can rely on a secure and reliable electricity system.



Establishing Real-time Pricing

We're driving technological change for a simpler, more responsive system. With real-time pricing, consumers will be able to adjust their own electricity consumption in response to changes in pricing with confidence.

OUR YEAR IN REVIEW: SIGNIFICANT MILESTONES

The Authority delivered against a large number of workstreams and initiatives in 2021/22. Below is a summary of some of the most significant milestones we met.

JULY

- Launched consumer care guidelines
- Code amendment: allowing energy storage systems to participate in the reserves market

SEPTEMBER

- Consultation: distribution pricing reform
- 9 August response: review of 9 August event phase one completed
- Cabinet approval: funding to implement a commercial market-making scheme

NOVEMBER

- Code amendment: Code Review Programme
- Approval of the system operator's AUFLS technical requirements

AUGUST

- 2019 UTS Actions to Correct published

OCTOBER

- Consultation: new TPM
- Consultation: setting the Authority's compliance strategy
- Consultation: review of competition in the wholesale market and issues paper on inefficient price discrimination

DECEMBER

- 9 August response: preliminary decision – 9 August UTS claim
- Energy Transition Roadmap released
- 2021 dry year event review published

2021

2022

FEBRUARY

- 100% renewable electricity supply project issues paper released

APRIL

- Decision: adopting new TPM
- 9 August response: review of 9 August event phase two completed
- 9 August response: formal complaint laid with the Rulings Panel for alleged breaches by the system operator

JUNE

- 9 August response: final decision – 9 August UTS claim
- Code amendment: real-time pricing
 - Code amendment: TPM-related Code amendments

MARCH

- Consultation: hedge market enhancements
- 9 August response: investigation into alleged Genesis Energy Limited trading conduct breach discontinued

MAY

- Consultation: FTR market observations

OUR PERFORMANCE

The Annual Report includes information on the Authority's financial and non-financial performance for the 2021/22 year.

The Authority performed well overall, achieving against the baselines set for close to three quarters (73 percent) of our performance framework. We also delivered against many workstreams and initiatives in 2021/22.

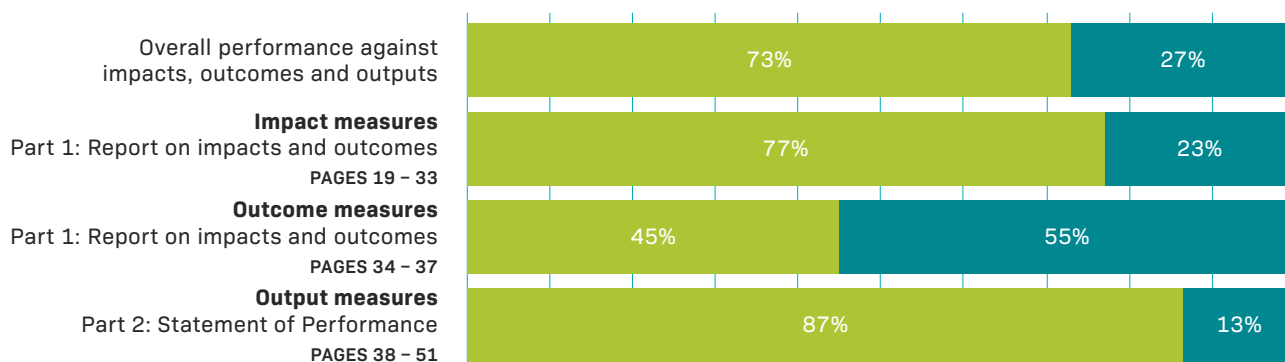
The Authority's financial performance was within budget for the operational and contingent appropriations. Full financial statements are available in Part 5 of the Annual Report.

The Authority measures our performance using a range of impact, outcome, and output measures.

- The impact we have: We use **impact measures** to track how we are performing in relation to our **ambitions**.
- The outcomes we achieve: We use **outcome measures** to see how successful our work has been at achieving our **statutory objective**.
- The things we do: We use **output measures** to track how we performed in our day-to-day **functions**.

How we performed: high-level measure summary

● Maintained or increased / Achieved / Baseline ● Decreased / Not achieved



How we measure performance

A range of measures and data sources may be used to assess our performance. The Authority typically uses a mix of internally held data, perception surveys, and independent assessments.

Some performance measures for the Authority's strategic ambitions and statutory objective require independent assessments and surveys of participant and consumer perceptions, as set out in the [Statement of Intent 2021–2025](#). The Authority commissions external providers to undertake the independent assessments and surveys, who report results back to us.

The use of multiple data sources allows the Authority to consider performance from a variety of angles, and these sources work together to paint an overall picture of performance.

2021/22 Results

A summary of this year's impact made towards our strategic ambitions is included below.

In 2020/21 we began measuring our results against the impact measures for each ambition and the refreshed perception surveys that measure against our outcomes. These are now our baseline to measure progress over time, however it will take several years to see any long-term trends developing.

Full reports on the Authority's annual performance are included in Part 1: Report on Impacts and Outcomes and Part 2: Statement of Performance in the *Annual Report*.

Outcome Measure Performance

The Authority uses outcome measures to assess performance against its statutory objective. We use a combination of perceptions surveys and statistics for these measures.

In 2021/22, results were consistent across the three outcomes of Competition, Reliability, and Efficiency. Participant perceptions generally remained relatively stable or saw slight improvements, when compared to the previous year.

Consumer perceptions, however, were lower across all three outcomes. This reflects a challenging year, with unplanned outages on 9 August 2021, high profile reviews of competition occurring in various markets, the rising cost of living and inflation reaching a 30 year high in March 2022¹. Survey respondents were also concerned about the impacts of climate change on electricity supply reliability.

The quantitative statistics used to measure the three outcomes were also impacted by the 9 August 2021 event, with reviews into the event identifying systemic issues which are now being addressed.

- It also found the consideration of options under our statutory powers to be an area of strength for the Authority.
- The Authority continues to progress the implementation of cost-reflective network prices, transmission pricing and real-time pricing to drive the impact of the lowest overall cost to consumers via network and market price signals.

Consumer centricity

Both consumer centricity impacts have had positive increases, against the 2020/21 baseline.

- Electricity industry participants have increased confidence in the system's ability to meet consumer needs, with almost half of the participants either agreeing or strongly agreeing with a range of statements on this subject.
- An independent assessment rated 4.25 out of 5 for the impact of the Authority's decision-making on meeting consumers' needs.
- Consumer awareness of the impact of the Authority's role was measured for the first-time using media mentions and sentiment and social media engagement as a proxy. These reflected a largely neutral sentiment.

MEASURING OUR IMPACT

Measuring our strategic ambitions for the sector is more than an aim or a prioritisation tool – they describe success and how the electricity industry can make a difference.

Impact measures make up half of the Authority's non-financial performance framework. These are detailed in the *Statement of Intent 2021–2025*.

Here's a breakdown of this year's impact made towards our strategic ambitions:

Low-emissions energy

Our impact towards low-emissions energy remains stable.

- Perceptions of participants were balanced in relation to their confidence in the market settings to enable an efficient transition to reliable low-emissions energy in New Zealand.
- Almost half (48 percent) of participants agreed that the electricity system will maintain reliability through the transition.
- An independent assessment rated 4.2 out of 5 or "very good" for the Authority's impact on enabling an efficient transition to reliable low-emissions energy.

Trust and Confidence

Results for the trust and confidence impacts were diverse.

- Trust and confidence in the role the Authority plays, as kaitiaki, was lower than in the previous year. Almost a quarter of survey respondents agreed that they had confidence in this, while a third reported feeling neutral on the matter.
- Lingering questions over the 9 August 2021 event, and how the Authority holds participants to account were cited by respondents as impacting their confidence.
- Participant perceptions of the quality of our monitoring were up slightly, with just over half of the survey respondents agreeing with a range of statements on the subject.
- An independent assessment found the material produced by the Authority to promote trust and confidence largely achieves its aim to support both consumer and the broader sector's understanding of the Authority, the industry, and trade-offs within market settings.

¹ <https://www.stats.govt.nz/news/annual-inflation-reaches-30-year-high-of-6-9-percent>

- These measures indicate that, while the Authority may be doing good work to demystify the sector and promote transparency, this isn't necessarily being seen by the industry, or is not what they want. This represents a key opportunity to improve in future.

Thriving competition

Performance measures used to measure the impacts of thriving competition all saw overall increases this year.

- Of the participants surveyed, 27 percent agreed that new entrant retailers and generators can compete on a level playing field with established retailers or generators (up from 18 percent in 2020/21). The increase suggests a step in the right direction, but there is still room for improvement.
- There has been an increase in the number of network companies procuring non-network services, indicating greater integration of distributed energy resources in the electricity system.
- A variety of workstreams to improve participation in a range of electricity markets are underway to unlock the potential of distributed energy resources (DER) for the long-term benefit of consumers.

Innovation flourishing

Our results for the innovation flourishing impacts were mixed.

- Just over a quarter of participants surveyed agreed that the regulatory environment supports new business models and technology. This represents an increase from the previous year, which suggests a step in the right direction, but there is still room for improvement.
- Perceptions of the current market settings' ability to encourage innovation remain at a similar level to 2020/21 (23 percent). Again, this is an area for improvement.
- The pace and scale of change required to support mass electrification in the transition to low-emissions energy, alongside the trust and confidence in the regulatory system that's needed to encourage innovation, and investment in new technologies had an impact on these perceptions.
- There was a reduced number of data transactions and new datasets published, when compared to the 2020/21 baseline. The Authority worked to migrate its data warehouse to a more robust system in 2021/22, which had an impact on these numbers.
- Throughout 2021/22, the Authority worked with the targeted organisations to facilitate small scale trials below the level of the Code. These trials will indicate the degree of consumer benefits that could be expected with a large-scale trial, and what Code impediments exist.



WHERE TO FROM HERE?

As we have worked to progress our strategic ambitions and ensure that the electricity industry is competitive and operated efficiently, that there is reliable supply, and that consumers benefit in the long term, we feel encouraged by our progress for the year ahead.

We already we have activities underway into 2022/23 that will work to address participant and consumer feedback. These include the implementation of the Electricity Amendment Act 2022 and new Transmission Pricing Methodology (TPM), our Future Security and Resilience (FSR) programme, action on inefficient price discrimination, introduction of real-time pricing and progressing reform on distribution pricing.

The importance of how we engage with stakeholders couldn't be more real in these rapidly changing times. Our commitment is to ensure we communicate well, engage meaningfully, listen and respond, making sure we provide solid feedback to close the loop.

For any queries or questions on the Electricity Authority Annual Report 2021/22 please get in touch.

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