Four-monthly report to the Minister for Energy

1 November 2023 to 29 February 2024

ELECTRICITY AUTHORITY
TE MANA HIKO

Executive summary

The Electricity Authority Te Mana Hiko (Authority) provides the Minister for Energy with this four-monthly report in accordance with our output agreement. It provides a summary of the Authority's performance from 1 November 2023 to 29 February 2024.

The Authority continued to focus on projects to ensure the transition to an electrified future is as efficient as possible, while maintaining energy security, system adaptability and affordability for consumers.

Points to note:

1. The Authority continued to deliver against the Minister's Letter of Expectations 2023/24 and the activities outlined in our Annual Corporate Plan 2023/24, with 21 out of 23 activity areas on track (91%). One activity may now be delayed into late 2024. However, we expect to achieve the remaining 22 activity areas by the end of 2023/24.
2. Highlights for this reporting period include:
    - The Market Development Advisory Group (MDAG) investigated how the wholesale market might operate with an electricity supply that is increasingly based on renewable forms of generation. On 19 December 2023, the Authority published the MDAG's final recommendations paper. This paper contains 31 recommendations for changes to the wholesale electricity market for the Authority to consider. Several projects related to the recommendations are already underway. In February, the Authority's board agreed to incorporate MDAG's recommendations into its work programme as a sequenced package, consistent with MDAG's model. We are prioritising completing work on seven of the fifteen recommendations in Tranche 1 and three in Tranche 2 that the Authority is already progressing. This will enable the benefits of these measures to be realised as soon as possible.
    - In early 2023, the Authority implemented four options to enable the system operator and industry participants to better coordinate resources during tight supply situations like winter 2023. To better support security of supply as we move towards winter 2024, three of these options will now be made permanent and consultation on the fourth has closed with submissions being assessed.
    - Following an extensive consultation in September 2023 on options to update and strengthen the Consumer Care Guidelines, we decided to mandate the whole of the Guidelines, except Part 10. We have committed to a short review process engaging stakeholders to address the clarity, workability and enforceability issues raised during consultation. This will facilitate a smooth transition to mandatory Guidelines by 1 January 2025.
    - We consulted on proposed levy-funded appropriations for the 2024/25 financial year. A significant majority of submissions were supportive of the proposed funding option. Feedback was considered as a part of determining the final recommended funding amount sent to the Minister for Energy on 9 February 2024. Additional feedback on the included proposed work programme and strategy refresh will be considered as part of the Authority's 2024/25 prioritisation and planning process.

3. We released our consultation on the future operation of the New Zealand power system in February. This consultation seeks feedback from interested parties on the future challenges and opportunities of the operation of New Zealand's power system as the country electrifies. Feedback on the consultation has been positive, with interest from a range of domestic and international parties.
4. We identified efficiencies in the use of consultants and contractors and made organisational changes to ensure the use of consultants and contractors delivers value for money for levy payers. As a result of this and other value for money activities, the Authority is forecasting a projected 34% saving in consultant and contractor costs compared with the previous financial year.
5. We are developing our *Statement of intent 2024-28* to reflect the direction and change in focus the new leadership bring to the Authority and the Minister for Energy's Letter of Expectations 2024/25 once received.
6. Financially, the Authority was tightly managed. Expenditure was slightly higher than budgeted for the year-to-date, reflecting increased pressures and the need to deliver more at a faster pace. We expect the full year expenses to be within our total income.

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1. How we are meeting your expectations

Introduction

This section provides an update on the Authority's progress towards achieving the priorities and expectations set out in the Letter of Expectations 2023/24. It is organised into the five key focus areas from our Annual Corporate Plan 2023/24:

1. System security and resilience
2. Enabling investment and innovation
3. Consumer protection
4. Monitoring, compliance, education and enforcement
5. Building trust and confidence through improved capability, transparency and engagement.

Further information on progress made against the Letter of Expectations 2023/24 can be found in Appendix A.

System security and resilience

Future security and resilience indicators

- **Progress made:** The Authority published a dashboard of future security and resilience indicators in May 2023 to monitor changes to the power system as it transitions to a low-emissions system. These indicators are updated every six months and were last updated in December 2023. We actively monitor changes to these indicators to prioritise projects to support a secure and resilient system. Current indications are that changes to the power system are increasing due to the increasing connections of renewable resources, such as wind, solar panels and batteries. This means some of our projects need to be expediated, however this is dependent on funds and resourcing.
- **Future delivery:** We will develop the indicators to collect and analyse more security data.

Future System Operations

- **Progress made:** As New Zealand transitions to a low-emissions economy, technical and operational challenges are expected for the power system with the increase in distributed energy resources creating bi-directional power flows to the power system.

  Consumer-owned electricity distribution businesses are evolving as their scope of solely being network "owners" expands into operation as well. Distribution companies are becoming distribution system operators alongside consumers increasingly participating in the power system with solar panels and batteries. The Electricity Industry Participation Code 2010 (Code) and regulations do not currently enable these operational changes.

  Last year, we engaged with key agencies (Ministry of Business, Innovation and Employment, Commerce Commission, Energy Efficiency and Conservation Authority and the system operator) on the expected challenges. On 15 February 2024, we published the consultation paper *Future operation of New Zealand's power system*.

- **Future delivery:** Consultation closes on 11 April 2024. Submissions will help inform changes to the Code and power system operation that will be needed to support an efficient power system operation. This is expected to be a multi-year programme of work and the speed of change required will depend on our resourcing.

Regulatory settings for the distribution sector

- **Progress made:** We progressed our work programme with the projects we are prioritising to reform distribution regulatory settings, identified through consultation with industry participants. We released an indicative forward work programme in October 2023.
- **Future delivery:** The Authority will release papers in 2024 on ways to improve access to data (eg, consumption, power quality and distributed energy resources), market settings (eg, requirements for flexibility providers, arms-length guidance) and the efficiency of network connections (eg, for public electric vehicle chargers).

Market Development Advisory Group investigation into the operation of the wholesale market in a renewables-based electricity system

- **Progress made:** The Market Development Advisory Group (MDAG) investigated how the wholesale market might operate with an electricity supply that is increasingly based on renewable forms of generation.

  Throughout the project, the MDAG produced two consultation papers and sought feedback from the sector. On 19 December 2023, the Authority published the MDAG's final recommendations paper with 31 recommendations for changes to the wholesale electricity market for the Authority to consider.

- **Future delivery:** The Authority is broadly supportive of the MDAG's recommendations and has worked closely with the MDAG through the development of these recommendations.

  We have assessed the MDAG's recommendations and decided to incorporate the recommendations into our work programme as a sequenced package, consistent with MDAG's advice. This will enable the benefits of these measures to be realised as soon as possible.

  We will:

    - Prioritise completing work on 7 of the 15 recommendations in Tranche 1 and three in Tranche 2 that the Authority is already progressing
    - Advance the remaining Tranche 1 recommendations in 2024, with more resources added as we complete work on the earlier recommendations
    - Address other measures in Tranche 2 and Tranche 3 as appropriate once Tranche 1 is delivered.

Managing winter peak demand – Winter 2023 review

- **Progress made**: In early 2023, the Authority implemented four options to enable the system operator and industry participants to better coordinate resources during tight supply situations. We chose the following options as they would provide the most benefit for consumers and could be implemented before winter:

  1. Provide better information on headroom in the supply stack

2. Provide forecast spot prices under demand sensitivity cases
3. System operator review of wind offers based on an external forecast
4. Clarify availability and use of ‘discretionary demand’ control.

We reviewed the effectiveness of these four options through the winter period and wrote a consultation paper to seek stakeholder feedback.

We have decided to make options 1, 2 and 3 permanent additions to the suite of published market information. Where appropriate, we are working with the system operator to enhance these options further. Consultation on making option 4 permanent has closed and we are assessing submissions.

- **Future delivery:** We will publish our decision paper in April 2024 about whether to make option 4 permanent and whether to make further enhancements to the Code obligations.

Standby ancillary service

- **Progress made:** The Authority reviewed options proposed by participants for a standby ancillary service. This is to support functions that help grid operators maintain a reliable electricity service and support the wholesale market to address winter peak demand coordination issues. We also analysed overseas examples of standby ancillary services. A consultation paper on *Potential solutions for peak electricity capacity issues* was published in January 2024. Consultation closed on 1 March.
- **Future delivery:** Submissions are being reviewed and a decision for ongoing work will be published in mid-2024.

Improving hedge disclosure obligations

- **Progress made:** The Authority published a consultation paper *Improving Hedge Disclosure Obligations – Preferred Options* in December 2023 which sought feedback on our proposed changes to improve the hedge disclosure obligations. We received 12 submissions which will inform our final decision on the Code amendments.
- **Future delivery:** After analysing industry views, the Authority will publish a decision paper in mid-2024 and will update the hedge disclosure information system accordingly.

Enabling investment and innovation

Connection charges and regulatory barriers for public electric vehicles chargers

Distribution pricing reform

- **Progress made:** The Authority has modified its plans for consultation on distribution pricing Code amendments after considering submissions from stakeholders. Consultation was planned on a 1st tranche of Code amendments by December 2023, with a decision by June 2024, then consultation on a 2nd tranche by June 2024. However, complex issues were raised in submissions for us to assess; so, our work on a proposed Code amendment has been delayed.

  In particular, the Authority is concerned about the potential for distribution connection pricing to discourage efficient new connections to the distribution network (for example, electric vehicle public charge-points) and pose a barrier to the electrification of the economy. This is a high priority for the Authority.

  Future delivery: In the near future, we will consult on a connection pricing Code amendment proposal. Then, in April we will publish a statement that the Authority intends to regulate to bring connection prices down - so the industry is clearly informed about our intentions. Additionally, we will convene a technical group to provide quality technical advice to inform work towards a Code amendment.

Distribution regulatory settings reform

- **Progress made:** We progressed our indicative work programme of the projects we are prioritising to reform distribution regulatory settings. We established a Network Connections Technical Group with 10 members to advise on future improvements.
- **Future delivery**: We will prioritise resolving the issues identified with Part 6 of the Code about how distributors can engage with distributed generation applications. This will help improve the time it takes to connect public electric vehicle chargers.

Supporting the growth of renewable generation, firming capacity and demand-side participation

- **Progress made:** We are working with MBIE, Transpower and Infrastructure New Zealand on an MBIE-led project into the incentivisation of offshore wind development.

  The Authority continues to engage with participants in the offshore wind sector on their views on the potential that offshore wind development has for the renewables transition in New Zealand.

  We also progressed accessibility improvements made to demand side participation in the wholesale market (dispatch notification load enhancements) and saw the release of the potential solutions for peak capacity issues paper released in January 2024.
- **Future delivery:** We will continue to work with the project lead, MBIE, to analyse and develop options for a regulatory framework for offshore renewable energy.

  We will continue to explore enhancements to industrial demand flexibility participation and improved incentives to invest in flexible resources through wider ancillary service participation

Dispatch notification enhancements

- **Progress made:** Through a recent trial with the system operator to assist SolarZero and Ara Ake to implement a distributed battery system trial using the dispatch notification product, we found that some areas of the Code could be enhanced to improve participant access to the dispatch notification product. Following consultation, we published our decision paper in January 2024 to amend the Code.
- **Future delivery:** A final Code amendment has been gazetted and the work is complete.

Consumer protection

Consumer Care Guidelines

- **Progress made:** Following an extensive consultation on options to update and strengthen the Consumer Care Guidelines in September 2023, the Authority decided on Option 4 to mandate the whole of the Guidelines, except Part 10. Part 10 looks at information disclosure and monitoring, which we are addressing through our consultation on retail data monitoring.
- **Future delivery:** The Authority has committed to a short review process engaging stakeholders to address the clarity, workability and enforceability issues raised during consultation. This will facilitate a smooth transition to mandatory Guidelines by 1 January 2025.

Consumer mobility

- **Progress made:** In February we consulted on eight options to support and promote consumer comparison and switching between electricity retailers and plans. This included five website-related options and three consumer choice support options.
- **Future delivery:** The Authority will release a decision on its preferred option in mid-2024. If an energy price comparison service (such as Powerswitch) is desired, the Authority will run an open procurement process in the second half of 2024 to find the best value service provider.

Monitoring, compliance, education and enforcement

Monitoring retailers’ conduct

- **Progress made:** In February we consulted on streamlining and improving our collection of retail data to improve our monitoring of the retail market to better inform evidence-based policy and regulatory decisions across the Authority and Government.

- **Future delivery:** We are carefully considering all submissions and using them to analyse the likely benefits and costs of our proposal. We intend to consult on this evaluation in mid-2024 and make a final decision in late 2024.

Monitoring the wholesale market

- **Progress made:** We continued to publish weekly trading conduct reports, quarterly reviews and trading periods for further analysis. We started a review of independent retailers' activities in the over-the-counter (OTC) forward market.

  We created a voluntary Code of Conduct for over-the-counter participants. This was developed by an industry-led OTC market working group to support an efficient and competitive OTC market. All participants in the OTC market have been encouraged to sign up to the voluntary Code and 12 have done so, including all the major generators and retailers.

- **Future delivery:** We will continue to track and monitor all aspects of the sector and publish trading conduct reports.

Increasing our focus on compliance

- **Progress made:** We continued to monitor compliance with electricity industry regulations and the Electricity Industry Participation Code 2010. We met our target for all compliance cases to be closed within 365 days.

  We started our industry training programme and delivered a webinar for distributors on Electricity Information Exchange Protocol 5A. We also completed a survey for industry participants on their training needs so that we can develop and tailor a relevant training programme.

  We improved our Compliance portal with updated information of participants' Code obligations.

  Future delivery: We will continue to develop and implement our industry training programme. A forum for auditors is planned for May 2024.

  We will update our Retail Audit Database to improve data security, efficiency, tracking and reporting of compliance trends through the audit process.

Building trust and confidence through improved capability, transparency and engagement

Supporting broader sector initiatives

- **Progress made:** The Authority is working closely with the Council of Energy Regulators to support a whole-of-system approach to risks, issues and opportunities within the energy markets regulatory system. We also continue to work closely with industry to understand barriers to investment and innovation.
- **Future delivery:** The Authority will continue to work with industry and agencies to understand key areas of concern; work collaboratively on solutions and maximise opportunities for all consumers. Our immediate focus areas are on improving security of supply; enabling flexibility; and data for better performance.

Engaging with stakeholders and consumers

- **Progress made:** On 1 February 2024, the Authority released a consumer care package with our decision to mandate the Consumer Care Guidelines, the 2023/24 Consumer Care Guidelines Alignment report, and a consultation on improving support for consumers to compare and switch electricity plans. This announcement was well received by consumers and industry, particularly our decision to mandate the Guidelines - we received thanks from consumer groups.

  On 8 February, the Authority held its second online quarterly update canvasing work underway across the organisation. The webinar was attended by 180 people, and feedback was positive about how we are engaging better with industry.

  The Authority is establishing a new Electricity Authority Advisory Group to provide independent advice on our work programme and test practical implications of regulatory decisions for consumers and stakeholders. We are seeking nominations for members from people across the sector, consumer groups, iwi and other interested parties to achieve diverse and informed perspectives within the group by 27 March.

- **Future delivery:** On 26 March we will facilitate a meeting between consumer advocacy groups, consumer focused organisations and industry groups on the important issues facing consumers. This meeting was requested by consumer advocates who were having difficulty accessing some industry groups.

  We look forward to facilitating this meeting to ensure a robust and productive conversation is held around challenges and opportunities that we can address together. There is opportunity for this to be an ongoing conversation.

Levy-funded appropriations 2024/25 consultation

- **Progress made:** Section 129 of the Electricity Industry Act 2010 requires the Authority to consult on our proposed appropriations each year. We consulted from 19 December 2023 to 30 January 2024 on our proposed levy-funded appropriations for 2024/25. The submissions informed our final recommended funding amount which we sent to the Minister for Energy on 9 February 2024.

- **Future delivery:** We are using feedback on our indicative work programme and proposed vision and outcomes framework to inform the development of our 2024/25 work programme which will be published in our Annual Corporate Plan 2024/25.

Other interests and emerging issues

Forecasting provisions for intermittent generators

The Authority has observed that intermittent generation[1] forecasts are often inaccurate and unreliable until close to real time. It is estimated that the share of supply from intermittent generation will increase from around seven percent of total generation today to 47 percent by 2050. Therefore, it is an appropriate time to review the forecasting arrangements for intermittent generators.

We released an issues and options paper in June 2023 on proposed solutions to improve the accuracy of intermittent generation forecasts.

[1] Intermittent energy is energy that is not continuously available due to external factors that cannot be controlled (eg, wind and solar).

We are now carrying out a cost-benefit analysis to provide justification for the implementation of a centralised forecasting arrangement and associated components, such as accuracy standards. A decision paper will be published in mid-2024.

Delivering fiscal sustainability

We have identified the use of consultants and contractors as a key efficiency opportunity and made organisational changes to ensure the use of consultants and contractors delivers value for money.

As a result, the Authority is forecasting a projected 34% saving in consultant and contractor costs compared with the previous financial year.

We have made the following organisational changes to deliver these efficiencies:

- Improved planning: proactively identifying issues and opportunities enables the Authority to better plan and prioritise its resourcing. This avoids reactive responses under compressed timeframes, which can often require external support.
- Building in-house capability: working to improve the capabilities of our staff.
- Improving organisational agility: improving the ability to better respond to unexpected issues with internal resource, as opposed to needing to sometimes rely on external consultants to fill the gap, or to back-fill projects.
- Work programme prioritisation: deciding that some projects will be completed using interna resources, leading to a slower timeframe then if external resources were engaged to support delivery.
- Internally monitoring international developments.

The levy funding increase we seek will support the Authority's work to drive better use of consultants and contractors. It will enable us to further build our internal capability and be more proactive and less reactive to issues.

General governance and reporting expectations

The Authority continued to operate a 'no surprises' policy with the Minister's office and continued to notify if/when we receive substantive media enquiries.

We remained proactive in our engagement with the Ministry of Business, Innovation and Employment as our monitoring agency. This helped ensure we meet the expectations outlined in the *Monitoring arrangements for MBIE-monitored Crown entities*, in line with our enduring output agreement.

2. Annual corporate plan progress report

The Authority continued to build its capability and capacity to deliver the work programme outlined in our Annual Corporate Plan 2023/24.

21 out of 23 activity areas were on track (91%). Two of the activity areas in the Annual Corporate Plan 2023/24 were delayed as at the end of the period and one of those two activities may now be delayed into late 2024. However, we expect to achieve the remaining 22 activity areas by the end of 2023/24. Additional commentary has been provided to indicate where and why targets may change in the next reporting period.

The full list of activities and their additional commentary can be found in the full Annual Corporate Plan progress report in Appendix B.

3. Output performance

This section provides an exceptions report against the performance measures in our Statement of Performance Expectations 2023/24.

The performance measures and targets set out in our Statement of Performance Expectations are reported in our Annual Report. In this four-monthly report, we report on our output performance on an exception basis, as per our output agreement.

Electricity industry governance and market operations

The Electricity industry governance and market operations appropriation funds the Authority's operations. This includes Board members' costs, the Rulings Panel, Security and Reliability Council, advisory groups, and the operation of the electricity system and markets. The appropriation enables us to exercise our five main operating functions, which are:

- **Monitor, inform and educate:** We monitor market behaviour and make data, information, and tools available to help improve understanding of the electricity markets by consumers and industry participants.
- **Operate the electricity system and market:** We are responsible for the efficient day-to-day operation of the electricity system and markets through contracted service providers.
- **Enforce compliance:** We monitor, investigate, and enforce compliance with the Act, its regulations, and the Code by industry participants to create a fair and competitive market.
- **Promote market development:** We propose and make amendments to the Code to deliver better outcomes for consumers today and in the future.
- **Protect the interests of consumers:** We are responsible for protecting the interests of domestic and small business consumers in relation to the dealings of industry participants with those consumers.

As at 29 February 2024, 11 out of 12 (92%) output measures are on track. The one measure that is off track is:

- 'Percentage of investigations decided within 12 months of the investigation being opened' targets having 100% of investigations being decided within 365 days. We expect that two cases may exceed the 365 day timeframe. This is due to factors outside of the control of the Authority.

Figure 1: Electricity industry governance and market operations appropriation, 1 July 2023 to 29 February 2024

Expense type	Feb 2024 Year to Date Actual	Feb 2024 Year to Date Budget	Feb 2024 Year to Date Variance	Jun 2024 Full year budget
System operator - operating expenses	20,190	19,626	(564)	29,638
System operator - capital-related expenses	12,042	12,454	412	18,682
System operator expenses	**32,232**	**32,080**	**(152)**	**48,320**
Service provider - market making	8,960	9,433	473	14,150
Service provider - clearing manager	1,987	1,946	(41)	2,919
Service provider - wholesale information and trading syste	1,339	1,294	(45)	1,941
Service provider - pricing manager	-	177	177	265
Service provider - reconciliation manager	679	659	(20)	989
Service provider - registry	640	525	(115)	787
Service provider - FTR manager	623	605	(18)	907
Service provider - Extended reserves manager	-	-	-	-
Service provider - depreciation and amortisation	984	1,894	910	3,032
Service provider - IT costs	2	-	(2)	
Other service provider expenses	**15,214**	**16,533**	**1,319**	**24,990**
Authority operations - work programme	3,310	3,243	(67)	3,904
Authority operations - personnel	12,027	11,428	(599)	15,363
Authority operations - other operating costs	3,868	3,444	(424)	106,418
Authority operating expenses	**19,205**	**18,115**	**(1,090)**	**27,503**
Total expenditure	**66,651**	**66,728**	**77**	**100,813**

Managing the security of New Zealand's electricity supply

The Electricity Industry Governance and Market Operations appropriation is intended to enable enhanced security of supply in the electricity system during periods of emerging or actual security situations.

The system operator can request funding from this appropriation to manage actual or emerging emergency events on the security of New Zealand's electricity supply, to:

a. increase monitoring and management responsibilities in the event of an emerging or actual security situation

b. plan and run an official conservation campaign.

The Authority's role in respect to this appropriation is limited to addressing requests from the system operator to use these funds, which are subject to an agreed process and criteria.

There has been no expenditure to date in respect to this appropriation in 2023/24.

Electricity litigation fund

The Electricity litigation fund appropriation is intended to ensure the Authority can participate in litigation effectively and without delay.

The Authority's functions under this appropriation include defending cases brought against the Authority and taking enforcement action under our compliance enforcement function.

The Authority's access to this appropriation must be consistent with the criteria of use documented in the output agreement. The Authority confirms that the fund has been operated in accordance with the criteria.

The litigation fund performance measure is on track. As at 29 February 2024, $0.145 million was spent in preparation of Authority's submissions, interactions with court and other parties eg, solicitors, attendance at hearings and various meetings etc.

- On 16 February 2024 the High Court released its decision relating to appeals brought by Haast Energy Trading Limited and Electric Kiwi Limited in relation to the Authority's decisions on a claim of an undesirable trading situation (UTS) and a pricing error, arising from the 9 August 2021 grid emergency.

  The Court upheld the appeals against the Authority's decision to decline the pricing error claim the appellants made in relation to trading periods 39-42 on 9 August 2021. The Court's decision on the pricing error claim was that scarcity pricing was incorrectly triggered, which should be corrected. The UTS appeal was dismissed on the basis that it is moot, given the finding on the pricing error appeals.

  The Authority is taking steps to implement the changes to prices required by the pricing error claim appeals finding. The Board is also considering any other impact of the High Court decision.

- The Authority is waiting for a decision in a judicial review application brought by Buller Electricity Limited in relation to the Authority's Transmission Pricing Methodology.

4. Organisational development

Operating model

For the reporting period, 1 November 2023 to 29 February 2024, the Authority's staff turnover rate was 7.4%, down from 9% for the same period last year.

Ongoing efficiencies and best practice are sought on an ongoing basis across our operating model. We continue to focus on talent attraction and retention, learning and upskilling and ensuring we have the right capabilities to deliver against expectations.

5. Audit and risk

Audit issues

There were four internal audit reviews planned for this reporting period, as per the 3-year audit plan. Due to the workload of the auditees and the agreeing of the final copies of the contract service order (CSO) only two of the reviews were started. The other two reviews have moved into the next reporting period to be completed by year-end (30 June 2024).

The external review performed on behalf of Archives New Zealand on Information Management highlighted eight findings for remedial actions. After discussions with Archives New Zealand, a 2-year remediation plan was agreed to lift the maturity of the Authority in respect to Information Management. The progress is reported to the Senior Leadership Team and the Audit and Finance Committee on a regular basis.

In the assurance plan for 2022 a review was undertaken covering the cyber environment which raised a number of recommendations. During this reporting period all of the issues were closed except for six. The six recommendations were rated moderate and low. We are reviewing the remaining six recommendations and considering whether the associated risks should be mitigated or accepted.

Risk management

No new strategic risks were identified during the reporting period.

We have updated our risk management framework and added a new risk category to the risk management framework. The category is third party risk to cover market operation service providers. New risk training, workshops and registers have been set up. The risk registers are operating as a component of the risk management framework.

A full list of critical and high risks and our risk management methodology is available in Appendix C.

The owner of the risk provides updates on a regular basis.

On review of risks, one risk has been reduced to a medium rating. The probability of the risk occurring has been reduced with the embedding of the compliance portal, which enforces a review process.

Table 1 Critical and high open risks by category

Category	31 October 2023			29 February 2024		
	Critical	High	Medium	Critical	High	Medium
Strategic	-	7	-	-	7	-
Operational	-	-	-	-	-	-
Political	-	-	-	-	-	-
Reputational	-	1	-	-	-	1
Legal/Regulatory	-	2	-	-	2	-
Workforce	-	-	-	-	-	-
Technical/Infrastructure	-	-	-	-	-	-
Market	-	-	-	-	-	-
Financial	-	1	-	-	1	-
Project Management	-	-	-	-	-	-
Health and Safety	-	1	-	-	1	-
Other	-	-	-	-	-	-
Total	**-**	**12**	**-**	**-**	**11**	**1**

6. Financial performance and position

This section provides information about the Authority's financial performance for 1 July 2023 to 29 February 2024, and financial position at 29 February 2024.

Financially, the Authority is being tightly managed. Expenditure year-to-date is slightly (one per cent) higher than budgeted. This reflects an increase in work activities.

Appropriations and expenditure

Expenditure incurred against the three appropriations available to the Authority is as follows:

Figure 2: Appropriations, 1 July 2023 to 29 February 2024

Appropriation	Feb 2024 Year to Date Actual $000	Feb 2024 Year to Date Budget $000	Feb 2024 Year to Date Variance $000
Electricity industry governance and market operations	66,652	66,948	296
Managing the security of New Zealand's electricity supply	-	-	-
Electricity litigation fund	144	290	146
Total	**66,795**	**67,238**	**442**

In the Electricity industry Governance and Market Operations (GMO) appropriation, expenditure for the six months to 29 February 2024 was $1.2 million higher than budget, mainly due to:

- Higher than budgeted other expenses of $0.5 million, due largely to launching further projects that were needed for 2023/24
- Higher than budgeted personnel costs of $0.6 million, due to additional roles and temporary contract backfill of permanent staff.

The higher expenditure has been offset by lower than budgeted depreciation and amortisation costs, as well as higher than budgeted interest income.

Total Authority expenditure for the reporting period was $66.7 million funded by Crown appropriations.

Total revenue for the reporting period is detailed in the *Statement of comprehensive revenue and expense* (Figure 3) below.

Figure 3: Statement of comprehensive revenue and expense, 1 July 2023 to 29 February 2024

2022/23 Full Year Actual $000		Feb 2024 Year to Date Actual $000	Feb 2024 Year to Date Budget $000
92,942	Crown appropriations	66,795	67,238
973	Interest income	1,030	88
93,915	**Total revenue**	**67,825**	**67,326**
16,162	Personnel costs	12,027	11,428
1,952	Depreciation and amortisation	1,423	2,218
62,242	Service provider contracts	46,463	46,543
12,586	Other expenses	6,882	6,362
92,942	**Total expenditure**	**66,795**	**66,552**
973	**Total comprehensive revenue and expense**	**1,030**	**774**

Total Authority equity increased by $1.0 million in the six months to 29 February 2024, being the value of non-appropriation revenue. Taxpayers' funds held by the Authority as at 29 February 2024 are $15.0 million and are detailed in the *Statement of changes in equity* (Figure 4).

Figure 4: Statement of changes in equity, 1 July 2023 to 29 February 2024

2022/23 Full Year Actual $000		Feb 2024 Year to Date Actual $000	Feb 2024 Year to Date Budget $000
12,968	Opening balance -1 July	13,941	13,941
973	Total comprehensive revenue and expense	1,030	774
13,941	**Closing balance**	**14,971**	**14,715**

Financial position

The Authority's assets and liabilities are detailed in the *Statement of financial position* (Figure 5).

The movements during the year have largely been modest, but we note that the Authority is holding higher current assets mainly due to prepayments $0.3 million, greater cash funds and $0.5 million GST receivable. Payables and accruals are $2.8 million higher than budget, mainly due to timing of contractually committed spend.

Figure 5: Statement of financial position – as at 29 February 2024

2022/23 Full Year Actual $000		Feb 2024 Year to Date Actual $000	Feb 2024 Year to Date Budget $000
	Assets		
	Current assets		
20,987	Cash and cash equivalents	16,657	14,473
160	Receivables and prepayments	490	185
-	GST receivable	491	-
21,147	**Total current assets**	**17,639**	**14,658**
	Non-current assets		
1,245	Property, plant and equipment	1,156	1,148
8,192	Intangible assets	7,436	7,384
9,437	**Total non-current assets**	**8,592**	**8,532**
30,584	**Total assets**	**26,231**	**23,190**
	Liabilities		
	Current liabilities		
10,581	Payables and accruals	9,492	6,677
1,550	Employee entitlements	935	1,000
38	GST payable	-	520
4,212	Appropriation repayable to the Crown	583	-
-	Other provisions	-	-
16,381	**Total current liabilities**	**11,010**	**8,197**
	Non-current liabilities		
71	Employee entitlements	71	71
191	Other provisions	179	207
262	**Total non-current liabilities**	**250**	**278**
16,643	**Total liabilities**	**11,260**	**8,475**
13,941	**Net assets**	**14,971**	**14,715**
	Equity		
9,011	Contributed capital	9,011	9,011
4,930	Accumulated surplus/(deficit)	5,960	5,704
13,941	**Taxpayers' funds**	**14,971**	**14,715**

Cash flow

The Authority experienced a negative cash flow movement of $4.3 million during the eight-month period to 29 February 2024. This was due to $3.7 million higher operating activities spend, mainly resulting from the $5.8m appropriation wash-up repayment to the Crown in December 2023 for the 2022/23 financial year.

Figure 7: Statement of cash flows, 1 July 2023 to 29 February 2024

2022/23 Full Year Actual $000		Feb-2024 Year to Date Actual $000	Feb-2024 Year to Date Budget $000
	Cash flows from operating activities		
97,154	Receipts from the Crown	73,248	77,324
973	Interest from investments	1,032	88
(5,670)	Repayment of appropriation to the Crown	(5,843)	-
0	Distribution of net spot revenue to levy payers	(12)	-
(70,884)	Payments to suppliers	(58,608)	(60,841)
(15,785)	Payments to personnel	(12,664)	(11,428)
(98)	Goods and services tax (net)	(866)	(1,918)
5,690	**Net cash flows from operating activities**	**(3,714)**	**3,224**
	Cash flows from investing activities		
-	Receipts from the sale of fixed assets	-	-
(286)	Purchase of property, plant and equipment	(50)	(152)
(3,078)	Purchase of intangibles	(566)	(1,624)
(3,364)	**Net cash flows from investing activities**	**(617)**	**(1,776)**
2,326	**Net increase/(decrease) in cash and equivalents**	**(4,330)**	**1,449**
18,661	Cash and cash equivalents at beginning of year	20,987	15,480
20,987	**Cash and cash equivalents at end of period**	**16,657**	**16,929**

Appendix A: Alignment between current Letter of Expectations 2023/24 (provided by the previous Minister) and Part 1 Delivering on expectations

The below tables show extracts of the previous Minister's Letter of Expectations 2023/24 and the Authority's approach.

Sector-related issues from the Letter of Expectations	Relevant section in part one of this report
The Government is focused on a just transition to net zero carbon emissions by 2050, and building a more productive, sustainable and inclusive economy. The Government has published the first Emissions Reduction Plan that incorporates sector specific policies to meet the first emissions budget for 2022 to 2025, including for the energy sector…we have set ambitious goals, including to transition to 50 per cent of all energy consumption to come from renewable sources by 2035 and an aspirational goal for 100 per cent renewable electricity by 2030.	System security and resilience
The Authority's role will require active engagement with the Ministry of Business, Innovation and Employment, Energy Efficiency and Conservation Authority, Gas Industry Company, and Commerce Commission to ensure the energy regulatory system supports service innovation and consumer choice.	Building trust and confidence through improved capability, transparency and engagement

Entity-specific expectations from the Letter of Expectations	Relevant section in part one of this report
Address recommendations related to the 9 August 2021 event to maintain confidence in the market and ensure security of supply in winter 2023 and beyond.	System security and resilience/Market confidence and security of supply
Monitor for the exercise of market power in the wholesale electricity market and increase the focus on the Authority's compliance function.	Monitoring, compliance, education and enforcement • Monitoring the wholesale market • Increasing our focus on compliance
Continue to support the continued growth of renewable generation, sufficient firming capacity and demand-side participation.	Enabling investment and innovation/Supporting the growth of renewable generation, firming capacity and demand-side participation
Maintain focus on the regulatory settings for distribution networks, including how connection costs and pricing for public electric vehicle (EV) charges can facilitate the electrification of transport, and how access to metering information can better support demand flexibility. In particular, within the next four	Enabling investment and innovation/Connection charges and regulatory barriers for public EV chargers

months, investigate and develop actions to address variation in EV connection charges for public EV charges across the country, as well as other regulatory barriers to the roll-out and adoption of EV technology.	
Deliver improved outcomes for the Authority's additional objective to protect the interests of domestic and small business consumers, including the Electricity Price Review's recommendation to establish mandatory minimum standards for medically dependent domestic consumers.	Consumer protection/Review of electricity retailers' self-assessed alignment with the Consumer Care Guidelines
Monitor retailers' conduct regarding vulnerable consumers and prompt payment discounts and late payment fees. Support broader sector initiative, such as Consumer Advocacy Council, Energy Hardship Expert Panel and the Energy Hardship Reference Group.	Consumer protection/Monitoring retailers conduct

Appendix B: Annual Corporate Plan Progress Report 1 November 2023 to 29 February 2024

Appendix C: Description and mitigation of critical and high risks

The critical and high risks. Each of these risks has mitigations that have been identified and are regularly updated by the risk owners and reviewed by senior management.

Risk description	Prev. rating	Current rating
If there is underinvestment in infrastructure, or investment does not keep pace with the demand for new generation in the move toward decarbonisation and/or decentralisation, then this is likely to result in reduced reliability of the network, high prices, conservation campaigns, and market intervention.	High	High
If there is a short-term supply-side issue, (outage, dry year, fuel unavailability) this may lead to energy shortages.	High	High
If consumers lack engagement and trust in the electricity market (including consumer needs not being met) then this may result in reduced consumer confidence in the sector and in the effectiveness of competition to meet consumer needs, and a decreased willingness of consumers to increase their reliance on electricity for transport and heat.	High	High
If the Authority loses relevance to the public, industry and sector stakeholders, or if the marketplace and/or regulation fails and/or insufficiently responds to the needs of stakeholders (particularly our most vulnerable stakeholders) then this is likely to result in a loss of social licence for the conventional delivery model and the loss of political and sector confidence.	High	High
If there is market collusion, a supplier disrupts the wholesale market through deliberate behaviour or a breach of rules, or an absence of market rules, then this may result in a lack of confidence in the market and/or outcomes that do not reflect a competitive market.	High	High
If there is a reduction in staff capability (eg, core and/or critical skill gaps), and/or capacity (decline in productivity due to health, safety, wellbeing, or a culture that is not conducive to organisational objectives), then this may result in the Authority's agility to respond to changes or ability to operate at full performance being compromised.	High	High
If there is a medium-term to permanent supply-side withholding or withdrawal of plant or fuel (eg, thermal fuel) currently relied on by the system, either in a planned or unplanned manner, then this may lead to energy shortages.	High	High
If we have poor or inadequate review processes for audit and investigation reports, we risk making decisions and reporting inaccurate information resulting in reputational damage to the Authority (financial impacts to sector)	High	Med

Risk description	Prev. rating	Current rating
The new compliance portal went live on 31 March 2023. As this is new technology, there may be hidden or unintended risks that could eventuate as participants and Authority staff use the portal for compliance breaches. One risk is exposure of confidential material to participants.	High	High
Due to complexities of employment legislation we may not be compliant resulting in incorrect payments to staff	High	High
'Project reporting - not tracking the current progress of a project against the original plan makes it difficult to identify risks and take corrective action. It is also difficult to tell if the project is on track, meeting its key milestones and to manage costs and stakeholder expectations.	High	High
If staff wellbeing is not managed well we risk health and safety and capacity problems resulting in increased stress, reduced productivity, negative behaviours, disengagement and resignations	High	High

Risk management methodology

We continue the journey to improve our risk maturity level by updating and revising our internal Risk Management Framework. The value underpinning this Risk Management Framework document is one of working together (mahi kotahitanga). Our objective is for all staff of the Electricity Authority to adopt the same language when discussing risk and to foster open and transparent communication when it comes to identifying, assessing, and managing risk across the whole of the Authority.

To achieve the above, the Authority has developed this framework which is consistent with the principles and processes in the ISO 31000: 2018 (E) Risk Management Guidelines. Aligning with the guidelines allows us to better ensure the risk owners are fully aware of and carry out their duties, follow a singular workflow process, link risks and issues, and escalate risks when there is a concern.

Operationally we utilise individual risk registers for all teams to record their identified risks. The risks are then triaged and incorporated into a singular enterprise risk register. This allows for greater analysis of the risks and linkages can be made when a risk becomes an issue. Some risks will remain at the individual level whilst others will be similar theme.

Ultimately all parties will rate risks using a common qualitative approach according to their likelihood and consequence of occurring, resulting in an overall risk rating. The risk rating matrix has been updated to reflect a more practical number of parameters. The overall rating is a current risk rating, which reflects the residual risk post mitigation, assuming the implemented mitigations are operating effectively.

The next step in enhancing the framework will be to formalise the risk tolerances, which will be set by the Board for each of the risk categories. The tolerances will then be used to manage the identified risk.

In respect to each risk, there is a programme of mitigations/controls which are underway or planned. The mitigations are targeted to drive a reduction in the likelihood of the risk occurring and/or the consequences should the risk eventuate.

The risk registers to be formally reviewed and reported on regularly, including adding any new risks identified and closing any risks which have reached their mitigation level. Risks reviewed by management are then reported through to the Audit and Finance Committee and Board.