Electricity Commission
Te Komihana Hiko

Annual Report 2009/10

1 July 2009 to 30 June 2010

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Report of the Electricity Commission

Te Komihana Hiko

For the year ended 30 June 2010

Presented to the House of Representatives in accordance with section 150 of the Crown Entities Act 2004

Purpose of this Annual Report

This Annual Report is the Commission's formal report to Parliament on its results for the 1 July 2009 to 30 June 2010 financial year.

The report contains information required by sections 150–155 of the Crown Entities Act 2004 and section 172ZM of the Electricity Act 1992.

This report is written as at 30 June 2010 hence references to the Electricity Commission are in the present tense. However, it should be noted that the Electricity Industry Act 2010 dissolved the Electricity Commission on 31 October 2010, prior to the publication of the report.

Further information about the Commission and its work is available from: www.ea.govt.nz

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Foreword

The year to 30 June 2010 was dominated by the Government's review of electricity governance. The Minister of Energy and Resources announced this on 1 April 2009, and appointed an Expert Technical Advisory Group (ETAG) to provide a report to the Government. ETAG and officials reported to Ministers in August 2009, Cabinet considered its advice in December 2009, which resulted in the Electricity Industry Bill being introduced to Parliament the same month. The Finance and Expenditure Committee held hearings on the Bill in May 2010 and the Electricity Industry Act was passed by Parliament in September 2010 and will come into force on 1 November.

Through this period the Commission sought to contribute appropriately to the review, while continuing to discharge its various responsibilities. These included the development of wide-ranging reforms to the electricity market, which were largely endorsed by the ETAG. Examples of these initiatives included:

- Consideration of a regime of 'scarcity pricing', (i.e. higher wholesale prices during times of supply scarcity) as recommended by the Commission's own review of the events of the supply shortage during winter 2008.
- A potential regime of 'locational' pricing, designed to provide a means of hedging transmission risk (i.e. the difference between wholesale prices at different locations on the transmission grid)—an idea which has been under consideration since Transpower earlier proposed a comprehensive regime of 'financial transmission rights' designed to address the same uncertainties.
- Over the past year, the Commission has also been reviewing the methodology used to apportion transmission charges (including the basis for charging for use of the HVDC), having agreed to do this following its approval of the HVDC upgrade (Pole 3), which Transpower plans to have in service by 2012/13.
- At the same time, the industry has been working on plans to deepen the energy (as distinct from transmission) hedge market. Combined with the swap of generation assets advocated by Professor Wolak in his report to the Commerce Commission, these measures should see a significant increase in the level or degree of competition between generators, particularly in regions remote from each retailer's generation plant.
- Meanwhile, the Commission has also continued to examine the question of whether, and if so to what extent, the structure and variety of distribution tariffs may also present a barrier to retail competition. This is a complex issue about which opinions in the industry have differed markedly. For that reason alone, the Commission has approached this subject with some caution—as well as being mindful of the number of other changes the industry has had to confront this year.

The volume of transmission investment approvals this year was less significant than the previous year, reflecting the extent to which Transpower is now in 'build mode'. Nevertheless, a number of projects were reviewed expeditiously. The Commission was keen to ensure a smooth transition in handing this responsibility over to the Commerce Commission.

While the Commission put considerable effort into the appropriate ways in which the rules governing the industry might usefully evolve, it has also had a responsibility to enforce the existing rules. This compliance role requires independence and expertise. In contrast to the previous industry-led regime, the Commission has continued to place emphasis on education rather than penalties. It has also worked hard to reduce any undue backlog of investigations as this role passes to the new Authority.

The Commission also kept its eye on the vital issue of security. It was pleasing that we saw no repeat of 2008's low rainfall and security concerns. However, as part of its annual security review, the Commission did draw attention to a possible issue in the medium-term unless generation plant continues to be built in a timely manner. Levels of security in the next three to five years will be significantly affected by the timing of the retirement of existing thermal plant.

Fortunately there is no shortage of generation projects in the planning pipeline. Geothermal and wind plants continue to be brought on stream, leading to a slight improvement in the overall proportion of generation from renewable sources. But since geothermal is baseload and wind is intermittent there will continue to be a need for fast-starting peaking plant. Hydro power, for all its versatility, cannot be expected to carry this load alone. The Commission's security of supply functions will in future be the responsibility of Transpower, subject to performance review by an independent Security and Reliability Council, to be appointed by the new Authority.

If I may finish this brief review on a personal note, my biggest concern as Chair of the Commission has been the sense that many consumers lack confidence in the electricity system. In part that no doubt stems from the frequent calls (four times in a decade) to save power during times of low hydro inflows. In part it also reflects rising retail prices (especially for residential customers) and a sense that the wholesale market remains mysterious and a source of suspicion. At the least, these fears are unfortunate. At worst, they threaten the stability of necessary and beneficial systems.

In my view these anxieties have been reinforced by the lack of a straight-forward acknowledgement that the price of electricity needs to reflect the cost of building and operating new generating plant. If that is not the case then new plant won't be built. In that case supply will not meet demand and the whole system would be in jeopardy. The unusual feature of electricity—that it is difficult to store—means it is crucial at all times to balance supply and demand. In the short-term, this is achieved by Transpower, as System Operator. In the longer-term it is crucial to encourage the building of new supply, or to moderate demand, for example through programmes to promote more efficient use of energy. For all these reasons it is appropriate to send strong pricing signals, which is the reason why in the wholesale market all suppliers are paid the marginal clearing price. As new generating plant is likely to be more expensive than existing plant (otherwise it would be likely to have been built already) we should not be surprised if electricity prices continue gradually to rise.

The proper response to this inevitability is not to pour scorn on the industry or the market system but to seek as much competition as possible, combined with independent monitoring of, and open information as to the performance of, the system. These require a regulator with sufficient expertise, integrity and independence to monitor, enforce and publish whatever information is needed to achieve the confidence the public are entitled to have in this vital system.

It is therefore useful that the new legislation has put the regulator's independence beyond question. That is an excellent end to a sometimes trying year and a gratifying conclusion to the Commission's responsibilities. I wish its successor Authority all the best. I also thank the Commission's staff for their unflagging professionalism and the Board for their ready support. It has been a privilege to work with you.

David Caygill
Chair

Part one—review of operations

This is the last full year annual report for the Electricity Commission. The Electricity Authority will come into existence on 1 November 2010.

During its existence the Commission, with extensive industry and stakeholder support, has dealt with many issues. Key areas of progress at a strategic level were:

- **Transmission regulation:** A comprehensive framework for transmission investment has been developed, including a grid reliability standard, a grid investment test, a benchmark agreement for connection services, rules for interconnection, and a transmission pricing methodology. All aspects of this framework were new, and by international standards, innovative. The framework enabled over $3 billion of investment into the transmission grid to be initiated.

- **Modernised retail market and reconciliation:** A major overhaul of the reconciliation rules and rebuild of the reconciliation system has been achieved. The reconciliation system is central to the operation of the retail market. The reconciliation system calculates the amount of electricity supplied by individual generators, to retailers and consumers. This reconciliation allows calculation of payments due. The reconciliation process determines the industry's wholesale cash flow by allocating the value of electricity to participants. This was a complex, high-risk project that required significant computer system changes by multiple parties in the market. Apart from laying an excellent base for the introduction of advanced metering technology, streamlining the flow of information through the retail system enabled a dramatic improvement in switching times. Switching reduced from an average of about 50 business days in early 2006, to an average of about nine business days once global reconciliation work was completed in April 2008, and will reduce further with the introduction of the new switching rules.

- **Wind integration:** Wind integration had long been a substantive issue facing the sector. Both short-term and longer-term issues were addressed by the Commission, including the provision of accurate pre-dispatch information and the ability of the power system to handle large-scale unpredicted changes in wind generation. The generation mix changed significantly over the last six years and the amount of offered wind capacity has increased to 490MW.

- **Security management:** The Commission came into being after two episodes of low hydro inflows. This meant security of supply was a substantive concern to both the electricity sector and the wider community. After wide consultation, security of supply policies were established and robust approaches to monitoring risk, via hydro risk curves, were implemented. This framework proved effective in monitoring fuel supply during the low lake inflows year of 2006 and particularly 2008. The 2009/10 year has been characterised by very high hydro lake inflows.

- **Retail market and meters:** With the metering stock coming to the end of its economic life and new technology increasingly becoming available, the role of meters in the system is set to evolve. A major issue was whether regulation was needed for the introduction of new advanced metering technology. A substantial engagement with the sector led to a decision not to regulate. The commercially driven introduction protects consumers from both unnecessary costs and technology risks. During 2009/10 the Commission has also produced and initial draft set of new Code relating to metering to bring them up to date. The review will also knit the reconciliation and switching enhancements together. It will give participants the flexibility to develop and utilise

time-of-use tariffs, which will promote better balance between electricity usage and supply. The review also extends to privacy, security and access to information.

- **Electricity efficiency:** Historically, electricity efficiency had not been 'top of mind' in New Zealand. Over five years the Commission has developed a set of highly innovative lighting, commercial and industrial electricity efficiency programmes based around subsidies and information. The programmes were developed organically and with the close cooperation of commercial interests, particularly parties such as the Lighting Council, the Compressed Air Association, local government, and the Motor Rewinders Association. The cooperative development was essential to programme success. The central delivery infrastructure was kept to a minimum with a high level of emphasis on commercial distribution and enabling innovation. The team of seven staff has been responsible for over 500GWh of savings with a NPV of in excess of $330 million. The average programme costs of less than 2 cents per kWh saved, compare to the marginal cost of new generation of 10–12 cents. Electricity efficiency is now being actively adopted by individuals and businesses in New Zealand.

- **Information availability:** Information is essential for the operation of markets. In the New Zealand electricity market open access to data and information that enables the understanding of the system has been constrained. The Commission set up the Centralised Dataset which enabled free access to a wide range of historical data on prices, hydro levels and power flows. The Statement of Opportunities has been developed, setting out a range of future scenarios and potential opportunities for investment in the system, particularly for transmission. This document, published bi-annually, and the Transpower Annual Planning report, which sets out its intentions as grid planner, provided a greatly enhanced level of transparency.

- **Electricity system analytical capability:** In conjunction with enabling access to data, analytical tools such as GEM (Generation Expansion Model) and vSPD (vectorised Scheduling, Pricing and Dispatch model) were developed and made freely available. Tools like this enable participants, consultants and academics to develop a new understanding of the system through empowering parties to do their own analysis and look at innovative possibilities. These analytical tools, which are freely available, assist practical decision making and reduce the dependency on abstract theoretical arguments. This analytical capability is now making substantial contributions to resolving complex problems such as thermal generation commitment and reserves market dispatch, the decade-old debate around transmission pricing, and many aspects of the Market Development Programme (MDP).

- **Market development:** Evolution of the market design has been a major focus. Tidying up issues such as the 'spring washer' problem used considerable resources. Debates about issues such as the hedge market and locational price risk management have resulted in constructive progress. The winter of 2008 enabled the Market Design Review to be significantly refocused due to the serious supply situation that almost developed and the concerns about the impact on the wider economy. The MDP was initiated in early 2009 and has been a critical focus for the Commission over the past year.

Market Development Programme

There are several drivers for the MDP:

- The need to strengthen the market's ability to enable security of supply, especially in low hydro years
- The level of disruption to the wider economy due to conservation campaigns is no longer considered sustainable

- The changing generation mix—as the proportion of intermittent generation increases there is a need for a better price signal for fast-start peaking plant, and for the demand-side of the market
- Strengthening the competitive platform is desirable, via mechanisms such as managing locational price.

The MDP is the most significant evolutionary step since the market was established in the late 1990's and was endorsed by the 2009 Ministerial Review. There is much common ground between the Ministerial Review and the MDP. However, the Ministerial Review made additions to the evolutionary step with a requirement on the industry to establish a more liquid hedge market and carry out physical and virtual asset swaps. Indeed, the sector is facing significant change.

During the year the Commission closely monitored generation build intentions for their effect on security of supply. The incoming Electricity Authority has been briefed and will maintain a careful watch, in conjunction with the System Operator who now has the physical monitoring task. The year was characterised by high hydro inflows. Indeed, in the latter part of 2009, water supply was such that some thermal generators were in a difficult situation in terms of having an adequate price signal. Responding to this situation, the Commission changed the Whirinaki offer strategy and altered the way generation out of the reserves market was dispatched, so that the reserves price was less likely to collapse.

Because of the changes arising from the MDP and the Ministerial Review, significant steps to ensure quality engagement with the sector were seen as essential. Specific technical groups were set up for the Consumer Compensation, Locational Price Risk, Scarcity Pricing and Transmission Pricing projects. In addition, two MDP conferences were held to enable wide engagement, with a total of over 150 attendees. To support consultation on specific projects, multiple workshops were held in conjunction with the release of multiple consultation papers.

The Commission greatly appreciates the input from the sector. Besides the substantial contribution to shaping practical outcomes and sector consensus, this level of engagement enables representatives to go back to their organisations to facilitative internal discussions, so that they can evolve their commercial strategy as the new market arrangements evolve.

Electricity Industry Act and other key priorities

The Commission has carried out work addressing almost all of the key matters set out in the Electricity Industry Act 2010, which have a high degree of congruence with the MDP, from the time the Bill was introduced, until the Act replaced the Commission with the Authority. We have also been monitoring industry developments in hedge markets. In addition, significant progress has been made on matters set out in the Minister of Energy and Resource's Letter of Expectations provided in February 2010.

Table 1 summarises progress in relation to the new matters covered by section 42(2) of the Electricity Industry Act.

Table 1: Progress on Electricity Industry Act new matters

Project & Act section	Status
Customer compensation scheme: s42(2)(a)	Discussed with industry at the May 2010 MDP conference. Investigation is proceeding into the requirement for payments by retailers to customers in the event of a conservation campaign, with the objective of launching a scheme prior to winter 2011.
Scarcity pricing: s42(2)(b)	Options for an administered spot price during a conservation campaign or dry-year power cuts were discussed with industry at the May 2010 MDP conference. The objective is to complete implementation for winter 2012.
Transmission hedging mechanism—Locational price risk management: s42(2)(c)	A two-node model assessing impacts of scarcity pricing and locational price risk management mechanisms was made available in May 2010 and was presented to May 2010 MDP conference. A consultation paper on the introduction of a locational hedge, based on a two-hub inter-island financial transmission right (FTR), was released in September 2010.
Dispatchable demand (DD): s42(2)(d)	Consultation on a proposal for a dispatchable demand regime closed on 18 June 2010. The objective is for Code changes to be completed by June 2011 and implementation to be completed by Dec. 2011.
Demand-side bidding and forecasting (DSBF): s42(2)(d)	Specifications have been provided to the System Operator. A finalised Code change proposal and implementation plan is expected to be handed over to the Electricity Authority for consideration (dependent on System Operator input).
Standardised tariffs & use of system agreements: s42(2)(e) and (f)	Information gathering has taken place with retailers, distributors and consumers. An industry workshop was held in September 2010. This work, which has included much detailed discussion with retailers and distribution companies, has demonstrated that it is challenging to identify positive benefits for consumers from standardisation. Following on from the workshop, the papers will be finalised and passed to the Authority to finalise the scope of work in this area.
Hedge market liquidity: s42(2)(g)	The Commission has been closely following market-led initiatives. In addition a report on requirements and potential roles for a regulator has been published. Initiatives are being developed that are complementary to the energy hedge market.

Table 2 summarises progress for other key projects, including other MDP projects and expectations set out in the Minister's letter of expectations.

Table 2: Progress on other key projects

Project	Status
Transmission pricing review	Transmission pricing options were discussed with industry at the May 2010 MDP conference. An options consultation closed in September 2010.
Smart meters, switching and development of smart networks	Consultation on proposed guidelines and standards for smart meters, switching and the development of smart networks closed in September 2010. A summary of submissions is being developed for the Electricity Authority to consider.
Next day publication of wholesale market bids and offers	Completed: Rule change recommended 17 June 2010 and gazetted on 1 July 2010. The Rules come into force on 31 August 2010.
Switching timeframes	Completed: addressed as part of Part E, H & J rule changes that will be gazetted on 26 July 2010. Rule changes come fully into effect on 30 September 2010.
Improving Powerswitch	Completed: Powerswitch upgrade completed in September 2009.
Monitoring and analysis of wholesale market data	Being considered as part of a wider assessment of role and requirements in relation to industry monitoring and analysis for the Authority.
Advanced Metering Infrastructure (AMI) policy implementation project	AMI Guidelines reviewed and update released for consultation in March 2010.

Project	Status
Terms and conditions for small scale distributed generation	Development has commenced on a scope and project plan to investigate mandatory terms and conditions for purchase by retailers of power from small-scale, distributed generation.
Future of Whirinaki	Working with MED to facilitate the transfer.
Event Management—extended load control	System Operator assessment of a modified compliance regime is underway. System Operator assessment report due 15 September 2010.
Frequency regulation—multiple frequency keepers	Draft detailed design discussed at technical stakeholder group in June 2010. Design stage initiated including addressing market integration and software specification.

Outstanding efficiency results

As demand for electricity continues to rise and generation constraints increase, improved electricity efficiency has an increasingly important role to play in achieving future security of supply and sustainability objectives. The Electricity Efficiency team has made outstanding progress on lighting, commercial, and industrial electricity-efficiency programmes and this momentum will continue as the efficiency team moves to EECA.

The 450 GWh savings target, set in 2007 when the electricity efficiency funding was approved, has been exceeded, with an estimated per annum saving in excess of 500 GWh being delivered at a lower than budgeted cost.

A summary of electricity efficiency programme activities and achievements is provided in table 3.

As at 30 June 2010 estimated electricity efficiency programme annual savings exceed:

- 500 GWh per annum of electricity usage
- 210 MW savings in electricity use at peak times
- 100 kilo tonnes less CO_2 emissions per annum
- $330 million PV of programme-lifetime savings.

Average programme costs are less than 2 cents per kWh saved, against a marginal cost of new generation of 10–12 cents.

Table 3: Key achievements from electricity efficiency programmes

Key achievements	Annual savings: 30 June 2010
Lighting and residential programmes:	
RightLight—approximately 126,000 visits to the RightLight web site since its launch in June 2009. The 2010 RightLight programme focuses on providing shoppers with useful information on choices of efficient lighting options at point-of-sale.	Estimated 440 GWh p.a. electricity savings
Financial programmes—tendering in April 2010 led to four providers being contracted to supply a range of subsidised commercial lighting products through to June 2011.	
Road lighting—roll-out of the resources to assist local bodies with the uptake of more efficient street lighting was completed in March 2010, including workshops with over 200 participants from local bodies and lighting companies.	
Heated towel rails— tendering took place in April 2010 for promoting the use of heated towel-rail timers in New Zealand homes. The Commission is in the process of contracting with suppliers.	

Key achievements	Annual savings: 30 June 2010
Commercial sector programmes:	
Financial programmes—145 committed electricity efficiency projects in commercial buildings. The programme provides opportunities to part-fund efficiency projects in commercial buildings (where there is a financial barrier to the project occurring) that deliver guaranteed electricity savings within pre-set criteria. Tendering in April 2010 led to 17 providers being contracted to supply a range of commercial-sector electricity efficiency programmes. Information and training programmes—programmes arising out of the November 2009 RFP for information and training proposals have commenced. This includes training programmes for energy specialists, facilities managers and commercial valuers, and an electricity efficiency training programme for refrigeration specialists. Information needs in commercial sector buildings are being investigated to provide direction for development and dissemination of electricity efficiency information to commercial building stakeholders.	Estimated 35.5 GWh p.a. electricity savings
Industrial programmes:	
Compressed air systems programmes—184 assessments and audits completed to 30 June 2010. Motors programmes—41 MW of motor stock has been bountied out as at 30 June 2010. The bounty scheme has been extended to 31 January 2011. Nine rewind workshops have been confirmed as meeting the certification requirements of the Motor Rewind Workshop Quality Code. Tendering in March 2010 led to four providers being contracted to pilot assisting large industrial sites introduce policies to guide motor replacement and repair decision-making.	Estimated 33.8 GWh p.a. electricity savings

Transmission investment approvals

The Commission has approved over $3 billion in transmission investment. In the 2009/10 year $86.2 million of grid upgrade proposals was approved (see table 4). An additional $373.1 million was approved in the 1 July to 31 October 2010 period (see table 5).

Oversight of transmission investment proposals has continued to progress. A significant number of approvals have been processed efficiently and with a high level of industry support.

Table 4: Summary of grid upgrade applications and approvals in 2009/10

Proposal	Amount ($ million)	Status as at 30 June 2010 and process summary
Marsden substation investment proposal	6.4	Approved: Submitted on 29 May 2009. A notice of intention to approve the proposal was published on 30 June 2009. No request for a public conference was received and the decision became final ten working days later.
Bombay 110kV bus security investment proposal	4.7	Approved: Submitted on 12 March 2009. Transpower withdrew the application on 8 May 2009 and resubmitted it on 30 June 2009. A notice of intention to approve the proposal was published on 14 August 2009. No request for a public conference was received and the decision became final ten working days later.
Wanganui–Stratford transmission investment proposal	44.1	Approved: Submitted 11 September 2009. A notice of intention to approve the proposal was published on 10 November 2009. No request for a public conference was received and the decision became final ten working days later.

Proposal	Amount ($ million)	Status as at 30 June 2010 and process summary
Bay of Plenty interconnection capacity upgrade investment proposal	21.5	Approved: Submitted 3 November 2009. A notice of intention to approve the proposal was published on 18 December 2009. No request was made for a public conference and the decision became final ten working days later.
Auto synchronisation points investment proposal	9.5	Approved: Submitted on 23 December 2009. Revised documentation was provided on 12 January 2010. A notice of intention to approve the proposal was published on 22 March 2010. No request was made for a public conference and the decision became final ten working days later.
Redclyffe 220/110kV interconnection investment proposal	7.6	Deferred: Submitted 3 July 2009. As a result of the consultation process Transpower has deferred the proposal. Instead it will be conducting a trial at Redclyffe to investigate whether the capacity ratings of interconnecting transformers at specific sites can be increased without compromising system security. Transpower expects that the trial will last for 12 months, after which it will decide whether to proceed with the investment proposal, withdraw it or amend it.

Table 5: Summary of grid upgrade approvals in 2010/11

Proposal	Amount ($ million)	Result to 31 October 2010
Upper North Island dynamic reactive support investment proposal	110.2	Approved: Submitted 20 May 2010. Notice of intention to approve issued on 5 July 2010. No request was made for a public conference and the decision became final ten working days later.
Lower South Island renewables economic investment proposal	197	Approved: Submitted 30 November 2009. A notice of intention to approve the proposal was published on 26 April 2010. A request was made for a public conference, which was held in Alexandra on 28 June 2010. On 9 August 2010, the Commission decided to confirm its decision to approve the proposal.
Lower South Island Reliability Transmission Investment Proposal	62.4	Approved: Submitted 31 May 2010. Notice of intention to approve issued on 6 September 2010. No request was made for a public conference and the decision became final ten working days later.
Bunnythorpe–Haywards Thermal Upgrade (2006) Investment Proposal	3.5	Approved: Submitted 21 July 2010. Notice of intention to approve issued on 6 September 2010. No request was made for a public conference and the decision became final ten working days later.

Information provision

Statement of Opportunities: The 2010 Statement of Opportunities was released in early September, following stakeholder consultation. Besides industry submissions and contributions and in-house modelling, the Commission draws on specialist external advice, academic literature, and insights from other parties involved in electricity demand forecasting. These sources have been used to develop demand outlook and supply scenarios for the period to 2040, to assist in decision-making on grid investment and other developments.

Centralised Dataset (CDS): Two CDS updates were released in the year. The May 2010 update provides data on half-hourly metering and pricing, hydrology, and network configuration to assist decision-making on capital investment and the operation of the electricity market.

Steering a steady course towards handover

In parallel to the MDP work there has been a major task preparing for the transition to the Electricity Authority. Commission staff are to be highly commended for the way they have maintained a high level of output in the normal work programme, as well as assisting to lay the foundations for the new organisation.

A particular focus has been the priority matters in the Electricity Industry Act 2010. Many of these are already in the MPD, however, those items that are not have also been advanced so that the Electricity Authority is not disadvantaged as it faces a busy first year.

Considerable effort has been put into providing a seamless transition to the new arrangements under the Act, including preparing the new Electricity Industry Participation Code 2010 (the Code) to replace the Rules. Work on the Code has been completed. Drafting the Code has represented a critical body of work for the Commission. There was good feedback that the new drafting style has significantly improved clarity in many areas.

Completing the seven significant and 33 minor rules changes going into the new Code, represents a 'clearing of the decks' of existing work, allowing the Electricity Authority to focus on priority projects. Where projects are being handed over to the Authority significant effort has been placed on progressing these projects to a logical stage, and on providing clear briefings for the incoming Authority members.

Staff have also put considerable emphasis on ensuring a smooth handover of functions to other agencies where these are occurring on 1 November 2010. I trust that this will ensure a smooth transition both for staff, for industry participants, and of course for electricity consumers.

In closing, I would like to thank the Commission staff for their commitment and competence. They have clearly demonstrated the abilities of a highly competent solution-orientated regulator, with an intelligent approach to regulation.

Mervyn English
General Manager

Part two—report against objectives

Commission objectives

The Crown Entities Act 2004 requires the Commission to set out its objectives and information on the results it is seeking.

This part provides an overview of progress against the Commission's objectives—the high level results being sought—and the work that is being done to contribute to improvement in those objectives.

The Commission's objectives, as set out in the 2009–2012 Statement of Intent (SOI), were:

1. Well functioning markets
2. Sufficient, reliable supply
3. Efficient use and environmental sustainability.

Figure 1 shows the links between the Commission objectives and the principal objectives and specific outcomes in the Electricity Act 1992 (the Act).

The long-term electricity indicators and impact indicators reported on in this part were identified in the SOI for the objectives.

Figure 1: Commission objectives—links with the principal objectives and specific outcomes in the Electricity Act 1992

Electricity Act 1992 Principal objectives and specific outcomes (section 172N)	Commission objectives		
	1. Well functioning markets	2. Sufficient, reliable supply	3. Efficient use and environmental sustainability
Principal objectives			
(1) The principal objectives of the Commission in relation to electricity are:			
a. to ensure that electricity is produced and delivered to all classes of consumers in an efficient, fair, reliable and environmentally sustainable manner	✓	✓	✓
b. to promote and facilitate the efficient use of electricity		✓	✓
Specific outcomes			
(2) Consistent with those principal objectives, the Commission must seek to achieve, in relation to electricity, the following specific outcomes:			
a. energy and other resources are used efficiently	✓	✓	✓
b. risks (including price risks) relating to security of supply are properly and efficiently managed	✓	✓	
c. barriers to competition in the electricity industry are minimised for the long-term benefit of end-users	✓		
d. incentives for investment in generation, transmission, lines, energy efficiency and demand-side management are maintained or enhanced and do not discriminate between public and private investment	✓	✓	✓
e. the full costs of producing and transporting each additional unit of electricity are signalled	✓		
f. delivered electricity costs and prices are subject to sustained downward pressure	✓	✓	
g. the electricity sector contributes to achieving the Government's climate change objectives by minimising hydro spill, efficiently managing transmission and distribution losses and constraints, promoting demand-side management and energy efficiency and removing barriers to investment in new generation technologies, renewables and distributed generation	✓	✓	✓

Objective 1: Well functioning markets

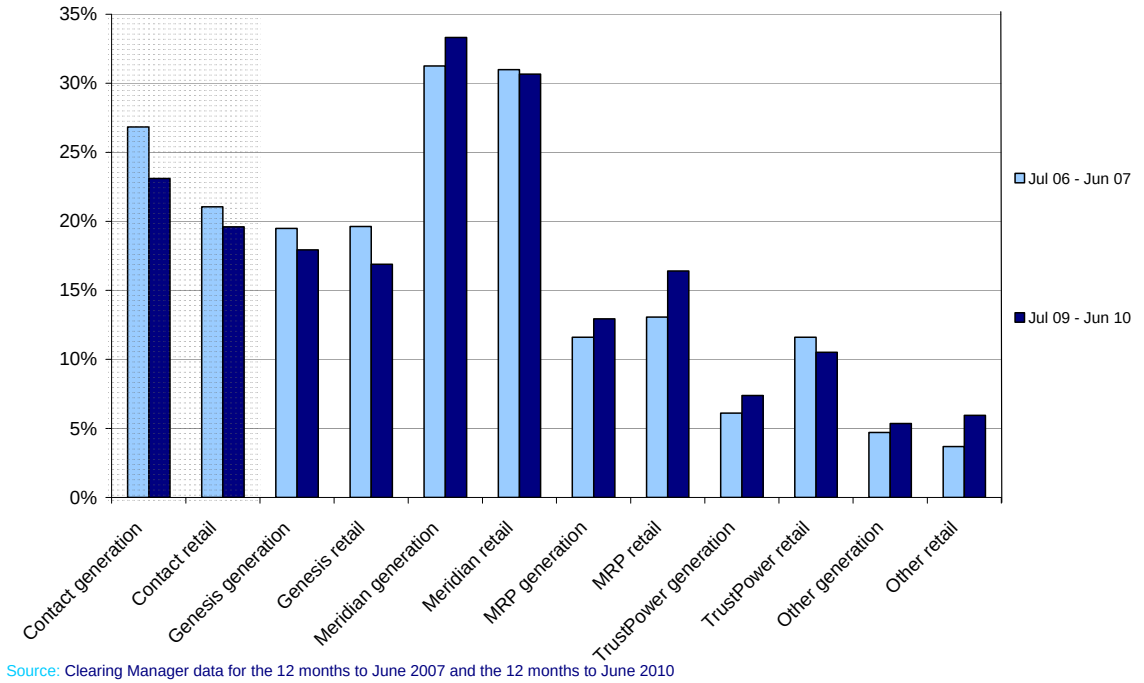
Electricity indicator A: Electricity company market share (generation and retail)

For competitive markets it is essential that: (a) there are multiple parties to each market; and (b) that the parties cannot totally internally hedge themselves from risk by matching their generation output and retail sales activities. There is currently a close match between generation and retail market share for all major generation/retail companies, and this is considered to be a factor in a relatively low level of liquidity in electricity hedges.

Generation capacity, and therefore market share tend to change relatively slowly. However, the Government's planned generation asset swap will impact on the current mix.

Figure 2 provides information on generation output and retail market share for the 2006/07 and 2009/10 financial years.

Figure 2: Percentages of market share (generation and retail—amount of electricity traded)



Source: Clearing Manager data for the 12 months to June 2007 and the 12 months to June 2010

Electricity indicator B: Consumer switching and retail market share

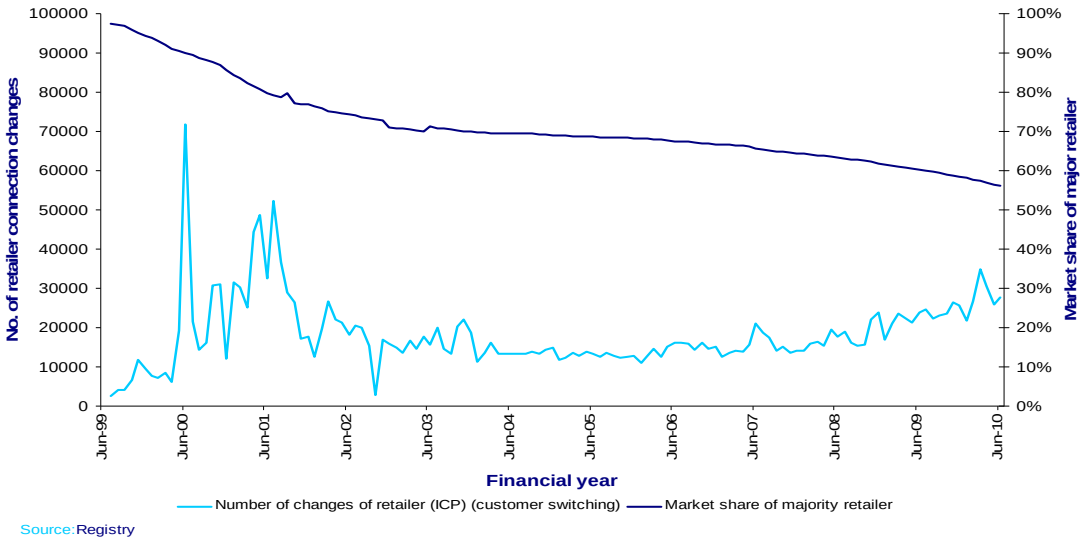
Retail market share is potentially more volatile than generation market share. Figure 3 shows changes in retail market share, and customer switching levels over time.

In 1999, when the competitive market for electricity retailing was established, customers were assigned to a single 'incumbent' retailer. Over time the market has resulted in a mix of retailers competing for retail customers, leading to the term 'major retailer' replacing the use of 'incumbent'.

The level of major retailer market share is declining slowly, and is now sitting at just over 55 per cent in total across the country. However, there are some regional variations in this picture. For example, there are three regions where the market share of the largest retailer is less than 40 per cent, and four regions where the largest retailer has over 80 per cent market share, and in one of those the largest retailer has over 90 per cent.

There has been a steady and sustained increase in the number of switches over the past 12 months and Mercury Energy (the retail arm of Mighty River Power) has continued to gain new customers. Genesis Energy and Mercury Energy have entered into more South Island markets.

Figure 3: Consumer switching and market share of major retailer

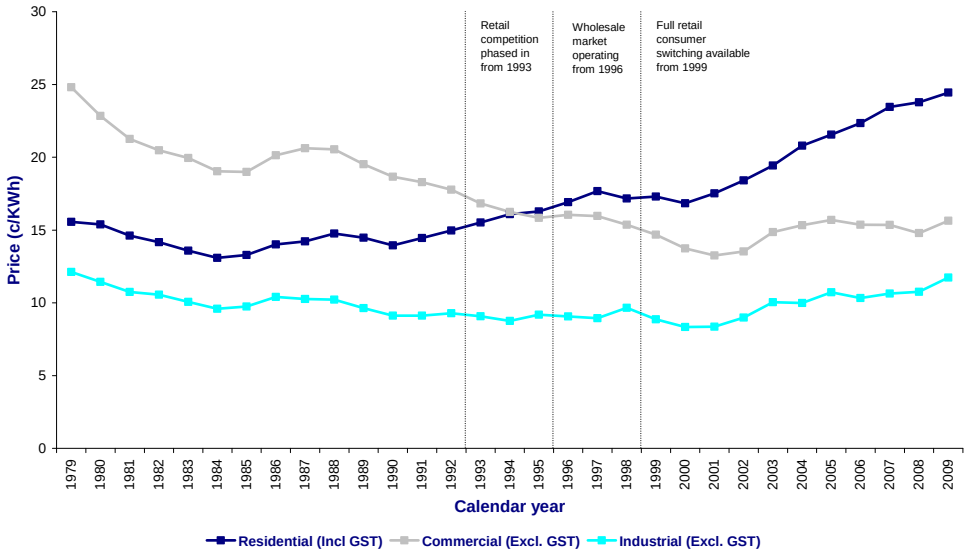


Source: Registry

Electricity indicator C: Electricity consumer prices

'Real prices' refer to prices adjusted for changes due to inflation[1]. Figure 4 shows that from the mid 1980's to 1990's a significant rebalancing in prices occurred between the residential and commercial sectors, at a time when commercial use was also growing at a greater rate than the growth in residential use. In presenting this data the Commission has followed the Energy Data File convention, which presents residential prices including GST and commercial and industrial prices excluding GST as these represent the actual costs borne by the consumer.

Figure 4: Electricity consumer prices (real 2009 prices)

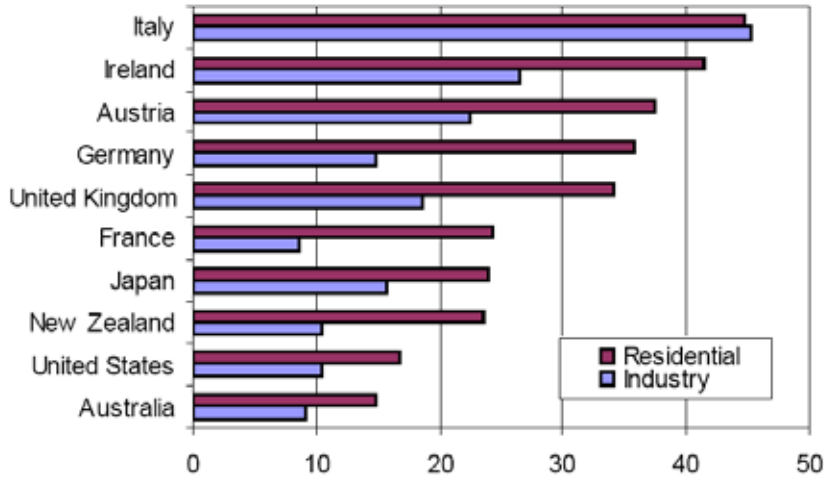


Source: Ministry of Economic Development, Energy Data File, August 2010

The Ministry of Economic Development (MED) publication *New Zealand Energy Indicators 2009* observes that New Zealand's industrial and residential electricity prices are relatively low when compared internationally, as shown in figure 5.

1 The current Energy Data File method of adjustment for inflation uses the consumer price index (CPI) for residential prices, and uses the producers price index (PPI) for commercial and industrial prices.

Figure 5: International comparison of electricity prices (September quarter 2008)



Source: Ministry of Economic Development (MED) New Zealand Energy Indicators 2009

The Commission's Market Development Programme seeks to sharpen up competitive pressures and make it easier for consumers to shop around. It also aims to widen the scope for consumers to more actively manage their own demand, to provide a greater counterweight to suppliers' market power.

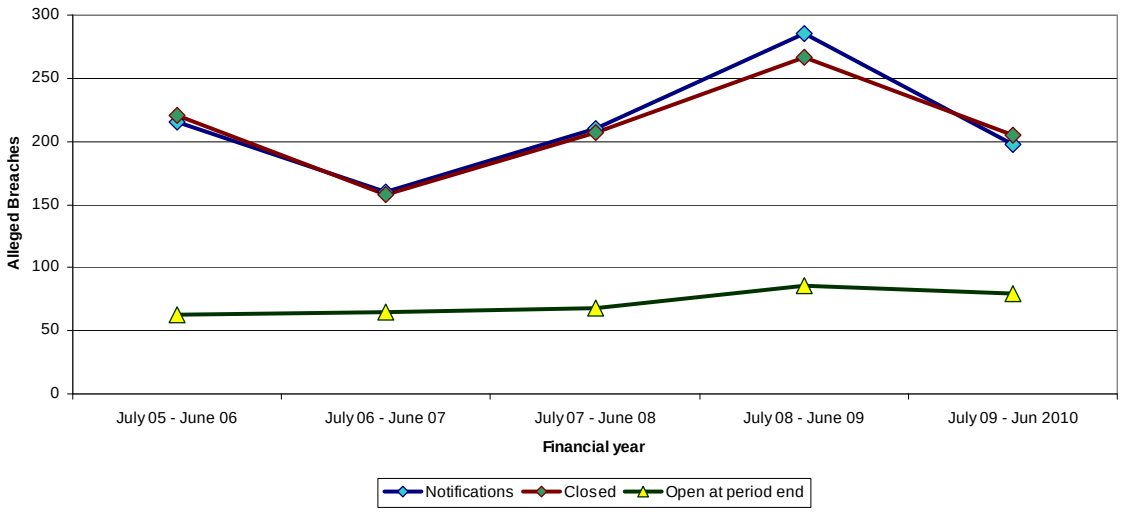
Impact indicator 1: The number of rule-breaches reduces

If the Rules are clear and consistently enforced, over time it is expected that the number of breaches will reduce. The Commission considers that changes in any of the following could affect this indicator:

- The Rules, including the number and extent of any changes made over time
- Participant behaviour in complying with the Rules and in making notifications
- Monitoring approaches, e.g. more proactive information provision and enforcement could result in increased numbers of breach notifications.

Figure 6 shows that the number of rule-breach notifications trended upwards between January 2007 and January 2009 coinciding with the Commission's increased focus on providing compliance information to stakeholders. However, the trend has changed since then and is now reducing, partly attributed to a focus on significant and material breaches rather than the trivial and inconsequential.

Figure 6: The number of rule breach notifications, closed and on hand



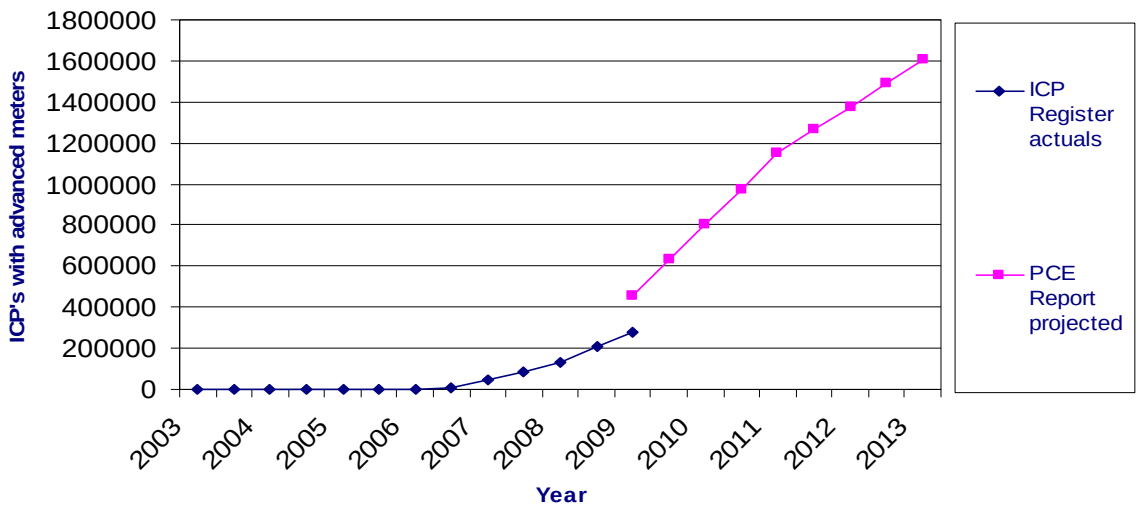
Source: Electricity Commission

Impact indicator 2: The number of advanced meters installed increases

The number of advanced meters installed continues to increase. As at 30 June 2010, 354,711 advanced meters had been installed. See figure 7 for installations to date and projections prepared for the Parliamentary Commissioner for the Environment (PCE) (Published in September 2008 as part of the 2006/07 Annual Review of the environmental performance of the Electricity Commission).

It is noted that the current rate of installations is well below that needed to replace all category one meters before the 1 April 2015 deadline for certification. However, it is considered possible for existing meters to be certified within this timeframe and therefore replacement is not required to meet the deadline.

Figure 7: Advanced meters: installed and projected



Sources: Electricity Commission (numbers installed from the ICP Register, projections from Parliamentary Commissioner for the Envrionment report: Electricity Commission Annual Review 2006/07

Impact indicator 3: Satisfaction with the hedge market increases, as measured by the two-yearly hedge market survey

Surveys have been completed in 2005, 2007 and 2009.

There has been relatively little change in perception over time in relation to hedge markets. Purchasers continue to be critical of the lack of liquidity in the hedge market, attributed to vertical integration of generator/retailers, who enjoy a natural hedge for much of their generation through their retail arms thus limiting the volume of hedges available.

The Commission seeks to make incremental improvements to market arrangements but is conscious that factors beyond its control, such as the amount of electricity sought and offered through hedges (liquidity) and the ASX establishment of a New Zealand electricity hedge trading market are likely to have a greater impact on satisfaction with hedge markets than changes the Commission can make to the regulatory regime. The Commission kept a watching brief on industry developments.

Objective 2: Sufficient, reliable supply

Electricity indicator D: New Zealand winter energy and capacity margins

Two supply indicators are used: the energy margin (overall generation margin above demand), and capacity margin (ability to meet peak demand).

The 2008 security of supply policy sets the following targets for energy and capacity margins respectively:

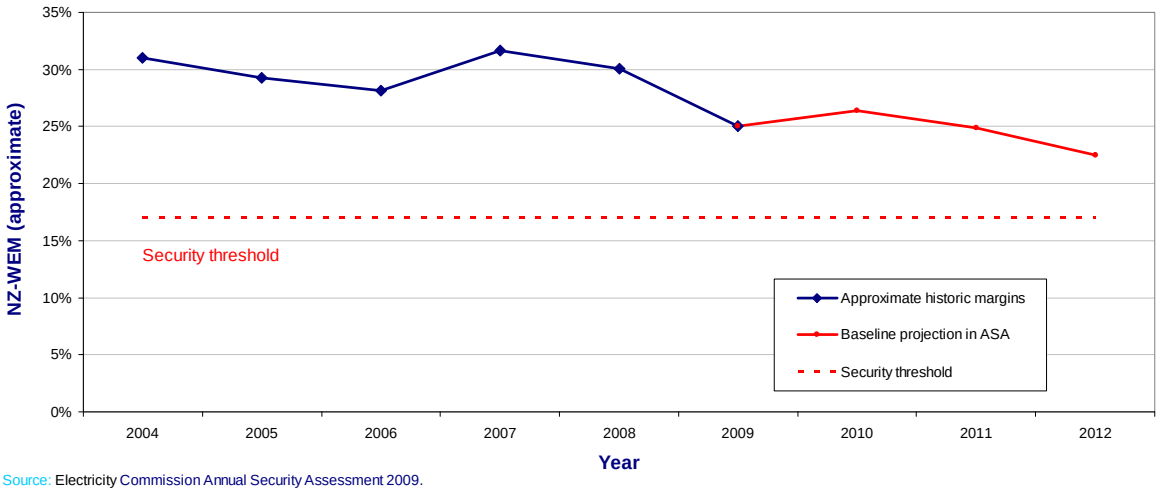
- A national winter energy margin minimum target of 17 per cent across New Zealand, and 30 per cent for the South Island, representing the margin of generation above demand. Trend information from the 2009 Annual Security Assessment is shown in figure 8.
- A winter capacity margin of 780MW. Trend information from the 2009 Annual Security Assessment is shown in figure 9.

The current primary concern relates to capacity (the ability to manage peak demand) rather than energy (the ability to deal with extended dry periods). More generation and/or demand-side investment will be required to maintain the capacity margin above security thresholds beyond 2011.

An updated Annual Security Assessment is to be produced by the System Operator in early 2011 under the changes brought about by the Electricity Industry Act 2010.

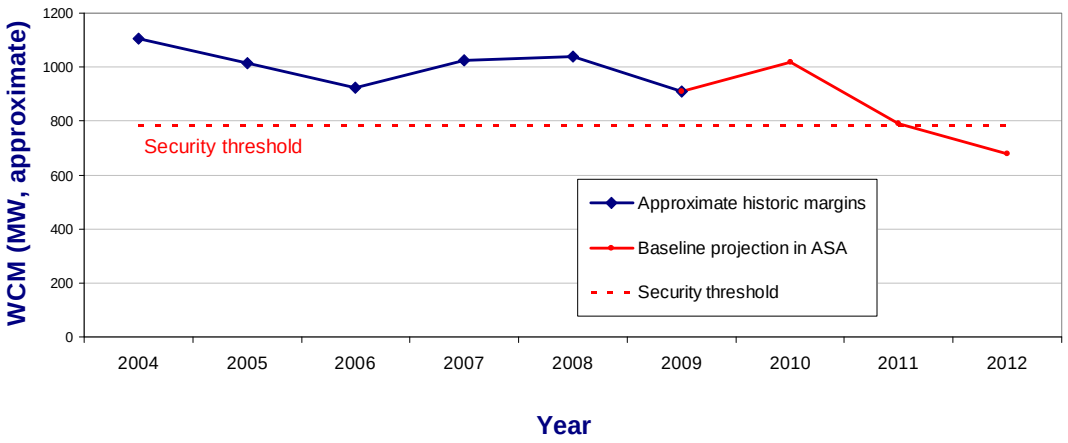
The Commission is also focusing on the market price signals and information required to ensure that generators and demand-side providers deliver capacity when required. As part of the Government's reform of the electricity sector, a customer compensation scheme (previously know as default buy-back) is being developed. It is intended to ensure retailers face the appropriate costs of savings campaigns, providing incentives to improve energy and capacity management. It also provides a mechanism for consumers to be appropriately compensated for making savings. These arrangements are intended to be in place for the 2011 winter period.

Figure 8: Estimated NZ winter energy margin



Source: Electricity Commission Annual Security Assessment 2009.

Figure 9: Estimated NZ winter capacity margin



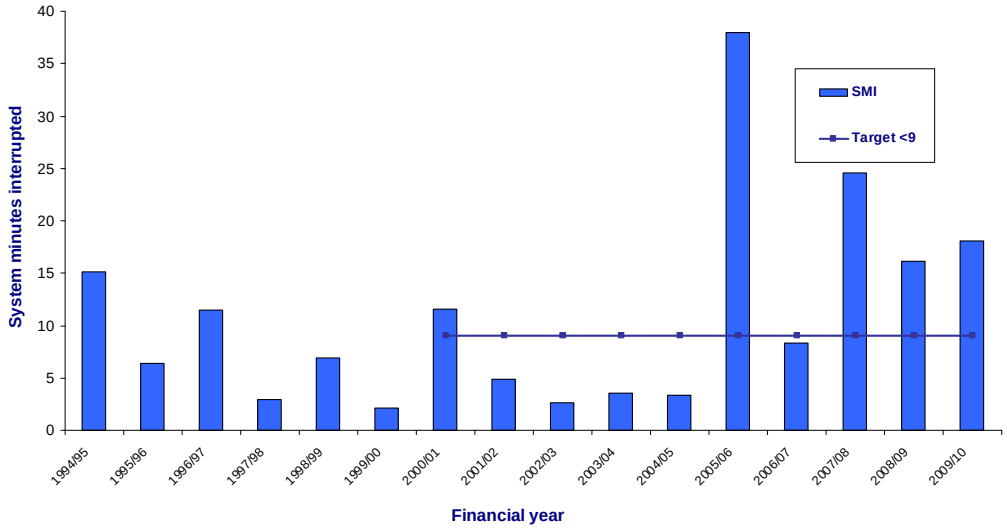
Source: Electricity Commission Annual Security Assessment 2009

Electricity indicator E: Transmission system minutes interrupted

System minutes interrupted (SMI) is an internationally used indicator of transmission system reliability. This data is sourced from Transpower as the grid owner and operator and is shown in figure 10.

The breach of the target for 2005/06 was attributed to a single maintenance-related outage at Otahuhu, which disrupted power to parts of Auckland for five hours on 12 June 2006 (resulting in 29.8 SMI). For 2007/08 Transpower reported that the total SMI of 24.6 minutes includes 15.7 system minutes for two incidents where factors were outside Transpower's control[2]. For 2008/09 Transpower reported that there were 16.1 system minutes of unplanned interruptions. Two major incidents caused more than half of the system minutes lost. In both of these incidents, aged equipment was out of service for planned refurbishment or replacement when a separate item of equipment failed. Transpower have introduced procedures to lower this risk.

Figure 10: Transmission system minutes interrupted (SMI)



Source: Transpower Ltd Annual Report 2009/2010, 2009 data from Pricewaterhouse Coopers Electricity Transmision and Gas Pipeline 2009 Information Disclosure Compendium

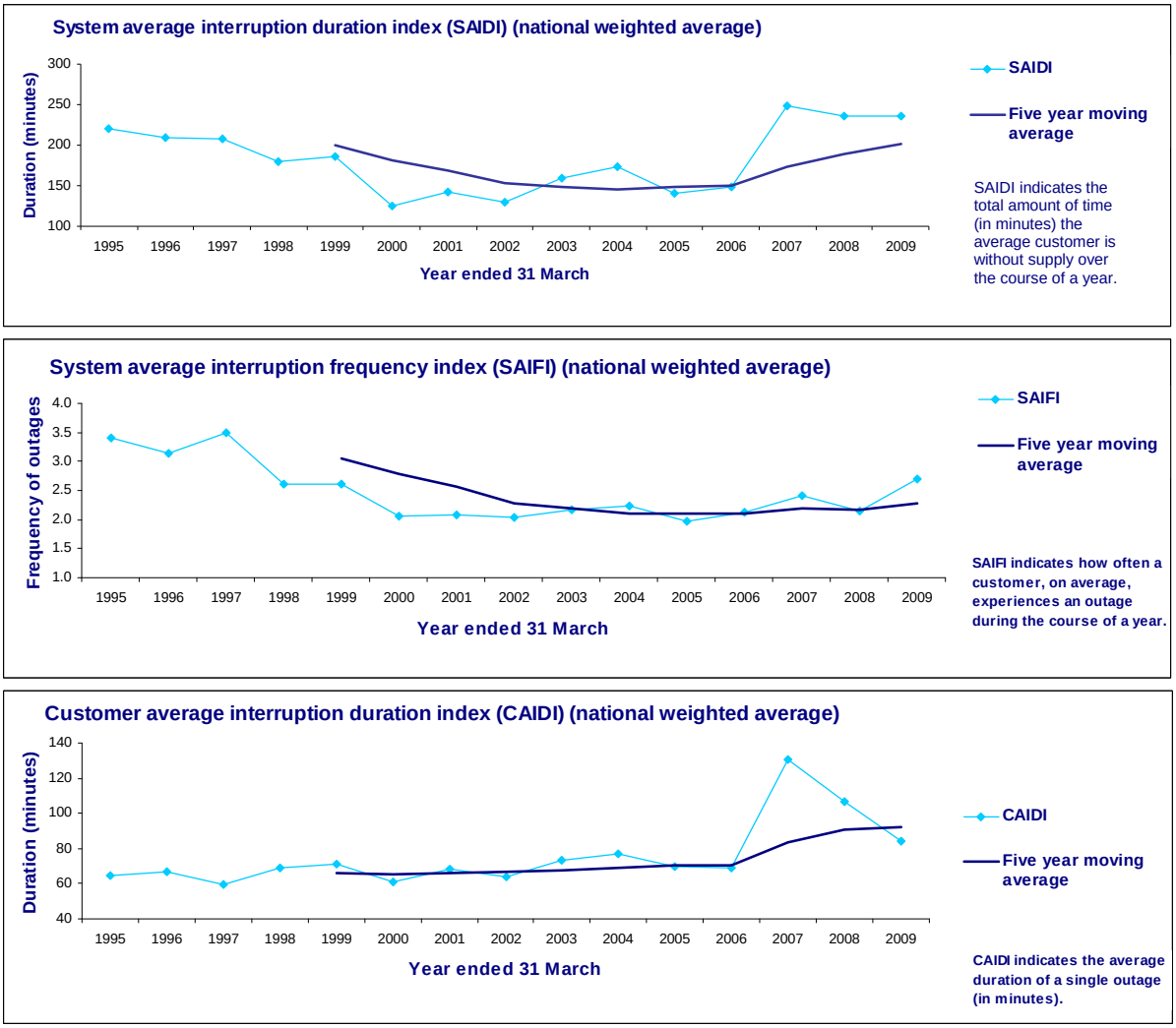
2 Page 7, Transpower 2007/08 Annual Report.

Electricity indicator F: Consumer interruption indicators

Distribution network outages are those most likely to directly impact consumers. Reliability in this area is therefore significant to consumers. However, these indicators are most likely to be impacted by the local distribution networks, which primarily come under the regulatory oversight of the Commerce Commission.

There are three commonly used indicators of distribution network reliability, referred to as SAIDI, SAIFI and CAIFI and shown in figure 11. The high 2007 results are largely the result of winter outages from heavy snowfalls and storms, particularly in South Canterbury. The 2008 result was influenced by storms that affected Northland and Auckland.

Figure 11: consumer interruption indicators



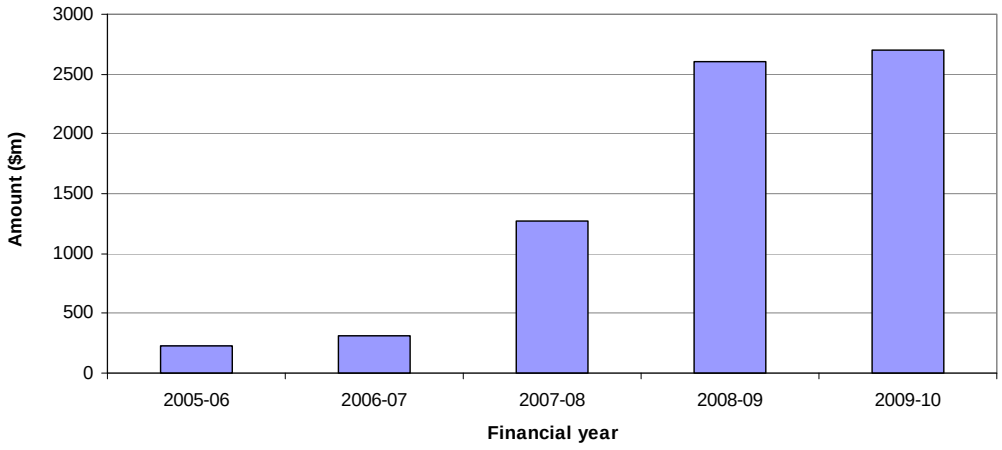
Source: Electricity Line Business and Gas Pipeline Business Information Disclosure Compendia (up to 2009), PricewaterhouseCoopers

Impact indicator 4: Total value of grid investment approvals/declines

The responsibility for putting forward proposals, and ensuring that they meet the regulatory test, rests with Transpower. The cumulative value of approvals to date is shown in figure 12. In addition $373.1 million of grid upgrades was approved between 1 July and 31 October 2010[3].

3 Upper North Island dynamic reactive support ($110.2 m), Lower South Island renewables ($197 m), Lower South Island Reliability ($62.4 m), Bunnythorpe–Haywards Thermal Upgrade ($3.5 m).

Figure 12: Cumulative grid investment decisions to 30 June 2010, by year of approval



Source: Electricity Commission

Impact indicator 5: The security margin is maintained or increased

The security margin is primarily a factor of commissioning new generation in time to meet increasing consumer demand.

The Commission carries out annual assessments of security of supply of electricity generation in line with its security of supply policy. The latest Annual Security Assessment did not result in a change in contracted reserve energy (see impact indicator 6). See figures 8 and 9 for historic and forecast security energy margins.

Impact indicator 6: The amount of contracted reserve energy required reduces

The Commission can purchase reserve energy to mitigate security margin risk if the market is not providing sufficient reserve capacity. The 155 MW Whirinaki reserve energy plant is the only contracted resource.

Impact indicator 7: The operation of the electricity system meets quality and reliability standards—as indicated by breaches of Principal Performance Obligations

Part C of the Rules includes a series of obligations called Principal Performance Obligations (PPO's) on Transpower as System Operator. Examples of PPO's are to avoid cascade failure, maintain system frequency within a band, limit momentary frequency fluctuations and manage time error.

In 2007 the System Operator did not meet its PPO's on two occasions with respect to its obligation to manage frequency time error to within 5 seconds of New Zealand standard time.

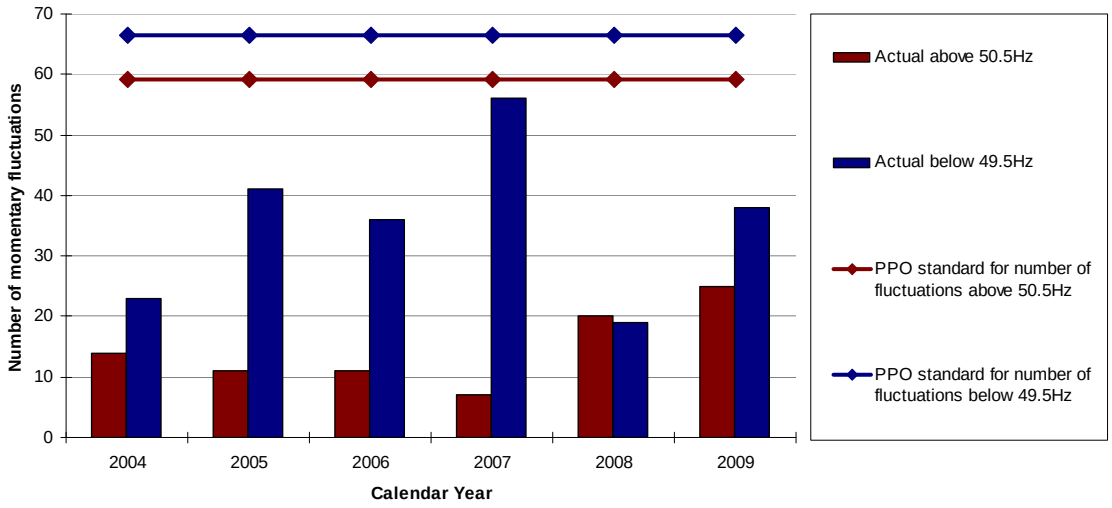
The System Operator did not meet the PPO for managing time error on 17 April 2010 when two time error excursions were recorded.

Impact indicator 8: The operation of the electricity system meets frequency management standards—as indicated by the number of frequency excursions

The System Operator is required to act as a reasonable and prudent operator with the objective of ensuring the aggregated rate of occurrence of momentary frequency fluctuations does not exceed PPO levels specified in the System Operator Contract.

Figure 13 provides a summary of results against the PPO targets. Both the upper and lower targets are being met.

Figure 13: System Operator performance: number of momentary fluctuations above/below normal frequency band and the PPO standard for the number of such fluctuations



Source: System Operator monthly reports

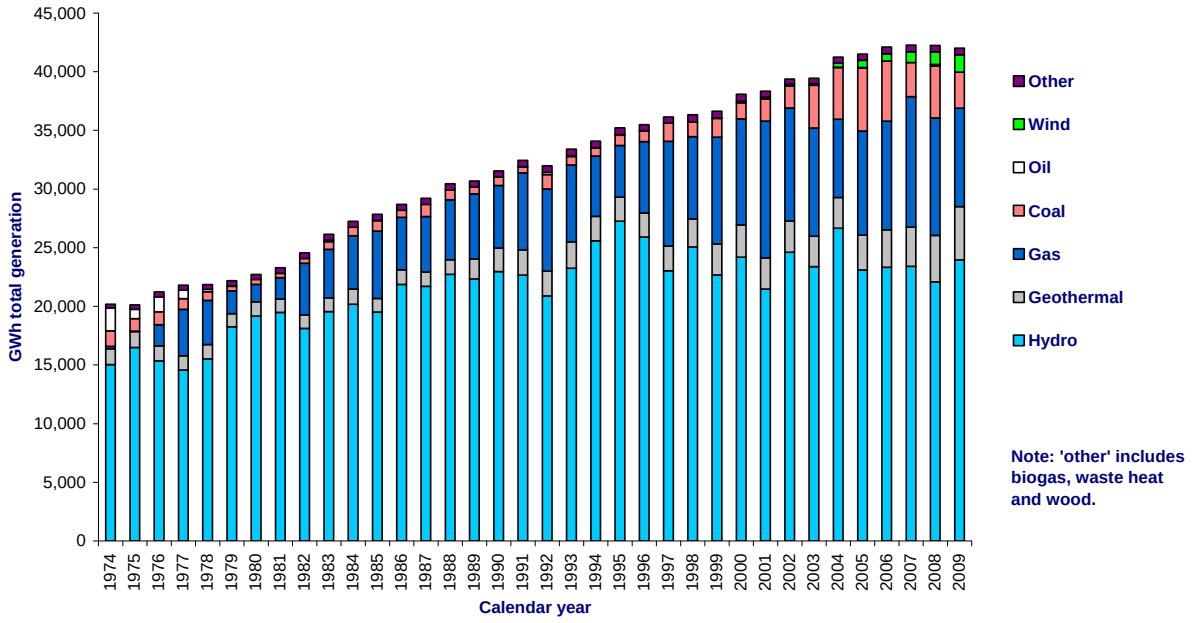
Objective 3: Efficient use and environmental sustainability

Electricity indicator G: Electricity generation by fuel type

Figure 14 shows generation trends by fuel type. Recent data shows two key trends:

- A seven-year trend of substantially increased reliance on coal fired generation, reduced in the last year due to higher hydro generation
- A six-year trend of increased wind generation, however this is still a relatively minor source of generation.

Figure 14: Net electricity generation by fuel type

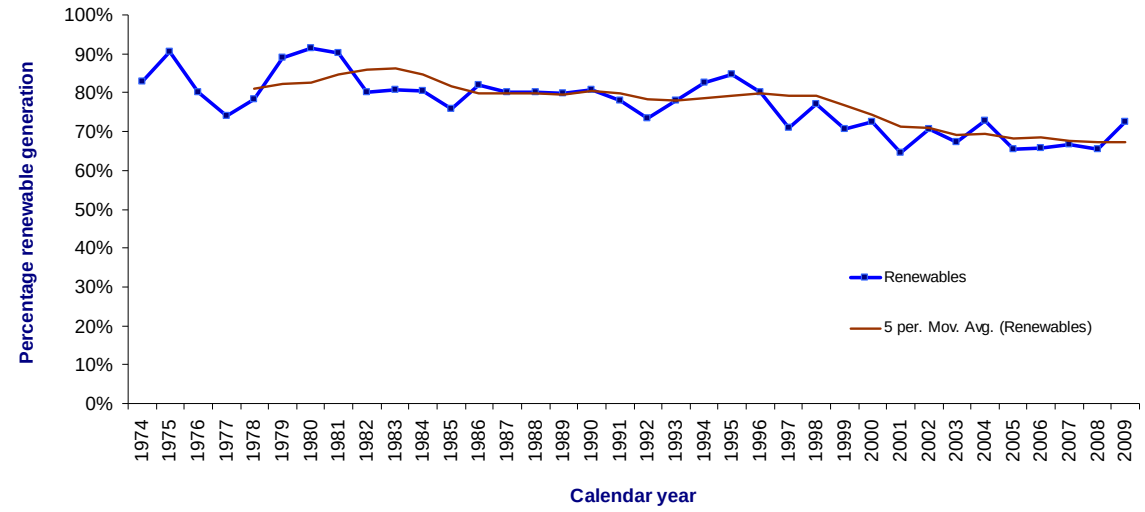


Source: Ministry of Economic Development, Energy Datafile

Electricity indicator H: Percentage of electricity generation from renewable resources

The dry period leading into the 2008 winter resulted in higher use of non-renewable generation. Higher inflows into hydro lakes since then have resulted in increased renewable generation as shown in figure 15.

Figure 15: Percentage of net electricity generation from renewable resources

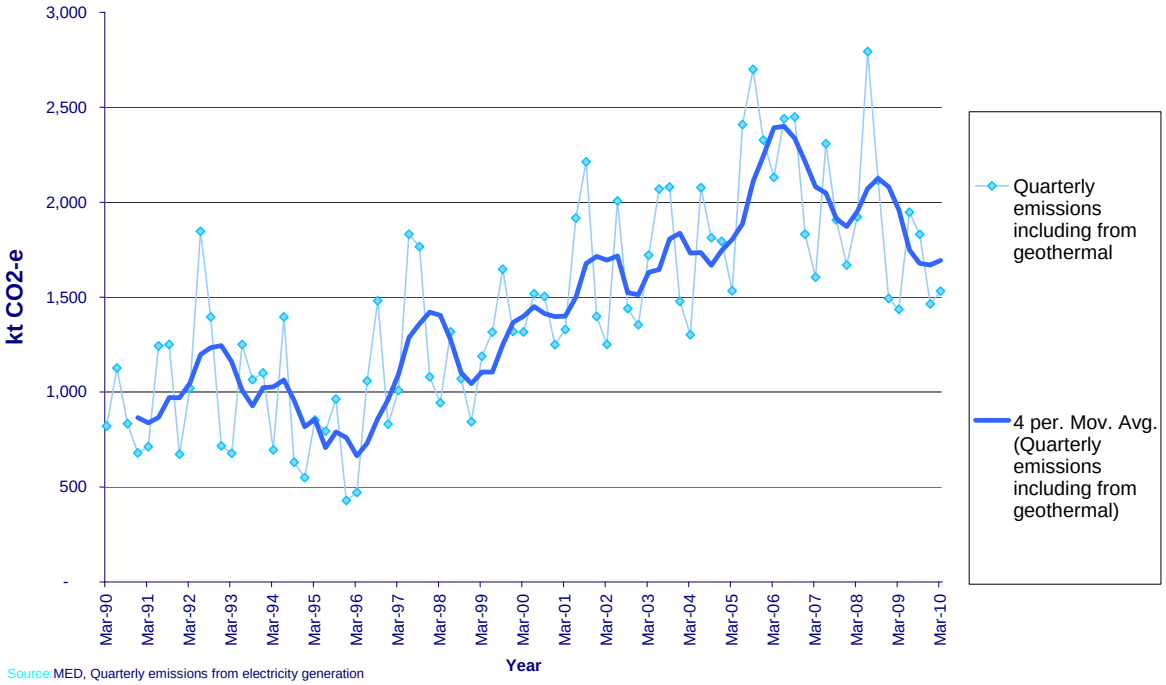


Source: Ministry of Economic Development, Energy Data File, Dec 2009

Electricity indicator I: thermal electricity generation gross CO_2 equivalent emissions

Gas and coal generation has moved from being used to meet high demand to being part of the mix of core generation. This shows in the CO_2 emissions as shown in figure 16.

Figure 16: New Zealand CO_2 equivalent emissions from electricity generation



Source: MED, Quarterly emissions from electricity generation

Impact indicator 9: The number of GWh saved from electricity efficiency programmes increases

The result to 30 June 2010 is about 510 GWh per annum. This is in excess of the target of 450 GWh set in 2007 when the appropriation was approved. See figure 17.

Impact indicator 10: The amount of CO_2 saved from electricity efficiency programmes increases

The result to 31 December 2009 is about 102 kilotonnes per annum.

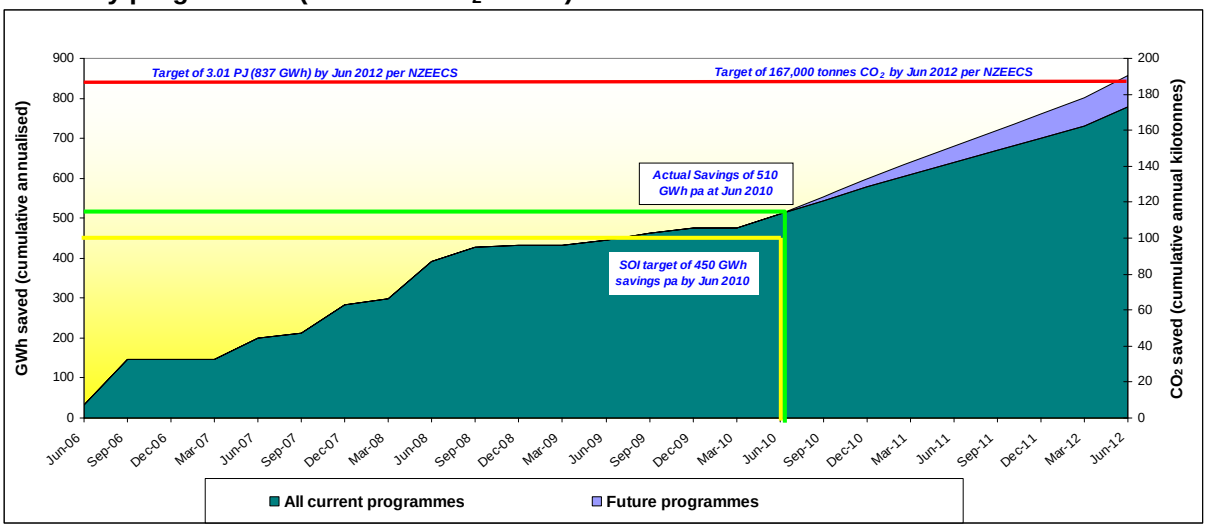
Impact indicator 11: Savings in MW peak demand from electricity efficiency programmes increase

Peak demand saving of 217 MW are estimated at 30 June 2010.

Impact indicator 12: Electricity efficiency programmes are cost-effective—delivered at below the cost of constructing equivalent new generation.

All programmes are being delivered at well below the long run marginal cost of new generation—to date cost to the Commission of less than 2c/kWh of savings, compared with 10–12 c/kWh for the long run marginal cost of new generation.

Figure 17: Actual savings to 30 June 2010 and projected savings from Commission electricity efficiency programmes (GWh and CO_2 saved)



Source: Electricity Commission

Statement of responsibility

Pursuant to the Crown Entities Act 2004, we acknowledge responsibility for the preparation of the statement of service performance and financial statements included in part three of this Annual Report, and for the judgments used in them.

We acknowledge the responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of the Commission's financial and non-financial reporting.

In our opinion the statement of service performance and financial statements reflect fairly the operations and financial position of the Commission for the period 1 July 2009 to 30 June 2010.

Pursuant to the Electricity Act 1992, we acknowledge the responsibility for the preparation of the report against the GPS performance standards, included in part four of this Annual Report.

In our opinion the GPS report fairly reflects progress to 30 June 2010.

David Caygill
Chair
29 October 2010

Richard Bentley
Commissioner
29 October 2010

Audit report

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Audit Report
To the readers of the
Electricity Commission's
financial statements and performance information
for the year ended 30 June 2010

The Auditor-General is the auditor of the Electricity Commission (the Commission). The Auditor-General has appointed me, Phil Kennerley, using the staff and resources of Audit New Zealand, to carry out the audit on her behalf. The audit covers the financial statements and statement of service performance included in the annual report of the Commission for the year ended 30 June 2010, which also contains information on the performance of the Commission against the Government Policy Statement on Electricity Governance (GPS) objectives and outcomes and the performance standards in the Statement of Intent.

Unqualified opinion

Financial statements and statement of service performance

In our opinion:

- The financial statements of the Commission on pages 35 to 53, that are prepared on a dissolution basis:
  - comply with generally accepted accounting practice in New Zealand; and
  - fairly reflect:
    - the Commission's financial position as at 30 June 2010; and
    - the results of its operations and cash flows for the year ended on that date.
- The statement of service performance of the Commission on pages 30 to 34:
  - complies with generally accepted accounting practice in New Zealand; and
  - fairly reflects for each class of outputs:
    - its standards of delivery performance achieved, as compared with the forecast standards outlined in the statement of forecast service performance adopted at the start of the financial year; and
    - its actual revenue earned and output expenses incurred, as compared with the forecast revenues and output expenses outlined in the statement of forecast service performance adopted at the start of the financial year.

Information on performance against the GPS objectives and outcomes and the performance standards in the Statement of Intent

In our opinion, the information on the performance of the Commission against the GPS objectives and outcomes and the performance standards in the Statement of Intent that is included within the statement of service performance and the report against the GPS on pages 54 to 68:

- is appropriate, adequate and accurate, and enables an informed assessment to be made of those matters.

The audit was completed on 29 October 2010 and our opinion is expressed as at that date.

The basis of our opinion, which refers to the financial statements being appropriately prepared on a dissolution basis, is explained below. In addition, we outline the responsibilities of the Commission's Board and the Auditor, and explain our independence.

Basis of opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements and statement of service performance did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements and statement of service performance. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements and statement of service performance. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Commission's Board;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement and statement of service performance disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and statement of service performance.

We evaluated the overall adequacy of the presentation of information in the financial statements and statement of service performance. We obtained all the information and explanations we required to support our opinion above.

The financial statements are appropriately prepared on a dissolution basis

In forming our opinion, we considered the accounting policy on pages 50 to 51 about the financial statements being prepared on a dissolution basis. The Electricity Industry Act 2010 dissolves the Commission and establishes the Electricity Authority on 1 November 2010. The Electricity Industry Act 2010 vests the Commission's functions, powers, assets, contractual obligations and entitlements in the Electricity Authority.

The financial statements have therefore been prepared on a dissolution basis.

However, there has been no change to the measurement basis used for assets and liabilities. This is because all assets and liabilities of the Commission will be transferred to, and be relevant to, the Electricity Authority. For that reason, the only adjustment made to the financial statements because of the dissolution basis of preparation is to reclassify assets from non-current to current. We consider the basis of the preparation of the financial statements and the related disclosures to be appropriate to the Commission's circumstances.

Responsibilities of the Commission's Board and the Auditor

The Commission's Board is responsible for preparing the financial statements and statement of service performance in accordance with generally accepted accounting practice in New Zealand. The financial statements must fairly reflect the financial position of the Commission as at 30 June 2010 and the results of its operations and cash flows for the year ended on that date. The statement of service performance must fairly reflect, for each class of outputs, the Commission's standards of delivery performance achieved and revenue earned and expenses incurred, as compared with the forecast standards, revenue and expenses adopted at the start of the financial year. The responsibilities of the Commission's Board arise from the Crown Entities Act 2004 and the Electricity Act 1992.

The Commission's Board is also responsible for including in its Annual Report information to enable an informed assessment to be made of the performance of the Commission for the year ended 30 June 2010 against the GPS objectives and outcomes and the performance standards in the Statement of Intent. This responsibility arises from section 172ZM of the Electricity Act 1992.

We are responsible for expressing an independent opinion on the financial statements and statement of service performance and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and the Crown Entities Act 2004.

We are also responsible for providing assurance on the appropriateness, adequacy and accuracy of information and whether it enables an informed assessment to be made of the performance of the Commission against the GPS objectives and outcomes and the performance standards in the Statement of Intent. This responsibility arises from section 172ZO of the Electricity Act 1992.

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

Other than the audit, which includes assurance on the performance of the Commission against the GPS objectives and outcomes, we have no relationship with or interests in the Commission.

Phil Kennerley
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand

Matters relating to the Electronic Presentation of the Audited Financial Statements, Statement of Service Performance and Government Policy Statement reports for the Electricity Commission

From 1 November 2010 the Electricity Authority (the Authority) has taken over most of the functions of the Electricity Commission (the Commission). The Authority website will hold an electronic copy of the Commission's Annual Report.

This audit report relates to the financial statements, statement of service performance and the report against the Government Policy Statement on Electricity Governance (GPS) for the year ended 30 June 2010 included on the Electricity Authority's website. The Authority's Board is responsible for the maintenance and integrity of its website. We have not been engaged to report on the integrity of the Authority's website. We accept no responsibility for any changes that may have occurred to the financial statements, statement of service performance, and GPS report since they were initially presented on the website.

The audit report refers only to the financial statements, statements of performance, and GPS report named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements, statement of service performance, and GPS report. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and statement of service performance as well as the related audit report dated 29 October 2010 to confirm the information included in the audited financial statements, statement of service performance and GPS report presented on this website.

Legislation in New Zealand governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

Part three—performance information

Statement of service performance

The statement of service performance reports on actual achievement against performance targets and measures in the Commission's 2009–2012 Statement of Intent (SOI). The statement of service performance report is provided in accordance with section 151 of the Crown Entities Act 2004.

Summary of revenue and expenditure by output class

The Electricity Commission output class costs are summarised in table 6.

Table 6: summary of revenue and expenditure by output class

2008/09 actual ($ million)		2009/10 actual ($ million)	2009/10 budget ($ million)
47.333	Electricity governance and market operations—revenue	51.417	55.439
45.449	*Electricity governance and market operations—expenditure*	*50.955*	*55.099*
8.404	Electricity efficiency— revenue	10.295	11.000
8.404	*Electricity efficiency—expenditure*	*10.295*	*11.000*
29.636	Reserve energy and emergency measures—availability— revenue	29.177	29.981
29.636	*Reserve energy and emergency measures—availability—expenditure*	*29.177*	*29.981*
2.504	Reserve energy and emergency measures—variable— revenue	6.402	86.000 *(over 5 years 2007/08 to 2011/12)*
0.883	*Reserve energy and emergency measures—variable—expenditure*	*2.320*	*86.000*
0.326	Electricity Commission litigation fund— revenue[4]	(0.013)	0.444
0.326	*Electricity Commission litigation fund—expenditure*	(0.013)	*0.444*

Breakdown of costs for the electricity governance and market operations output class

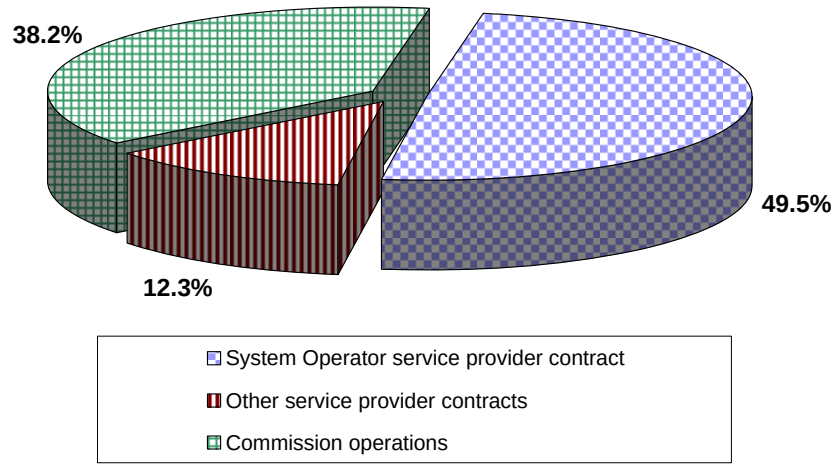
The electricity governance and market operations output class accounts for a significant proportion of the Commission's costs. Table 7 below provides a breakdown of the major components of actual and budget costs in this output class for 2009/10. Figure 18 shows the percentage breakdown of actual costs for 2009/10.

[4] The Electricity Commission litigation fund is a Crown expense appropriation and as such the Commission does not have an output class. It is included in this table for completeness.

Table 7: breakdown of costs within the electricity governance and market operations output class

	($ million)		
	2008/09 actual	2009/10 actual	2009/10 budget
System Operator service provider costs	21.395	25.225	28.344
Other service provider contracts: Clearing Manager, Pricing Manager, Wholesale Information and Trading System, Registry, Reconciliation Manager	6.083	6.247	6.371
Commission operations: including market development, regulatory monitoring and compliance, security of supply policy and monitoring, advisory group, Board and Rulings Panel costs	17.971	19.483	20.384
Total electricity governance and market operations output class	45.449	50.955	55.099

Figure 18: percentage breakdown of 2009/10 electricity governance and market operations output class expenditure



Output class one—electricity governance and market operations

The **electricity governance and market operations** appropriation and output class provides for the operation, governance and monitoring of New Zealand's electricity market under the Rules and Regulations.

This output class includes the general operations of the Commission, including the Board, and operation of the electricity system and market operations. The major activities are:

- **Electricity system and market operations**—operation of the electricity system and wholesale and retail markets is delivered primarily through the management of contracts with service providers. This work addresses paragraph 67 of the 2009 GPS.
- **Monitoring and compliance**—monitoring and enforcing compliance with regulations and the Electricity Governance Rules, including operation of the wholesale markets (spot and hedge), operation of the retail market, consumer protection activities, and monitoring of the Electricity Governance (Connection of Distributed Generation) Regulations 2007 and Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004. This work addresses paragraph 9 of the 2009 GPS.
- **Regulatory development**—developing voluntary arrangements and advising the Minister on statutory regulations and rules relating to the electricity sector. This work addresses requirements throughout the GPS and is detailed in part four of this SOI

(2009 GPS paragraphs 38–50, 62–63, 65–66, 68–69, 97, 100–103, 110–116). The major focus during 2009/10 was development of the Market Development Programme, including matters covered in section 42(2) of the Electricity Industry Act 2010.

- **Information services**—collecting and publishing a wide range of information to inform the efficient operation of the electricity system and markets. This work addresses paragraphs 8 and 77 of the 2009 GPS. Publications include the *Statement of Opportunities* (SOO) and *Centralised Dataset* (CDS).
- **Transmission investment decisions**—decision-making on Transpower's grid investment proposals, meeting the process requirements of the Rules, including applying the Grid Investment Test (GIT). This work addresses paragraphs 70–96 of the 2009 GPS.
- **Security of supply governance**—using reasonable endeavours to ensure security of supply, in accordance with government policy. Activities include an annual review of the need for reserve energy, information provision and monitoring, and contingency planning for emergency management. This activity is supported by contracting for reserve energy and emergency measures, and delivery of reserve energy, as required, under output classes two and three. This work addresses 2009 GPS paragraphs 8, and 10–37.

Main performance measures 2009/10	2009/10 result
1. Contracts are in place, monitored and enforced (if necessary) for the operation of the electricity system, wholesale market and retail market (System Operator, Clearing Manager, Reconciliation Manager, Pricing Manager, Wholesale Information and Trading System, Registry)	Achieved: all required contract monitoring and enforcement actions have been completed.
2. The annual performance review of the System Operator is completed within three months of receipt of the System Operator's report	Achieved: the Transpower self-assessment report was received in September 2009 and the review was completed by the Commission on 1 December 2009.
3. Progress is on track for the annual update of the System Operator Policy Statement in accordance with the Rules and the Electricity Act 1992, by 1 September 2010	Achieved: 2009: in July 2009 the Minister approved the recommended rule changes for a new System Operator Policy Statement, effective 1 September 2009. 2010: On 1 July 2010 the Minister gazetted the rule change for the System Operator Policy Statement, effective 1 September 2010.
4. The annual update of the System Operator Procurement Plan is completed in accordance with the Rules and the Electricity Act 1992, by 1 December 2009	Achieved: on 29 May 2009, the System Operator submitted a Draft 2009 Procurement Plan. Following consultation the plan was recommended to the Minister in September 2009 and approved to come into effect on 1 December 2009.
5. The number of Rule-breach notifications closed (estimated range 170–230)	Achieved: 204 notifications closed in the financial year.
6. Rule-breach investigations of alleged breaches are completed:	
• 50% within three months of notification	Achieved: 71% within three months of notification.
• 85% within six months of notification	Not achieved: 81% within six months of notification. Finalisation of a number of older notifications has impacted the achievement of the six month timeliness standard.

Main performance measures 2009/10	2009/10 result
7. Consultation papers, reports to the Minister, investigation reports and published information reports listed in the part four of the SOI meet the Commission's quality standard	Achieved: measured and documented through the Commission's quality review process for Board papers.
8. Consultation papers, reports to the Minister, investigation reports and published information reports listed in the part four of the SOI meet the GPS performance standard for timeliness	Achieved: covered in detail in part three of this report.
9. There are no successful legal challenges of the Commission's decisions or recommendations	Achieved.
10. Wholesale and retail market information reports are published monthly	Achieved.
11. Grid investment decisions are made in accordance with published timetables, which may be varied by agreement, or by Commission stipulation	Achieved.
12. The annual review of need for reserve energy report is completed and meets the Commission's quality standard	Achieved: the annual security assessment was published on 1 March 2010. Quality standard met.
13. Security of supply information is published on a timely basis and in accordance with risk status	Achieved.

Output class two—reserve energy and emergency measures—availability

The purpose of the **reserve energy and emergency measures—availability** appropriation and output class is to ensure the availability of reserve energy and emergency options, if needed. The Commission is required to ensure that capacity and capability are available, whether or not they are used. The major activities are:

- **Contingency plans for emergency situations**—developing plans in case market mechanisms prove insufficient to address any supply shortage that may eventuate. This includes publishing an *Emergency Response Plan*, and updating the plan as necessary. The plan is to clearly indicate how the Commission would act in a potential or actual energy shortage and defines the triggers that would lead to emergency measures being taken.
- **Tendering for generation and emergency options as required**—includes completing tender design, preparing tender documents, administering the tender process, and finalising procurement contracts (if needed for procurement of reserve energy or emergency measures).
- **Whirinaki availability**—contracting for the availability of the 155 MW diesel-fired Whirinaki power station for the generation of reserve energy as required.

The reserve energy and emergency measures—availability output class addresses various 2009 GPS requirements under paragraphs 10–37.

Main performance measures 2009/10	2009/10 result
14. Whirinaki power station availability is delivered in accordance with the contract	Achieved.
15. Conduct tendering of reserve energy generation and emergency options for demand reduction, as required	Not required.

Main performance measures 2009/10	2009/10 result
16. Publish, or update as necessary, the Commission's Emergency Response Plan	Not required.

Output class three—reserve energy and emergency measures—variable

The **reserve energy and emergency measures—variable** appropriation and output class covers intervention to address reserve energy and emergency measures, if needed. The appropriation is available to implement emergency options including fuel for Whirinaki. This output class addresses various 2009 GPS requirements under paragraphs 10–37.

Main performance measure 2009/10	2009/10 result
17. Whirinaki power station generation is delivered in accordance with the contract	Achieved.

Output class four—electricity efficiency

The **electricity efficiency output class** is part of a multi-class output expense appropriation: **energy efficiency and conservation**. This Annual Report addresses only the electricity efficiency output class component of the appropriation[5]. This output class includes:

- Maintaining the electricity efficiency potentials model
- Delivering programmes to promote and facilitate the efficient use and conservation of electricity.

Electricity efficiency programmes are delivered in the areas of efficient lighting, industrial (including compressed air systems and electric motors) and commercial.

This output class addresses paragraphs 8, 54–60, and 64 of the 2009 GPS.

Main performance measures 2009/10	2009/10 result
18. Electricity efficiency potential information is available to targeted stakeholder groups and an annual update takes place for relevant information	Achieved: potentials information is made available via the Commission's website. More specific potentials information on programme areas such as lighting is updated on a regular basis.
19. Reports for electricity efficiency programmes listed in part four of the SOI meet the Commission's quality standard	Achieved. measured and documented through the Commission's quality review process for Board papers.
20. Reports for electricity efficiency programmes listed in part four of the SOI meet the GPS performance standard for timeliness	Achieved.

5 The appropriation also funds EECA outputs. The Commission has a memorandum of understanding (MOU) with EECA to ensure that areas of mutual or related interest are managed efficiently and effectively.

Financial statements

These financial statements report actual results against budget information in the Commission's 2009–2012 SOI. These statements are provided in accordance with section 151 of the Crown Entities Act 2004.

Statement of comprehensive income
for the year ended 30 June 2010

Actual 2009 $000		Note	Actual 2010 $000	Budget 2010 $000
83,815	Crown appropriations	1	90,414	96,524
2,504	Whirinaki spot revenue		6,402	-
1,859	Interest income		417	300
25	Other income		45	40
88,203	**Total income**		**97,278**	**96,864**
7,950	Employee benefits	2	8,887	8,325
1,764	Depreciation and amortisation	8,9	1,881	1,967
883	Whirinaki fuel		2,320	-
74,101	Other expenses	3	79,646	86,232
84,698	**Total expenditure**		**92,734**	**96,524**
(1,621)	Distribution of Whirinaki net spot revenue to levy payers	4	(4,082)	-
1,884	**Net operating surplus**	5	**462**	**340**
-	Other comprehensive income		-	-
1,884	**Total comprehensive income**		**462**	**340**

Statement of movements in taxpayers' funds
for the year ended 30 June 2010

Actual 2009 $000		Note	Actual 2010 $000	Budget 2010 $000
6,410	**Opening balance at 1 July**		**8,294**	**8,635**
1,884	Total comprehensive income		462	340
8,294	**Closing balance at 30 June**		**8,756**	**8,975**

The statement of accounting policies and notes form an integral part of, and should be read in conjunction with, these financial statements.

Statement of financial position
as at 30 June 2010

Actual 2009 $000		Note	Actual 2010 $000	Budget 2010 $000
8,294	**Taxpayers' funds**		**8,756**	**8,975**
	Assets			
	Current assets			
12,807	Cash and cash equivalents	6	13,941	7,561
2,307	Receivables and prepayments	7	1,865	6
857	GST receivable		-	-
-	Property, plant and equipment	8	1,001	-
-	Intangible assets	9	8,285	-
15,971			**25,092**	**7,567**
	Non-current assets			
1,249	Property, plant and equipment	8	-	1,088
8,809	Intangible assets	9	-	8,028
10,058			**-**	**9,116**
26,029	**Total assets**		**25,092**	**16,683**
	Liabilities			
	Current liabilities			
11,082	Payables and accruals	10	9,737	7,140
594	Employee entitlements	11	680	568
-	GST payable		239	-
1,621	Distribution of net spot revenue to levy payers	4	4,082	-
4,438	Refund of appropriation to the Crown	12	1,221	-
-	Provisions	13	377	-
17,735			**16,336**	**7,708**
8,294	**Net assets employed**		**8,756**	**8,975**

The statement of accounting policies and notes form an integral part of, and should be read in conjunction with, these financial statements.

Statement of cash flows
for the year ended 30 June 2010

Actual 2009 $000		Note	Actual 2010 $000	Budget 2010 $000
	Cash flows from operating activities			
104,920	Receipts from the Crown		96,080	96,524
27,788	Receipts from Whirinaki spot revenue		6,806	-
1,859	Interest from investments		417	300
25	Receipts from third parties		45	40
(24,834)	Repayment of appropriation to the Crown		(8,882)	(8,000)
(3,573)	Distribution of net spot revenue to levy payers		(1,621)	-
(99,641)	Payments to suppliers		(82,897)	(86,092)
(7,792)	Payments to employees		(8,802)	(8,325)
(468)	Goods and services tax (net)		1,096	-
(1,716)	**Net cash flows from operating activities**	14	**2,242**	**(5,553)**
	Cash flows from investing activities			
(265)	Purchase of property, plant and equipment		(155)	(390)
(558)	Purchase of intangibles		(953)	(1,049)
(823)	**Net cash flows from investing activities**		**(1,108)**	**(1,439)**
(2,539)	Net increase/(decrease) in cash and cash equivalents		1,134	(6,992)
15,346	Cash and cash equivalents at beginning of year		12,807	14,553
12,807	**Cash and cash equivalents at end of year**		**13,941**	**7,561**

The statement of accounting policies and notes form an integral part of, and should be read in conjunction with, these financial statements.

Statement of commitments
as at 30 June 2010

The Commission will be dissolved on 31 October 2010. Even though some commitments extend beyond this date they are recognised as commitments of the Commission at 30 June 2010 since, in accordance with the Electricity Industry Act 2010, they will become commitments of either the Electricity Authority or the Energy Efficiency and Conservation Authority on 1 November 2010.

The Commission has operating leases for two full floors and one partial floor in ASB Bank Tower until September 2013.

Service provider agreements exist for the Clearing Manager, Pricing Manager, Reconciliation Manager, Registry, and Wholesale and Information Trading System. These contracts all end during the 2012/13 financial year.

A new System Operator service provider agreement commenced in July 2009. The agreement has no fixed end date. The figures below represent a five year commitment, being an initial period of two years from the commencement of the contract during which notice cannot be given, followed by a three year notice period.

The Reserve Generation Capacity Agreement for the generation of reserve energy by the Whirinaki power station commenced on 1 April 2005 and ends on 14 June 2015. As a result of the Ministerial Review the Commission is now recognising a commitment to 30 September 2011 when the Crown plans to transfer its interest in Whirinaki to Meridian. Whirinaki contract commitments are calculated using a combination of known costs to 30 September 2010, estimates of the producers price index (PPI) used to revise the fixed availability and operating and maintenance costs annually, and projections of other costs based on historic information.

	Actual 2010 $000	Actual 2009 $000
Operating commitments		
Building lease commitments		
Not later than one year	592	592
Later than one year but not later than five years	1,333	1,925
Later than five years but not later than ten years	0	0
	1,925	**2,517**
Service provider contract commitments		
Not later than one year	36,550	32,133
Later than one year but not later than five years	113,542	137,542
Later than five years but not later than ten years	0	0
	150,092	**169,675**
Whirinaki contract commitments		
Not later than one year	23,133	29,042
Later than one year but not later than five years	5,821	119,666
Later than five years but not later than ten years	0	39,158
	28,954	**187,866**
Total operating commitments	**180,971**	**360,058**

Efficiency programme commitments

The Commission promotes and facilitates electricity efficiency by developing and implementing programmes to provide incentives to deliver energy savings. The Commission has contractual arrangements with selected providers to run programmes in the areas of lighting, motors, compressed air and commercial buildings. These contracts extend beyond the 2009/10 financial year and result in future financial commitments totalling $4.3 million (2009: $7.2 million). There are no material commitments beyond one year. All amounts committed under existing contracts have been provided for within future appropriations.

The statement of accounting policies and notes form an integral part of, and should be read in conjunction with, these financial statements.

Statement of contingencies
as at 30 June 2010

The Electricity Commission has no known contingent liabilities or contingent assets and no known guarantees under the Crown Entities Act 2004 (2009: nil).

Notes to the financial statements

1. Crown appropriations

The Commission manages appropriations from the Crown under Vote Energy. Appropriations are recognised as revenue to the extent that they are spent.

	2010 $000	2009 $000
Electricity governance and market operations	50,955	45,449
Reserve energy and emergency measures - availability	29,177	29,636
Reserve energy and emergency measures - variable	-	-
Electricity efficiency	10,295	8,404
Electricity Commission litigation fund	(13)	326
	90,414	**83,815**

2. Employee benefits

	2010 $000	2009 $000
Salaries and contractors	8,638	7,642
Contributions to defined contribution plans	206	188
Increase/(decrease) in annual and long service leave provision	43	120
	8,887	**7,950**

The increase in employee benefits is primarily the result of an increase in the use of contractors to cover permanent positions as a result of uncertainty arising from the Ministerial Review. The savings in salary costs have been significantly outweighed by the higher cost of contractors for these roles.

3. Other expenditure

	2010 $000	2009 $000
Service provider contracts	31,472	27,478
Whirinaki contract	29,142	29,417
External advice	6,863	6,604
Litigation fund	(13)	326
Efficiency programmes	8,857	6,665
Audit fees	38	37
Auditor fees for other services	10	-
Advisory and working group fees	116	38
Commissioners' fees	657	784
Rulings Panel fees	125	129
Operating lease expenses	958	727
Travel expenses	180	273
Other operating expenses	1,241	1,623
	79,646	**74,101**

4. Refund to levy payers

Refund from the Crown

Levies collected during the financial year are deposited into a Crown bank account administered by the Ministry of Economic Development. After the end of the financial year, a reconciliation between levies collected and actual Commission expenditure is carried out. Based on this reconciliation the Crown either provides refunds or requests additional payments from levy payers.

In 2009/10 Commission expenditure was less than levies collected. The refund to levy payers is expected to be $7.711 million. This is in addition to $4.082 million of Whirinaki net spot revenue (see Refund from the Electricity Commission below). The final refund to levy payers may vary from this amount, and some levy payers may be required to pay additional levies depending on whether they are generators, retailers or distributors, and based on variations from estimated volumes of dispatches, sales and customer connections.

	2010 $000	2009 $000
Total Commission expenditure	92,734	84,698
Exclude Whirinaki fuel	(2,320)	(883)
Add MACQS [6]	2,897	2,897
Total costs to be recovered by levy	**93,311**	**86,712**
Actual levies collected	101,022	89,960
Refund of over-collected levies to levy payers	**7,711**	**3,248**

Refund from the Electricity Commission

If the Whirinaki power station is required to operate, the GPS states that the cost to levy payers should be offset by spot revenue received from the sale of reserve energy less the cost of fuel used in generation. In 2009/10 the Commission earned $4.082 million of net spot revenue and this is included in the refund to levy payers.

	2010 $000	2009 $000
Whirinaki spot revenue	6,402	2,504
Less Whirinaki fuel	(2,320)	(883)
Distribution of net spot revenue to levy payers	**4,082**	**1,621**

5. Net operating surplus

The Commission may elect to retain interest income and other revenue (excluding spot revenue from Whirinaki) in order to maintain an appropriate level of working capital. The Commission has exercised this option in 2009/10 and the operating surplus of $0.462 million has been used to increase equity. Net operating surplus is made up as follows:

	2010 $000	2009 $000
Interest income	417	1,859
Other income	45	25
Net operating surplus	**462**	**1,884**

6 MACQS refers to costs incurred by Transpower in relation to the MACQS (Multilateral Agreement on Common Quality Standards) reform process. Under the Electricity (Levy of Industry Participants) Regulations 2005, regulation 7(2)(b), MACQS costs are to be recovered in equal instalments of $2,897,216 per annum over 5 years beginning on 1 July 2005 and ending on 30 June 2010.

6. Cash and cash equivalents

	2010 $000	2009 $000
Cash in current account	341	307
Cash on call in interest-bearing money market account	13,600	12,500
Total cash and cash equivalents	**13,941**	**12,807**

The Commission holds cash with Westpac. Westpac is part of the Crown Retail Deposit Guarantee Scheme, therefore all deposits up to $1 million held with Westpac are guaranteed by the Crown.

7. Receivables and prepayments

	2010 $000	2009 $000
Spot revenue receivable from the Crown	1,838	2,243
Other receivables	27	131
Less: provision for impairment	-	(67)
Total receivables and prepayments	**1,865**	**2,307**

All accounts receivable are current.

8. Property, plant and equipment

	Computer hardware $000	Office equipment $000	Furniture and fittings $000	Leasehold improvement $000	Total $000
Cost or valuation					
Balance at 1 July 2008	1,285	119	219	579	**2,202**
Additions	107	76	30	53	**266**
Revaluation increase	-	-	-	-	**-**
Disposals	-	-	-	-	**-**
Balance at 30 June 2009	**1,392**	**195**	**249**	**632**	**2,468**
Balance at 1 July 2009	1,392	195	249	632	**2,468**
Additions	141	5	4	5	**155**
Revaluation increase	-	-	-	-	**-**
Disposals	(72)	-	-	-	**(72)**
Balance at 30 June 2010	**1,461**	**200**	**253**	**637**	**2,551**
Accumulated depreciation and impairment losses					
Balance at 1 July 2008	404	71	145	243	**863**
Depreciation expense	228	24	39	65	**356**
Eliminate on revaluation	-	-	-	-	**-**
Eliminate on disposal	-	-	-	-	**-**
Impairment losses	-	-	-	-	**-**
Balance at 30 June 2009	**632**	**95**	**184**	**308**	**1,219**
Balance at 1 July 2009	632	95	184	308	**1,219**
Depreciation expense	234	28	25	67	**354**
Eliminate on revaluation	-	-	-	-	**-**
Eliminate on disposal	(72)	-	-	-	**(72)**
Impairment losses	49	-	-	-	**49**
Balance at 30 June 2010	**843**	**123**	**209**	**375**	**1,550**
Carrying amounts					
At 1 July 2008	881	48	74	336	**1,339**
At 30 June and 1 July 2009	760	100	65	324	**1,249**
At 30 June 2010	618	77	44	262	**1,001**

9. Intangible assets

	Acquired software $000	Internally generated software $000	Total $000
Cost or valuation			
Balance at 1 July 2008	11,015	-	**11,015**
Additions	558	-	**558**
Disposals	-	-	**-**
Balance at 30 June 2009	**11,573**	**-**	**11,573**
Balance at 1 July 2009	11,573	-	**11,573**
Additions	953	-	**953**
Disposals	-	-	**-**
Balance at 30 June 2010	**12,526**	**-**	**12,526**
Accumulated amortisation and impairment losses			
Balance at 1 July 2008	1,356	-	**1,356**
Amortisation expense	1,408	-	**1,408**
Disposals	-	-	**-**
Impairment losses	-	-	**-**
Balance at 30 June 2009	**2,764**	**-**	**2,764**
Balance at 1 July 2009	2,764	-	**2,764**
Amortisation expense	1,477	-	**1,477**
Disposals	-	-	**-**
Impairment losses	-	-	**-**
Balance at 30 June 2010	**4,241**	**-**	**4,241**
Carrying amounts			
At 1 July 2008	9,659	-	**9,659**
At 30 June and 1 July 2009	8,809	-	**8,809**
At 30 June 2010	8,285	-	**8,285**

10. Payables and accruals

	2010 $000	2009 $000
Whirinaki diesel	141	325
Whirinaki contract payments	2,948	4,374
Service providers	3,460	2,662
Electricity efficiency	1,707	1,780
Other creditors and accruals	1,481	1,941
	9,737	**11,082**

Payables and accruals are non-interest bearing and are normally settled on 30 day terms, therefore the carrying value of payables and accruals approximates their fair value.

11. Employee entitlements

	2010 $000	2009 $000
Annual and long service leave	529	486
Salary accrual	151	108
Total employee entitlements	**680**	**594**

12. Refund of appropriation to the Crown

The Electricity Commission receives funding by way of appropriations from the Crown. The Crown is reimbursed for this funding by levies collected from industry participants.

The Commission receives appropriations monthly according to a funding profile agreed at the start of the year. The provision for refund of appropriation to the Crown is the difference between funding received during the year and total Commission expenditure for the year. This amount is to be repaid to the Crown after the annual audit.

	2010 $000	2009 $000
Total Crown appropriations drawn down	96,635	88,253
Less appropriation surplus repaid during the year	(5,000)	-
Net Crown appropriations drawn down	**91,635**	**88,253**
Total Commission expenditure (excluding Whirinaki diesel)	(90,414)	(83,815)
Provision for refund of appropriation to the Crown	**1,221**	**4,438**

13. Provisions

	2010 $000	2009 $000
Provisions are represented by:		
Restructuring	143	-
Onerous contracts	164	-
Lease make-good	70	-
Total provisions	**377**	**-**

Movements by class of provision	Restructuring $000	Lease make-good $000	Onerous contracts $000	Total $000
Balance at 1 July 2009	-	-	-	**-**
Additional provisions made	143	70	164	**377**
Amounts used	-	-	-	**-**
Unused amounts reversed	-	-	-	**-**
Balance at 30 June 2010	**143**	**70**	**164**	**377**

14. Reconciliation of net operating surplus to net cash flows

	2010 $000	2009 $000
Net operating surplus	**462**	**1,884**
Add non-cash items		
Depreciation and amortisation	1,881	1,764
Total non-cash items	**1,881**	**1,764**
Add movements in working capital items		
(Increase) decrease in debtors and prepayments	442	25,915
Increase (decrease) in payables and accruals	(1,346)	(25,288)
Increase (decrease) in GST on operations	1,096	(468)
Increase (decrease) in employee entitlements	86	158
Increase (decrease) in provisions	377	-
Increase (decrease) in provision for refund of appropriation	(3,217)	(3,729)
Increase (decrease) in provision for distribution of net spot revenue	2,461	(1,952)
Net working capital movements	**(101)**	**(5,364)**
Net cash flow from operating activities	**2,242**	**(1,716)**

15. Employee remuneration

The General Manager's remuneration and benefits are in the $270,000–279,999 band. In 2008/09 the General Manager's remuneration and benefits were in the $250,000–259,999 band.

During the year ended 30 June 2010, one employee (2009: 1) received compensation and other benefits in relation to cessation totalling $33,000 (2009: $46,000). No Board members received compensation or other benefits in relation to cessation (2009: 0).

Remuneration band	Number of employees	
	2010	2009
$100,000–$109,999	1	2
$110,000–$119,999	2	2
$120,000–$129,999	5	3
$130,000–$139,999	8	6
$140,000–$149,999	4	5
$150,000–$159,999	2	2
$160,000–$169,999	2	3
$170,000–$179,999	3	1
$180,000–$189,999	3	3
$190,000–$199,999	1	1
$200,000–$209,999	1	-
$220,000–$229,999	-	1
$250,000–$259,999	-	1
$270,000–$279,999	1	-
$280,000–$289,999	-	1
$290,000–$299,999	1	-
	34	**31**

16. Key management remuneration

Key management personnel include Commissioners, the General Manager, and direct reports to the General Manager.

	2010 $000	2009 $000
Salaries and other short-term employee benefits	2,446	2,725
Post-employment benefits	54	61
Other long-term benefits	-	-
Termination benefits	-	-
Total key management remuneration	**2,500**	**2,786**

17. Commissioners' remuneration

There were no Commissioner changes during the 2009/10 financial year.

Commissioner Caygill is an associate member of the Commerce Commission, a role established to facilitate information sharing between the two Commissions. Commissioner Caygill was also appointed to the Board of the Energy Efficiency and Conservation Authority (EECA) in August 2008. The Chair receives no additional remuneration for this work. However, the Electricity Commission invoices the Commerce Commission and EECA for time spent by the Chair in these roles, and this is included as *Other income* in the Statement of Comprehensive Income. The remuneration shown below is not offset by the amount recovered from the Commerce Commission and EECA.

The following fees were paid to Commission members:

	2010 $000	2009 $000
D Caygill	340	340
R Bentley	50	98
D Bull	83	95
L Constable	62	81
P Harris	65	75
S Rodger	5	79
R Sowry	52	16
	657	**784**

18. Rulings Panel remuneration

	2010 $000	2009 $000
Gael Webster	29	33
John Isles	24	24
John O'Sullivan	24	24
Craig Taylor	24	24
Peter Dengate Thrush	24	24
	125	**129**

19. Advisory group and working group fees

		2010 $000	2009 $000
Retail Market Advisory Group	David Russell (Chair)	-	2
	Anne Herrington	-	1
	John Scott	-	2
	Neil Barton	-	2
	Peter Rutledge	-	2
	Raewyn Fox	-	1
Retail and Consumer Advisory Group	Keith Tempest (Chair)	1	-
	Anne Herrington	3	-
	Peter Rutledge	4	-
	Ralph Matthes	1	-
	Scott Harnett	2	-
Wholesale Market Advisory Group	Bill Heaps (Chair)	-	4
	Rod Boyte	-	2
	John Scott	-	2
Market Development Advisory Group	James Moulder (Chair)	6	-
	John Walsh	1	-
	Stephen Peterson	2	-
	Sue Chetwin	2	-
Transmission Advisory Group	Bill Heaps (Chair)	-	9
	Ralph Matthes	-	1
	Russell Longuet	-	2
Investment Advisory Group	Bill Heaps (Chair)	14	-
	Stephen Lewis	4	-
Common Quality Advisory Group	Toby Stevenson (Chair)	-	3
	Bryan Leyland	-	2
	Terrence Currie	-	2
Security Advisory Group	John Scott (Chair)	7	-
	Barbara Elliston	-	1
	Molly Melhuish	4	-
	Terrence Currie	5	-
Locational Price Risk Technical Group	Carl Hansen (Chair)	17	-
	Ralph Matthes	1	-
	James Moulder (Chair)	8	-
	Graham Pinnell	5	-
	Molly Melhuish	3	-
	Sue Chetwin	2	-
Transmission Pricing Technical Group	Carl Hansen (Chair)	13	-
AGC Technical Stakeholder Group	Terrence Currie	1	-
AMI Working Group	Nick Bennetts (Chair)	7	-
Standing Data Formats Group	Nick Bennetts (Chair)	3	-
		116	**38**

Advisory groups and working groups comprise members paid by the Commission and members working in the industry paid by their own organisation. The members listed above are those paid by the Commission and do not represent the complete membership of each group.

20. Related party transactions

The Electricity Commission is a wholly-owned entity of the Crown. The Government sets the policy requirements to guide the Commission's roles as well as being its major source of revenue.

The Commission enters into transactions with government departments, Crown agencies, and state-owned enterprises. These transactions are not considered to be related party transactions.

The following transactions were carried out with related parties other than those described above. All related party transactions have been entered into on an arm's length basis.

		Transaction value year ended 30 June		Balance outstanding year ended 30 June	
		2010	2009	2010	2009
R Sowry (Commissioner)	Director of CityLink Ltd (provider of broadband services to the Commission)	3,837	-	-	-

21. Financial instrument risks

The Commission is party to financial instrument arrangements as part of its everyday operations. These financial instruments include bank accounts, accounts receivable, and accounts payable.

Interest rate risk

Interest rate risk is the risk that the return on funds invested and the cost of borrowed funds fluctuate due to changes in market interest rates.

The Commission's exposure to interest rate risk on funds invested is limited to on-call bank deposits which are subject to variable interest rates.

Under the Crown Entities Act 2004, the Commission requires ministerial approval to enter into a borrowing arrangement. The Commission has no borrowings and accordingly there is no interest rate exposure on borrowed funds.

Credit risk

Credit risk is the risk that a third party defaults on its obligations to the Commission causing the Commission to incur a loss.

The Commission does not have significant concentrations of credit risk as it only has a small number of debtors and only invests in financial institutions that have high credit ratings.

Liquidity risk

Liquidity risk is the risk that the Commission encounters difficulties raising liquid funds to meet commitments as they fall due. The Commission has a low exposure to liquidity risk as it does not enter into credit arrangements, except those available from suppliers as part of normal operating agreements, and aims to maintain sufficient funds available on-call to meet its liquidity requirements.

Currency risk

Currency risk is the risk that debtors and creditors due in foreign currency fluctuate because of changes in foreign exchange rates. The Commission has no significant exposure to currency risk on its financial instruments.

22. Capital management

The Commission's capital is its equity, which comprises accumulated funds and is represented by net assets.

The Commission is subject to the financial management and accountability provisions of the Crown Entities Act 2004, which impose restrictions in relation to borrowings, acquisition of securities, issuing guarantees and indemnities, and the use of derivatives.

The Commission manages its equity by prudently managing revenues, expenses, assets, liabilities and general financial dealings to ensure the Commission effectively achieves its objectives and purpose, whilst remaining a going concern.

23. Post balance date events

Pursuant to a Ministerial review of the electricity market, the Electricity Commission will be dissolved on 31 October 2010 in accordance with section 133(1) of the Electricity Industry Act 2010.

As a result of dissolution, all functions, powers, property, information, liabilities, contracts, employees, entitlements and engagements of the Commission will be assumed by a new Independent Crown Entity, the Electricity Authority, to the extent that these are consistent with other provisions of the Electricity Industry Act.

24. Explanation of major variances against budget

Statement of comprehensive income

Crown appropriations

Crown revenue mirrors Commission expenditure (excluding Whirinaki fuel) because the Commission returns surplus appropriation to the Crown. Funding received but not spent is recorded as a creditor and repaid to the Crown after the end of the financial year. Appropriation revenue will therefore be below budget when expenditure is below budget.

In 2009/10 Crown revenue was $6.1 million below budget due to underspending in *Governance and market operations* ($4.1 million), *Reserve energy and availability measures—availability* ($0.8 million), and *Electricity efficiency* ($0.7 million).

The major reason for the underspend in *Governance and market operations* was a $2.7 million reduction in the cost of the System Operator Service Provider Agreement (SOSPA). Delays in implementing Transpower's Market Systems Project resulted in a base fee that was lower than expected.

Interest income

Interest income was higher than anticipated because average cash balances during the first half of 2009/10 were higher than budgeted. This was due to $4.0 million in spot revenue earnings during this period, and $4.4 million in surplus appropriation from the 2008/09 financial year that was repaid to the Crown in December 2009.

Other expenses

Other expenses were $6.6 million under budget. The major contributors to this underspend were the reduced SOSPA (see above) and other service provider contracts ($3.2 million), external advice ($0.8 million), Whirinaki contract ($0.8 million), efficiency programmes ($0.7 million), and the Litigation Fund ($0.5 million), which was not required in 2009/10.

Statement of financial position

Non-current assets and liabilities

Due to the dissolution of the Electricity Commission on 31 October 2010, all assets and liabilities are presented as current in the financial statements. This is a change from the situation anticipated when the budget was set, and affects the presentation of property, plant and equipment and intangible assets.

Cash and cash equivalents

By year end cash holdings were $6.4 million over budget. The major components of this are surplus appropriation ($1.2 million) and net spot revenue ($4.1 million) for 2009/10 which will be returned to the Crown in December 2010 after the annual levy reconciliation. These items were both budgeted at zero.

Payables and accruals

Accounts payable were higher than budget by $2.6 million. The budget did not include accounts payable for Whirinaki availability costs of $2.7 million as it was assumed that these would be paid before balance date. This was not the case due to a minor delay in payment. The balance includes $3.1 million for the Whirinaki contract, $3.5 million for service provider contracts, and $2.2 million for efficiency programmes. All payables and accruals were current as at 30 June 2010.

Provision for refund of appropriation to the Crown

The budget is based on the assumption that the Commission will spend the full appropriation received from the Crown. An underspend gives rise to a provision for appropriations received but not spent, which will be returned to the Crown after year end (refer to the policy on the accounting treatment of Crown appropriations below).

Other provisions

The restructuring provision represents costs to be incurred as a result of the dissolution of the Commission, including a redundancy payment associated with the disestablishment of the General Manager position.

The onerous contracts provision reflects an ongoing contractual commitment for office space that may be surplus to requirements when the Electricity Authority takes over the lease commitments of the Commission from 1 November 2010.

The lease make-good provision allows for the potential cost of reinstating existing office space to its original condition at the end of the tenancy period.

Statement of cash flows

Receipts from Whirinaki spot revenue

Spot revenue is earned from the sale of electricity generated by the Whirinaki power station. It is usually higher than the cost of fuel required to generate the electricity and therefore both spot revenue and fuel are budgeted at zero. The amount of spot revenue cash receipts is higher than total spot revenue for the current year because it includes receipts for the last quarter of 2008/09 and excludes receipts for the last quarter of 2009/10.

Payments to suppliers

Payments to suppliers are lower than budget reflecting Commission underspending in the current financial year, in particular the reduced SOSPA fees paid during the year.

Statement of accounting policies

for the year ended 30 June 2010

Reporting entity

The reporting entity is the Electricity Commission (Commission) which is a Crown agent in terms of the Crown Entities Act 2004 and the Public Finance Act 1989. The Commission was established under the Electricity Act 1992.

The Commission has designated itself a public benefit entity, as defined in NZ IAS 1, since its primary objective is to provide goods and services for community or social benefit, rather than a financial return to equity holders.

The Commission is a reporting entity for the purposes of the Financial Reporting Act 1993, the Public Finance Act 1989, and the Crown Entities Act 2004.

The financial statements for the Electricity Commission are for the year ended 30 June 2010, and were signed by David Caygill, Chair and Richard Bentley, Commissioner on behalf of the Electricity Commission board on 29 October 2010.

Basis of preparation

Statement of compliance

The financial statements of the Electricity Commission have been prepared in accordance with the requirements of the Crown Entities Act 2004, which includes the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP).

The financial statements comply with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and its interpretations approved by the Accounting Standards Review Board, as appropriate for public benefit entities.

Measurement base

The financial statements have been prepared on an historical cost basis, except where modified by the revaluation of certain items of property, plant and equipment.

Functional and presentation currency

The financial statements are presented in New Zealand dollars rounded to the nearest thousand dollars ($000). The functional currency of the Electricity Commission is New Zealand dollars.

Budget figures

The budget figures are derived from the Statement of Intent as approved by the Board at the beginning of the financial year. The budget figures have been prepared in accordance with NZ IFRS using accounting policies that are consistent with those adopted by the Commission for the preparation of the financial statements.

Comparative figures

Comparative information has been reclassified, where necessary, to achieve consistency in disclosure with the current year.

Accounting estimates and assumptions

In preparing these financial statements the Commission has made estimates and assumptions concerning the future. These estimates and assumptions may differ from actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events.

Dissolution of the Electricity Commission and going concern

The Electricity Commission will be dissolved on 31 October 2010 under the Electricity Industry Act 2010. The functions and powers of the Commission will be transferred to:

- Electricity Authority (Authority)
- Energy Efficiency and Conservation Authority (EECA)
- Commerce Commission
- Transpower New Zealand Limited (Transpower).

The Commission's assets, rights, liabilities, contracts, entitlements and engagements will be transferred to the Authority.

The pending dissolution of the Commission requires the financial statements to be prepared on a dissolution basis, not on the normal going-concern basis. However, as its current outputs will continue to be delivered by the entities above, the assets and liabilities of the Commission will continue to be relevant. For that reason, while the financial statements have been prepared on a dissolution basis, no adjustments have been made to the financial statements as a result of the dissolution basis of preparation, except that all assets and liabilities are presented as current.

Standards, amendments and interpretations issued and adopted

The Commission has adopted the following revisions to accounting standards during the financial year, which have had only a presentational or disclosure effect:

- NZ IAS 1 Presentation of Financial Statements (Revised 2007) replaces NZ IAS 1 Presentation of Financial Statements (Issued 2004). The revised standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. The statement of comprehensive income will enable readers to analyse changes in equity resulting from non-owner changes separately from transactions with owners. The Commission has decided to prepare a single statement of comprehensive income for the year ended 30 June 2010 under the revised standard. Financial statement information for the year ended 30 June 2009 has been restated accordingly.
- Amendments to NZ IFRS 7 Financial Instruments: Disclosures. The amendments introduce a three-level fair value disclosure hierarchy that distinguishes fair value measurement by the significance of valuation inputs used, and requires the maturity analysis of derivative liabilities to be presented separately from non-derivative financial liability contractual maturity analysis. This has no effect on the Commission's accounts as it does not hold any financial instruments at fair value.

Standards, amendments and interpretations issued that are not yet effective and have not been early adopted

Standards, amendments, and interpretations issued but not yet effective, that are relevant to the Commission, but which have not been early adopted, are:

- NZ IAS 24 *Related Party Disclosures (Revised 2009)* replaces NZ IAS 24 *Related Party Disclosures* (*Issued 2004)* and is effective for reporting periods commencing on or after 1 January 2011. The revised standard:
  - i Removes the previous disclosure concessions applied by the Commission for arms-length transactions between the Commission and entities controlled or significantly influenced by the Crown. The effect of the revised standard is that more information is required to be disclosed about transactions between the Commission and entities controlled or significantly influenced by the Crown.
  - ii Provides clarity on the disclosure of related party transactions with Ministers of the Crown. Further, with the exception of the Minister of Energy and Resources, the Commission will be provided with an exemption from certain disclosure requirements relating to transactions with other Ministers of the Crown. The clarification could result in additional disclosures should there be any related party transactions with Ministers of the Crown.
  - iii Clarifies that related party transactions include commitments with related parties.
- NZ IFRS 9 Financial Instruments will eventually replace NZ IAS 39 Financial Instruments: Recognition and Measurement. NZ IAS 39 is being replaced through the following 3 main phases: Phase 1 Classification and Measurement, Phase 2 Impairment Methodology, and Phase 3 Hedge Accounting. Phase 1 on the classification and measurement of financial assets has been completed and has been published in the new financial instrument standard NZ IFRS 9. This uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in NZ IAS 39. The approach in NZ IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in NZ IAS 39. The new standard is required to be adopted for the year ended 30 June 2014.

Significant accounting policies

The following particular accounting policies, which materially affect the measurement of financial performance and financial position, have been applied consistently.

Revenue

Crown revenue

The Commission receives appropriations from the Crown. These are restricted in their use to the purpose of meeting the Commission's objectives, as outlined in the Statement of Intent. Appropriations received but not spent are refunded to the Crown after year end.

Appropriations from the Crown are recognised as revenue to the extent that they are spent in any particular month. Appropriations received but not spent are treated as a Crown creditor and shown in the Statement of Comprehensive income as a provision for refund of appropriation to the Crown.

Levies

The Commission administers a levy on industry participants under the Electricity (Levy of Industry Participants) Regulations 2005. Levies are paid directly to the Crown for reimbursement of funding provided to the Commission. Levies are not recognised as revenue in the Commission's accounts.

Spot revenue

Spot revenue is earned when the Whirinaki power station generates electricity under pre-defined conditions. Spot revenue is recognised when earned and is reported in the financial period to which it relates. Spot revenue less the cost of diesel is refunded to levy payers, and is shown in the Statement of Financial Position as a provision for distribution of net spot revenue.

Interest

Interest is earned on bank deposits and is recognised in the period to which it relates.

Leases

Operating leases

Leases are classified as operating leases where the lessor retains all the risks and rewards incident to ownership. Lease payments under an operating lease are recognised as an operating expense on a straight line basis over the period of the lease.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and bank deposits held on call with original maturities of three months or less.

Receivables and prepayments

Receivables and prepayments are initially measured at fair value, and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

Property, plant and equipment

Property, plant and equipment classes consist of computer hardware, furniture and fittings, office equipment and leasehold improvements.

Property, plant and equipment are shown at cost or valuation, less any accumulated depreciation and impairment losses.

All fixed assets costing $1,000 (excluding GST) or more are capitalised and recorded at historical cost. Capital work in progress is recognised as costs are incurred.

Depreciation

Depreciation of fixed assets is on a straight-line basis at rates that write off the depreciable amount of an asset over its useful life. The depreciable amount of an asset is the historical cost or revalued amount less the residual value. All assets are assumed to have no residual value. The estimated useful life of each asset class is listed below.

Computer hardware	3–5 years
Furniture and fittings	5 years
Office equipment	5 years
Leasehold improvements	Unexpired period of the lease

Depreciation on capital work in progress commences when the asset is fully operational.

Intangible assets

Software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation

Amortisation of intangible assets is on a straight-line basis over their useful life. The estimated useful life of each asset class is listed below.

Computer software	3–8 years

Impairment of non-financial assets

Property, plant and equipment and intangible assets that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss would be recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Payables and accruals

Payables and accruals are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

Employee entitlements

Employee entitlements include salaries, wages and superannuation contributions accrued up to balance date, annual leave, sick leave and long-service leave entitlements.

Annual leave

Annual leave earned but not yet taken is recognised as it accrues to employees at current pay rates.

Sick leave

Sick leave is recognised to the extent that compensated absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent that the Commission anticipates it likely to be used by staff to cover those future absences.

Long service leave

Long-service leave is calculated on an actuarial basis as the likely future entitlements accruing to staff taking into consideration years of service, years to entitlement, and the likelihood that staff would reach the point of entitlement.

Superannuation

Obligations for contributions to KiwiSaver and the State Sector Retirement Savings Scheme are accounted for as a defined contribution superannuation scheme and are recognised as an expense in the statement of comprehensive income as incurred.

Income tax

The Commission is a public authority in terms of the Income Tax Act 2004 and is therefore exempt from income tax.

Goods and services tax (GST)

All items in the financial statements are presented exclusive of GST, except for payables and receivables, which are presented on a GST inclusive basis. Where GST is not recoverable as input tax then it is recognised as part of the related asset or expense.

The amount of GST owing to or from the Inland Revenue Department at balance date, being the difference between output GST and input GST, is included in payables or receivables in the Statement of Financial Position.

Part four—report against the GPS

Section 172ZK of the Electricity Act 1992 provides that the Minister must set objectives and outcomes to which the Government wants the Commission to give effect, and against which the Commission must report. Section 172ZM of the Electricity Act 1992 requires the Commission to report on its performance against and the outcomes and objectives contained in this *Government Policy Statement on Electricity Governance* (GPS).

The table below provides a summary of the GPS requirements and reports on the Commission's progress against those requirements to 30 June 2010.

GPS para.	GPS requirement	GPS performance standard for 2009/10	2009/10 results
1. Commission powers and approach			
1–3	General expectations on process, approach and consultation	Ongoing requirements	The requirements are being met.
Consultation			
4–5	Consultation processes	Ongoing requirements	Forty nine consultation processes were started or completed during the 2009/10 year. Seven rule changes were concluded during the year. Four were completed shortly after the end of the financial year.
5	Consultation protocol	Maintain	The protocol has been published and is being observed.
6	Consultation with the Ministry of Consumer Affairs	Ongoing activity	The requirements are being met.
Innovation			
7	Encouraging innovation in Commission work	Ongoing requirements	The requirements are being met.
Information			
8	Information collection, analysis and dissemination	Ongoing activity (also see output class 1, performance measure 10)	The Commission has published extensive information on its website, including: Commission update—weekly updates on operational matters. *About the New Zealand Electricity Sector*—an overview of the sector published in August 2009. *Notes from the Chair* and updates from the General Manager—periodic updates on key issues and initiatives. GPS reports—quarterly reports on progress against GPS requirements. Regular statistical reports have been published for the wholesale and retail markets.

GPS para.	GPS requirement	GPS performance standard for 2009/10	2009/10 results
8	Information collection, analysis and dissemination: targeted reports		A number of targeted information reports have been published: *Synthetic wind data*, July 2009. Datasets used in wind integration studies for simulating variations in wind-farm electricity output. *Reconciliation of hydro inflow datasets*, July 2009. A comparison of hydrological inflow data series published in the Spectra Update reports and on the Comit hydrology website.
8	Centralised dataset (CDS)	Two CDS updates	CDS updates were published in December 2009 and May 2010.
8, 77	Statement of Opportunities (SOO)		See paragraph 77
8	Market modelling, including the Generation Expansion Model (GEM) and market simulation	Ongoing update of models	The GEM has been made available to the industry. A number of participants have purchased runtime licences enabling them to modify and operate GEM themselves. Further work is underway to make GEM more accessible to participants.
Administration of regulations and rules			
9	Monitoring and compliance with the Rules and regulations	Ongoing monitoring and compliance Enforcement, if necessary (also see output class 1, performance measures 5 and 6)	A total of 204 notified breaches were closed in the 2009/10 financial year. The education focus of compliance activities continued, including regular publication of Market Governance Updates, publication of case studies, and a conference, held in November 2009.
2. Security of supply			
Security of supply background, key requirements and objective for the Commission			
10–16	Winter 2008 Review	Complete project work as set out in the winter review action plan	Priority actions are included in the Market Development Programme (MDP)—see GPS paragraph 67.
10–16	Correlation of intermittent generation	Publish report	Report published on 6 July 2010.
10–16	Price demand elasticity assessment	Carry out analysis to develop understanding of demand response to price	This work was deferred, with priority placed on the Market Development Programme (MDP).
Security of supply policy			
17–19, 37	Implement reserve energy review recommendations	No action required	No action required.
Information, forecasting and monitoring			
20–23	Information, forecasting and monitoring	Ongoing requirements (also see output class 1, performance measure 13)	Regular security of supply updates were published on the website, including hydro risk curves (replacing the Minzone) and assessments of risk to security of supply (Riskmeter). The Supplyline website was launched in May 2009 to provide information about the level of risk and potential impacts.

GPS para.	GPS requirement	GPS performance standard for 2009/10	2009/10 results
Hydro storage guidelines			
24–25	Hydro storage guidelines	Included as part of the annual security assessment	An update to the hydro storage guidelines was published in June 2009. A further update was published in February 2010.
Reserve energy			
26–32	Contracting reserve energy capacity	Considered as part of the annual security assessment (also see output class 1, performance measure 12, and output class 2, performance measure 14)	The *Annual Security Assessment 2009* was published on 1 March 2010. The Whirinaki offer strategy was changed in February 2010. The offer strategy has two parts – the energy offer (effective during prolonged energy shortages, such as 'dry years') and the capacity offer (effective at all other times). The capacity offer was changed to a fixed price of $5,000/MWh. The energy offer remained at $387/MWh.
Emergency management			
33–34	Response planning and contingency arrangements	Implement reserve energy and emergency options as needed (also see output class 3, performance measure 16)	The *Security of Supply Outage Plan* (SOSOP), covering rolling outages as a last-resort contingency measure, was published in October 2009. Most parties who must prepare participant outage plans (POPs) under the Electricity Governance (Security of Supply) Regulations 2008 have done so and these have been approved. The remainder are expected to be approved by September 2010.
Levy			
35–36	Cost and recovery from reserve energy requirements	Ongoing arrangements	Ongoing arrangements met.
3. Consumer protection			
Domestic consumer contracts			
38–41	Domestic consumer contracts	Ongoing monitoring	A final paper on the approach to domestic retail contracting arrangements was published in May 2010 including voluntary principles and minimum terms. A baseline review of alignment between retailers' domestic contracting arrangements and voluntary principles and minimum terms commenced in June 2010. A consolidated report is expected to be published by September 2010. (Also covers GPS paragraph 103.)
Low fixed charges			
42–43	Monitoring the Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004	Ongoing monitoring and enforcement, if necessary	As a result of feedback received and research carried out in 2008/09, and consistent with the overall advisory function, a review was undertaken of the effectiveness of the Regulations. Advice was provided to the Minister of Energy and Resources in December 2009.

GPS para.	GPS requirement	GPS performance standard for 2009/10	2009/10 results
Arrangements for the benefit of low-income and vulnerable domestic consumers			
44–45	Guidelines on arrangements to assist low-income and vulnerable domestic consumers	Ongoing monitoring Recommend regulations, if necessary	Compliance with the guideline is actively monitored. In March 2010 updated Guidelines on Arrangements to Assist Medically Dependent Consumers and Guidelines to Assist Vulnerable Consumers were published. Supporting the guidelines is the Protocol between electricity retailers and social agencies, under which retailers provide domestic consumer disconnection and bond statistics, which are published on the Commission's website.
Arrangements in the event of retailer insolvency			
46	Arrangements in the event of retailer insolvency	Project to be completed or on hold	Based on feedback from consultation and Ministerial Review recommendations, this project was placed on hold.
Consumer complaints resolution system			
47–53	Development and approval of consumer complaints resolution scheme	Complete approval of scheme and commence monitoring	In December 2009 the Commission notified approval of the Electricity and Gas Complaints Commission Scheme and this came into effect on 1 April 2010. Monitoring has commenced.
4. Electricity efficiency			
55	Electricity Efficiency Potentials Study	Update to model developed and made available (also see output class 4, performance measure 17)	Specific studies to provide more detailed information on efficiency potentials in certain sectors have been carried out and made available (e.g. the BRANZ residential lighting survey).
56–60	General requirements, inter-agency work	Ongoing requirements	The requirements are being met. Efficiency efforts are coordinated with EECA and other relevant agencies.
60	Memorandum of understanding (MOU) with EECA	Ongoing requirements	The MOU was last updated in November 2008.
Other arrangements and programmes			
Generation			
62	Hydro spill information disclosure	Ongoing industry reporting of hydro spill data under a voluntary arrangement	Industry reports are being published on the Commission's website.
Conveyance			
63	Load management	Complete consultation on options for potential changes to policy / guidelines / rules in relation to ownership of load and related information	See the MDP report under GPS paragraph 67—Property rights for load management project.

GPS para.	GPS requirement	GPS performance standard for 2009/10	2009/10 results
End use			
64, 115	Metering technology	Make recommendation about mandating (or not) the regulation of smart meters by 31 December 2009	In December 2009, the Commission reported to the Minister of Energy and Resources on: • whether the roll-out of advanced metering infrastructure (AMI) should be regulated; and • whether technical standards for AMI systems should be regulated, or • whether the voluntary AMI guidelines currently in place (Guidelines) are adequate. The report was published on the website in March 2010. Operation of the Advanced Metering Infrastructure Guidelines is being monitored and a report was provided in December 2009. Amendments to the AMI Guidelines were proposed for consultation in March 2010 and are intended to be finalised in September 2010. The Advanced Metering Infrastructure Working Group (AMIWG) has been established and has held a number of meetings so far. Its role is to: • Consider the addition of new interfaces relating to information exchanges between AMI system providers, and between system providers and users • Recommend changes to existing interfaces for consideration by the Standing Data Formats Group • Promote awareness and use of interfaces and standardised communication media within the industry. (See also the report about the Part D review under GPS paragraph 115.)
64	Demand-side initiatives following from Market Design Review	Demand side bidding and forecasting—complete implementation plan Dispatchable demand option—publish formal proposal	See the MDP report under GPS paragraph 67—Demand side initiatives.
64	Efficient lighting	Continue lighting efficiency programme	The lighting programme is delivering estimated savings of 440 GWh per annum as at 30 June 2010. The RightLight website, launched in June 2009, had approximately 126,000 visits to 30 June 2010. In addition the Rightlight programme has delivered targeted information and training to sales staff at major DIY and lighting stores across New Zealand. Promotion of the site and the benefits of efficient lighting has also continued online, at point-of-sale and in print. Feedback from the lighting industry indicates the programme is having a significant impact on the sale of efficient lamps to both the residential and business sectors.

GPS para.	GPS requirement	GPS performance standard for 2009/10	2009/10 results
	Efficient lighting (continued)		In addition to Rightlight, around 750,000 efficient lamps were sold during the year through subsidy programmes. BRANZ were commissioned to carry out a survey of efficient lighting in NZ homes. The October 2009 report indicates a significant improvement in the use of efficient lighting in New Zealand homes over the period of the Commission's programmes. The report shows that around 84 per cent of homes have at least one energy efficient light bulb and that there are now five more CFL bulbs per home than in 2004. An online street-lighting resource was released in December 2009. Supporting training has been successfully completed with over 200 participants from councils and lighting consultancies.
		At least one new request for proposals (RFP) completed	An RFP released in April 2010 resulted in contracts with four providers to provide financial assistance to improve the efficiency of lighting in the commercial and industrial sector.
		Heated towel-rail timer information programmes (not in SOI)	An RFP to promote the use of heated towel-rail timers in homes was issued in April 2010. Implementation is expected in 2011.
64	Industrial electricity efficiency (includes compressed air and electric motors)	Continue compressed air systems (CAS) efficiency programme	184 assessments and audits have been completed, along with establishing related action plans with the client sites. Estimated savings total 24.8 GWh per annum as at 30 June 2010. Four auditors have been accredited under the compressed air auditor accreditation scheme with several more pursuing accreditation. Technical content of an air efficiency rating scheme for small to medium enterprises (SME) compressed air systems was completed. The scheme is being piloted by three compressed air service providers and full roll out is targeted for early in 2010/11.
		Continue bounty scheme for electric motors	Savings of 7.6 GWh per annum have been estimated from the bounty scheme to 30 June 2010. The scheme was extended to 31 January 2011. A motor policy guide, to guide business decisions on motor replacement versus repair, received positive feedback during its trial phase. As a result of an RFP in March 2010, contracts have been awarded to four service providers to pilot this policy guide on large industrial sites.
		Establish motor rewind workshop quality system	The rewind workshop quality code was launched in November 2009. Nine rewind workshops have been certified against the code and a further eight workshops have their applications underway. The motor systems optimisation programme, which addresses motor systems efficiencies over a broad range of industrial processes, was estimated to have made savings of 1.3 GWh per annum as at 30 June 2010.
64	Commercial electricity efficiency	Continue commercial programme	As at 30 June 2010, 145 projects were committed to, with savings estimated at 35.5 GWh per annum.

GPS para.	GPS requirement	GPS performance standard for 2009/10	2009/10 results
	Commercial electricity efficiency (continued)	Possible further RFP for extended or expanded programme	An RFP for funding programmes for 2010/11 was released in April 2010. Seventeen new providers were contracted. An RFP for information and training programmes concluded in December 2009. Contracts are now in place for the development and delivery of electricity efficiency training and accreditation programmes.
5. Renewable energy			
65–66	Transmission enabling renewables	Possible implementation of some components of policy solutions	Phase one of the transmission to enable renewables (TTER) project was completed and the report published, including a resource map for potential renewable energy development. Phase two of the project delivered reports on: • Development of marine energy. • System protection schemes (SPS) in Australia and potential opportunities for use of SPS in New Zealand. • Application of real-time thermal rating to overhead lines in New Zealand, as a way of removing restrictions to development of renewable generation sources. No further work is planned by the Commission on this project. Transpower has started work on renewables-enabling transmission investments.
65–66, 67	Strategic wind project	Technical standards work on fault-ride-through completed	Transpower has completed an analysis of the characteristics of typical high voltage faults on the New Zealand power system and reviewed fault-ride-through standards in other jurisdictions. Technical work has been completed and work on rule changes is underway. Draft Code changes are expected to be considered by the Electricity Authority.
		Initiate cost allocation work	A consultation paper was published in June 2010. Draft Code changes are expected to be considered by the Electricity Authority.
6. System operation and wholesale related markets			
67	Contracting for the operation of the electricity system and markets	Ongoing monitoring against contracts (also see output class 1, performance measures 1 to 4)	Ongoing monitoring took place.
			Reconciliation improvement rule-changes—Rule changes were recommended to the Minister concerning the reconciliation and switching process contained in parts A, E, H and J. The rule changes will be gazetted on 26 July 2010 and in force by 30 September 2010.
67	Market Development Programme	Market Development Programme implementation phase – includes a range of projects	Conferences took place in October 2009 and May 2010 on high-priority Market Development Programme (MDP) projects. Technical groups have been established for major projects to provide specialist input on rule design and implementation.

GPS para.	GPS requirement	GPS performance standard for 2009/10	2009/10 results
67	Market Development Programme (continued)	Complete consultation on options for introducing scarcity pricing into spot prices	Scarcity pricing & default buy-back—developing scarcity pricing mechanisms that enable efficient investment in generation to supply energy at times of scarcity. Options were consulted on from 16 October 2009 to 7 December 2009. Following the May 2010 workshop priority has been given to progressing default buy-back on a timeframe to enable implementation prior to winter 2011. Work on scarcity pricing proceeds on a timeline to introduce prior to winter 2012.
			Future of Whirinaki—the Commission is working with the Ministry of Economic Development on the future of Whirinaki.
		Locational hedges - complete implementation	Locational hedges—developing a cost-effective mechanism to allow participants to better manage locational price risk, thereby increasing retail competition and improving hedge market liquidity. Consultation on options took place in October-December 2009. An information paper was released and tested with industry at the May 2010 MDP workshop. A consultation paper with high level rule change proposal is expected in August 2010.
		Transmission pricing review investigation and analysis completed	Transmission pricing review—reviewing the allocation of transmission costs in order to enable efficient use of, and investment in, transmission assets, to recover costs in an equitable way, and to provide coherent price signals through the electricity value chain. The review is being undertaken in three consultation stages; a review of high-level options, an analysis to identify a short list of options, and a detailed evaluation of a preferred option for transmission pricing. Consultation on high level options took place in October – December 2009. A stage 2 options consultation paper will be published in July 2010 closing in September 2010. Any subsequent changes to Transpower's Transmission Pricing Methodology are expected to be effective from the start of the 2012 pricing year, dependent on implementation requirements.
		Establish guidelines for distribution pricing by 31 December 2009	Distribution pricing review—the Commerce Commission revised its 31 December 2009 deadline to 30 June 2010, which extended the Electricity Commission's deadline for this work. A pricing principles discussion document was released in September 2009. An updated set of pricing principles and information disclosure guidelines was published and consultation closed in December 2009. The Distribution Pricing Principles and Information Disclosure Guidelines were published on 1 March 2010.
		Standardised tariff structures and use of system rules (Not in SOI)	Standardising distribution tariff structures and use-of-system rules—work is underway with an information-gathering project to estimate costs and benefits of standardising distribution tariff structures and use-of-system rules. Information has been collected from retailers and distributors. This work is intended to provide an information base for the incoming Electricity Authority to make policy decisions.
		Demand side bidding and forecasting—complete implementation plan	Demand-side initiatives—developing load control policy and undertaking initiatives to improve levels of demand response (demand-side forecasting and bidding, and dispatchable demand).

GPS para.	GPS requirement	GPS performance standard for 2009/10	2009/10 results
67	Market Development Programme (continued)		Demand-side bidding and forecasting (DSBF)—this work was constrained by the timing of the System Operator's market system upgrade. Specifications have been provided to the System Operator to confirm the timetable and cost for implementation. In July 2010 the Commission will publish an update and plan for completion of the DSBF project.
		Dispatchable demand option—publish formal proposal	Dispatchable demand—consultation was completed on a proposal for a dispatchable demand regime in June 2010. A summary of submissions will be published in August 2010. A draft proposal is expected to be completed for consideration by the Electricity Authority.
		Complete consultation on options for potential changes to policy / guidelines / rules in relation to ownership of load and related information	Property rights for load management project—in August-September 2009 consultation took place on the provisional findings and conclusions of the Property Rights for Load Management Project. A final report was published in December 2009.
			Developing ancillary services: extended load control—developing a methodology for interrupting residential hot water load by using frequency-sensitive relays and facilitate new entrants and existing interruptible load providers to support this product. Potential for more than 100 MW of under-utilised hot water load has been identified; however, compliance requirements are an issue. The System Operator has been engaged to investigate and implement an adapted post-event compliance methodology. The Commission is also building awareness of the benefits to be achieved from offering this form of reserve through discussions with the parties involved. Rule changes, if required, will be made by the Electricity Authority.
		Multiple frequency keepers—complete market integration investigation and expert technical investigation and complete implementation	Developing ancillary services: multiple frequency-keepers—developing a system to coordinate multiple frequency-keepers, including a nationally-based market instead of an island-based market, thereby reducing the cost of this service. Conceptual design has been completed and detailed design has been initiated to address system and software requirements. The project approach was revised as the current HVDC link is not available. A revised design scope has been developed and is being refined with the technical stakeholder group and System Operator.
		Market Development Programme to improve market information and analysis	A monitoring and analysis programme is being scoped.
67	Offer and dispatch rule development	Completion of initial set of initiatives arising out of the wind project	Initial set of initiatives arising out of the wind project—work has been completed with no rule changes arising.

GPS para.	GPS requirement	GPS performance standard for 2009/10	2009/10 results
67	Offer and dispatch rule development (continued)	Set out medium-term set of initiatives arising out of the wind project	**Medium-term set of initiatives arising out of the wind project**—a paper on wind forecasting and market integration options was consulted on in March - April 2010. Consideration is being given to reducing or removing the offer and bid-gate closure rule to allow more plant flexibility to compensate for the unpredictability of intermittent generation.
		Dispatch of HVDC rule change completed and implemented	**Dispatch of HVDC rule change**—the project has been completed with a decision not to make any changes.
67, 114–115	Guidelines for secondary networks	Consult on and complete guidelines for the creation and operation of consumer networks and network extensions	This work has been deferred. Priority was placed on the Market Development Programme (MDP).
67	Pricing process improvements	Review and update UTS processes—regulation change	**Review and update UTS processes regulation change**—consultation in May 2010 proposed a rule change regarding republication of final prices, should a UTS be found, so the inconsistency in the Rules is not carried forward into the proposed Electricity Industry Participation Code. Submissions were generally supportive of the change. Rule changes come into effect on 1 September 2010. A further matter to be addressed by the Authority will be a time limit on the republication of final prices.
		Introduce interim pricing period—rule change	**Introduce interim pricing period rule change**—in July 2010, the Commission will recommend additions to Part A and Part G of the Rules to provide for introduction of an interim pricing period. This would enable interested parties to view prices before they are published and apply to have corrections made to any calculation errors they consider may have occurred.
		Improvement to pricing inputs—rule change	**Improvement to pricing inputs rule change**—information has been published on pricing inputs. An initial technical report on high spring washer pricing has been received and is being reviewed.
67	Same day cleared funds		Consultation took place on payment in same day cleared funds in August - September 2009. A rule change was completed December 2009.
67	Scarcity pricing		See MDP report under GPS paragraph 67, above—**Scarcity pricing.**
67	Common quality development programme—frequency regulation	Expand normal frequency band—complete rule changes and implement	**Expand normal frequency band**—work is progressing, but has been affected by System Operator resource constraints.

GPS para.	GPS requirement	GPS performance standard for 2009/10	2009/10 results
67	Common quality development programme—frequency regulation (continued)	Multiple frequency keepers—complete market integration investigation and expert technical investigation and complete implementation	See the MDP report under GPS paragraph 67, above—**Multiple frequency keepers**.
		HVDC frequency sharing capability—complete investigation and recommend course of action if not completed in 2008/09	**HVDC frequency sharing capability**—Transpower, as Grid Owner, evaluated current HVDC control systems to allow integration of Automatic Generator Control (AGC) signals. The Grid Owner reported in December 2009 that Pole 2 is not available. This means the project is not able to proceed as originally envisaged and frequency sharing work will now be addressed in the context of the development and implementation of Pole 3.
		Frequency keeper offer selection—complete rule change and initiate software development	**Frequency keeper offer selection**—software development on phase 1 has been completed and was implemented in the System Operator's Market Systems Project (MSP) December 2009 update. The need for software development for phase 2 is currently under review and may not proceed. This involves a change to the cost-allocation methodology associated with frequency-keeper selection.
		Instantaneous reserve dispatch improvement rule change (NB not in SOI)	**Instantaneous reserve dispatch improvement rule change**—concerns have been identified in relation to dispatch of instantaneous reserve (IR) during scarcity situations. The solution identified increases system security and provides pricing incentives for IR providers to dispatch IR. Due to the potential seriousness of the situation (i.e. the risk of operating the system in an insecure state), the required rule changes were made under the urgent rule change provisions of the Electricity Act. The rule changes came into effect on 1 May 2010. The urgent rule change provisions of the Act require full consultation to be completed within six months. This consultation took place in April - May 2010 and the rule changes went live on 24 June 2010.

GPS para.	GPS requirement	GPS performance standard for 2009/10	2009/10 results
67, 115	Electricity hedge market development	Complete survey	**Hedge Market Survey**—the survey was conducted in November 2009, with the report published in February 2010.
		Monitor industry led developments to inform policy development and identification of potential improvement initiatives	**Final price data publicly available**—the Australian Stock Exchange (ASX) has listed New Zealand electricity futures and options contracts. This required Commission confirmation, in July 2009, that, as an essential feature of an efficient market, final price data is publicly available. **Hedge disclosures: guidance, location factors and annual certification**—the hedge disclosure requirements in section VI of part G of the Rules have been in operation for just over a year. An outline of the hedge disclosure regime has been made available on the website, which also includes: • The annual list of nodes, and associated grid zones and location factors • The form to use for annual certification of disclosed information • Information sheets (explaining obligations contained in the Rules) • Examples of how to calculate contract prices for disclosure purposes • A guidance note (November 2009) setting out observations on compliance and tips to avoiding breaches.
67	Review of AUFLS exemptions	*(NB not in SOI)*	Options to address issues concerning the Rules relating to AUFLS were consulted on in November 2009 and a summary of submissions has been published. In February 2010 the Board decided to put this project on hold, for further consideration by the Electricity Authority.
Transmission risk management			
68–69	Transmission hedge market development	Complete implementation	See the MDP report under GPS paragraph 67, above—**Locational hedges**.
7. Transmission			
Transmission background and objectives			
70	Transmission investment decision-making process improvement	Minor GUIRP process improvements Review the regulatory process for transmission decision-making, including addressing rule-change proposals from Transpower received in December 2008	Rule change proposals were received from Transpower in December 2008. These rule change proposals along with the review of rule changes necessary to give effect to the 2009 GPS have been put on hold given the policy direction set out in the Ministerial Review.
Connection to and use of the national grid			
71	Availability and reliability index measures—interconnection asset services	*Availability and reliability index measures* *(Not in SOI)*	The Rules require Transpower to make interconnection assets available in accordance with specified service measures and levels. A consultation paper was published, with submissions closing on 16 October 2009. The availability and reliability index measures rule-change was gazetted in December 2009 and came into force on 1 February 2010.

GPS para.	GPS requirement	GPS performance standard for 2009/10	2009/10 results
		Consultation on schedule F6 rule change *(Not in SOI)*	In February - March 2010, following review of Transpower's 2009 annual report on interconnection asset capacity and grid configuration, consultation took place on a proposed amendment to schedule F6 of the Interconnection Rules to include the information in the 2009 annual report.
72–75	Grid reliability standards (GRS)	Complete assessment of value of unserved energy and update rules	Value of unserved energy—this project was delayed due to difficulty obtaining data from lines companies. The data issue has since been resolved to allow the assessment to continue but has delayed the ability to update rules if required. A pilot survey of consumers has commenced as a key input into determining a revised value of lost load. The full survey of approximately 14,000 consumers is expected to be completed in August 2010.
		Consider need for a review of the GRS	Review of the GRS—progress on this review is dependent on work on the value of unserved energy.
76	Transmission contracting arrangements (Benchmark Agreement (BA), and Interconnection Rules (ICR))	Establish monitoring arrangements and commence ongoing monitoring	Arrangements are being monitored and a number of agreements have been received and published. Power factor issues identified from monitoring work are being investigated.
Investment in and maintenance of the transmission network, planning ahead, environmental effects, transmission alternatives			
77, 8	Statement of Opportunities (SOO)	Grid planning assumptions (GPA) published Sept 2009 (alternate year to SOO) SOO on track for publication by September 2010	Development of the SOO is on track for publication in September 2010. Consultation on the draft will take place in July – August 2010.
78–96	Grid investment decision-making	Grid investment decisions made in accordance with published timetables, which may be varied by agreement, or by Commission stipulation (also see output class 1, performance measures 9 and 11)	Grid investment decisions were made on several proposals, as listed in the review of operations section of this report, in accordance with published timetables.
87-88	Investment in minor transmission works	Address transmission implications of the 2009 GPS	See report under GPS paragraph 70.

GPS para.	GPS requirement	GPS performance standard for 2009/10	2009/10 results
Pricing for connection to and use of the national grid, and cost recovery and pricing principles			
97–99, 63	Transmission pricing methodology (TPM)	Transmission pricing review investigation and analysis completed	See report under MDP, GPS paragraph 67 above—**Transmission pricing review**.
8. Distribution			
Pricing methodologies			
100–102	Distribution pricing methodologies	Establish guidelines by 31 December 2009 Monitor distribution pricing methodology	See report under MDP, GPS paragraph 67 above—**Distribution pricing review**.
102	Monitoring of changes in urban and rural lines charges	Formal monitoring implemented	This is not currently being undertaken. Priority is being given to other work.
Use of system agreements			
103	Distribution use-of-system agreements	Ongoing monitoring	Business-as-usual monitoring is taking place. (See report under GPS paragraphs 38–41.) A review of the Model Use of Systems Agreement is to be progressed, as part of the wider work on standardisation of tariffs structures and use of system agreements.
9. Interrelationship with the Commerce Commission			
104–109	Memorandum of understanding (MOU)	Update if necessary	The MOU was last updated on 28 November 2008.
10. Distributed generation			
110	Distributed generation		**Distributed generation statistics**—the Electricity Governance (Connection of Distributed Generation) Regulations 2007 require distributors to provide annual statistics on distributed (embedded) generation connections. The statistics were last published in May 2010.
110	Guidelines or standards for domestic-scale distributed generation	Initiate an investigation on potential guidelines or standards for domestic-scale distributed generation, including assessing impact on compliance costs and safety	Drafting has commenced on a technical guideline (strawman).
112–113	Distributed generation: itemised billing and technical standards	Ongoing monitoring of model domestic contracts	Guidelines were completed as part of the model domestic contract. (Also see the report against GPS paragraphs 38–41.) Work has been initiated to investigate mandatory terms and conditions regarding purchase by Retailers of power from small scale distributed generation as per the Minister's letter of expectations of 10 February 2010. This was discussed at the Retail and Consumer Advisory Group in June 2010.

GPS para.	GPS requirement	GPS performance standard for 2009/10	2009/10 results
11. Retail			
114	Market development improvements in the retail area	Develop retail market monitoring capability	Retail market monitoring—see the MDP report under GPS paragraph 67—Monitoring and information provision.
		Potential enhancements to PowerSwitch	PowerSwitch—the enhanced website went live in September 2009.
		Participate in Household Energy Affordability project	Household Energy Affordability Project—this work is being led by the Ministry of Social Development and EECA with Commission participation and support. A literature review was published on the EECA website on 6 May 2010.
115	Review of part D of the Rules (metering)	Development of a new regulatory framework (replacement of part D of the Rules)	Part D Rules and advanced metering—reviewing and updating part D of the Rules (on metering and metering equipment), and reviewing the Advanced Metering Infrastructure Guidelines to identify any changes needed to ensure a high quality advanced metering infrastructure. Consultation took place on issues and proposed options in August -November 2009. Decisions and a summary of submissions and responses document were published in March 2010. Proposed rules were published for consultation on 28 June 2010. Consultation closes on 30 September 2010. A summary of submissions is expected to be completed by December 2010 and Code changes finalised by March 2011. Advanced metering—see separate item under GPS paragraph 64.
115	Consumer switching rules compliance	Ongoing monitoring	Registry information is being monitored and exceptions noted and breach reports are being submitted to the Market Governance team when appropriate. On 9 June 2010 rule changes were recommended including reducing the switching timetable from 23 to 10 working days (see Reconciliation improvement rule-changes under GPS paragraph 67). The changes will be gazetted on 26 July 2010 and in force by 30 September 2010.
Reconciliation of, and payment for, distribution line losses			
116	Loss factors methodology—including loss factors and loss optimisation	Ongoing monitoring of Guidelines via use of Loss Factor Review Panel	The Loss Factor Review Panel has met twice. Guideline monitoring is currently being given low priority as emphasis is being placed on MDP initiatives and retail audits.
		Establish options for minimising non-technical distribution losses	Minimising non-technical distribution losses—an issues and options paper on minimising non-technical distribution losses has been prepared but is currently a low priority. As a result of the Ministerial Review, the Board has put this project on hold, while priority is given to completion of other key tasks.
12. Accountability requirements			
118	Quarterly report to the Minister	Ongoing reporting	Quarterly reports are provided to the Minister.

Part five—other information

This report is written as at 30 June 2010 hence references to the Electricity Commission are in the present tense. However, it should be noted that the Electricity Industry Act 2010 dissolves the Electricity Commission on 31 October 2010, prior to the publication of the report.

The Electricity Commission

The Electricity Commission is a Crown Agent set up under the Electricity Act 1992 to oversee New Zealand's electricity industry and markets. It began operating in September 2003.

The Crown Entities Act 2004 governs the Commission's accountability arrangements. Additional accountability requirements are included in the Electricity Act 1992.

The Electricity Act sets out the principal objectives and specific outcomes with which the Commission is charged. The Act also sets out the Commission's functions and lists the processes under which the Electricity Governance Regulations 2003 (Regulations) and Electricity Governance Rules 2003 (Rules) are established and amended. The Regulations and Rules set out in detail some of the obligations and responsibilities of the Commission and the electricity industry.

The *Government Policy Statement on Electricity Governance 2009* (GPS) sets out the Government's expectations of the Commission, including the objectives and outcomes that the Government wants the Commission to give effect to.

Governance and management

The Commission is governed by a Board appointed by the Minister of Energy and Resources. The Board has between five and nine members. Members hold office for a term of up to three years and may be reappointed. The Board generally meets on a three-weekly basis, and on other occasions when necessary. Board fees are funded from the levy on the electricity industry, which also funds the Commission's operations.

The Commission is managed by a General Manager. The General Manager employs a small professional team to deliver core services. External expert advice is contracted on a project-by-project basis where appropriate and necessary. The Commission also draws on the experience of advisory groups.

Service provision contracts are used for the delivery of six major operational services central to the effective functioning of the electricity system and markets.

An independent Rulings Panel has been established to deal with breach notifications referred to it by the Board.

Roles and functions

Operation of the electricity system and markets

The Commission is responsible for the performance of the electricity system, and wholesale and retail markets. It carries out this work by contracting and managing external service providers. The System Operator is contracted to deliver the day-to-day operation of the electricity system.

The wholesale market involves bids to buy and offers to sell electricity. For that to happen, the Commission contracts the Pricing Manager to set final prices, the Reconciliation Manager to reconcile electricity volumes, and the Clearing Manager to carry out the process for settling accounts. The Wholesale Information and Trading System is contracted to carry out information transfers, especially the uploading of bids and offers.

In the retail market, the Commission contracts the Registry to hold information on points-of-connection for consumers. The Registry enables consumers to switch retailers and retailers to access the information they need to facilitate the switching process. The Commission appointed itself as Market Administrator in 2004.

Ensuring compliance with regulations and rules

The Commission is responsible for developing, monitoring and enforcing compliance with various regulations and the Rules, including:

- Operation of the wholesale markets (spot and hedge)
- Operation of the retail market
- Consumer protection activities
- Monitoring of the Electricity Governance (Connection of Distributed Generation) Regulations 2007
- Monitoring of the Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004.

The Commission aims to facilitate greater understanding of the regulations and the Rules, thereby improving compliance, and to identify areas that may need to be changed.

The Commission advises the Minister on statutory regulations and the Rules to ensure that the wholesale and retail markets operate efficiently and fairly.

Information provision

The Commission collects and publishes information to facilitate the efficient operation of the electricity system and markets. It collects and publishes information to guide investment in transmission and transmission alternatives in the form of the Statement of Opportunities (SOO). Other information provision includes the Centralised Dataset (CDS) and wholesale and retail market reports.

The Commission has also developed voluntary information publication arrangements with the industry including hydro spill data and up-to-date information on retail tariffs.

Transmission investment decision-making

Transpower is responsible for planning the development of the grid and must apply to the Commission for approval of its grid upgrade plans (GUPs). The Commission has statutory responsibility for decision-making on grid investment proposals from Transpower. Once a grid investment has been approved, Transpower is responsible for all aspects of the upgrade, including land acquisition and resource consents.

Security of supply

The Commission is required to use reasonable endeavours to ensure security of supply, in particular for peak and winter supply, without assuming any demand reduction from emergency conservation campaigns. At the same time it must minimise distortions to the ordinary operation of the electricity market.

The Commission works with the electricity industry to ensure security of supply. To do so, it collects and monitors a considerable amount of data and publishes information on the security of supply status. The future need for reserve energy is reviewed on at least an annual basis.

The Commission may contract for reserve energy and would manage security of supply emergencies if required. The expected result is that, if needed, implementation of reserve energy and emergency measures provides an effective contribution to mitigating risks.

Electricity efficiency

The Commission delivers programmes for electricity efficiency. In the 2007 Budget, the Government approved funding of $44.5 million (excluding GST) over the 2007/08 to 2009/10 years. The goal is to significantly reduce general and peak electricity demand and CO_2 emissions through more efficient use of electricity.

This investment is expected to realise sustained electricity efficiency and conservation gains. Ongoing annual benefits by the end of the 2009/10 financial year, from the combined programmes, were expected to be: electricity savings of 450 GWh per annum; and CO_2 savings of 87,000 tonnes per annum. These target savings have been exceeded at a lower than budgeted cost.

The Commission's investments in electricity efficiency take place where this is significantly cheaper than the long term costs of building extra generation capacity.

Performance information

The Commission's output classes, performance measures, and financial statements relating to these roles and functions are included in part three of this Annual Report.

Organisational health and capability

The SOI sets out the following main operational performance measures:

Main operational performance measures 2009/10	2009/10 result
1. The Commission's consultation protocol is followed when applicable	Achieved.
2. The Commission manages within its appropriations	Achieved.
3. The Commission maintains a low level of staff turnover	Achieved.

Management and capability

The Commission appreciates those who choose to work in the organisation and provides a supportive, stimulating environment in which debate is encouraged and where robust discussion and thought processes coupled with high levels of integrity culminate in outputs of value.

The Commission's multicultural workforce is based in Wellington and comprises fifty four permanent staff, two of whom work part-time. Thirty one staff are male and twenty three are female.

The Commission supports the good employer concept by continually reviewing related operating policies and maintaining sight of its obligations in development and implementation of these. Regular staff meetings provide a forum for staff participation and comment.

Leadership, accountability and culture

Clear strategic direction given by the Board and General Manager is directly linked to the Statement of Intent, leading through to project planning and to individual performance objectives, providing a clear sense of purpose and defined expectation.

Identification and implementation of leadership training and development for all levels of management is ongoing.

Recruitment, selection and induction

Turnover for the 2009/10 year was 12.4 per cent.

Whether a vacancy is advertised internally or externally as appropriate, the Commission operates a transparent, fair recruitment process which is mindful of EEO principles and policies, and which results in the best person for the role being appointed.

A comprehensive induction process is provided for all new staff and commissioners.

Employee development

Appropriate training and development is available for all staff. In addition to both internal and external courses, staff are provided development opportunities in either permanent or project roles within the Commission.

Development plans are reviewed quarterly and updated to take account of changing priorities.

Flexibility and work design

Non-standard work arrangements are implemented where possible, and are considered for staff dealing with exceptional circumstances, and those returning from maternity leave, injury, or serious illness are supported in their integration back into the workforce.

Remuneration, recognition and conditions

All staff have an annual review of salary. There is moderation in the process to ensure it is as fair, consistent and objective as possible.

The Commission provides a supportive work environment in which there is ongoing recognition of milestones, as appropriate, and success is celebrated.

Safe and healthy environment

The Commission has a proactive Health and Safety Committee comprising both staff and management.

An active, healthy lifestyle is encouraged and supported. An Employee Assistance Programme scheme is available to staff, reference material including stress management, is available on the Commission intranet and professional advice on workstation set-up is available to all.

The Harassment and Bullying Policy is provided to staff at induction.

The Code of Conduct alerts staff to acceptable standards of behaviour and processes and consequences of breaches.

Risk management

The Commission has a proactive risk management framework in place. The Board Risk and Audit Committee review the risk register as part of its regular quarterly meetings.

Value for money of the Commission's work

The cost-effectiveness of the Commission's work is assured through:

- **Appropriation consultation**—the Commission's planned work priorities and appropriations are scrutinised through public consultation in accordance with section 172ZCA of the Electricity Act 1992. The Commission provides information on its proposed work priorities and high-level information on intended expenditure. Where relevant and possible, information is provided on the potential benefits being sought in terms of net present value. While very detailed costing information is not available at this stage of the planning cycle, the information provided allows levy payers and other interested parties to provide feedback on the value being provided by the Commission.
- **Assessment of proposed regulations**—the benefits and costs of proposed regulation or rule changes are scrutinised through public consultation process in accordance with sections 172F and 172H of the Electricity Act 1992.
- **Assessment of electricity efficiency programmes**—the Commission assesses potential costs and benefits of electricity efficiency programmes compared with the long-run marginal cost of new generation.

In addition to sharpening its strategic focus and continuing to deliver high quality outputs, the Commission has also been improving how it works in order to maximise the value of the Commission's work for New Zealand, at the lowest reasonable cost to levy payers.

Value-for-money and performance improvement initiatives are built into the way that the Commission prioritises and manages its work programmes.

Planning and reporting

In addition to the requirements of the Crown Entities Act 2004, specific consultation, planning and reporting requirements for the Commission are contained in the Electricity Act 1992 and the GPS.

In developing the Statement of Intent (SOI), the Commission consulted with levy payers as required by section 172ZCA of the Act. It also consulted with the industry on the projects to be included in the workplan. This input was considered in developing its three-year objectives, statement of service performance, and work programme for the SOI. The draft SOI was provided to the Minister for comment, before being finalised and tabled in Parliament after Budget day.

The Commission prepares this Annual Report in accordance with section 150 of the Crown Entities Act 2004. The report also provides the information on GPS performance standards required under section 172ZM of the Electricity Act 1992. The financial performance, non-financial performance, and GPS performance are audited by Audit New Zealand. The report is tabled in Parliament. The report is then published and distributed by the Commission.

The Commission also published a report against the GPS on its website on a quarterly basis.

Directions issued by ministers

There were no directions issued by Ministers in 2009/10 applicable to the Commission.

Board, committees and advisory groups

Board

The Commission is governed by a Board appointed by the Minister. The Board is to have no fewer than five members and no more than nine. Members hold office for a term of up to three years and may be reappointed. The Board generally meets on a three-weekly basis and on other occasions when necessary. Board fees are funded from the levy on the electricity industry, which also funds the Commission's operations.

The Board members at 30 June 2010 were David Caygill (Chair), Richard Bentley, David Bull, Linda Constable, Peter Harris, Roger Sowry.

The Board has formed a number of committees to address specific items of business. These are:

- Electricity Governance Rules Committee
- Remuneration Committee
- Risk and Audit Committee
- System Operations Committee
- Undesirable Trading Situations Committee.

Rulings Panel

The Commission appoints the members of the Rulings Panel (a body corporate established under the Electricity Governance Regulations 2003) and is responsible for its funding. The Rulings Panel is the industry dispute resolution and disciplinary body that determines complaints and certain disputes brought to it under the Regulations and Rules.

Advisory and project groups

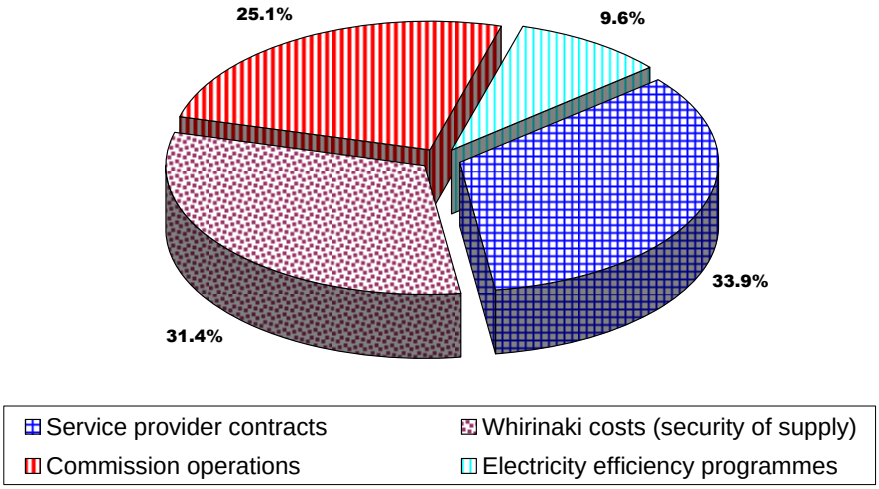
The Commission has used advisory groups to provide advice on sector development since we began operating in 2003. The advisory groups are:

- Investment Advisory Group—this group's key focus is on transmission investment issues
- Security Advisory Group—this group address security and reliability issues, which may include some aspects of system operations work
- Market Design Advisory Group—this group focuses on wholesale market development dealing with tasks arising from the Commission's Market Design Review, Commerce Commission review, development of markets etc
- Retail and Consumer Advisory Group—this group focuses on consumer issues such as customer switching and carry out projects that promote strong retail competition.

Funding and levy

The Commission is funded by appropriations from Parliament under Vote Energy. The appropriations cover all the services and activities of the Commission. Figure 19 shows the broad areas of the Commission's expenditure for 2009/10.

Figure 19: expenditure 2009/10



Notes:

Service provider contracts—costs that cover agreements between the Commission and the companies that provide services to operate the electricity system and wholesale and retail markets.

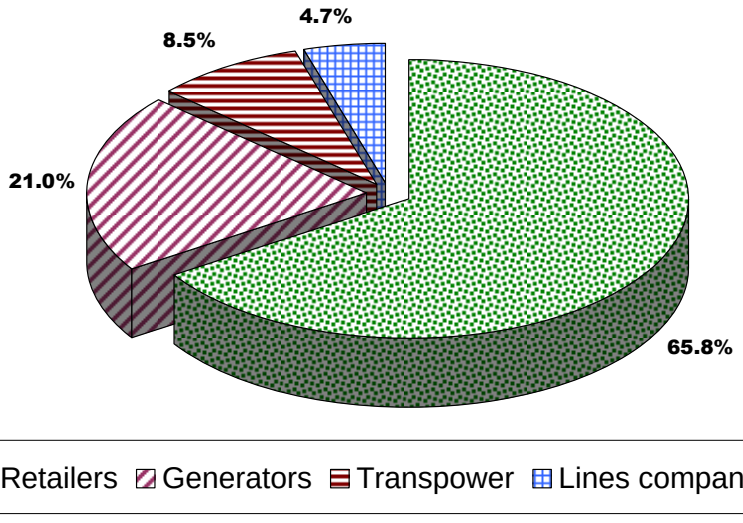
Commission operations—all operational costs of the Commission (except service provider costs) including rent, overheads, staff costs, Board costs, and external legal and other professional advice.

Whirinaki costs (security of supply)—costs of the Commission's contract with the Crown for the availability and operation of the Whirinaki power station. Also included is the cost of tendering for reserve energy, if needed.

Electricity efficiency programmes—costs of electricity efficiency programmes and electricity efficiency potentials modelling.

The Crown is reimbursed for the cost of the Commission by way of a levy on the electricity industry. The levy is collected by the Commission on behalf of the Crown. The various components of the Commission's funding are levied on different sectors of the electricity industry. The amount paid by an individual company depends on the volume of activity for that company. Allocation of the levy to electricity industry sectors is shown in figure 20.

Figure 20: levy allocation 2009/10



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