

# Annual Report

## 2005–2006

**Electricity**

*Te Komihana Hiko*

*Commission*







Report of the  
**Electricity Commission**  
for the year ended 30 June 2006

Prepared in accordance with  
the *Public Finance Act 1989*

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

**Principal objectives for the Electricity Commission:**

- ensure that electricity is produced and delivered to all classes of consumers in an efficient, fair, reliable and environmentally sustainable manner; and
- promote and facilitate the efficient use of electricity.

**Specific outcomes for the Electricity Commission:**

- 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 electricity 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; and
- g the electricity sector contributes to achieving the Government's climate change objectives by minimising unnecessary 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.

section 172N of the *Electricity Act 1992*

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# Outline

This annual report is the Electricity Commission's (Commission's) formal report to Parliament against its *Statement of Intent 2005–2008* (SOL). The annual report provides information on what the Commission has done to:

- advance the principal objectives and specific outcomes as set out in the *Electricity Act 1992* (Act);
- address the requirements of the *Government Policy Statement on Electricity Governance* (GPS); and
- deliver its outputs and projects set out in the SOL.

## Chair's foreword

- Provides summary of significant issues and Commission achievements.

## Part one—review of operations

- Provides an overview of the Commission's operations for the year.

## Part two—performance information

- Specifies the financial and non-financial performance that the Commission has achieved across its statutory functions. The achievements in this section have been audited by Audit New Zealand.

## Part three—report against the *Government Policy Statement on Electricity Governance*

- Provides a summary of the Commission's achievements to date against the *Government Policy Statement on Electricity Governance*, issued in October 2004.

## Part four—organisation information

- Sets out information about the Commission's structure, organisational development work during the year, how the Commission works and its advisory groups.

### Abbreviations used in this annual report

|                    |   |
|--------------------|---|
| <b>Act</b>         | <i>Electricity Act 1992</i>   |
| <b>AUFLS</b>       | automatic under frequency load shedding                                     |
| <b>CFL</b>         | compact fluorescent lamp  |
| <b>Commission</b>  | Electricity Commission  |
| <b>DSM</b>         | Demand-side management  |
| <b>EECA</b>        | Energy Efficiency and Conservation Authority                                |
| <b>EGR</b>         | Electricity Governance Rules Committee                                      |
| <b>FMIS</b>        | financial management information system                                     |
| <b>FTR</b>         | financial transmission right  |
| <b>GIT</b>         | grid investment test  |
| <b>GPA</b>         | grid planning assumptions   |
| <b>GPS</b>         | <i>Government Policy Statement on Electricity Governance</i> (October 2004) |
| <b>GRS</b>         | grid reliability standards  |
| <b>GUP</b>         | grid upgrade plan   |
| <b>GWh</b>         | gigawatt hour   |
| <b>HVDC link</b>   | high-voltage direct-current link  |
| <b>kV</b>          | kilovolt  |
| <b>MARIA</b>       | <i>Multilateral Metering and Reconciliation Information Agreement</i>       |
| <b>MEUG</b>        | Major Electricity Users' Group  |
| <b>Minister</b>    | Minister of Energy  |
| <b>MED</b>         | Ministry of Economic Development  |
| <b>MOU</b>         | memorandum of understanding   |
| <b>Regulations</b> | <i>Electricity Governance Regulations 2003</i>                              |
| <b>RMA</b>         | <i>Resource Management Act 1991</i>   |
| <b>Rules</b>       | <i>Electricity Governance Rules 2003</i>                                    |
| <b>SOI</b>         | <i>Statement of Intent</i>  |
| <b>SOO</b>         | <i>Statement of Opportunities</i>   |
| <b>TPM</b>         | transmission pricing methodology  |
| <b>UTS</b>         | undesirable trading situation   |

# Governance and operations

## Legislative authority

- Electricity Act 1992
  - Government Policy Statement on Electricity Governance October 2004
- Electricity Governance Regulations 2003
- Electricity Governance Rules 2003

## Governance

- Board
- Subcommittees:
  - Electricity Governance Rules Committee
  - System Operations Committee
  - Undesirable Trading Situations Committee

## Rulings Panel

- Independent adjudicator with five panellists

## Commission operations and staff

## Funding

- Government appropriations, recovered by way of an industry levy under the Electricity (Levy of Industry Participants) Regulations

## Stakeholders

- Consumers
- Government
- Government agencies
- Industry
- Interest groups



## Board



**Top:** Roy Hemmingway, *Chair*, BA JD;  
**from left:** Peter Harris, BCom(Hons); Doug Dell, BE(Hons) DPA;  
 Graham Pinnell, BE(Hons); David Close, MA(Hons) MA(Essex)



The Electricity Commission is governed by a Board comprising an executive chair and from four to eight other members appointed by the Minister of Energy. Board members are appointed on the basis of extensive knowledge and experience in the electricity industry, electricity markets, regulatory processes, public policy and organisational governance.

Members hold office for a term not exceeding three years and may be reappointed.

The Board met on a three-weekly basis for most of the reporting period, and on other occasions when required.

Board fees are funded from the levy on the electricity industry, which also funds the Commission's operations.



Roy Hemmingway Chair

## Chair's foreword

New Zealand's economic future depends on a secure, reliable, efficient, cost effective and environmentally sustainable electricity supply. The Electricity Commission was established in September 2003 to provide regulatory governance to the electricity industry to achieve this outcome.

After three years of operation, the Commission is well underway with the challenges set for it in the *Electricity Act 1992* (Act) and in the *Government Policy Statement on Electricity Governance* (GPS) 2004. The Commission is working on the substantial set of outcomes listed in the GPS. Progress is reported in *Part three* of this annual report. This report also illustrates the many achievements the Commission has delivered within a relatively short timeframe.

The 2005/06 year has involved a number of major challenges, which the Commission has risen to meet as a professional and independent regulator. The *Review of operations* section of this report highlights the broad range of accomplishments made during the year. A number of matters have consumed a significant amount of the Commission's time and have attracted considerable interest during the year. It is these matters I wish to focus on.

### Transmission regulatory framework

Transmission has been a dominating feature of the year and will be for some time.

During the year the Commission has progressed the transmission regulatory framework and also made a range of decisions about transmission investment.


The regulatory framework is well progressed with all key elements having been subject to consultation

with the industry and major users. The framework includes a number of key elements and work on these has been well progressed.

- Transmission pricing—how transmission costs are priced and paid for.
- Transmission benchmark agreements—ensuring robust and fair contractual arrangements between Transpower, and generators and lines companies.
- Grid reliability standards—the set of standards has been completed and is being used in grid upgrade planning. These are the first formal reliability standards that have existed in New Zealand law.
- Grid investment test—a test for assessing grid investment proposals made by Transpower under a grid upgrade plan. This test has been developed in conjunction with industry and other stakeholders.

The Commission has consulted further on transmission pricing guidelines and made its decision to approve the guidelines in March 2006.

In response to the Commission's transmission pricing guidelines, Transpower submitted a proposed transmission pricing methodology (TPM) on 23 June 2006. Industry consultation about the TPM included consideration of preferred implementation dates, the benchmark agreement and interconnection rules. The majority of affected parties wanted further consultation and to extend the proposed implementation dates. The Commission sought and gained Ministerial approval to extend the implementation timeline.



## The draft decision to decline the Whakamaru to Otahuhu 400kV application was based on sound analysis and extensive consultation.

### Transmission investment

The Commission has committed significant resources to consider a range of proposals for investment in the national grid.

The Commission has placed a high level of importance on the comparably small but urgent upgrades. These approvals have proceeded in a relatively straightforward manner.

During 2005/06, ensuring Auckland's and Northland's future electricity transmission requirements has been of highest priority for the Commission. This has involved analysis and consideration of a range of transmission investment proposals from Transpower including a second transmission corridor within Auckland and a major new transmission line into Auckland from the south.

In September 2005, the Commission received an application from Transpower for transmission from the south (Transpower's proposal to build a new 400kV line from Whakamaru to Otahuhu). This was a major project proposal requiring substantial technical analysis. It was the single biggest investment proposal the Commission has considered to date and represents the largest piece of analysis and consultation it has undertaken.

It was the first grid upgrade plan (GUP) prepared by Transpower for submission to the Commission and the first GUP to which the Commission applied the grid investment test (GIT).

At the Government's request the Commission placed particular emphasis on consulting with local communities about the transmission proposal and alternatives.

In its draft decision, issued in April 2006, the Commission declined the Whakamaru to Otahuhu application. The Commission considered it failed to meet the criteria of the GIT because there were other options that would give the required reliability with lower cost. The decision was not taken lightly and was based on sound analysis. In addition to publishing its full report on the decision, the Commission also made available its detailed analyses and a summary report.

On 31 May 2006, the 400kV Whakamaru to Otahuhu application was suspended at Transpower's request. Transpower indicated it would submit a different proposal to the Commission. The Commission received the new proposal at the end of October 2006.



# The ability of the electrical system and the market to meet the desired level of generation-capacity security was tested and withstood the test. Commission intervention was not necessary.

In the intervening period, the Commission has been working with Transpower to ensure appropriate preparation takes place for robust and timely deliberation once formal applications are lodged.

## Security of supply—March and April 2006

In the year to March 2006, there were record low inflows to southern hydro lakes causing concern to the Commission, to the industry and to electricity users.

Management of security of supply is a significant responsibility for the industry and for the Commission. The Commission uses analytical tools, developed in association with the industry, to monitor the status of power supplies. As lake levels approach the Commission's minzone, prices are expected to rise and in so doing encourage reduction in electricity use. Once the minzone is reached it is possible, with repetition of worst-ever hydro conditions, for reservoirs to empty and for there to be a national shortage of electricity. (See <http://www.electricitycommission.govt.nz/opdev/secsupply/sos/status/minzone/> for up-to-date minzone graphs and information on how the minzone works.)

As events transpired during March and April, demand reduced in response to information and prices, and lake levels increased as a result of increased inflows. Both generators—in optimising thermal generation—and users—in scaling back demand—made major contributions to management of the situation. Consequently, even at the lowest lake levels, the minzone was not reached and the country was never in a position where security of winter supply was in jeopardy.



The ability of the electrical system and the market to meet the desired level of generation-capacity security was tested during March and April and withstood the test. Commission intervention was not necessary. The Commission did not need to conduct a power-saving campaign nor take other steps to cut demand.

Separate events in June gave rise to power outages and high prices, which were unrelated to availability of generation capacity. However, this situation did raise some issues, which overlap both the operation of the market and security of supply. The Commission is looking into a range of issues during 2006/07, in conjunction with the system operator and the electricity industry.

## Management of the market

Events during the year have indicated an ongoing public scepticism about electricity prices. This scepticism was reinforced by high spot prices associated with concerns about security of supply

in March and April, and again in June as a result of high demand coupled with transmission and distribution-related events.

Since its formation, the Commission has examined the operation of the wholesale and retail markets under the current statutory regime. The Commission has undertaken a range of work and has developed and refined the *Electricity Governance Rules 2003* (Rules). Much of this work has involved

addressing issues outstanding from the period of industry self-governance.

The Commission has looked at overall market design and it commissioned a report from the New Zealand Institute of Economic Research (*Market Design Report*), published in October 2005. The overall assessment is that the markets are generally operating well. However, the report identified a range of opportunities for improvement.



**Electricity markets are generally operating reasonably well. However, some refinements could be beneficial.**

The Commission is developing a project to evaluate elements of market-design refinement. This work will be undertaken in close association with a review of pricing process elements and hedge market work. Any refinements will be considered in close consultation with the electricity industry. The desired outcome is the best possible operation of the market for electricity under current statutory arrangements.

### **In conclusion**

With a significant number of GPS requirements achieved, the Commission is now in a position to take a more strategic view of the shape of the electricity sector in New Zealand. This will involve a thorough examination of electricity issues the country faces, and the work the Commission needs to undertake to contribute effectively to the desired outcomes for New Zealand, as set out in the Act.

There are some important strategic challenges facing the electricity sector to ensure a positive future for New Zealand.

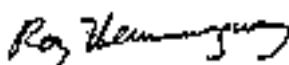
There is a need to look more closely at some of the fundamentals of the electricity sector structure, policy settings, and operations to ensure supply continues to meet demand without incurring unjustifiable price increases. The Commission is well placed to continue overseeing operational policy and regulatory work to address the challenges facing the electricity sector, and to work with all

interested parties to find the best possible solutions for New Zealand's electricity future.

The Commission welcomes the development of a New Zealand energy strategy to provide clarity of vision and expectations for the many contributors to a successful electricity sector. The strategy will need to include stable foundations for institutional arrangements. Clarity of vision, roles and responsibilities of all stakeholders is needed to ensure the achievement of the desired future.

A sound, durable statutory and policy framework is essential for the optimal operation of the electricity system. The Commission looks forward to contributing to the New Zealand energy strategy development and its implementation.

The Commission Board and staff are proud of their achievements to date. While there is still considerable work for the Commission to do, its performance has been strong and as a result much of its work has been well received by stakeholders.



Roy Hemmingway

*Chair*



# **Part one**

## review of operations





Mervyn English General Manager

## Review of operations

A high workload has continued to place significant demand on the Commission, industry and other stakeholders who all contribute to making progress against the requirements of the Act, the *Government Policy Statement on Electricity Governance* (GPS) 2004 and the Commission's *Statement of Intent 2005–2008*. Managing this workload requires an ongoing balancing of positive outcomes with resources, timeframes and the need for the range of priority projects to be undertaken.

A particular challenge for the Commission has been managing the scope of its project work underway. While such scope may be determined initially, analysis of the relevant issues, as well as consultation with industry and other stakeholders, regularly result in broadening the scope and work involved. While this has led to some resetting of project completion targets, it also emphasises the value of consultation in contributing to comprehensive and robust solutions.

The new reconciliation arrangements (new Part J of the Rules) and the transmission benchmark agreements are just two examples of identification of substantial detail needing attention through the advisory group and consultation processes. Clearly, major projects such as these require careful management and cannot be successful without substantial industry input.

### Transmission

The Commission's transmission work involves establishing the regulatory framework, providing information about investment opportunities and decision-making on investment proposals from national grid operator Transpower New Zealand Ltd.

Completing the formation of the regulatory framework is an essential task. During the year, the Commission completed the development of the regulatory framework to guide transmission investment with the grid reliability standards (GRS) coming into force in February 2006. This is the first time that New Zealand has had a legally established grid reliability standard.

Another significant project has been the development of a benchmark agreement for transmission services. A draft benchmark agreement was published in May 2006. Several issues arose out of initial consultation following publication of the draft benchmark agreement. The Commission is now working through these issues with the industry. This transmission benchmark agreement is a significant commercial undertaking for members of the industry and must be worked through diligently. Some important aspects of this work are a connection code and an outage protocol, neither of which previously existed.

In July 2005, the Commission published an *Initial Statement of Opportunities* (SOO). The purpose of the SOO is to make available a common set of information about the electricity system to market participants, potential investors and other parties. Soon after publication of the SOO, the Commission held a workshop to explain the document and receive feedback on it. The document was well received and many suggestions from the feedback will be addressed in the next SOO. Towards the end of the financial year a second workshop was held with industry participants and interested parties to discuss the grid planning assumptions (GPAs) to input into the next SOO. The GPAs include

demand forecasts and possible future generation development scenarios. The draft of the next SOO, which will be more comprehensive, will be published in the first half of 2007.

During 2005/06, the Commission approved 37 transmission investment proposals from Transpower under transitional provisions of the Rules. As required by the Rules, higher-value projects came under greater scrutiny from the Commission. A simplified assessment was used with smaller projects. The 'interim' grid investment approvals have a combined total value in excess of \$200 million. These approvals have enabled Transpower to address some outstanding grid issues, which have existed for some years.

The 'interim' grid-investment-decision process is a temporary provision within the Rules to enable a transition to the full grid upgrade plan (GUP) process. Once these transition provisions end, the Commission intends to maintain a simple process for the assessment of smaller grid investment proposals.

The 2005/06 year has also seen for the first time the completion and implementation of the ongoing process for grid investment decisions, ie the GUP process under part F of the Rules.

Investment proposals for upgrading transmission into Auckland under the GUP process have been of the highest priority for the Commission. In late 2005, Transpower submitted a GUP that, among other projects, contained a proposal for the construction of a 400kV transmission overhead line from Whakamaru to Otahuhu. In April 2006, the Commission released its draft decision to decline the proposal. In May 2006, Transpower withdrew its proposal, signalling that it would be replaced with a new plan. Therefore, a final decision on the 400kV proposal was put on hold. Following this step, the Commission and Transpower refined and clarified the assumptions that Transpower would use in a new proposal. Transpower submitted a new proposal for the Whakamaru to Otahuhu transmission line in late October 2006.

The Commission was established about the same time as Transpower began developing its Auckland proposal. Consequently, the Commission's regulatory decision-making framework for grid upgrade planning was being developed at the same

time as Transpower was actually implementing its planning. While theoretically this parallel process was intended to be time-efficient, in reality it has presented a challenging situation for Transpower, the Commission and the electricity sector.

This process has been demanding for many stakeholders who have needed to come to terms with the new investment decision-making framework. It is to be expected that a new decision-making framework for important and substantial infrastructure would require additional effort to ensure successful establishment and industry understanding. However, this task was made more complex by the fact that the framework, in its first application, was being applied to such a major investment.

### Electricity system information

During the year, the *Centralised Dataset* (CDS) has been expanded. The Commission developed and published its first CDS in DVD format in July 2005. The database includes information about historical demand and price data, such as half-hourly metering and market data, hydrology data and network configuration details.

There is increasing use being made of the information the Commission provides in the CDS, the primary purpose of which is to enable all those with an interest in the sector to be better informed about the timing and nature of new investments in transmission and generation. The CDS is updated on a regular basis and is available in DVD format to interested parties (see <http://www.electricitycommission.govt.nz/opdev/modelling/centraliseddata>).

In addition to the SOO, market-simulation models and other modelling tools are also being developed from knowledge gained by the Commission through its work on the Auckland transmission proposal.

### Security of supply

Early in 2006, there was concern about hydro-lake inflows from electricity industry members and the Commission. This situation required close monitoring over several months by the Commission with the use of its 'minzone' model. The minzone model is used to calculate the hydro-lake storage





necessary to meet projected annual electricity demand. Taken into account are factors such as lake inflows and storage, generation and transmission availability, thermal-fuel availability and predicted market behaviours.

The reducing hydro-supply situation was a significant challenge for both the Commission and the sector. The period from April 2005 to April 2006 was the driest 12-month period on record. Electricity prices rose, as is expected in a tightening supply situation. However, objective analytical work and ongoing liaison with the industry meant the situation was successfully managed. Subsequent improvements in inflows have resulted in the lake levels being significantly increased at the time of finalisation of this report.

A number of supply-related issues occurred during June 2006. The electricity system was also tested with record demand peaks. The Commission, industry members and Transpower worked together to consider action required as a result of the June events. The Commission appreciates the efforts of members of the industry, and especially the system operator who convened a working group at short notice to examine these issues.

### Wholesale and retail markets

The strength of the electricity market has been questioned by various commentators, consumers and participants from time to time. The Commission

continues to support Government market policy and has progressed several significant pieces of work to refine market operations.

As a part of the Commission's work on hedge-market development, it engaged an independent market-research firm to survey industry participants about the wholesale market. A summary report prepared from in-depth interviews with industry participants suggested, among other things, that more energy hedges were available than commonly understood, but there was dissatisfaction with conditions around those hedges (*see the Hedge Market Survey Report at: <http://www.electricitycommission.govt.nz/opdev/wholesale/hedgesurvey/>*).

Following advice from the industry, new priorities have been set for the Commission's wholesale market work, including a review of offer and dispatch rules on industrial co-generation, and a consultation paper for rule improvements released in June 2006.

Proposed rule changes to instantaneous-reserves pricing and dispatch have now been completed. Other ongoing projects include consultation on demand-side bidding and forecasting, capacity reserves, access to market-related information and a review of the pricing process.

A model contract for retailers and their customers was also finalised during the year and since its completion it is being used increasingly. A particular



feature of the contract is the separation of line charges from electricity charges on customer invoices.

Another important section of work completed by the Commission has been overseeing the industry's retail operations to include the uptake of model agreements, implementation of the jointly-developed *Guidelines on Arrangements for the Benefit of Low-Income Consumers*, and arrangements for the benefit of low-income consumers (eg monitoring disconnections). The Commission also facilitated the completion of a protocol between the electricity industry and social agencies during the year. Work and Income New Zealand has initiated systems to ensure effective liaison and communication between its regions, social agencies and electricity retailers. Low-income consumers are now protected from disconnections and other sanctions if they are genuinely unable to pay.

The Commission has not been able to approve a consumer complaints scheme planned for this year due to the Office of the Electricity and Gas Complaints Commissioner's need to complete new work on a land code. A consultation document on proposed benchmarks for consumer complaints schemes is in preparation, with completion expected during 2006/07.

Due to strong industry interest, additional consultation on the new proposed reconciliation processes and rule-change proposals delayed

completion of this work. Five industry sub-groups worked with the Commission on a project to create the new part J of the Rules for reconciliation processes. These new rules have now been completed.

### System operation

Wind generation has the potential to be a significant contributor to New Zealand's future electricity generation. The Commission recognises this importance and set up two projects. One has since been completed and the other is ongoing.

The first, the tactical wind project, carried out in consultation with the industry, focused on identifying the short-term issues that need to be addressed to incorporate increased wind generation into the New Zealand electricity system. A number of rule changes were identified and are being progressed.

The second is the strategic wind project. The project output will include identification of wide-ranging technical factors to be worked through in conjunction with industry and other stakeholders, to ensure the expected increases in wind generation over the next 10 years can be integrated into the system without impacting security. This project has several phases, starting with identifying possible wind development scenarios in 2005/06, and ending with possible rule-change requirements early in the 2007/08 financial year.

Maintaining an appropriate focus for system operations development work is essential in light of many emerging demands and a constraint in the technical resources available. A strategic review, in conjunction with the Common Quality Advisory Group, has emphasised the need to give priority to work on frequency and emergency management.

### Market governance

The Commission has a responsibility to ensure compliance with the rules that govern wholesale market operations. During the year, 200 notified breaches were assessed of which 10 were investigated formally. Two admitted breaches were presented to the Rulings Panel and fines were imposed. However, in most of the formally investigated cases the Commission facilitated negotiated settlements between the parties. Negotiated settlements can avoid protracted investigation and drawn-out resolution processes.

## Electricity efficiency

New Zealanders are becoming more conscious of the need to use electricity resources prudently. The Commission has been observing this increasing awareness across a range of consumers—from small households to large industrial electricity users.

The potential for electricity efficiency in New Zealand is regarded as substantial. However, it has not been quantified in a way that will assist a strategic approach to programme design and development to achieve the most cost effective efficiency savings. An understanding of efficiency potential is needed to target investment in those efficiency gains that can be achieved at a cost less than the cost of new generation.

The Commission has commissioned the development of a study of electricity efficiency potentials. This is being undertaken in association with the Energy Efficiency and Conservation Authority (EECA). EECA has a broad-energy focus, complemented by the Commission's electricity-specific focus. The potentials study focuses on potential electricity efficiency gains across all sectors of the New Zealand economy—in terms of capacity reductions (MW) at peak times and total electrical energy consumed (MWh) by region, by sector and

by end-use technology. The study, along with the set of electricity efficiency pilot programmes the Commission has underway, will assist with identifying the most cost-effective approach to achieving electricity efficiency. The potentials study is expected to be completed in February 2007. It is also closely linked with two major Government initiatives: the New Zealand Energy Strategy, being developed by the Ministry of Economic Development; and the National Energy Efficiency and Conservation Strategy (NEECS), being carried out by EECA.

During the 2005/06 year, the Commission progressed its range of efficiency pilot programmes. It is pleased with the results emerging from those programmes. Results include the following:

- Sales of 300,000 compact fluorescent lamps (CFL) in Christchurch and Wellington, resulting in:
  - measurable electricity savings of 260GWh; and
  - customer savings of \$100 per CFL over the life of each lamp, resulting in potential savings of about \$30 million from these pilots.
- The Commission has now expanded the efficiency lighting programme across New Zealand and seeks to replace three million inefficient incandescent lamps by July 2007. This initiative is targeted to result in:
  - savings of 2,600GWh of electricity; and
  - household electricity bill reductions of some \$450 million over the life of the lamps.
- The Commission is implementing industrial-motor and an air-compressor pilot programmes. In association with Fonterra, pilot-site savings of 25–30 per cent have been achieved using a combination of best-practice systems and high-efficiency technology.
- The Commission is seeking to expand the industrial-motor and air-compressor pilot programmes over the 2007–2010 period.

In conjunction with the Lighting Council of New Zealand and EECA, the Commission has established a stakeholder group to develop a national lighting strategy and implementation plan. The group brings together a range of interests involved in lighting with the goal of achieving consensus on



## Achievements in brief

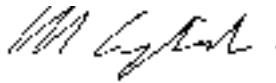
- Completed the grid reliability standards framework.
- Continued development of transmission benchmark agreements and transmission pricing methodology to ensure fair and legitimate contractual arrangements between Transpower, generators and lines companies.
- Assessed Transpower's application for the Whakamaru to Otahuhu 400kV grid upgrade into Auckland, including extensive industry and public consultation.
- Developed several tools to facilitate the application of the grid investment test for transmission investment proposals.
- Considered and approved a wide range of grid investments under transitional rules.
- Developed strategic wind generation scenarios to allow better assessment of the optimal integration of wind and other intermittent generation investment in the electricity system.
- Published a *Centralised Dataset* of historical demand and price data to equip market investors with better information about the timing and nature of new investments in transmission and generation.
- Released a consultation paper about offer and dispatch rule improvements for industrial co-generators.
- Initiated a project to consider market spot-price issues that originated from a review of pricing outcomes.
- Progressed consultation and research to improve the operation of both the spot electricity and hedge markets.
- Completed investigation work on more than 500 notified rule breaches— notified since the Commission's formation in 2003.
- Progressed tendering a number of service provider roles.
- Published model retail contracts that include a requirement to separate line and electricity charges on invoices for domestic consumers.
- Developed and published *Guidelines on Arrangements for the Benefit of Low-Income Consumers* and established a protocol between electricity retailer and social agencies to protect low-income consumers.
- Completed an annual assessment of security of supply to review the need for reserve energy in the short and medium terms.
- Worked with the industry to successfully manage security of supply during March and April 2006 amidst growing concern about the level of inflows into New Zealand's major hydro-generation catchments.
- Developed, to close to completion, the new part J of the Rules for new reconciliation processes.

creation of a strategy for efficient lighting New Zealand-wide.

The Commission thanks the industry and consumer stakeholders for their considerable input during the 2005/06 year. In this time the Commission released 40 consultation documents. This represents a large amount of work for many people including advisory groups, regulatory managers within the industry, other industry participants, interested parties and consumers. The Commission could not progress its work without commitment from these parties who contribute to the decision-making process. The Commission is keenly aware it may not always be possible for contributors to recognise their input being reflected in final decisions. However, industry and other stakeholder contributions are highly valued.

As noted earlier in this review of operations there is a need to be flexible in the management of the

Commission's workload. This is particularly so when unanticipated issues arise from consultation processes. In some projects this has resulted in considerably more work for the Commission staff than was anticipated at the outset of various work projects. The Commission's staff have been flexible in meeting changing demands during the year. I am very thankful for the high level of commitment demonstrated from the staff throughout the year.



Mervyn English  
*General Manager*

# **Part two** performance information

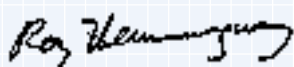


## Statement of responsibility

We acknowledge responsibility for the preparation of these financial and service performance statements and for the judgments used in them.

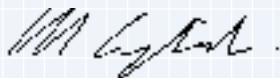
We acknowledge the responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of the Commission's financial and output reporting.

In our opinion these financial statements and service performance reports reflect fairly the financial position and operations of the Commission for the period ended 30 June 2006.



Roy Hemmingway  
*Chair*

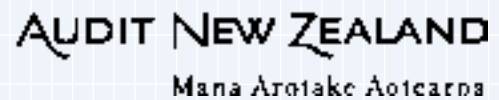
27 October 2006



Mervyn English  
*General Manager*

27 October 2006





## Audit report to the readers of the Electricity Commission's annual report for the year ended 30 June 2006

The Auditor-General is the auditor of the Electricity Commission (Commission). The Auditor-General has appointed me, John O'Connell, using the staff and resources of Audit New Zealand, to carry out the audit on his behalf. The audit covers the financial statements and the statement of service performance included in the annual report of the Commission for the year ended 30 June 2006.

### Unqualified opinion on the financial statements

In our opinion the financial statements of the Commission on pages 50 to 64:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect:
  - the Commission's financial position as at 30 June 2006; and
  - the results of its operations and cash flows for the year ended on that date.

### Unqualified opinion on the statement of service performance

In our opinion the statement of service performance of the Commission on pages 26 to 48:

- complies with generally accepted accounting practice in New Zealand; and
- fairly reflects and contains appropriate, adequate and accurate information about the achievement of:
  - the objectives and outcomes of the GPS; and
  - the performance standards in the statement of intent for the year ended 30 June 2006; and
- enables an informed assessment to be made of the performance of the Commission against:
  - the objectives and outcomes of the GPS; and
  - the performance standards in the statement of intent for the year ended 30 June 2006.

While the statement of service performance complies with generally accepted accounting practice in New Zealand and fairly reflects and contains appropriate, adequate and accurate information about the achievements of the objectives and outcomes of the GPS and the performance standards in the statement of intent, we consider that the performance standards are largely task-orientated and short-term in focus. We expect the Commission to move towards more outcome-based reporting in future periods to better demonstrate achievement of the GPS objectives and outcomes.

The audit was completed on 27 October 2006, and is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the 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 the 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 the 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 the 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 Board;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement disclosures are adequate.

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

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

### **Responsibilities of the Board and the Auditor**

The Board is responsible for preparing financial statements and a 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 2006. They must also fairly reflect the results of its operations and cash flows for the year ended on that date.

The Board is also responsible for preparing a statement of service performance which must fairly reflect the Commission's service performance achievements for the year ended 30 June 2006. The statement of service performance must also contain appropriate, adequate and accurate information on the performance of the Commission against the objectives and outcomes of the GPS and the performance standards in the Commission's statement of intent for the year ended 30 June 2006.

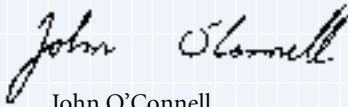
The Boards' responsibilities arise from the *Public Finance Act 1989* and the *Electricity Act 1992*.

We are responsible for expressing an independent opinion on the financial statements and the statement of service performance and reporting that opinion to you. This responsibility arises from section 15 of the *Public Audit Act 2001*, the *Public Finance Act 1989* and 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 Institute of Chartered Accountants of New Zealand.

In addition to the Audit we have carried out an Assurance Audit pursuant to section 172ZO of the *Electricity Act 1992*. We also carried out an assurance assignment with respect to the service provider tender for 2006. Other than the audit and the above assignments we have no relationship or interests in the Electricity Commission.



John O'Connell  
Audit New Zealand

On behalf of the Auditor-General  
Wellington, New Zealand

## Matters relating to the electronic presentation of the audited financial statements

This audit report relates to the financial statements of the Electricity Commission for the year ended 30 June 2006 included on the Commission's website. The Commissioners are responsible for the maintenance and integrity of the Commission's website. We have not been engaged to report on the integrity of the Commission's website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. 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 related audit report dated 27 October 2006 to confirm the information included in the audited financial statements presented on this website.

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

## Statement of service performance

The statement of service performance reports on actual achievement against performance targets and measures in the Electricity Commission's *Statement of Intent 2005–2008* (SOI).

The outputs in this section follow the structure of the appropriations in the *Budget Estimates* and the Commission's SOI. The appropriations are summarised in the table on the following page.

The statement of service performance covers the following for each appropriation:

- a **description** of the functions and activities undertaken;
- the **outcome contributions** in terms of the principal objectives and specific outcomes—section 172N of the *Electricity Act 1992*;
- the **outputs** of the Commission that contribute to the **outcomes**. This includes performance measures—as required by the *Public Finance Act 1989*. Performance measures in this part are also the performance standards—as required by section 172ZL of the *Electricity Act 1992*; and
- results against **performance measures** in the SOI for the 2005/06 financial year.



## Outcome contributions

The Commission's planning process includes prioritisation of projects on the basis of their contributions to giving effect to the principal objectives and specific outcomes. The significant contributions workstreams make to outcomes, in terms of the principal objectives and specific outcomes (section 172N of the *Electricity Act 1992*) are indicated in the following table.

|  | TRANSMISSION | MARKET GOVERNANCE | COMMON QUALITY AND SYSTEM OPERATION | RETAIL | WHOLESALE | MODELLING | SECURITY OF SUPPLY | ELECTRICITY EFFICIENCY |
|--|--------------|-------------------|-------------------------------------|--------|-----------|-----------|--------------------|------------------------|
| <b>Principal objectives for the Commission:</b>  |              |                   |                                     |        |           |           |                    |                        |
| • to ensure that electricity is produced and delivered to all classes of consumers in an efficient, fair, reliable and environmentally sustainable manner; and   | ✓            | ✓                 | ✓                                   | ✓      | ✓         | ✓         | ✓                  | ✓                      |
| • to promote and facilitate the efficient use of electricity.  | ✓            |                   | ✓                                   |        |           |           | ✓                  | ✓                      |
| <b>Specific outcomes for the Commission:</b>   |              |                   |                                     |        |           |           |                    |                        |
| 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 electricity 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; and   | ✓            | ✓                 | ✓                                   | ✓      | ✓         | ✓         | ✓                  | ✓                      |
| g the electricity sector contributes to achieving the Government's climate change objectives by minimising unnecessary 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. | ✓            |                   | ✓                                   | ✓      | ✓         | ✓         | ✓                  | ✓                      |

## Appropriations summary

| APPROPRIATIONS AND WORKSTREAMS   | SUMMARY  | 2005/06 ACTUAL (GST EXCL, MILLION)                          |
|--|--|---|
| <b>Performance of electricity governance functions</b><br><br><b>Workstreams</b> <ul style="list-style-type: none"> <li>transmission</li> <li>market governance</li> <li>common quality and system operation</li> <li>retail</li> <li>wholesale</li> <li>modelling</li> <li>security of supply (governance functions)</li> </ul> | <p>The performance of electricity governance functions appropriation addresses the Commission's major functions and operations. It covers outputs purchased under the performance of electricity governance functions appropriation in the <i>Estimates</i>.</p> <p>Performance of electricity governance functions contributes to both principal objectives and all specific outcomes listed under section 172N of the <i>Electricity Act 1992</i>.</p> <p>Approximately \$34 million of this appropriation is spent on service provider contracts as listed in Part four of this annual report.</p>  | <p>Appropriation: \$47.807</p> <p>Expenditure: \$46.921</p> |
| <b>Performance of security of supply functions</b><br><br><b>Workstream</b> <ul style="list-style-type: none"> <li>security of supply</li> </ul>   | <p>The performance of security of supply functions appropriation provides for reserve energy requirements:</p> <ol style="list-style-type: none"> <li>tendering for emergency options; and</li> <li>covering the availability (fixed) cost of Whirinaki power station (reserve energy plant) in line with the contract with the Crown.</li> </ol> <p>This appropriation does not include reserve energy production (fuel for the Whirinaki plant), which is covered by the multi-year appropriation security of supply—procurement costs.</p> <p>Performance of security of supply functions provides a significant contribution to the principal objective of ensuring that electricity is produced and delivered to all classes of consumers in an efficient, fair, reliable and environmentally sustainable manner. The particular contribution is to the reliability component of the principal objective.</p> | <p>Appropriation: \$29.981</p> <p>Expenditure: \$23.514</p> |
| <b>Performance of electricity efficiency functions</b><br><br><b>Workstream</b> <ul style="list-style-type: none"> <li>electricity efficiency</li> </ul>   | <p>The performance of electricity efficiency functions appropriation covers conducting research into electricity efficiency, and promoting and facilitating the efficient use and conservation of electricity (including funding programmes that provide incentives for cost-effective energy efficiency and conservation).</p> <p>Performance of electricity efficiency functions provides a significant contribution to the principal objective of promoting and facilitating the efficient use of electricity.</p>  | <p>Appropriation: \$8.776</p> <p>Expenditure: \$1.378</p>   |

| OTHER APPROPRIATIONS   | SUMMARY  | 2005/06 BUDGET<br>(GST EXCL, MILLION)  |
|--|--|--|
| <b>Crown expense appropriation: Electricity Commission litigation fund</b> | This fund is accessed only to deal with litigation cases.  | Appropriation:<br>\$0.444<br><br>Expenditure:<br>\$0.281   |
| <b>Five-year appropriation: security of supply—procurement costs</b>       | <p>This appropriation funds procurement of reserve energy and/or demand-side management to provide security of supply, including fuel for Whirinaki<sup>1</sup>. (This appropriation is for the 2004/05–2008/09 financial years.)</p> <p>This appropriation, and the preparation for its use, provides a significant contribution to the reliability component of the principal objective of ensuring that electricity is produced and delivered to all classes of consumers in an efficient, fair, reliable and environmentally sustainable manner.</p> | <p>Appropriation:<br/>\$14.222<br/>(over five years)</p> <p>Expenditure:<br/>\$3.199<br/>(2005/06)</p> |

<sup>1</sup> The security of supply—procurement appropriation covers the cost of fuel for the Whirinaki power station. In 2005/06, spot revenue of \$6.118 million was earned from the sale of electricity generated by Whirinaki. This was higher than the cost of fuel at \$3.199 million. Therefore, this appropriation was not drawn down in the period. Whirinaki generates electricity, and incurs fuel cost, only under specific conditions that may or may not occur. Due to the highly unpredictable nature of its operation, these figures are not able to be estimated with any degree of certainty.



## Quality performance measure

Where the Commission carries out policy work, the quality of the final written material is assessed using the following quality criteria:

- **issue definition**—provides a clear statement of the issue or problem being addressed;
- **options**—considers all practicable options to address the policy issue, and discusses the cost and benefits for each of these options;
- **intervention logic**—explains how each option would address the policy issue, and how it would achieve the objectives;
- **assumptions**—states any assumptions made in the analysis;
- **consultation**—demonstrates the Commission has applied good consultation processes, and issues raised in consultations have been considered and appropriately addressed; and
- **recommendations**—contains clear, logical recommendations that stand alone from the rest of the advice.

All written material produced by the Commission should be presented clearly, logically and accurately for intended audiences. Content should conform to the Act, ministerial or Cabinet requirements. Conclusions should be based on the best information and evidence available.

### Performance measure result for 2005/06

The Commission has quality assurance processes in place that include review of all applicable Board papers for the quality criteria, and for legal review where appropriate. This review process is completed before papers are submitted to the Board.

## Performance of electricity governance functions

### Description

The performance of the electricity governance functions appropriation addresses the major Commission functions and operations. The appropriation covers most of the Commission functions under section 172O of the *Electricity Act 1992*.

### Outputs

This appropriation includes the outputs listed below and detailed on pages 32 to 45:

- transmission workstream;
- market governance workstream;
- common quality and system operation workstream;
- retail workstream;
- wholesale workstream;
- modelling workstream; and
- security of supply workstream—governance functions.

### Outcome contributions

The performance of electricity governance functions appropriation provides a significant contribution to the principal objective:

- ensure that electricity is produced and delivered to all classes of consumers in an efficient, fair, reliable and environmentally sustainable manner.

The appropriation contributes across all of the Commission's specific outcomes as listed at the beginning of this part of the report.

### Transmission workstream

The Commission has three major roles for electricity transmission:

- to develop a sound framework for transmission, pricing, contracting and investment;
- the provision of information on opportunities for investment in transmission and transmission alternatives through the regular publication of the *Statement of Opportunities* (SOO); and
- ongoing review and, if appropriate, approval of major new investments in the transmission system.

Planning of the transmission network is carried out by Transpower New Zealand Ltd, a state-owned company. The Commerce Commission oversees Transpower's transmission charges and lines companies' distribution prices.

The transmission workstream addresses paragraphs 79–97 of the GPS.

### Outcome contributions

The transmission workstream provides a significant contribution to the principal objective:

- ensure that electricity is produced and delivered to all classes of consumers in an efficient, fair, reliable and environmentally sustainable manner.

The workstream contributes to all of the specific outcomes as listed at the beginning of this part of the report.

### Performance measure results for 2005/06

| ACTIVITY AND GPS REFERENCE  | SOI MILESTONE                                       | SOI TARGET      | RESULTS  |
|---|---|-----------------|--|
| SOI outcome—barriers to competition are minimised.                      |   |                 |  |
| Complete benchmark transmission agreements.<br><i>GPS paragraph 85.</i> | Recommended to and subsequently agreed by Minister. | September 2006. | <p><b>Rescheduled</b>—there was a need to reschedule this project to avoid overlapping the 400kV Whakamaru to Otahuhu grid upgrade plan consultation.</p> <p>The Commission published draft benchmark agreements for consultation on 19 May 2006.</p> <p>Parties are seeking further consultation on this and related issues.</p> <p>As part of work on the benchmark transmission agreements, the Commission identified a number of further areas to be assessed, which may result in related proposals for regulation and/or rule changes. These include:</p> <ul style="list-style-type: none"> <li>• interconnection rules;</li> <li>• outage protocol; and</li> <li>• connection code.</li> </ul> |



| ACTIVITY<br>AND GPS REFERENCE  | SOI MILESTONE   | SOI TARGET                    | RESULTS  |
|--|---|-------------------------------|--|
| <b>SOI outcome</b> —transmission investment and pricing are efficient and fair, and a reliable electricity supply is maintained. |   |                               |  |
| Finalise core grid determination, which completes the grid reliability standards.<br><br><i>GPS, paragraphs 81–84.</i>           | Recommended to and subsequently agreed by Minister.           | December 2005.                | <b>Achieved</b> —the Commission published draft recommendations for consultation in August 2005. A substantial amount of feedback was received, resulting in further consideration. After assessment, a new proposal was released for consultation in October 2005. A final recommendation was sent to the Minister in December and gazetted in January 2006.  |
| Approve a transmission pricing methodology.<br><br><i>GPS, paragraphs 91–95.</i>   | Recommended to and subsequently agreed by Minister.           | September 2006 <sup>2</sup> . | <b>Rescheduled</b> —Transpower submitted a proposed transmission pricing methodology (TPM) on 23 June 2006. The requirement to consult adequately and for Transpower to implement new IT systems has extended the possible implementation date for the proposed TPM. The Commission will consult on the level of consultation required and preferred dates for implementation of the proposed TPM, benchmark agreements and interconnection rules. |
| Consider a policy framework for transmission alternatives.<br><br><i>GPS, paragraphs 89–90.</i>                                  | Approved by Board.  | June 2006.                    | <b>Rescheduled</b> —five options were published for consultation in May 2005. Industry consultation has identified the policy for transmission alternatives as highly controversial. The Commission published a summary of submissions in December 2005 and sought cross-submissions from December 2005 to March 2006. The Board will carry out further analysis early in 2006/07 before deciding whether to proceed.                              |
| Develop detailed arrangements for transmission alternatives.<br><br><i>GPS, paragraphs 89–90.</i>                                | Approved by Board and, if necessary, recommended to Minister. | September 2006.               | <b>On hold</b> —the timing of this activity is dependent on the approval of a policy framework for transmission alternatives.  |
| Publish a new <i>Draft Statement of Opportunities</i> (SOO).<br><br><i>GPS paragraph 86.</i>                                     | Approved by Board.  | March 2007.                   | <b>On track</b> —the Commission published the <i>Initial SOO</i> on 8 July 2005. A commentary on industry submissions was published in October 2005. The Commission held a workshop for participants and other interested parties on 21 November 2005, to discuss both feedback on the <i>Initial SOO</i> and its approach to the next SOO.  |

<sup>2</sup> The 2005/06 *Estimates* anticipated the transmission pricing methodology would be recommended to the Minister by November 2005. This timetable was revised during finalisation of the SOI.

| ACTIVITY<br>AND GPS REFERENCE   | SOI MILESTONE                                     | SOI TARGET                     | RESULTS  |
|---|---|--------------------------------|--|
| <p>Publish a draft decision on the grid upgrade plan.</p> <p><i>GPS paragraphs 87–88.</i></p> | <p>Draft decision published for consultation.</p> | <p>April 2006<sup>3</sup>.</p> | <p><b>Achieved—400kv Whakamaru to Otahuhu</b>—the Commission released its draft decision on the proposal in April 2006. A significant programme of public consultation was underway when Transpower withdrew its application in May 2006 and signalled it would be submitting an amended proposal at a later date.</p> <p><b>In addition to the 400kV proposal, the Commission's transmission work has included assessment of the following proposals from Transpower.</b></p> <p><b>High-voltage direct-current (HVDC)</b>—the HVDC application is on hold pending resolving modelling matters with Transpower. Central North Island investment proposals are also affected.</p> <p><b>Interim grid investment proposals (under transitional provisions of the Rules)</b>—the Commission has approved a number of grid investment proposals under the transitional provisions of the Rules, which provide for the Commission to make investment decisions prior to approval of the GUP. As at 30 June 2006, the Commission had approved \$200 million of interim grid expenditure. Two further substantial proposals were received from Transpower in October and December 2005. The Commission made final decisions on these proposals during March and May 2006. Two proposals for preparatory work to install cable ducts between the Penrose and Albany substations were received in December 2005 and May 2006.</p> <p><b>GUP rule changes</b>—the Commission identified a number of deficiencies within the scope of the approval provided for in the Rules, primarily in providing for discretion and the ability to impose conditions on approvals. A number of rule changes were proposed and consulted on. These will be considered further in 2006/07 in light of submissions.</p> |

<sup>3</sup> The 2005/06 *Estimates* anticipated the assessment would be completed by September 2005. The timetable has been revised following discussions with the Minister in April 2005.

### Market governance workstream

The Commission manages compliance with the Rules and Regulations. The objective is to be more than ‘policing’ the industry. It extends to facilitating greater understanding of and, thereby, improved compliance with the Rules, and to identifying areas of the Rules that may need change. The Board has delegated responsibility to the Electricity Governance Rules Committee (EGR Committee) to make decisions on how breach notifications should be responded to. In cases where participants wish to settle investigated breaches, the Board is required to approve any formal agreements. For more serious breaches, the Board may lay complaints with the Rulings Panel, which operates independently to the Board.

The market governance workstream addresses paragraphs 11 and 17 of the GPS.

### Outcome contributions

The market governance workstream provides a significant contribution to the principal objective:

- ensure that electricity is produced and delivered to all classes of consumers in an efficient, fair, reliable and environmentally sustainable manner.

The workstream contributes to the following specific outcomes as listed at the beginning of this part of the report: a and f.

### Performance measure results for 2005/06

| ACTIVITY AND GPS REFERENCE   | SOI MILESTONE  | SOI TARGET  | RESULTS   |
|--|--|---|---|
| <b>SOI outcome</b> —industry compliance with the Regulations and the Rules produces a fair playing field to facilitate investment and competition.                         |  |   |   |
| Deliver fair, transparent and consistent compliance decisions to the market on regulation and rule breaches reported to the Board.<br><br><i>GPS paragraphs 11 and 17.</i> | Regulation and rule breaches resolved in a timely way. | Resolve 90 per cent of notified breaches within one month of receipt of notification. | <b>Not achieved</b> —experience has demonstrated the advantages of thorough investigations, resulting in identifying means of reducing future breaches. In addition, EGR Committee timetables make this performance measure unrealistic.<br><br>New performance measures were agreed for 2006/07. Investigations are time consuming. A thorough investigation can identify means of reducing future breaches.<br><br>Work was completed and files closed on 200 notified breaches in the year. These included 10 formal investigations, four of which were settled between parties to the investigation. In addition, two admitted breaches were presented to the Rulings Panel and fines were imposed. |
| <b>SOI outcome</b> —residential consumers have access to low-fixed-charge tariffs.   |  |   |   |
| Develop and implement a compliance framework for low-fixed-charge regulations.<br><br><i>GPS paragraphs 11 and 17.</i>   | Implement a compliance framework.                      | December 2005.  | <b>Achieved</b> —implemented in December 2005.  |

### Common quality and system operation workstream

The Commission is accountable for developing policies and standards that define appropriate levels of quality for power system services that are common to all grid connected parties. Common quality standards and policies are published in the form of rules. The ongoing development of common quality rules to ensure that appropriate standards are in place is a significant undertaking. An important Commission role is to oversee the system operator contract and activities. The system operator manages the real-time operation of the power system, including the delivery of common quality services.

The common quality and system operation workstream addresses paragraph 75 of the GPS.

In addition to the outputs specified in the SOI, the following work was carried out in response to issues that arose during the year.

- **Undesirable trading situation (UTS)**—on 12 July 2006, the Commission reached a decision on an UTS allegation from the Major Electricity Users' Group (MEUG) about the cost of frequency reserve.
- **Regulation amendment**—the Commission recommended an amendment to the Regulations to limit the liability of ancillary service agents for breaches of the Rules, and to provide force majeure provisions for ancillary service agents. The amendment came into force on 13 January 2006.

### Outcome contributions

The common quality and system operation workstream provides a significant contribution to the principal objective:

- ensure that electricity is produced and delivered to all classes of consumers in an efficient, fair, reliable and environmentally sustainable manner.

The workstream contributes to the following specific outcomes as listed at the beginning of this part of the report: a, b, c, d, f and g.

### Performance measure results for 2005/06

| ACTIVITY AND GPS REFERENCE  | SOI MILESTONE  | SOI TARGET      | RESULTS  |
|---|--|-----------------|--|
| <b>SOI outcome</b> —efficient investment in and operation of intermittent generation.   |  |                 |  |
| Analyse lower North Island wind-generation data to identify any immediate rule changes required to parts C or G of the Rules.<br><i>GPS paragraph 75.</i> | Publish final report recommending proposed interim rule changes. | September 2005. | <b>Rescheduled—tactical wind project</b> —an initial report on lower North Island wind generation was published in February 2006. A consultation paper will be released in 2006/07.  |
| Investigate and develop policy to facilitate optimal integration of wind generation in the long term.<br><i>GPS paragraph 75.</i>                         | Consult on and develop project plan.                             | September 2005. | <b>Achieved—strategic wind project</b> —the project plan was completed on time. The Commission completed a second consultation stage (the development of a number of wind generation installation scenarios). Work continues on analysing the impacts of the scenarios of increased volumes of wind generation on the system and the market. |

| ACTIVITY<br>AND GPS REFERENCE   | SOI MILESTONE                            | SOI TARGET   | RESULTS  |
|---|--|--------------|--|
| <b>SOI outcome</b> —efficient and reliable system operation.                        |  |              |  |
| Replace annual procurement plan for ancillary services.<br><i>GPS paragraph 75.</i> | Recommended to and approved by Minister. | August 2005. | <b>Achieved</b> —the rule change for the <i>2005 Procurement Plan for Ancillary Services</i> was gazetted on 25 August 2005. |
| Replace annual system operator policy statement.<br><i>GPS paragraph 75.</i>        | Recommended to and approved by Minister. | July 2005.   | <b>Achieved</b> —the rule change for the <i>2005 System Operator Policy Statement</i> was gazetted on 14 July 2005.          |



### Retail workstream

The Commission oversees the operations of the retail market for electricity and monitors the performance of the service providers that operate the market. This output includes oversight of the delivery of significant policy requirements for consumer protection in the GPS, such as protections for low-income earners, benchmark contracts and approval of consumer complaints systems.

The retail workstream addresses paragraphs 12–24 and 98–120, and contributes to achievement of paragraphs 30–31 of the GPS.

In addition to the outputs specified in the SOI, the following work was carried out in response to issues that arose during the year.

- **Load management and metering**—the Commission developed a major work programme for a load management and metering technology project, held a workshop for small to medium enterprises in Auckland, held several meetings of the Existing Capability Working Group and completed a comprehensive survey of transmitter and receiver relay owners.
- **Retail audit plan**—the Commission published a draft retail audit plan for consultation in August 2005 covering test-house audits, metering-installation audits, registry audits, data-administrator audits and profile audits. Analysis of submissions was completed and the first audits were undertaken in March 2006 with a report provided to the Commission. Audits of data administrators will start in 2006/07.

### Outcome contributions

The retail workstream provides a significant contribution to the principal objective:

- ensure that electricity is produced and delivered to all classes of consumers in an efficient, fair, reliable and environmentally sustainable manner.

The workstream contributes to the following specific outcomes as listed at the beginning of this part of the report: a, c, d, e, f and g.

## Performance measure results for 2005/06

| ACTIVITY<br>AND GPS REFERENCE  | SOI MILESTONE  | SOI TARGET                      | RESULTS  |
|--|--|---------------------------------|--|
| SOI outcome—electricity consumers are treated fairly by retailers and distributors.  |  |                                 |  |
| Publish model contracts for domestic consumers.<br><br><i>GPS paragraphs 12–14.</i>  | Model contracts published.   | August 2005 <sup>4</sup> .      | <b>Achieved</b> —The model ‘interposed’ contract used by most retailers was published in August 2005. This contract includes a requirement for retailers to distinguish on their invoices between their own electricity charges and line company related charges. The ‘electricity-only’ and ‘delivery-only’ contracts were published in October 2005. This fulfils a requirement of the GPS.  |
| Develop arrangements to protect low-income consumers, eg arrangements for disconnections, bonds and prepayment meters.<br><br><i>GPS paragraphs 18–19.</i> | Code of practice developed and in place.   | June 2006.                      | <b>Achieved</b> —in November 2005 the Commission published a <i>Guideline on Arrangements for the Benefit of Low-Income Consumers</i> . The code of practice became known as guidelines during the course of the project.<br><br>Arising from this work a retailer-social agency protocol working group, facilitated by the Commission, was established. Its purpose is to assess how communication between retailers and social agencies can be improved to limit disconnections where consumers genuinely cannot pay for their electricity. A protocol between the electricity industry and social agencies was completed. Work and Income New Zealand has commenced working with retailers to set up pilots to ensure effective liaison between its regions, social agencies and electricity retailers. |
| Ensure all domestic consumers have access to an approved consumer complaints scheme.<br><br><i>GPS paragraphs 21–24.</i>                                   | Consumer complaints scheme approved by Board.  | February 2006.                  | <b>Rescheduled</b> —there was a delay due to the need for the Office of the Electricity and Gas Complaints Commissioner to complete work on its land-code before submitting its application to the Board for approval, and the Electricity Commission’s need to give feedback on two other applications.<br><br>To provide certainty for applicants, a consultation document is being prepared on proposed benchmarks for use by the Commission in determining final applications.<br><br>Completion is expected in 2006/07.   |
| Implement arrangements to ensure an orderly transition for consumers in the event of retailer insolvency.<br><br><i>GPS paragraph 20.</i>                  | Consultation document approved by Board and published.<br><br>Arrangements in place. | October 2005.<br><br>June 2006. | <b>Rescheduled</b> —this work has been rescheduled to 2006/07 as a result of analysis indicating a possible need to develop appropriate statutory powers. Insolvency is only one of the potential adverse scenarios that need to be addressed. As a result, the Board will seek a change in the GPS.   |

4 The 2005/06 *Estimates* anticipated the Commission would review the use and uptake of model contracts for domestic consumers by June 2006. This review is now planned for the 2006/07 financial year.

| ACTIVITY<br>AND GPS REFERENCE  | SOI MILESTONE   | SOI TARGET     | RESULTS  |
|--|---|----------------|--|
| <b>SOI outcome</b> —distribution arrangements are efficient and fair, and facilitate retail competition nationwide.                            |   |                |  |
| Publish updated model <i>Distribution Use-of-System Agreements</i> .<br><i>GPS paragraph 100.</i>  | Use-of-system agreements approved by Board and published. | December 2005. | <b>Achieved</b> —published in December 2005.   |
| Publish model <i>Distribution Pricing Methodology</i> .<br><i>GPS paragraphs 98–99.</i>  | Methodology approved by Board and published.              | June 2006.     | <b>Rescheduled</b> —this project was rescheduled to progress high-priority projects during 2005/06. The project is now scheduled to take place in 2006/07.   |
| <b>SOI outcome</b> —improved retail competition.   |   |                |  |
| Improve competition in the retail market.<br><i>GPS paragraph 114.</i>   | Benchmark competition indicators identified and in place. | June 2006.     | <b>Rescheduled</b> —‘dashboard’ consultation was completed in April 2006. Finalisation is planned for 2006/07.   |
| <b>SOI outcome</b> —efficient operation of the retail market and increased downward pressure on prices.  |   |                |  |
| Complete new part J of the Rules for reconciliation processes.<br><i>GPS paragraph 117.</i>  | Part J approved by Minister.                              | June 2006.     | <b>Rescheduled</b> —reconciliation is the process of calculating the quantities of electricity bought and sold by each wholesale market participant. This major initiative involves five industry sub-groups (reporting to an overall project team) to develop reconciliation concepts and rule-change proposals. The project is expected to produce changes to parts A, D, E, G and H of the Rules as well as a new part J. It has been necessary to reschedule this project to accommodate a second consultation round. Completion is expected in 2006/07. |
| <b>SOI outcome</b> —efficient, co-ordinated industry oversight supports investment, promotes competition and puts downward pressure on prices. |   |                |  |
| Develop memorandum of understanding (MOU) with the Commerce Commission.<br><i>GPS paragraphs 101–108.</i>                                      | MOU signed.   | June 2006.     | <b>Achieved</b> —the two commissions signed the MOU on 15 May 2006.  |

### Wholesale workstream

The Commission oversees the development of the wholesale market. This covers the spot market for physical electricity, and the hedge market where participants trade financial products to manage spot-price risks.

As part of this output, the Commission oversees the operation of the wholesale market. It also contracts with external parties to provide core services to facilitate the market, such as the information (trading) system, pricing and clearing functions. The Commission monitors the performance of these service providers against pre-determined performance standards.

In an effective wholesale market there is efficient price discovery, effective demand response, competition between generators, a secure mechanism for settlement, low barriers to entry and effective means for participants to manage risks associated with the market. The Commission is considering how best to integrate different market design elements to improve wholesale market competition and efficiency. More immediate market design issues are being progressed, such as a review of the offer and dispatch rules for co-generators. The Commission is also developing policy to address wholesale market participants' access to reliable medium- to long-term electricity price signals and improved access to spot-price risk-management tools, such as energy and transmission hedge contracts and access to market information.

The wholesale workstream addresses paragraphs 75–78 of the GPS.

In addition to the outputs specified in the SOI, the following work was carried out in response to issues that arose during the year.

- **Instantaneous reserves pricing and dispatch**—the Commission completed rule-change proposals designed to dispatch all available reserves.
- **Demand-side bidding and forecasting**—the Commission considered submissions on demand-side bidding and forecasting and held discussions with large industrial electricity users.
- **Capacity reserves**—the Commission considered submissions on capacity reserves (eg use of highly reliable load inter-trips to protect transmission lines during a contingency, so that the transmission lines can operate closer to their capacity). Additional work was carried out with the system operator about issues raised in submissions.
- **Market-related information**—the Commission initiated a project to consider access to market-related information.
- **Spot prices (high spring washer)**—the Commission initiated a project to consider issues originating from a review of pricing outcomes when transmission security constraint limits are reached. Consultation was completed on 30 June 2006.
- **Pricing process review project**—pricing matters raised in June 2006 gave rise to consideration of a pricing process review as a major project for 2006/07.

### Outcome contributions

The wholesale workstream provides a significant contribution to the principal objective:

- ensure that electricity is produced and delivered to all classes of consumers in an efficient, fair, reliable and environmentally sustainable manner.

The workstream contributes to all of the specific outcomes as listed at the beginning of this part of the report.

#### Performance measure results for 2005/06

| ACTIVITY<br>AND GPS REFERENCE   | SOI MILESTONE                     | SOI TARGET                | RESULTS   |
|---|-----------------------------------|---------------------------|---|
| <b>SOI outcome</b> —market design is efficient.   |                                   |                           |   |
| Finalise scoping and initiate a market-design work programme.<br><i>GPS paragraph 75.</i>           | Work programme approved by Board. | December 2005.            | <b>Rescheduled</b> —the <i>Market Design Report</i> was released on 13 October 2005. The report was presented by the New Zealand Institute of Economic Research (NZIER) (the report author) to both the Wholesale Market Advisory Group and the Hedge Market Development Steering Group. Both groups provided feedback on the report. Rescheduling took place to accommodate higher priority being placed on hedge work and other Board priorities. A consultation paper is expected by March 2007. |
| <b>SOI outcome</b> —industry participants manage energy and transmission price risk efficiently.    |                                   |                           |   |
| Publish a consultation document on energy and transmission hedges.<br><i>GPS paragraphs 76–78.</i>  | Approved by Board and published.  | March 2006 <sup>5</sup> . | <b>Rescheduled</b> —the Commission received a presentation and summary report from a commissioned market-research firm. The report included the results of its in-depth interviews with industry participants on hedge market issues. Independent advice was sought and considered by the Hedge Market Development Steering Group, which identified two options for consultation. A consultation paper is expected by September 2006.   |
| <b>SOI outcome</b> —dispatch is efficient.  |                                   |                           |   |
| Publish consultation documents on offer and dispatch rule improvements.<br><i>GPS paragraph 75.</i> | Approved by Board and published.  | June 2006.                | <b>Achieved</b> —the Wholesale Market Advisory Group and the electricity industry have advised the Commission about priorities for issues to be progressed. Consequently, the Commission has reviewed offer and dispatch rules on industrial co-generation, which included input from a group of industrial electricity users. A consultation paper was released in June 2006.  |

<sup>5</sup> The Commission's 2005/06 *Estimates* anticipated an issues and options consultation paper on energy and transmission hedges would be released by December 2005.



### Modelling workstream

The Commission has a role to compile authoritative forecasts of load growth and new-generation scenarios to provide important information for potential investors in base-load generation about the timing and nature of new investments in transmission and generation. The Commission does not build, invest in or make approval decisions about base-load generation.

The Commission developed an analysis and modelling capability to meet the GPS information requirements and to provide input to project work across the organisation (in particular paragraph 10 of the GPS).

Demand forecasts have been published at national and regional levels based on comparative data, including data provided by other agencies. These demand forecasts support all the other Commission workstreams and are also included in generation scenarios in the Commission's *Statement of Opportunities* (see *transmission workstream*, page 32 of this report).

The modelling workstream specifically addresses paragraph 10 of the GPS, and makes contributions across a range of other work required by the GPS.

In addition to the outputs specified in the SOI, the following work was carried out in response to issues that arose during the year.

- **Market-simulation models**—developing more detailed market-simulation models and other tools based on the knowledge gained through the Auckland transmission project. To date, a literature review has been completed, a baseline model selected and development has commenced.

### Outcome contributions

The modelling workstream provides a significant contribution to the principal objective:

- ensure that electricity is produced and delivered to all classes of consumers in an efficient, fair, reliable and environmentally sustainable manner.

The workstream contributes to the following specific outcomes as listed at the beginning of this part of the report: a, c, d, e, f and g.

### Performance measure results for 2005/06

| ACTIVITY AND GPS REFERENCE   | SOI MILESTONE                                 | SOI TARGET      | RESULTS   |
|--|---|-----------------|---|
| SOI outcome—information is widely available to facilitate efficient investment and competition.      |   |                 |   |
| Develop centralised dataset, including historical demand and price data.<br><i>GPS paragraph 10.</i> | <i>Initial Centralised Dataset</i> published. | September 2005. | <b>Achieved</b> —published in July 2005.  |
| Publish regional and national demand forecasts.<br><i>GPS paragraph 10.</i>                          | Forecast models published.                    | November 2005.  | <b>Rescheduled</b> —modelling work was completed for the regional and national demand forecasts. The national forecast was updated in June. These forecasts are now to be included in the grid planning assumptions component of the SOO, due to be published for consultation in March 2007. |

### Security of supply workstream—governance functions

A core Commission responsibility is to use reasonable endeavours to ensure security of supply without assuming any demand reduction from emergency conservation campaigns, while minimising distortions to the ordinary operation of the electricity market. As part of the GPS the Government requires the Commission to use reasonable endeavours to ensure security of supply in a one-in-60 dry year. The Commission publishes security of supply information to support market participants to maintain supply, and oversees responses to risks when they emerge. The Commission evaluates the need for reserve energy several years in advance. This includes consideration of potential generation or demand reductions withheld from the market except in circumstances of heightened risk to supply. The Commission is able to contract reserve energy to maintain security of supply under the performance of security of supply appropriation (*see page 46 of this report*).

The security of supply workstream addresses paragraphs 35–74 of the GPS.

In addition to the outputs specified in the SOI, the following work was carried out in response to issues that arose during the year.

- **Pandemic planning**—the Commission commenced planning for the continued operation of the electricity system in the event of a pandemic.

### Outcome contributions

The security of supply workstream provides a significant contribution to the principal objective:

- ensure that electricity is produced and delivered to all classes of consumers in an efficient, fair, reliable and environmentally sustainable manner.

The workstream contributes to all of the specific outcomes as listed at the beginning of this part of the report.

## Performance measure results for 2005/06

| ACTIVITY<br>AND GPS REFERENCE  | SOI MILESTONE                   | SOI TARGET                | RESULTS  |
|--|---------------------------------|---------------------------|--|
| SOI outcome—risks to security of supply are managed.   |                                 |                           |  |
| Complete reserve energy needs analysis for 2007–2009.<br><i>GPS paragraph 37.</i>  | Approved by Board.              | October 2005.             | <b>Achieved</b> —the Commission completed the needs analysis for 2006 in November 2005.<br><br>The review of reserve energy needs for 2006 and initial analysis of needs for 2007–2009 was concluded in the third quarter of 2005/06.              |
| Incorporate into the Commission's security of supply policy provisions for emergency measures.<br><i>GPS paragraphs 41–42.</i> | Approved by Board.              | March 2006 <sup>6</sup> . | <b>Ongoing</b> —this work has become ongoing in nature.<br><br>The focus has become the development of planned rolling-cut regulations. The Commission expects to consult on rolling-cut regulations, as a contingency measure, in September 2006. |
| Initiate review of efficiency and effectiveness of the <i>Reserve Energy Policy</i> .<br><i>GPS paragraphs 65–67.</i>          | Project plan approved by Board. | June 2006.                | <b>Achieved</b> —completed for 2005/06—project scoping has been completed.   |

<sup>6</sup> The 2005/06 *Estimates* anticipated policy on tender design for reserve energy and emergency options would be approved by the Board by 30 September 2005. Tender design has been postponed until a subsequent financial year. The timetable for developing provisions for emergency measures has been revised as indicated.

## Performance of security of supply functions

### Description

The performance of security of supply functions appropriation provides for reserve energy requirements and covers tendering for reserve energy generation and emergency options.

In addition, the Commission has a multi-year security of supply—procurement costs appropriation (to implement emergency options if needed, including fuel for Whirinaki). In practice this appropriation is unlikely to be drawn on as revenue is likely to exceed costs.

The security of supply functions appropriation excludes general policy and development work, which is included under the performance of electricity governance functions appropriation.

The security of supply workstream addresses paragraphs 35–74 of the GPS.

### Outcome contributions

The performance of security of supply functions appropriation provides a significant contribution to the principal objectives:

- ensure that electricity is produced and delivered to all classes of consumers in an efficient, fair, reliable and environmentally sustainable manner; and
- promote and facilitate the efficient use of electricity.

The particular contribution is to the reliability component of the principal objective.

The appropriation contributes to all of the specific outcomes as listed at the beginning of this part of the report.

### Performance measure results for 2005/06

| ACTIVITY AND GPS REFERENCE   | OUTPUT   | RESULTS   |
|--|--|---|
| <b>SOI outcome</b> —risks to security of supply are managed.   |  |   |
| Develop contingency plans for emergency situations.<br><br><i>GPS paragraphs 68–74.</i>              | Conduct tendering of reserve energy generation and emergency options for demand reduction as required by the Board.                                      | Not required in the year.   |
| Tendering for reserve energy.<br><br><i>GPS paragraphs 47–67.</i>                                    | Tendering for generation and emergency options as required (will only be implemented if needed for procurement of reserve energy or emergency measures). | Implementation not required in the year.  |
| Contracting for the availability of the Whirinaki power station.<br><br><i>GPS paragraphs 47–67.</i> | Whirinaki reserve energy plant availability is delivered in accordance with the contract.  | The Commission has continued to manage contracted reserves from the Crown's 155MW diesel-fired Whirinaki power station. |

## Performance of electricity efficiency functions

### Description

The *Electricity Act 1992* was amended in October 2004 to give the Commission additional powers to promote and facilitate the efficient use of electricity. The performance of electricity efficiency functions appropriation covers conducting research into electricity efficiency, and promoting and facilitating the efficient use and conservation of electricity (including funding programmes that provide incentives for cost-effective electricity efficiency and conservation). The Commission's investment of \$18 million (GST exclusive) into electricity efficiency programmes over the 2004/05 to 2006/07 period aims to encourage cost-effective electricity savings. The Commission has signed a memorandum of understanding (MOU) with the Energy Efficiency and Conservation Authority (EECA) to ensure the co-ordination of electricity efficiency initiatives and to design and implement programmes to promote and encourage the uptake of electricity efficiency measures among consumers.

Electricity efficiency can delay or avoid the need for expensive new infrastructure, and can contribute to reducing greenhouse gas emissions from electricity generation. Promoting electricity efficiency can, therefore, also have an impact on the principal objective of ensuring that electricity is produced and delivered to all classes of consumers in an efficient, fair, reliable and environmentally sustainable manner.

The electricity efficiency workstream addresses paragraphs 25–34 of the GPS.

### Outcome contributions

The performance of electricity efficiency functions appropriation provides a significant contribution to the principal objective:

- ensure that electricity is produced and delivered to all classes of consumers in an efficient, fair, reliable and environmentally sustainable manner.

The primary contribution of performance of electricity efficiency functions is to the principal objective of:

- promoting and facilitating the efficient use of electricity.

The appropriation contributes to the following specific outcomes as listed at the beginning of this part of the report: a, b, c, d, f and g.



## Performance measure results for 2005/06

| ACTIVITY<br>AND GPS REFERENCE   | SOI MILESTONE                  | SOI TARGET      | RESULTS   |
|---|--------------------------------|-----------------|---|
| <b>SOI outcome</b> —electricity services are provided using less energy.  |                                |                 |   |
| Evaluate electricity efficiency pilot programmes.<br><i>GPS paragraph 31.</i>   | Report to Minister.            | December 2005.  | <b>Ongoing</b> —evaluation is taking place on pilot programmes as they are completed.<br><br>Information from pilot programmes is being incorporated into the development of a long-term programme in 2006/07.  |
| Complete electricity efficiency potentials study.<br><i>GPS paragraph 26.</i>   | Report to Minister on results. | December 2005.  | <b>Rescheduled</b> —the Commission has contracted KEMA Incorporated, a US-based consultancy with extensive experience, to carry out the study. The report is due in February 2007.  |
| Complete plans for expanding and developing longer-term programmes based on pilot programmes and the investigation project.<br><i>GPS paragraph 31.</i> | Report to Minister.            | March 2006.     | <b>Rescheduled</b> —the development of a long-term programme is taking place in the first half of 2006/07. The short-term focus is on expanding pilot programmes, eg contracts are in place for the compact fluorescent lamp (CFL) programme to be expanded into a nation-wide programme. |
| Agree a memorandum of understanding (MOU) with EECA.<br><i>GPS paragraph 34.</i>  | MOU signed.                    | September 2005. | <b>Achieved</b> —the MOU was signed by both agencies in August 2005.  |



## Financial statements

### Statement of financial performance for the year ended 30 June 2006

| Actual<br>2005<br>\$000 |  | Notes | Actual<br>2006<br>\$000 | Budget<br>2006<br>\$000 |
|-------------------------|--|-------|-------------------------|-------------------------|
| 55,784                  | Crown revenue                            |       | 72,093                  | 81,403                  |
| –                       | Whirinaki spot revenue                   |       | 6,118                   | –                       |
| 639                     | Interest income                          |       | 1,576                   | 600                     |
| 20                      | Other revenue                            |       | 7                       | –                       |
| <b>56,443</b>           | <b>Total operating revenue</b>           |       | <b>79,794</b>           | <b>82,003</b>           |
| 3,715                   | Personnel                                |       | 4,989                   | 4,674                   |
| 4,293                   | External advice                          |       | 4,648                   | 5,869                   |
| –                       | Litigation costs                         |       | 281                     | 444                     |
| 215                     | Electricity efficiency programmes        |       | 1,054                   | 8,071                   |
| 34,986                  | Service provider contracts               |       | 34,270                  | 34,553                  |
| 5,484                   | Whirinaki contract                       |       | 23,365                  | 23,728                  |
| –                       | Whirinaki fuel                           |       | 3,199                   | –                       |
| 201                     | Advisory group fees                      |       | 193                     | 420                     |
| 198                     | Rental of premises                       |       | 481                     | 495                     |
| 141                     | Travel                                   |       | 223                     | 320                     |
| 852                     | Commissioners' fees                      | (12)  | 659                     | 887                     |
| 23                      | Rulings Panel fees                       |       | 69                      | 62                      |
| 32                      | External audit fees                      |       | 34                      | 34                      |
| 21                      | Fees paid to auditors for other services |       | –                       | –                       |
| 604                     | Other operating costs                    |       | 1,543                   | 1,423                   |
| 202                     | Depreciation                             |       | 284                     | 423                     |
| <b>50,967</b>           | <b>Total cost of services</b>            |       | <b>75,292</b>           | <b>81,403</b>           |
| <b>5,476</b>            | <b>Distribution to levy payers</b>       | (6)   | <b>2,919</b>            | <b>–</b>                |
| <b>–</b>                | <b>Net operating surplus (deficit)</b>   |       | <b>1,583</b>            | <b>600</b>              |

Refer to note 14 on page 59 for explanation of major budget variances.

## Statement of movements in equity

for the year ended 30 June 2006

| Actual<br>2005<br>\$000 |   | Actual<br>2006<br>\$000 | Budget<br>2006<br>\$000 |
|-------------------------|---|-------------------------|-------------------------|
| 869                     | <b>Public equity as at 1 July 2005</b>  | 1,399                   | 1,999                   |
| 530                     | Capital contribution                    | –                       | –                       |
| –                       | Net operating surplus for the year      | 1,583                   | 600                     |
| 1,399                   | <b>Public equity as at 30 June 2006</b> | 2,982                   | 2,599                   |

## Statement of financial position

for the year ended 30 June 2006

| Actual<br>2005<br>\$000 |                                      | Notes | Actual<br>2006<br>\$000 | Budget<br>2006<br>\$000 |
|-------------------------|--------------------------------------|-------|-------------------------|-------------------------|
| <b>1,399</b>            | <b>Public equity</b>                 |       | <b>2,982</b>            | <b>2,599</b>            |
|                         | <b>Assets</b>                        |       |                         |                         |
|                         | <i>Current assets</i>                |       |                         |                         |
| 19,564                  | Cash and investments                 |       | 19,178                  | 11,027                  |
| 226                     | Debtors and prepayments              |       | 126                     | 30                      |
| 11,224                  | Levy debtors                         | (5)   | –                       | 9,000                   |
| <b>31,014</b>           | <b>Total current assets</b>          |       | <b>19,304</b>           | <b>20,057</b>           |
|                         | <i>Non-current assets</i>            |       |                         |                         |
| 524                     | Property, plant and equipment        | (1)   | 871                     | 940                     |
| <b>524</b>              | <b>Total non-current assets</b>      |       | <b>871</b>              | <b>940</b>              |
| <b>31,538</b>           | <b>Total assets</b>                  |       | <b>20,175</b>           | <b>20,997</b>           |
|                         | <b>Liabilities</b>                   |       |                         |                         |
|                         | <i>Current liabilities</i>           |       |                         |                         |
| 8,362                   | Payables and accruals                | (2)   | 14,577                  | 3,700                   |
| 1,193                   | GST payable (receivable)             | (3)   | (576)                   | 1,000                   |
| 125                     | Employee entitlements                | (4)   | 230                     | 150                     |
| 14,928                  | Levies payable to Crown              | (5)   | –                       | 13,500                  |
| 5,476                   | Provision for refund to levy payers  | (6)   | 2,919                   | –                       |
| 12                      | Leased asset liability               | (7)   | 10                      | 10                      |
| <b>30,096</b>           | <b>Total current liabilities</b>     |       | <b>17,160</b>           | <b>18,360</b>           |
|                         | <i>Non-current liabilities</i>       |       |                         |                         |
| 43                      | Leased asset liability               | (7)   | 33                      | 38                      |
| <b>43</b>               | <b>Total non-current liabilities</b> |       | <b>33</b>               | <b>38</b>               |
| <b>30,139</b>           | <b>Total liabilities</b>             |       | <b>17,193</b>           | <b>18,398</b>           |
| <b>1,399</b>            | <b>Net assets</b>                    |       | <b>2,982</b>            | <b>2,599</b>            |



## Statement of cash flows

for the year ended 30 June 2006

| Actual<br>2005<br>\$000                     |   | Notes | Actual<br>2006<br>\$000 | Budget<br>2006<br>\$000 |
|---|---|-------|-------------------------|-------------------------|
| <b>Cash flows from operating activities</b> |   |       |                         |                         |
| <i>Cash was provided from:</i>              |   |       |                         |                         |
| 53,752                                      | supply of outputs to the Crown                  |       | 76,689                  | 81,403                  |
| –   | spot revenue                                    |       | 5,443                   | –                       |
| 639   | interest received                               |       | 1,576                   | 600                     |
| 20  | other revenue                                   |       | 7                       | –                       |
| <b>54,411</b>                               |   |       | <b>83,715</b>           | <b>82,003</b>           |
| <i>Cash was applied to:</i>                 |   |       |                         |                         |
| (3,622)                                     | payments to employees                           |       | (4,884)                 | (4,674)                 |
| (42,541)                                    | payments to suppliers                           |       | (67,625)                | (75,558)                |
| (435)                                       | GST on operations                               |       | (1,769)                 | (748)                   |
| <b>(46,598)</b>                             |   |       | <b>(74,278)</b>         | <b>(80,980)</b>         |
| <b>7,813</b>                                | <b>Net cash flows from operating activities</b> | (13)  | <b>9,437</b>            | <b>1,023</b>            |
| <b>Cash flows from investing activities</b> |   |       |                         |                         |
| <i>Cash was applied to:</i>                 |   |       |                         |                         |
| 24  | leased assets                                   |       | (10)                    | (12)                    |
| (384)                                       | purchase of physical assets                     |       | (633)                   | (919)                   |
| <b>(360)</b>                                | <b>Net cash flows from investing activities</b> |       | <b>(643)</b>            | <b>(931)</b>            |
| <b>Cash flows from financing activities</b> |   |       |                         |                         |
| <i>Cash was provided from:</i>              |   |       |                         |                         |
| 530   | capital contributions                           |       | –                       | –                       |
| –   | rental bond                                     |       | –                       | –                       |
| 3,704                                       | net levies payable to Crown                     |       | (9,180)                 | (1,842)                 |
| 1,016                                       | GST on levies                                   |       | –                       | –                       |
| <b>5,250</b>                                | <b>Net cash flows from financing activities</b> |       | <b>(9,180)</b>          | <b>(1,842)</b>          |
| 12,703                                      | Net increase (decrease) in cash held            |       | (386)                   | (1,750)                 |
| 6,861                                       | Plus opening cash                               |       | 19,564                  | 12,777                  |
| <b>19,564</b>                               | <b>Closing cash balance</b>                     |       | <b>19,178</b>           | <b>11,027</b>           |

## Statement of contingencies

as at 30 June 2006

The Commission has no known contingent liabilities or assets and no known guarantees under the *Public Finance Act 1989* (2004/05: \$70,000).

## Statement of commitments

as at 30 June 2006

The Commission entered into leases for office equipment, which were reclassified as finance leases in 2004. These have been approved by the Minister of Finance, as required by the provisions of the *Electricity Amendment Act 2001*.

The Commission has operating leases on two floors in ASB Bank Tower until September 2013, and a contract with the system operator until February 2009.

|  | 2006<br>\$000 | 2005<br>\$000 |
|--|---------------|---------------|
| <b>Operating lease commitments</b>                 |               |               |
| Not later than one year                            | 430           | 254           |
| Later than one year but not later than two years   | 430           | 211           |
| Later than two years but not later than five years | 1,290         | 633           |
| Later than five years but not later than ten years | 968           | 686           |
| <b>Total operating lease commitments</b>           | <b>3,118</b>  | <b>1,784</b>  |
| <b>Service provider contract commitments</b>       |               |               |
| Not later than one year                            | 22,841        | 26,429        |
| Later than one year but not later than two years   | 22,841        | 22,841        |
| Later than two years but not later than five years | 15,228        | 38,069        |
| <b>Total service provider commitments</b>          | <b>60,910</b> | <b>87,339</b> |
| <b>Capital commitments approved and contracted</b> | <b>–</b>      | <b>–</b>      |
| <b>Total commitments</b>                           | <b>64,028</b> | <b>89,123</b> |

## Notes to the financial statements

### 1. Property, plant and equipment

|                           | Cost<br>\$000 | Current<br>depreciation<br>\$000 | Accumulated<br>depreciation<br>\$000 | Net book<br>value<br>\$000 |
|---------------------------|---------------|----------------------------------|--------------------------------------|----------------------------|
| <b>2006</b>               |               |                                  |                                      |                            |
| Leasehold improvements    | 436           | 38                               | 144                                  | 292                        |
| Computer hardware         | 348           | 106                              | 157                                  | 191                        |
| Furniture and fittings    | 182           | 31                               | 63                                   | 119                        |
| Office equipment          | 91            | 15                               | 28                                   | 63                         |
| Computer software         | 288           | 81                               | 122                                  | 166                        |
| Leased assets             | 63            | 13                               | 23                                   | 40                         |
| <b>Total fixed assets</b> | <b>1,408</b>  | <b>284</b>                       | <b>537</b>                           | <b>871</b>                 |
| <b>2005</b>               |               |                                  |                                      |                            |
| Leasehold improvements    | 139           | 69                               | 106                                  | 33                         |
| Computer hardware         | 166           | 48                               | 58                                   | 108                        |
| Furniture and fittings    | 147           | 25                               | 32                                   | 115                        |
| Office equipment          | 70            | 11                               | 13                                   | 57                         |
| Computer software         | 198           | 40                               | 40                                   | 158                        |
| Leased assets             | 63            | 9                                | 10                                   | 53                         |
| <b>Total fixed assets</b> | <b>783</b>    | <b>202</b>                       | <b>259</b>                           | <b>524</b>                 |

### 2. Payables

|                                      | 2006<br>\$000 | 2005<br>\$000 |
|--------------------------------------|---------------|---------------|
| Crown creditor—appropriation surplus | 4,596         | —             |
| Crown debtor—spot revenue            | (675)         | —             |
| Service providers                    | 2,749         | 2,810         |
| Market support                       | 257           | 344           |
| Whirinaki contract payments          | 5,943         | 3,692         |
| Other creditors and accruals         | 1,707         | 1,516         |
| <b>Total payables</b>                | <b>14,577</b> | <b>8,362</b>  |

### 3. GST payable

|                       | 2006<br>\$000 | 2005<br>\$000 |
|-----------------------|---------------|---------------|
| Levy                  | —             | 1,016         |
| Commission operations | (576)         | 177           |
|                       | <b>(576)</b>  | <b>1,193</b>  |

## 4. Employee entitlements

|                                    | 2006<br>\$000 | 2005<br>\$000 |
|------------------------------------|---------------|---------------|
| Annual leave                       | 230           | 125           |
| <b>Total employee entitlements</b> | <b>230</b>    | <b>125</b>    |

## 5. Levy debtors and levies payable to the Crown

Since 1 July 2005, Electricity Commission levies have been collected in a bank account in the name of the Crown. Accordingly, all assets and liabilities associated with the collection of the levy are now accounted for in the Crown financial statements. The Commission acts as an agent of the Crown for collection purposes, but the levy bank account, levy debtors and levies payable to the Crown are no longer included in these financial statements.

## 6. Distribution to levy payers

The distribution to levy payers of \$2.919 million is equal to net revenue earned from the Whirinaki power station. (Note: the Commission may retain other earned revenue, and in the current financial year has elected to increase net equity by retaining the \$1.583 million of interest income and other revenue.)

The Commission anticipates a total refund to levy payers in the region of \$7.234 million (*see table below*). This represents net revenue from Whirinaki plus the difference between the estimated Commission expenditure used to set levy rates at the start of the year, and actual Commission expenditure as shown in the statement of financial performance.

|  |               |
|--|---------------|
| Whirinaki spot revenue                                   | 6,118         |
| Less Whirinaki fuel                                      | (3,199)       |
| <b>Commission distribution of surplus to levy payers</b> | <b>2,919</b>  |
| Total appropriations                                     | 81,403        |
| Less appropriations not levied *                         | (4,995)       |
| <b>Estimated expenditure used to set levy rates</b>      | <b>76,408</b> |
| Less actual expenditure (excluding Whirinaki fuel)       | (72,093)      |
| <b>Crown refund of levies to levy payers</b>             | <b>4,315</b>  |
| <b>Total repayment to levy payers **</b>                 | <b>7,234</b>  |

\* The levy rates estimated at the start of the year were calculated using an amount that was less than the full appropriation for security of supply, electricity efficiency and the litigation fund.

\*\* The repayment to levy payers may vary from this amount when the final reconciliation is completed.

## 7. Finance lease liabilities

|  | 2006<br>\$000 | 2005<br>\$000 |
|--|---------------|---------------|
| Not later than one year                            | 18            | 18            |
| Later than one year but not later than two years   | 17            | 18            |
| Later than two years but not later than five years | 20            | 37            |
|  | <b>55</b>     | <b>73</b>     |
| Future finance charges                             | (12)          | (18)          |
| Recognised as a liability                          | <b>43</b>     | <b>55</b>     |

The effective interest rate on the finance leases is eight per cent (2005: eight per cent). The finance leases are secured over the assets to which they relate.

## 8. Remuneration

| Salary band         | Number of employees |           |
|---------------------|---------------------|-----------|
|                     | 2006                | 2005      |
| \$100,000–\$109,999 | 4                   | 2         |
| \$110,000–\$119,999 | 4                   | 0         |
| \$120,000–\$129,999 | 1                   | 1         |
| \$130,000–\$139,999 | 0                   | 3         |
| \$140,000–\$149,999 | 4                   | 1         |
| \$150,000–\$159,999 | 2                   | 0         |
| \$160,000–\$169,999 | 2                   | 2         |
| \$170,000–\$179,999 | 1                   | 0         |
| \$200,000–\$209,999 | 0                   | 0         |
| \$220,000–\$229,999 | 1                   | 1         |
| \$230,000–\$239,999 | 0                   | 1         |
| \$240,000–\$249,999 | 1                   | 0         |
|                     | <b>20</b>           | <b>11</b> |

The general manager's annual remuneration and benefits are in the \$220,000–\$229,999 band (2004/05: \$220,000–\$229,999 band).

## 9. 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.

## 10. Financial instruments

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.

### Credit risk

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

In the normal course of business, the Commission incurs credit risk from financial institutions.

The Commission does not require collateral or other security to support financial instruments with credit risk, as the Commission deals with financial institutions that have high credit ratings. The Commission does not have significant concentrations of credit risk.

### Fair value

The fair value of all financial instruments is equivalent to the carrying amount disclosed in the statement of financial position.

### Currency and interest rate risk

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

Interest rate risk is the risk that the Commission's return on any funds it has invested and the cost of borrowed funds will fluctuate due to changes in market interest rates. Under the *Public Finance Act 1989*, the Commission cannot raise a loan without ministerial approval. No such loans exist, therefore, there is no interest-rate exposure.

## 11. Post-balance date events

No significant events, which would materially affect the financial statements, have occurred between 30 June 2006 and the date of signing the financial statements.

## 12. Fees

The following fees were paid to Commission members.

|                                 | 2006<br>\$000 | 2005<br>\$000 |
|---------------------------------|---------------|---------------|
| L H Hemmingway                  | 300           | 300           |
| D C Close                       | 91            | 95            |
| D G Dell                        | 77            | 100           |
| P S Harris                      | 73            | 88            |
| G C Pinnell                     | 118           | 137           |
| C B Southey (resigned May 2005) | –             | 132           |
|                                 | <b>659</b>    | <b>852</b>    |

The Commission has taken insurance cover for Commissioners and employees for personal loss caused by wrongful acts in the course of their duties. The Commission has also taken insurance cover for personal accident and travel risk for Commissioners and employees where injury or loss occurs while on Commission business.



### 13. Reconciliation of net operating surplus to net cash flows

|  | 2006<br>\$000 | 2005<br>\$000 |
|--|---------------|---------------|
| <b>Net operating surplus</b>                   | <b>1,583</b>  | <b>–</b>      |
| <i>Add non-cash items</i>                      |               |               |
| Depreciation                                   | 284           | 202           |
| Increase in employee entitlements              | 105           | 92            |
| Repayments to levy payers                      | 2,919         | 5,476         |
| Increase (decrease) in Crown creditor          | –             | (1,842)       |
| <b>Total non-cash items</b>                    | <b>3,308</b>  | <b>3,928</b>  |
| <i>Add movements in working capital items</i>  |               |               |
| (Increase) decrease in debtors and prepayments | 100           | (133)         |
| Increase (decrease) in payables and accruals   | 6,215         | 4,453         |
| Increase (decrease) in GST on operations       | (1,769)       | (435)         |
| <b>Net working capital movements</b>           | <b>4,546</b>  | <b>3,885</b>  |
| <b>Net cash flow from operating activities</b> | <b>9,437</b>  | <b>7,813</b>  |

### 14. Major budget variances

#### Statement of financial performance

##### Revenue

Crown revenue utilised was less than appropriation in the areas of security of supply, electricity efficiency and governance.

- Security of supply (\$5.598 million below budget)—the annual appropriation was determined prior to finalisation of the Whirinaki contract, and contract costs are not as high as the appropriation.
- Electricity efficiency (\$7.398 million below budget)—pilot programmes have taken longer to implement than anticipated due to the commercial nature of negotiations and a collaborative approach to funding. Future commitments under existing contracts total \$0.850 million as at 30 June 2006, with a further \$0.450 million approved for the electricity efficiency potentials study. The Commission recently expanded the pilot compact fluorescent lamp (CFL) programmes from a regional to a national level, with up to \$3.200 million available for the national programme to 30 June 2007.
- Governance (\$1.256 million below budget)—this relates mainly to service provider contracts.

The Commission earned \$6.118 million of spot revenue from the sale of electricity generated by the Whirinaki power station. Spot revenue is offset by the cost of the fuel required for generation (\$3.199 million) giving a net surplus of \$2.919 million from the operation of the Whirinaki power station.

The Commission earned \$1.583 million of interest income due to high cash balances (*see comments below in relation to the statement of financial position*).

##### Expenditure

Expenditure was under budget in the areas of security of supply under the Whirinaki contract and electricity efficiency.

### Statement of financial position

The Commission's cash holdings are higher than budget at year end. This is due to a number of large payables and accruals, particularly in relation to Whirinaki and service provider contracts (*see note 2*), combined with the surplus from net spot revenue and interest income.

## Statement of significant underlying assumptions

These financial statements have been compiled on the basis of Government policies at the time the statements were finalised. These financial statements comply with generally accepted accounting practice, and have been prepared on a going-concern basis.

## Statement of accounting policies

### Reporting entity

The Electricity Commission is a Crown agency in terms of the *Public Finance Act 1989*.

These financial statements have been prepared in accordance with the *Public Finance Act 1989*.

### Measurement system

These financial statements have been prepared on an historical-cost basis.

### Particular accounting policies

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

#### a) Budget

The budget figures are those approved by the Board at the beginning of the financial year. The same policies are used for budgets as for the actual amounts in these financial statements.

#### b) Receivables

Receivables are recorded at their expected realisable value, after providing for doubtful and uncollectable debts.

#### c) Property, plant and equipment

All fixed assets costing \$1,000 (excluding GST) or more are capitalised and recorded at historical cost.

#### d) Depreciation

Depreciation of fixed assets is provided on a straight-line basis, so as to allocate the depreciable amount of assets over their useful lives. The depreciable amount is the historical cost or revalued amount, less the residual value. The estimated useful lives are:

- computer equipment and software      3 years
- furniture and fittings                      5 years
- office equipment                              5 years

The cost of leasehold improvements is capitalised and depreciated over the unexpired period of the lease.

All assets are assumed to have no residual value.

Capital work in progress is recognised as costs are incurred. Depreciation is not recorded until the asset is fully operational.

#### e) Provision for employee entitlements

Provision is made in respect of the Commission's liability for annual leave. Annual leave is recognised as it accrues to employees at current rates of pay.

#### f) Taxation

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

#### g) Revenue recognition

Revenue is derived through the provision of outputs to the Crown, from services to third parties and from interest on deposits. Such revenue is recognised when earned, and is reported in the financial period to which it relates.

#### **h) Goods and services tax (GST)**

The statement of financial position is exclusive of GST, except for accounts payable and accounts receivable, which are GST inclusive. All other statements are GST exclusive.

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 (as appropriate).

#### **i) Leases**

Leases are classified as operating leases where the lessor retains all the risks and rewards incident to ownership. Operating-lease costs are accounted for as an operating expense over the period of the lease.

Leases are classified as finance leases where the risks and rewards incident to ownership are substantially transferred to the lessee. Finance leases are accounted for in accordance with the New Zealand Institute of Chartered Accountants' publication *Statement of Standard Accounting Practice No. 18* (SSAP18).

#### **j) Financial instruments**

The Commission is party to financial instruments as part of its normal operations. These financial instruments include bank accounts, short-term deposits, receivables and payables.

Except for those items covered by a separate accounting policy, all financial instruments are shown at their estimated fair value.

#### **k) Statement of cash flows**

The following are definitions of the terms used in the statement of cash flows:

- cash means coins, notes, current accounts and short-term deposits;
- investing activities are those activities relating to the acquisition and disposal of non-current assets;
- financing activities comprise changes in the capital structure; and
- operating activities include all transactions and other events that are not investing or financing activities.

### **Changes in accounting policies**

There have been no changes in accounting policy.

### **Impact of adopting New Zealand equivalents to international financial reporting standards**

The Commission will adopt the New Zealand equivalents to *International Financial Reporting Standards* (NZ IFRS) for the financial year commencing 1 July 2007. The Commission has reviewed the impact on its financial statements of adopting NZ IFRS and determined that the impact is unlikely to be significant. The key change is in the treatment of software assets. These are currently classified as fixed assets but will be reclassified as intangibles under NZ IFRS. This change has no financial impact.

## Statement of funding

### Electricity Commission funding

The Commission is funded by appropriations from Parliament, under Vote: Energy. The appropriations cover all the services and activities of the Commission.

Figure 1 on the following page shows the broad areas of the Commission's expenditure for 2005/06, which totalled \$75.292 million.

Budget and actual expenditure information is set out in more detail in the statement of financial performance on page 50 of this report.

Categories of expenditure covered in figure 1 on the following page, are:

**Service provider costs**—costs that cover agreements between the Commission and the companies that provide services to keep the electricity market operating. Service providers and their roles are listed in Part four of this report.

**Commission operations**—costs incurred in the operation of the Commission. These include rent, overheads, staff costs, Board costs and professional advice.

**Electricity efficiency**—costs of pilot programmes and research, such as the electricity efficiency potentials study.

**Security of supply costs**—predominantly costs of the Commission's contract with the Crown for the Whirinaki power station. This also includes the cost of tendering for reserve energy, if needed.

### Electricity Commission levy

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.

Before the establishment of the Commission in September 2003, the industry paid for the operation of the electricity market under self-regulation. These costs amounted to about \$41 million in 2001. This sum did not include funding for security of supply or electricity efficiency programmes, which are now included in the Commission's responsibilities.

The various components of the Commission's funding are levied on different sectors of the electricity industry. The amount paid by an individual company will depend on the volume of activity for that company.

Electricity retailers recover their share by billing consumers. Some retailers choose to include the levy as an itemised charge on consumers' accounts, while others incorporate it within the overall price they charge consumers.

Allocation of the levy between electricity industry sectors, based on actual expenditure, is shown in figure 2 on the following page.

Figure 1: spending 2005/06

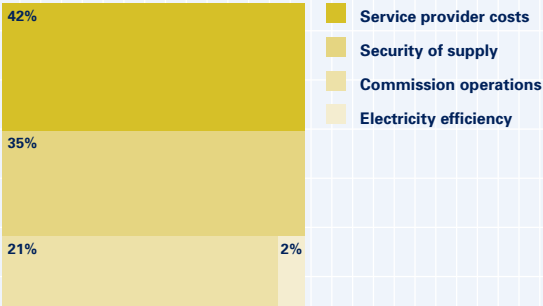
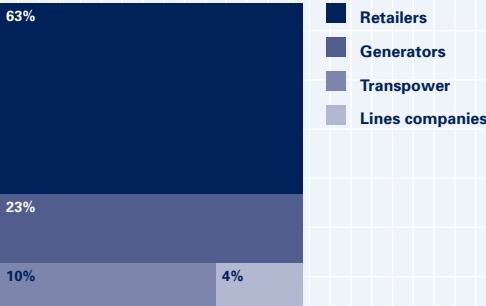


Figure 2: levy allocation 2005/06





## **Part three**

report against the *Government  
Policy Statement on Electricity  
Governance*



Section 172ZK of the *Electricity Act 1992* provides that the Minister of Energy must set objectives and outcomes to which the Government wants the Commission to give effect, and against which the Commission must report. The Government published the *Government Policy Statement on Electricity Governance* (GPS) on 13 October 2004. The table below provides a summary of the GPS requirements and reports on the Commission's progress against those requirements to 30 June 2006.

| ISSUE<br>AND GPS REFERENCE                            | GPS REQUIREMENT  | STATUS AND COMMISSION'S ACTIVITIES  |
|---|--|---|
| <b>Commission powers and approach</b>                 |  |   |
| Information availability.<br><i>GPS paragraph 10.</i> | Publish high-quality information to support decision-making by market participants and to facilitate informed public debate. | <p><b>A significant number of key deliverables completed. Ongoing refinement and development.</b></p> <p>In July 2005, the Commission published the first version of its <i>Centralised Dataset</i> in DVD format. An update was published in July 2006. The purpose of the <i>Centralised Dataset</i> is to support efficient planning processes by ensuring the collection and maintenance of historical information required to make decisions on transmission and transmission alternatives. It includes:</p> <ul style="list-style-type: none"> <li>• half-hourly metering and market data;</li> <li>• hydrology data; and</li> <li>• network-configuration data.</li> </ul> <p>Substantial work is underway to add generator modelling data to update the <i>Centralised Dataset</i>.</p> <p>The Commission has also published the following:</p> <ul style="list-style-type: none"> <li>• national-demand forecasts;</li> <li>• regional-demand forecasts;</li> <li>• econometric model it uses to calculate the forecasts; and</li> <li>• security of supply information.</li> </ul> <p>In 2005/06 grid upgrade plan work included the development of economic and power systems models, and publication of the results of the models.</p> <p>During 2005/06, work also commenced on:</p> <ul style="list-style-type: none"> <li>• a 'dashboard' for publication of key retail market indicators;</li> <li>• a project to consider improving access to real-time wholesale market-related information; and</li> <li>• a means of providing information back to the industry from the compliance programme.</li> </ul> |

| ISSUE<br>AND GPS REFERENCE   | GPS REQUIREMENT   | STATUS AND COMMISSION'S ACTIVITIES  |
|--|---|---|
| Administration of Regulations and Rules.<br><i>GPS paragraph 11.</i> | Monitor and enforce compliance.   | <p><b>Establishment completed, ongoing refinement.</b></p> <p>The Commission has established its market compliance operations. A sub-committee of the Board (EGR Committee) has delegated authority from the Board to make certain decisions on alleged rule breaches, on its behalf. The Board can, and does, lay complaints with the Rulings Panel about alleged rule breaches. The Rulings Panel has power to make various orders, including requiring compensation to be paid.</p> <p>The market compliance team is fully operational and completed work on 200 notified breaches in the 2005/06 year. Further initiatives are underway to improve effectiveness of the compliance process and to ensure that the industry benefits fully from the lessons learned from investigations.</p> |
| <b>Consumer protection</b>   |   |   |
| Domestic consumer contracts.<br><i>GPS paragraphs 12–14.</i>         | Develop model domestic consumer contracts. Monitor uptake of the model contracts and recommend regulation if necessary. | <p><b>Development completed, monitoring underway.</b></p> <p>The Commission has published model retail contracts. In August 2005, it published an 'interposed' contract (most retailers have 'interposed' arrangements, ie distribution businesses (lines companies) contract with retailers and retailers contract with consumers).</p> <p>Two 'conveyance'-related contracts (where the retailer and distributor each contract separately with the consumer) were published in October 2005. These are referred to as the 'electricity only' and 'delivery only' model contracts.</p>   |
| Low fixed charges.<br><i>GPS paragraphs 15–17.</i>                   | Monitor compliance with and enforce regulations.  | <p><b>Development completed, monitoring underway.</b></p> <p>The <i>Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004</i> came into force on 1 October 2004. Initial monitoring of compliance established that all retailers and distributors provided the information required by the Regulations, and all have compliant tariff regimes except in some minor respects. The Commission monitors and enforces ongoing compliance with the Regulations.</p>   |

| ISSUE<br>AND GPS REFERENCE   | GPS REQUIREMENT   | STATUS AND COMMISSION'S ACTIVITIES   |
|--|---|--|
| <b>Consumer protection</b>   |   |  |
| Low-income consumers arrangements.<br><i>GPS paragraphs 18–19.</i> | Develop appropriate arrangements to ensure options are available to low-income consumers. | <p><b>Development completed, monitoring underway.</b></p> <p>The Commission published the <i>Guidelines on Arrangements to Assist Low-Income Domestic Consumers</i> in November 2005.</p> <p>Arising from this work, a retailer-social agency protocol working group, facilitated by the Commission, was established to look at improvement of communication between retailers and social agencies, to limit the number of disconnections in situations where consumers genuinely cannot pay for their electricity. A protocol has been developed between the electricity industry and social agencies. Work and Income New Zealand is working with retailers to set up pilot programmes to ensure effective liaison between its regions, social agencies and electricity retailers.</p> |
| Retailer insolvency.<br><i>GPS paragraph 20.</i>                   | Ensure arrangements are in place.   | <p><b>Under development.</b></p> <p>The Commission had expected to publish a consultation document early in 2006 covering arrangements for transitioning consumers in the event that a retailer becomes insolvent. However, this work has been rescheduled as a result of analysis indicating a need to develop appropriate statutory powers. Insolvency is only one of the potential adverse scenarios that need to be addressed. A discussion paper was prepared for Board consideration on alternative options to achieve the outcomes sought. As a result, the Board will seek a change in the GPS.</p>  |

| ISSUE<br>AND GPS REFERENCE  | GPS REQUIREMENT  | STATUS AND COMMISSION'S ACTIVITIES  |
|---|--|---|
| <p>Consumer complaints.<br/><i>GPS paragraphs 21–24.</i></p>          | <p>Ensure a quality complaints system is in place.</p> | <p><b>Under development.</b></p> <p>Section 158G of the <i>Electricity Act 1992</i> requires every retailer and distributor to participate in an approved complaints-resolution system (covering consumers, potential consumers and owners and occupiers of land), once the Commission has approved one or more such systems. The Commission is able to recommend regulations pursuant to section 172D(1)(27), if necessary, to establish one or more complaints-resolution systems and to require participation.</p> <p>The Commission expected to approve one or more complaints-resolution systems by February 2006.</p> <p>The Electricity and Gas Complaints Commission has yet to formally apply for approval by the Electricity Commission under section 158G. The Commission has received separate applications from Bay of Plenty Electricity and King Country Energy for approval of their retailer-only complaints resolution schemes.</p> <p>As a result, there was a delay from the expected timetable. A consultation document was prepared on proposed benchmarks to be used by the Commission in determining applications. Completion is expected in 2006/07.</p> |
| <b>Electricity efficiency</b>   |  |   |
| <p>Electricity efficiency potential.<br/><i>GPS paragraph 26.</i></p> | <p>Undertake a joint review with EECA.</p>             | <p><b>Under development.</b></p> <p>A report has been commissioned on the potential to reduce electricity use and peak electricity demand through electricity efficiency and load management. This work is being carried out in co-ordination with the <i>National Energy Efficiency and Conservation Strategy</i> (NEECS) led by EECA. KEMA Incorporated, a US-based consultancy with extensive experience in this field, has been commissioned to carry out the study. The potentials study is due to be completed by February 2007.</p>  |

| ISSUE<br>AND GPS REFERENCE  | GPS REQUIREMENT   | STATUS AND COMMISSION'S ACTIVITIES  |
|---|---|---|
| <b>Electricity efficiency</b>   |   |   |
| <p>Promote electricity efficiency.</p> <p><i>GPS paragraphs 27–33.</i></p>          | <p>Establish programmes to promote electricity efficiency in:</p> <ul style="list-style-type: none"> <li>• generation;</li> <li>• wholesale market (including DSM);</li> <li>• conveyance; and</li> <li>• end use.</li> </ul> | <p><b>Ongoing.</b></p> <p>Electricity efficiency pilot programmes—during the first half of 2005 the Commission implemented electricity efficiency pilot programmes with six programme providers. The programmes are geographically spread and traverse industrial, commercial and residential sectors of the economy. Evaluation is taking place on pilot programmes as they are completed.</p> <p>The Commission is expanding the pilot projects.</p> <p>Two regional CFL pilot programmes have been completed. The Commission has subsequently contracted a number of partners for a nation-wide CFL programme, which is now underway.</p> <p>Pilot programmes in the industrial and air-compressor sectors are due for completion in the first quarter of 2006/07. Consideration will be given to expanding the air-compressor and industrial programmes in 2006/07.</p> <p><b>Load management and metering technology</b>—the Commission has initiated a project on load management and metering technology. This is expected to facilitate improved demand-management outcomes and the introduction of new technologies. During 2005/06, the Commission held a workshop for small to medium enterprises in Auckland, and held two meetings of the Existing Capability Working Group.</p> <p><b>Demand bidding</b>—the Commission is working towards developing rule changes to rationalise the demand-bidding process and to improve demand forecasting.</p> |
| <p>Memorandum of understanding (MOU) with EECA.</p> <p><i>GPS paragraph 34.</i></p> | <p>Agree a MOU with EECA.</p>   | <p><b>Completed.</b></p> <p>The Commission signed a MOU with EECA in August 2005.</p>   |



| ISSUE<br>AND GPS REFERENCE  | GPS REQUIREMENT   | STATUS AND COMMISSION'S ACTIVITIES  |
|---|---|---|
| <b>Security of supply</b>   |   |   |
| <p>Publish and monitor security information.</p> <p><i>GPS paragraphs 38–40, 43–45, 70.</i></p> | <p>Publish information, including a minimum-hydro zone, and monitor security of supply.</p> | <p><b>Ongoing.</b></p> <p>The Commission publishes security of supply information on its website, including a minimum hydro zone (minzone) and regularly updates assessments of risk to security of supply. The Board receives regular reports on security levels. The minzone model is updated periodically, based on information from the industry, in particular about timing of major maintenance and new capacity coming online.</p>   |
| <p>Contract reserve energy as required.</p> <p><i>GPS paragraphs 47–59.</i></p>                 | <p>Carry out an analysis of reserve energy needs, and enter appropriate contracts.</p>      | <p><b>Development stage completed, ongoing review and updates.</b></p> <p>In July 2003, the Crown announced it would build a new 155MW power plant to increase electricity security. That plant was built at Whirinaki in Hawke's Bay in time to provide reserve generation by winter 2004. The Commission includes this plant in its portfolio of reserve energy.</p> <p>In March 2005, the Commission concluded a reserve-generation capacity agreement with the Crown for the output of the Whirinaki plant. The agreement came into effect on 1 April 2005 and is available on the Commission's website.</p> <p>The Commission periodically assesses the need for additional reserve energy (ie additional to the Whirinaki plant) over coming years. No additional reserve energy has been sought to date. In 2005/06, the review of reserve energy needs for 2006 and the initial analysis of needs for 2007–2009 were concluded. The review of needs for 2007 and initial analysis of needs for 2008–2010 have commenced.</p> <p>The Commission's approach to reserve energy needs assessments is outlined in its <i>Initial Security of Supply Policy</i>, published on 22 June 2005.</p> |

| ISSUE<br>AND GPS REFERENCE   | GPS REQUIREMENT  | STATUS AND COMMISSION'S ACTIVITIES  |
|--|--|---|
| <b>Security of supply</b>  |  |   |
| <p>Publish <i>Security of Supply Policy</i>.</p> <p>GPS paragraphs 41–64, 72–74.</p> | <p>Publish a policy or recommend regulations and rules covering:</p> <ul style="list-style-type: none"> <li>• emergency measures (including provision for a conservation campaign, and managing non-dry year risks);</li> <li>• reserve energy procurement;</li> <li>• trigger mechanism for reserve energy; and</li> <li>• managing conflicts of interest.</li> </ul> | <p><b>Development stage completed, ongoing review and updates.</b></p> <p>The Commission published an <i>Initial Security of Supply Policy</i> in June 2005. This policy covers further definition of the one-in-60 dry year security standard, the broad approach to monitoring security of supply, providing information, establishing an emergency zone, assessing the need for reserve energy, triggering the use of contracted reserve energy and managing conflicts of interest.</p> <p>The Commission finalised the offer strategy for the Whirinaki reserve generation plant in April 2005.</p> <p>The Commission is developing an interim emergency-response plan, focusing on rolling-supply cuts during a security of supply emergency. Hot water heating cuts were considered and it was determined that savings were not available. This work has led to development of rolling-cuts regulations, which are expected to be consulted on in August 2006 and gazetted by January 2007.</p> <p>The Commission decided against tendering for reserve energy for 2006 as it is expected that the commissioning of e3p at Huntly will meet 2007 demand growth.</p> |
| <p>Review <i>Reserve Energy Policy</i>.</p> <p>GPS paragraphs 65–67, 71.</p>         | <p>Carry out a review of the <i>Reserve Energy Policy</i>.</p>   | <p><b>Initiated.</b></p> <p>The Commission initiated a review of the efficiency and effectiveness of the <i>Reserve Energy Policy</i> in 2005/06. The review was expected to be completed by December 2006, with recommendations to the Minister of Energy by March 2007. However, the announcement of the development of a New Zealand energy strategy is likely to result in a delay in this review, to ensure the policy is appropriately aligned with the new strategy.</p> <p>Accordingly, in September 2006, the Minister of Energy agreed to revise the timetable for completion of the review to 31 March 2007. Recommendations are to be provided to the Minister by 30 June 2007.</p>   |

| ISSUE<br>AND GPS REFERENCE  | GPS REQUIREMENT   | STATUS AND COMMISSION'S ACTIVITIES   |
|---|---|--|
| <b>System operation and wholesale</b>   |   |  |
| <p>Common quality and system operation, and wholesale market.</p> <p><i>GPS paragraph 75.</i></p> | <p>Improve rules relating to system operation, common quality and the wholesale market.</p> | <p><b>Initial development completed, projects identified annually, ongoing component of work.</b></p> <p>The Commission has established systems to receive proposals for rule changes, and to prioritise work to develop amendments to the Regulations and Rules.</p> <p><b>Tactical wind project</b>—during 2005/06, analysis was completed of lower North Island wind generation data to identify immediate rule changes required to parts C or G of the Rules. An initial report was published in February 2006. A consultation paper is being developed and consultation is expected to take place on rule-change proposals within the 2006 calendar year.</p> <p><b>Strategic wind project</b>—an investigation project is also being carried out to facilitate optimal integration of wind generation in the long term. A project plan was completed in 2005/06. The Commission completed a second consultation stage (for the development of a number of wind-generation installation scenarios). Analysis is continuing of impacts of agreed scenarios of increased volumes of wind generation on the system and the market. The report on impacts is expected by end of the 2006 calendar year.</p> <p><b>System operation</b>—each year, the Commission recommends an amended procurement plan for ancillary services (the most recent change was gazetted on 25 August 2005, with consultation closing on the draft 2006 plan on 20 July 2006) and an amended system operator policy statement (the most recent change was gazetted on 14 July 2005). Consultation closed on the draft 2006 policy on 22 May 2006 and gazetting took place on 20 July 2006.</p> |

| ISSUE<br>AND GPS REFERENCE  | GPS REQUIREMENT  | STATUS AND COMMISSION'S ACTIVITIES   |
|---|--|--|
| <b>System operation and wholesale</b>   |  |  |
| Hedge market transparency and liquidity improvements.<br><i>GPS paragraphs 76–77.</i> | Develop the energy hedge market and improve access to robust forward prices. | <b>Under development.</b><br>The Commission carried out market research on hedge market issues, and is considering high-level market design issues (including hedge market issues) to improve the market operation. The Commission received a presentation and summary report from a commissioned market-research company on the results of its in-depth interviews with industry participants about hedge market issues. Independent advice, sought and considered by the Hedge Market Development Steering Group, has identified two options for consultation. The Commission expects to publish a hedge market issues and options consultation paper by September 2006. |
| Transmission hedge development.<br><i>GPS paragraph 78, and Appendix One.</i>         | Develop financial transmission rights.                                       | <b>Under development.</b><br>The Commission is considering transmission hedge issues as it develops a work programme covering high-level market design issues. Transmission hedge issues will also be considered in the hedge market issues and options consultation paper.  |

| ISSUE<br>AND GPS REFERENCE   | GPS REQUIREMENT   | STATUS AND COMMISSION'S ACTIVITIES  |
|--|---|---|
| <b>Transmission</b>  |   |   |
| <p>Grid standards.<br/><i>GPS paragraphs 81–85.</i></p>                      | <p>Develop <i>Grid Reliability Standards</i>.</p> <p>Develop benchmark transmission agreements.</p> | <p><b>Grid reliability standards—completed</b>—rule changes introducing new grid reliability standards were gazetted on 14 April 2005 and came into force on 13 May 2005. The core-grid determination, which completes the <i>Grid Reliability Standards</i> framework, was finalised in December 2005, gazetted in January 2006 and came into force on 16 February 2006.</p> <p><b>Benchmark transmission agreements—under development</b>—in September 2004, the Commission carried out preliminary consultation on the structure of transmission agreements and the counterparties for those agreements. High-level policy options on the scope and content of the agreements were consulted on in April 2005. The Commission published draft benchmark agreements for consultation on 19 May 2006. Parties sought further consultation on this and related issues.</p> <p>The Commission expected to finalise benchmark transmission agreements by September 2006. However, preparation of agreements involves consideration of complex technical, legal and commercial issues to be worked through with the industry.</p> <p>As part of work on the benchmark transmission agreements, the Commission has identified a number of areas of work to be assessed, and may result in related proposals for regulation and/or rule changes. These include:</p> <ul style="list-style-type: none"> <li>• interconnection rules;</li> <li>• outage protocol; and</li> <li>• connection code.</li> </ul> |
| <p><i>Statement of Opportunities (SOO).</i><br/><i>GPS paragraph 86.</i></p> | <p>Prepare a SOO at least every two years.</p>  | <p><b>Ongoing.</b></p> <p>The Commission published an <i>Initial Statement of Opportunities</i> (Initial SOO) on 8 July 2005. A draft version of the second SOO is expected to be published by March 2007, and a final publication by July 2007. The Commission held a workshop with industry participants in November 2005 about the Initial SOO and its approach to the next SOO. The Commission will consult with industry participants about the <i>Grid Planning Assumptions</i> before undertaking the detailed analysis required for the next SOO.</p>   |

| ISSUE<br>AND GPS REFERENCE   | GPS REQUIREMENT  | STATUS AND COMMISSION'S ACTIVITIES   |
|--|--|--|
| <b>Transmission</b>  |  |  |
| <p>Grid upgrade decisions.</p> <p><i>GPS paragraphs 87–89.</i></p> | <p>Make a decision on approval of Transpower's grid investment proposals including consideration of transmission alternatives.</p> | <p><b>Ongoing.</b></p> <p>Under the provisions of part F of the Rules, on 23 May 2005, the Commission requested that Transpower prepare a grid upgrade plan (GUP). The Commission subsequently agreed that Transpower should submit the GUP on or before 30 September 2005.</p> <p>On 31 May 2005, Transpower submitted to the Commission, under transitional provisions relating to interim grid expenditure under part F of the Rules, an investment proposal comprising a 400kV transmission line between Whakamaru and Otahuhu. In July 2005, the Commission declined this proposal under the transitional provisions, but invited Transpower to apply for interim grid expenditure for preparatory work for this project.</p> <p>Transpower submitted the GUP at the end of September 2005 and, among other things, it contained a proposal for a 400kV transmission line from Whakamaru to Otahuhu.</p> <p>The Board released its draft decision not to approve the 400kV Whakamaru to Otahuhu proposal in April 2006. A significant programme of public consultation by the Commission was underway when Transpower withdrew its application in May 2006. Transpower indicated it would be submitting an amendment to its proposal at a later date.</p> |



| ISSUE<br>AND GPS REFERENCE   | GPS REQUIREMENT   | STATUS AND COMMISSION'S ACTIVITIES   |
|--|---|--|
| <p>Transmission pricing.</p> <p><i>GPS paragraphs 90–93.</i></p>                 | <p>Consult on and approve transmission pricing methodology, and mechanisms for encouraging transmission alternatives.</p> | <p><b>Under development.</b></p> <p><b>Transmission pricing methodology (TPM)</b>—the Commission published <i>Transmission Pricing Guidelines</i> in December 2004. In August 2005, the High Court ruled the Commission must re-consult on aspects of the <i>Transmission Pricing Guidelines</i>, insofar as they relate to the charging for the HVDC link. The Commission completed re-consultation and issued the <i>Transmission Pricing Guidelines</i> in March 2006. Transpower submitted a proposed <i>Transmission Pricing Methodology</i> and supplementary material on 23 June 2006.</p> <p><b>Transmission alternatives</b>—on 31 May 2005, the Commission published a consultation document on policy options to enable the consideration and provision of transmission alternatives. Submissions indicated these issues are highly controversial within the industry. The Commission published a summary of the submissions in December 2005 and sought cross-submissions. The Commission will carry out further analysis before deciding to proceed. Proposed changes to the GPS may have implications for this work.</p> |
| <b>Distribution</b>  |   |  |
| <p>Distribution agreements and pricing.</p> <p><i>GPS paragraphs 98–100.</i></p> | <p>Develop model distribution use-of-system agreements, and model approaches to distribution pricing.</p>                 | <p><b>Distribution use-of-system agreements—development completed</b>—the model <i>Distribution Use-of-System Agreements</i> were developed under MARIA<sup>7</sup> in 2002/03. The Commission published updated <i>Model Distribution Use-of-System Agreements</i> in December 2005.</p> <p><b>Distribution pricing methodology—development underway</b>—the development of a distribution pricing method has been rescheduled and will now commence late in the 2006/07 financial year.</p>  |

7 The Multilateral Metering and Reconciliation Information Agreement

| ISSUE<br>AND GPS REFERENCE  | GPS REQUIREMENT   | STATUS AND COMMISSION'S ACTIVITIES   |
|---|---|--|
| <b>Commerce Commission</b>  |   |  |
| Relationship with the Commerce Commission.<br><i>GPS paragraph 107.</i> | Develop a memorandum of understanding (MOU) with the Commerce Commission.       | <b>Completed.</b><br>The MOU was signed on 15 May 2006.<br><br>The Electricity Commission is communicating with the Commerce Commission, including regular meetings, to deliver the requirements of part F of the Rules (in particular the requirement upon the Commission to inform the Commerce Commission of its decisions on Transpower's proposed GUP and interim grid expenditure investments).  |
| <b>Distributed generation</b>   |   |  |
| Connection of distributed generation.<br><i>GPS paragraph 110.</i>      | Administer regulations for connection of distributed generation.                | <b>Ongoing.</b><br>The Ministry of Economic Development has responsibility for preparing regulations governing the connection of distributed generation to distribution networks. The regulations have not yet been promulgated.   |
| Sale of surplus generation.<br><i>GPS paragraphs 111–113.</i>           | Establish model arrangements to enable sale of surplus generation to retailers. | <b>Development completed, ongoing monitoring.</b><br>Model arrangements for retailers to purchase surplus generation from generation units owned or operated by consumers have been included in the <i>Model Domestic Consumer Contracts</i> . Retailers were advised the Commission expected them to offer these terms to consumers from 1 February 2006. This will be monitored and a review of the contracts will be carried out during the 2006/07 year. |

| ISSUE<br>AND GPS REFERENCE                                 | GPS REQUIREMENT   | STATUS AND COMMISSION'S ACTIVITIES   |
|--|---|--|
| <b>Retail</b>  |   |  |
| Retail competition.<br><i>GPS paragraphs 114, 118–120.</i> | Determine arrangements to promote and facilitate greater competition, eg metering and switching issues. | <p><b>Development work ongoing.</b></p> <p>The Commission is developing benchmark retail market activity indicators. Consultation was carried out in April 2006. A proposal for a 'dashboard' of indicators is expected late in the 2006 calendar year.</p> <p>Load management and reconciliation work, as set out in Part two of this report, also contributes to this GPS requirement.</p>   |
| Reconciliation.<br><i>GPS paragraph 117.</i>               | Determine arrangements to improve efficiency of distribution-loss processes.                            | <p><b>Development work ongoing.</b></p> <p>Reconciliation is the process by which the quantities of electricity bought and sold by each wholesale market participant are calculated.</p> <p>In February 2005, the Commission consulted on proposed amendments to the reconciliation-related rules. Workshops were held to discuss the proposals, in April 2005, and following extensive work by the Commission and working groups, a second series of workshops took place, with submissions closing on 21 February 2006. A workshop to assist participants to consider and understand the proposal was also held on 25 January 2006 in Wellington.</p> <p>The Commission expects to recommend new rules covering reconciliation, including a new part J of the Rules, by the end of the 2006 calendar year.</p> |



# **Part four** other information



## Organisational development during 2005–2006

Between its formation in September 2003 and early 2005, the challenge was to establish and develop the Commission as an organisation with the capacity and capabilities to be an effective and fair regulator. This was a significant challenge for a range of reasons, not least because the skills and experience needed as an organisation are also highly sought by the industry.

The Commission's establishment phase has been completed.

The Commission's Board is supported by a small professional team with an established organisational structure. The Commission draws on specialist consulting expertise as needed for particular projects.

An important part of management focus is on the development of a strong team atmosphere, enabling and encouraging debate and ensuring a results focus. As a result, staff are committed, understand the importance of their work and contribute strongly to high-quality work, albeit under demanding timeframes and circumstances.

### Financial management information system

A new financial management information system (FMIS) was implemented during 2005/06. During 2006/07 priority will be given to:

- ongoing refinement of monthly reporting within the Commission and to the Board;
- greater integration of business planning with financial budgeting;
- greater alignment of financial and project management policies; and
- integration of financial data to the project management system.

### Project management methodology

A significant proportion of the Commission's workload is projects. Commission staff have a high degree of technical expertise and a range of experience in project management.

During 2005/06, the Commission began consolidating its project management capability and methodology. Almost half of the Commission's staff completed a project management training programme. The Commission plans to complete the development of a project management policy and the implementation of its project management IT system in 2006/07. Emphasis is to be placed on integrating the use of the IT system with the FMIS and ensuring that reporting processes are streamlined.

### Human resource systems and processes

The Commission has reviewed and updated its performance management processes and plans to implement a new performance management system and remuneration policy. Emphasis will be placed on ensuring these are working well and meeting the Commission's long-term requirements. The performance management system will also encompass professional development for the preparation of an assessment of training and development needs for 2007/08.

In 2005/06, work also commenced on a review of the Commission's health and safety policy. This will be completed in 2006/07. Other human resource systems to be revised and developed in 2006/07 are:

- employee assistance programmes;
- induction and orientation;
- recruitment;
- training; and
- code of conduct.

### Skills mix

The Commission currently uses a wide range of external advisers and assistance for its work. This is generally expertise that would not be economic to recruit and retain within the Commission. However, it is essential to ensure the Commission continues to have an appropriate mix of knowledge, skills and experience within its core staff over the long term.

The Commission has entered into preferred supplier arrangements with a number of providers to ensure it can draw on appropriately skilled resources, aligned with the requirements of its work programme.



## Risk management

The Commission identifies key risks that may affect its ability to perform its functions and to achieve its performance objectives on an ongoing and a project-by-project basis.

While the Commission has ensured policies and processes are in place to address key risks, it is working towards the development of an integrated risk-management framework including:

- business-continuity planning;
- pandemic planning;
- risk-management policy;
- risk-management framework;
- internal-audit framework;
- completing the introduction of the project management IT system to support project planning, and to enable the Commission to plan, execute and monitor projects with greater certainty; and
- engagement with stakeholders for planning purposes including initiating both strategic and operational consultation for 2007–2010 planning, starting in October 2006.

In addition, the Commission continues to be involved in facilitating industry pandemic planning. Terms of reference were approved for the establishment of a Board Risk and Audit Committee.

## Organisation information

### Commissioners

- Roy Hemmingway (chair)
- Peter Harris
- David Close
- Doug Dell
- Graham Pinnell

Further information about the Commissioners is available on the Commission's website at: <http://www.electricitycommission.govt.nz/aboutcommission/board/>

### Commission management team

- Mervyn English—general manager
- Ron Beatty—senior adviser retail
- Gari Bickers—senior adviser reserve energy
- Bruce Girdwood—senior adviser electricity efficiency
- John Gleadow—senior adviser transmission
- Kevin Lampen-Smith—chief financial officer
- Richard Norris—market governance manager
- David Pay—general counsel
- Darryl Renner—senior adviser system operations and common quality
- Bruce Smith—senior adviser forecasting and modelling
- Tim Street—senior adviser wholesale

### 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.

The Rulings Panel comprises five independent members as listed below:

- Neville Young (chair)
- John Isles
- John O'Sullivan

- Craig Taylor
- Gael Webster

Further information about the Rulings Panel is available on the Commission's website at:  
<http://www.electricitycommission.govt.nz/rulingsp/>

### Advisory and project groups

The *Government Policy Statement on Electricity Governance* (GPS) sets out the principal objectives and specific outcomes, and expectations for how the Commission should go about its work. The GPS requires the Commission, wherever possible, to make extensive use of advisory groups to develop industry arrangements and to make recommendations concerning the Regulations and Rules.

The Commission has appointed industry, consumer and independent representatives, in accordance with its charter, to its advisory groups. The groups provide a wide range of advice and input to the operation of the Regulations and Rules as well as to other policy and work programme matters. The Commission is evolving work practices to maximise the considerable value the groups can contribute.

The groups' various responsibilities and functions include the following:

- considering and advising on the Commission's work programme and strategic direction;
- advising on proposed regulation and rule changes, including all practicable alternatives and the relative cost-benefit trade-off of each alternative;
- providing technical advice and industry expertise in the preparation of outputs such as:
  - system operator policy statement;
  - system operator procurement plan;
  - grid investment test;
  - grid reliability standards;
  - grid planning assumptions;
  - statements of opportunities;
  - transmission alternatives; and
  - transmission pricing methodology;
- advising on the development of the retail, wholesale and hedge (energy and transmission) markets;

- advising on how the Commission may use reasonable endeavours to ensure security of supply in a one-in-60 dry year, without assuming any demand reduction from emergency campaigns, while minimising distortions to the normal operation of the electricity market; and
- providing general advice to the Commission on other matters raised.

The terms of reference for the advisory groups, working papers and minutes are on the Commission's website at:

<http://www.electricitycommission.govt.nz/advisorygroups>

The Commission also uses project teams and specialist consultants for specific tasks as required. Project teams include:

- wind generation investigation project—technical stakeholders group;
- code of practice D5 review panel;
- constraint issues group;
- load management existing capability working panel;
- model distribution review panel;
- reconciliation implementation project team;
- registry review project team;
- retail-social agency protocol working group; and
- standing data-formats group.

A lighting efficiency stakeholder group is being formed in conjunction with the Energy Efficiency and Conservation Authority (EECA) and the Lighting Council of New Zealand. The purpose of the group is to encourage and facilitate input into the development of an efficient lighting strategy from across the lighting industry and wider stakeholders. Nominations for this group were sought in June 2006.

Summary information about the wind generation investigation project—technical stakeholders group, is provided below. Information on all of the project-related teams is available on the Commission's website at:

<http://www.electricitycommission.govt.nz/advisorygroups/pjtteam>

## Advisory and project group members (as at 30 June 2006)

### Common Quality Advisory Group

The Common Quality Advisory Group provides the Commission with:

- advice on any common quality standards development;
- technical advice and expertise about the system operator policy statement and procurement plan;
- input to the review of common quality direction; and
- advice as requested on issues arising from the Commission's oversight of the common quality arrangements and system operation.

The members of the Common Quality Advisory Group are:

- Toby Stevenson (chair)
- Tim Chatterton (Vector)
- Bryan Leyland (consulting engineer)
- Terrence Currie (T C Associates)
- Chris Ewers (Meridian Energy)
- Adam Fletcher (Mighty River Power)
- John Clarke (Transpower—system operator)
- Nalin Pahalawaththa (Transpower—grid owner)

Darryl Renner, senior adviser system operations and common quality, is the Commission's representative on the group.

### Retail Market Advisory Group

The Retail Market Advisory Group:

- considers and develops rule-change proposals affecting parts B, D and E of the Rules; and
- provides comment as necessary to advisory groups whose work impacts on the operation of the retail market.

The members of the Retail Market Advisory Group are:

- Bill Heaps (chair)
- Keith Tempest (TrustPower)
- Rob Jamieson (Orion)
- John van Brink (Vector)

- Neil Barton (Federated Farmers)
- Peter Rutledge (Grey Power)
- Anne Herrington (Smart Power)
- John Pask (Business New Zealand)
- Cory Franklin (Contact Energy)

Ron Beatty, senior adviser retail, is the Commission's representative on the group.

### Security Advisory Group

The Security Advisory Group provides advice to the Commission about how it may use reasonable endeavours to ensure security of supply in a one-in-60 dry year. This is without assuming a demand reduction from emergency campaigns, while minimising distortions to the normal operation of the electricity market.

The members of the Security Advisory Group are:

- Peter Harris (chair)
- Duncan Head (Vector)
- Kevin Small (Transpower)
- Peter Kimber (Genesis Power)
- Simon Coates (Contact Energy)
- Michael Scotton (Comalco)
- John Noble (Grey Power)
- Barbara Elliston (Elliston Power Consultants)
- Ari Sargent (Meridian Energy)

Gari Bickers, senior adviser reserve energy, is the Commission's representative on the group.

### Transmission Advisory Group

The Transmission Advisory Group:

- considers and develops rule-change proposals affecting part F of the Rules; and
- provides comment as necessary to advisory groups whose work impacts on transmission.

The members of the Transmission Advisory Group are:

- Bill Heaps (interim chair)
- Bob Simpson (Transpower)
- Dick Whitelaw (New Zealand Steel)
- George Riddell (Business New Zealand)

- Malcolm Alexander (Genesis Energy)
- Michael Whaley (Powerco)
- Ralph Matthes (Major Electricity Users Group)
- Peter Calderwood (TrustPower)
- Tas Scott (Orion)
- Tim Densem (Mighty River Power)
- Tim George (Transpower)
- Clive Bull (Vector)

John Gleadow, senior adviser transmission, is the Commission's representative on the group.

#### **Transmission Pricing Advisory Group**

The Transmission Pricing Advisory Group:

- provides advice on the transmission pricing methodology proposed by Transpower;
- considers and develops rule-change proposals affecting sections IV and V of part F of the Rules; and
- provides comment as necessary to advisory groups whose work impacts on transmission pricing issues.

The members of the Transmission Pricing Advisory Group are:

- Carl Hansen (chair)
- Graeme Ancell (Transpower)
- Simon Coates (Contact Energy)
- Nevill Gluyas (Meridian Energy)
- Neil Williams (Mighty River Power)
- Duncan Head (Vector)
- Ray Deacon (Comalco)

John Gleadow, senior adviser transmission, is the Commission's representative on the group.

#### **Wholesale Market Advisory Group**

The Wholesale Market Advisory Group:

- considers and develops rule-change proposals affecting part G (trading, pricing, dispatch, wholesale reconciliation) and part H (settlement and security) of the Rules; and
- provides comment as necessary to advisory groups whose work impacts on the operation of the wholesale market.

The members of the Wholesale Market Advisory Group are:

- Bill Heaps (chair)
- Grant Sullivan (Meridian Energy)
- Therese Thorn (TrustPower)
- Doug Goodwin (Transpower)
- John Scott (consultant)
- Phil Gibson (Mighty River Power)
- Kit Wilson (King Country Energy)
- Graham Stairmand (Grey Power)
- Rod Boyt (Smart Power)

Tim Street, senior adviser wholesale, is the Commission's representative on the group.

#### **Hedge Market Development Steering Group**

The Hedge Market Development Steering Group:

- provides advice to the Commission on the implementation of a transparent and liquid electricity market; and
- provides comment as necessary to advisory groups on the operation of the electricity hedge market.

The members of the Hedge Market Steering Group are:

- Tony Baldwin (chair)
- Carl Daucher
- James Moulder
- Mark Trigg
- Paul McIver
- Ralph Matthes
- Russell Longuet

Tim Street, senior adviser wholesale, is the Commission's representative on the group.

#### **Wind Generation Investigation Project—Technical Stakeholders Group**

The Wind Generation Investigation Project—Technical Stakeholders Group (TSG) has been established under the Wind Generation Investigation Project (WGIP) with the role of reviewing the work of the project team. The WGIP is considering issues related to the integration of wind generation over the next five to ten years. TSG members have been

appointed for the full term of the WGIP, which is expected to be completed in late 2006.

The members of the TSG are:

- Bill Heaps (chair)
- James Glennie (Econnect Australia)
- John Galambos (Meridian Energy)
- John Woods (Contact Energy)
- Richard Spearman (TrustPower)
- Mark Pearce (consultant)

## Service providers

The Commission has contracted six service providers that operate under individual contracts as agreed with the Commission.

### Clearing manager—The Marketplace Company Ltd (M-co)

Monitors prudential security requirements, and invoices and settles electricity and ancillary service payments.

### Information system—The Marketplace Company Ltd (M-co)

The software system used to transfer information between participants, as required by the Rules, especially the uploading of bids and offers.

### Pricing manager—The Marketplace Company Ltd (M-co)

Calculates and publishes final prices.

### Reconciliation manager—Energy Market Services Ltd (EMS)

Facilitates the monthly reconciliation process and reconciles metering data against a register of contracts.

### Registry—Jade Direct NZ Ltd

Database that identifies every point of electricity connection, which enables electricity flows between retailers to be reconciled. The registry also informs retailers when a customer switches supplier.

## System operator—Transpower New Zealand Ltd

Schedules and dispatches electricity in a manner that avoids fluctuations in frequency or disruption of supply. The system operator is responsible for the real-time co-ordination of the electricity system. It instructs generators when to generate electricity and how much electricity to generate, ie it 'dispatches' generation, so that injections of electricity into the system match off-take by electricity users at each moment in time. Dispatch is largely determined by the outcome of the wholesale market, which identifies the least-cost pattern of dispatch given generators' competing supply offers, the level of demand and the available transmission capacity. The Commission's contract with Transpower, as the system operator, establishes arrangements to manage any potential conflict of interest that Transpower has arising from its ownership of transmission assets.

Further information about service providers is on the Commission's website at:  
<http://www.electricitycommission.govt.nz/opdev/servproinfo>

## Glossary

### Ancillary services

The system operator has contracts with generators, customers, retailers and distributors to provide ancillary services. Ancillary services comprise black start, over-frequency reserve, frequency-keeping (also known as frequency-regulating service), and instantaneous reserve or voltage support. The system operator obtains instantaneous reserve on a half-hourly basis through the market.

### Board

The Board of the Commission as provided for in section 172M of the *Electricity Act 1992*.

### Centralised dataset

A collection of data published by the Commission to support planning processes underlying decisions on transmission and transmission alternatives. The Commission retains information about transmission and transmission services, under section III of part F of the Rules.

### Common quality

Those elements of quality of electricity conveyed across the grid that cannot be isolated, technically or commercially, to an identifiable person or persons.

### Consumer

Any person or organisation supplied with electricity for consumption. A consumer may include a distributor, a retailer or a generator when supplied with electricity for consumption.

### Demand-side initiative

An initiative that encourages or facilitates electricity consumers to modify usage in a way that reduces consumption in a specific time period or shifts consumption from one time period to another.

### Demand-side management

Implementation of policies or measures designed to control or influence the demand for electricity.

### Distributor

A participant that owns or operates a local electricity network. For the purposes of parts D, E and G of the Rules, a distributor includes an embedded network owner. For the purposes of part C of the Rules, it includes consumers with a point of connection to the grid.

### Electricity Act 1992

The *Electricity Act 1992* (Act), as amended by later Acts, regulates the New Zealand electricity industry and provides the statutory framework for the Commission's operation. The 2001 and 2004 amendments of the Act (*Electricity Amendment Act 2001* and *Electricity Amendment Act 2004*) relate directly to the Commission and the *Electricity Governance Regulations 2003* (Regulations).

### Electricity Amendment Act 2004

The *Electricity Amendment Act 2004* was enacted in October 2004. It added to and clarified the Commission's responsibilities and authorities. The changes were a part of a package of Government policy announcements made at the time the Commission was formed.

### Electricity efficiencies potentials study

Also referred to as the potentials study, the study is being conducted by the Commission to investigate the following:

- how much cost-effective electricity efficiency resource is available across all sectors of the New Zealand economy, in terms of capacity reductions (MW) at peak times and total consumed electricity (MWh) by region, by sector, by end-use technology; and
- how might the Commission act prudently to realise cost-effective electricity efficiency improvements.

The study is being carried out in co-ordination with EECA and is due for completion by February 2007.

### Electricity and Gas Complaints Commission

The Office of the Electricity and Gas Complaints Commissioner is a separate organisation from the Electricity Commission. It provides electricity



consumers with a free and independent dispute-resolution service for complaints about their electricity lines or retail companies.

### **Electricity Governance Regulations 2003 and Electricity Governance Rules 2003**

The *Electricity Governance Regulations 2003* (Regulations) and the *Electricity Governance Rules 2003* (Rules) under which the electricity market has operated since 1 March 2004. The Regulations include provisions about service provider agreements, undesirable trading situations, rule breaches and exemptions, and the establishment and proceedings of the Rulings Panel. The Rules set out various Commission authorities and responsibilities to carry out market and system governance functions, as well as to make a number of decisions about Transpower and the transmission grid (part F of the Rules). The Rules (parts A, C, D, E, G, H and I) were approved by the Minister of Energy on 18 December 2003, and took effect during February and March 2004. Part F, dealing with transmission issues, came into force in May 2004.

### **Electricity Governance Rules Committee**

The Electricity Governance Rules Committee (EGR Committee) is a sub-committee of the Board. The EGR Committee addresses rule-breach matters internally, prior to Board decisions to submit to the external Rulings Panel.

### **Energy Efficiency and Conservation Authority**

The Energy Efficiency and Conservation Authority (EECA) is the organisation established under section 20 of the *Energy Efficiency and Conservation Act 2000*. It promotes energy efficiency, energy conservation and renewable energy.

### **Estimates of Appropriations**

The *Estimates of Appropriations* (Estimates) is the Government's formal budget document as released on budget day each year. It outlines funding and performance for all government entities for the year ahead. The Commission receives funding under Vote: Energy.

### **Financial transmission rights**

Financial transmission rights (FTRs) are a financial risk management product that protects against price risks arising from transmission losses and constraints.

### **Generator**

The owner of generating units connected to the grid or to a local network, or a person or organisation that acts, in respect of parts G and H of the Rules, on behalf of any owner of generating units. This includes embedded generators and intermittent generators.

### **Government Policy Statement on Electricity Governance**

The *Government Policy Statement on Electricity Governance* (GPS) is issued by the Minister of Energy and specifies the objectives and outcomes the Government wants the Commission to give effect to on the governance of the electricity industry, and against which the Commission must report and be examined accordingly. Authority for the GPS is provided by section 172ZK of the Act. The most recent GPS was published in October 2004. Proposed updates were released in August and September 2006.

### **Grid/National grid**

The grid, also referred to as the national grid, is the high-voltage electricity transmission network that transmits electricity throughout New Zealand. It is used to connect grid injection points and grid exit points to transmit electricity throughout the North Island and the South Island of New Zealand. The grid comprises more than 12,000km of transmission lines, including the HVDC link, and it connects major power generation stations to local distribution networks, operated by local lines companies and large industrial users. The grid is owned by state-owned company Transpower New Zealand Ltd.

### **Grid Upgrade Plan**

The *Grid Upgrade Plan* (GUP) is Transpower's plan for investments in grid upgrades, which must be provided to the Commission for review and approval.



### Hedge contract

A financial risk management product that protects against price risks associated with the spot price of electricity.

### High-voltage direct-current

The high-voltage direct-current (HVDC) transmission line that connects Haywards substation in the North Island with Benmore substation in the South Island.

### Intermittent generation

Generation for which the source is intermittent and not easily predicted, eg wind or wave generation.

### Ministry for the Environment

The Ministry for the Environment (MFE) is responsible for administration of the *Resource Management Act 1991*.

### Ministry of Economic Development

The Ministry of Economic Development (MED) is responsible for Vote: Energy, under which the Commission's appropriations are included as non-departmental output classes. The Ministry provides the Government with policy advice on energy matters.

### National Energy Efficiency and Conservation Strategy

The *National Energy Efficiency and Conservation Strategy* (NEECS) is a national strategy, for which development and implementation is led by EECA.

### One-in-60 dry year

A year in which there is a hydro drought of the severity that can be expected to occur every 60 years. The duration and timing of such an event will determine whether it has implications for security of supply.

### Participants

Participants are the industry-related groups or individuals who engage with the Commission including (*see meanings set out in the Regulations*):

- electricity retailers;
- electricity distributors;
- electricity generators;
- line owners;
- electricity consumers connected directly to the grid;
- purchasers of electricity from the clearing manager;
- service providers;
- metering equipment owners;
- ancillary service agents;
- data administrators; and
- payee generators, ancillary service agents and the system operator in relation to payment for ancillary service administrative costs.

### Regulations

The *Electricity Governance Regulations 2003* (Regulations) as amended from time to time in accordance with the *Electricity Act 1992*.

### Resource Management Act 1991

The *Resource Management Act 1991* (RMA) is the primary legislation relating to the use of land, air and water. The RMA provides the framework for planning by territorial local authorities. All development work, including the building of new generation and transmission infrastructure, requires approval under the RMA in accordance with plans approved by territorial local authorities. Applications are made to territorial local authorities and decisions of those authorities may be appealed to the Environment Court. The RMA is administered by the MFE.

### Retailer

A person/company that supplies/sells electricity to a consumer or to another retailer.

### Ring-fenced generation

Use of a generation plant or demand-side initiatives dedicated to providing reserve energy in a one-in-60 dry-year event.

## Rules

*Electricity Governance Rules 2003* (Rules) as amended from time to time in accordance with the *Electricity Act 1992*, including every schedule to the Rules, any code of practice, any technical code, and every amendment to, deletion of or addition to any of the Rules. The Rules are on the Commission's website.

## Rule breach

A rule breach occurs when a participant fails to meet its obligations under the Regulations and/or the Rules.

## Spot market

The buying and selling of wholesale electricity is done via a 'pool', where electricity generators offer electricity to the market and where retailers bid to buy the electricity. This market is called the spot or physical wholesale market.

## Statement of Intent

Published in accordance with part 4 of the *Crown Entities Act 2004*, the *Statement of Intent* (SOI) is the Commission's formal annual public accountability document, setting out its plans for one year in detail, and the next two years in more general terms. The SOI provides information on what the Commission will be doing to progress its principal objectives and outcomes as set out in the Act. The achievements against the SOI, as reported in the annual report, are audited by Audit New Zealand.

## Statement of Opportunities

The Commission publishes a *Statement of Opportunities* (SOO) for transmission and transmission alternatives, under section III of part F of the Rules and, except where the context otherwise requires, includes the *Initial Statement of Opportunities*. The Commission is required to publish a SOO at least every two years, to enable the identification of potential opportunities for efficient management of the grid, including investment in upgrades and transmission alternatives.

## System operations

The minute-by-minute (real-time) control and co-ordination of the grid including management of security, dispatch of generation and reserves, and control of voltage and frequency.

## System operator

The service provider responsible for scheduling and dispatching electricity in a manner that avoids fluctuations in frequency or disruption of supply.

## Undesirable trading situation

An undesirable trading situation (UTS) arises when there is a threat to orderly trading or settlement that cannot be resolved satisfactorily under the Rules. The Commission is able to investigate any potential UTS and can take certain actions, as it considers appropriate.

## Consultation papers during 2005–2006

- Notification of constraints, consultation closed 4 August 2006.
- Review of the offer and dispatch rules for co-generation plant, consultation closed 4 August 2006.
- Draft interconnection rules, consultation closed 2 August 2006.
- Draft benchmark agreement, consultation closed 31 July 2006.
- 2006 draft procurement plan, consultation closed 20 July 2006.
- Auckland CBD cable ducts—stage II application, consultation closed 18 July 2006.
- High spring-washer pricing, consultation closed 30 June 2006.
- Auckland 400kV grid investment proposal draft decision, consultation closed 23 June 2006.
- Centralised dataset, consultation closed 16 June 2006.
- Transmission grid system operator policy statement 2006, consultation closed 22 May 2006.
- Minor pricing and settlement rule changes, consultation closed 19 May 2006.
- Indicators of retail market activity in the New Zealand electricity market, consultation closed 28 April 2006.
- Instantaneous reserves pricing and dispatch, consultation closed 7 April 2006.

- Transmission alternatives policy issues, consultation closed 20 March 2006.
- Rule change 90—amendment to schedule D2 of part D (point of connection table), consultation closed 17 March 2006.
- Indications and measurements (technical code C), consultation closed 24 February 2006.
- Operational communications (technical code C), consultation closed 24 February 2006.
- Reconciliation rule-change proposal 62—second consultation, consultation closed 21 February 2006.
- 2007 reserve energy needs analysis, consultation closed 14 February 2006.
- Policy statement, procurement plan and system operator self-review timeline rule amendments, consultation closed 13 February 2006.
- Scenarios for the wind generation investigation project, consultation closed 9 February 2006.
- Grid development proposals, consultation closed 8 February 2006.
- Proposed funding programme for residential compact fluorescent lamps, consultation closed 3 February 2006.
- Grid upgrade plan approval process—rule-change proposal, consultation closed 2 February 2006.
- Appropriation consultation 2005/06, consultation closed 31 January 2006.
- Appropriation consultation 2006/07, consultation closed 31 January 2006.
- HVDC transmission pricing guidelines, consultation closed 27 January 2006.
- Auckland transmission alternatives short short-list, consultation closed 24 January 2006.
- Issues paper HVDC transmission pricing methodology, consultation closed 12 December 2005.
- Revised draft core grid determination October 2005, consultation closed 14 November 2005.
- Tactical transmission upgrades, consultation closed 28 October 2005.
- Changes to part G, consultation closed 14 October 2005.
- Water heating cuts as an emergency measure, consultation closed 7 October 2005.
- Clarification of rules relating to dispensations and exemptions from AUFLS requirements, consultation closed 30 September 2005.
- Discussion on guidelines for retail audits, consultation closed 19 September 2005.
- Operational communications (technical code C), consultation closed 26 August 2005.
- Rule change 21—discretion to extend time available to Transpower—transmission pricing methodology, consultation closed 19 August 2005.
- Whirinaki offer strategy, consultation closed 12 August 2005.
- Arrangements for the benefit of low-income consumers, consultation closed 8 August 2005.
- Information system definition amendment, consultation closed 15 July 2005.

## Rule changes completed during 2005–2006

- Revised policy statement—part C, gazetted 14 July 2005.
- Procurement plan 2005—part C, gazetted 25 August 2005.
- Transition of fully certified metering installations—part I, gazetted 24 November 2005.
- Core grid—part F, gazetted 19 January 2006.
- Part G offer rules—part G, gazetted 16 March 2006.
- Transmission grid system operator policy statement, procurement plan, self review—part C, gazetted 27 April 2006.











**Electricity Commission**

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