



Electricity Commission  
*Te Komihana Hiko*

Final Annual Report

1 July 2010 to 31 October 2010



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# **Report of the Electricity Commission**

*Te Komihana Hiko*

**For the period 1 July to 31 October 2010**

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

## **Purpose of this annual report**

This annual report is the Electricity Commission's formal report to Parliament on its results for the period 1 July to 31 October 2010.

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

This report is written as at 31 October 2010. However, it should be noted that the Electricity Industry Act 2010 dissolved the Electricity Commission on 31 October 2010, prior to the publication of this report. This report has been produced by the Electricity Authority (the Authority) under authority from the Minister of Finance in accordance with section 45J of the Public Finance Act 1989.

Further information about the Commission and its work is available from: [www.ea.govt.nz](http://www.ea.govt.nz)

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# Introduction

This is the final Annual Report for the Electricity Commission (the Commission) covering the period 1 July to 31 October 2010.

The Electricity Industry Act 2010 dissolved the Electricity Commission, transferring its functions to the Electricity Authority (Authority), Transpower New Zealand Limited (Transpower) as System Operator, the Commerce Commission, the Energy Efficiency and Conservation Authority (EECA), the Ministry of Consumer Affairs (MCA), and the Ministry of Economic Development (MED).

This report has been produced by the Electricity Authority under authority from the Minister of Finance in accordance with section 45J of the Public Finance Act 1989, hence the Statement of Responsibility has been signed by Authority members rather than the chair and a member of the Commission.

## Priority projects

The Commission has carried out work addressing almost all of the key matters set out in the Electricity Industry Act 2010, which have a high degree of congruence with the market development programme (MDP). We have also been monitoring industry developments in hedge markets. In addition, significant progress has been made on matters set out in the Minister of Energy and Resource's letter of expectations provided in February 2010.

Table 1 summarises progress in relation to key Government priorities covered by the Electricity Industry Act. Table 2 summarises progress for other key projects, including other MDP projects and expectations set out in the Minister's letter of expectations.

**Table 1: Progress on Electricity Industry Act new matters**

Project & Act section	Status
<b>Customer compensation scheme: s42(2)(a).</b> This scheme requires retailers to pay customers when a public conservation campaign (PCC) is called by the System Operator.	<p><b>On track for completion by 1 November 2011.</b></p> <p>Consultation has been completed on proposed Code changes.</p> <p>The Authority is expected to carry out further consultation over the December 2010 - January 2011 period.</p> <p>Code changes are expected to be implemented by 1 April 2011, in time for winter 2011.</p>
<b>Scarcity pricing: s42(2)(b).</b> Setting spot market prices during outages, PCCs and other scarcity situations.	<p><b>On track for completion by 1 November 2011.</b></p> <p>Options for an administered spot price during a conservation campaign or dry-year power cuts were discussed with industry at the May 2010 MDP conference. It is expected that this measure will come into effect and be fully implemented in time for winter 2012.</p>
<b>Locational price risk management: s42(2)(c).</b> Introduction of inter-island FTRs to assist parties to manage spot price risks created by transmission congestion.	<p><b>On track for completion by July 2011, to be implemented early 2012.</b></p> <p>A consultation paper on the introduction of a locational hedge, based on a two-hub inter-island financial transmission right (FTR), was released in September 2010. Consultation closed 22 October 2010. The submissions were published in November 2010.</p>
<b>Dispatchable demand (DD): s42(2)(d).</b> Improving the ability of demand-side participants to respond actively to wholesale electricity market conditions is an important component of an efficient wholesale market.	<p><b>On track for Code changes to be completed by 1 November 2011.</b></p> <p>Consultation has been completed on a proposal for a dispatchable demand regime. The objective is for Code changes to be completed by June 2011 and implementation to be completed by December 2011.</p>

Project & Act section	Status
<b>Demand-side bidding and forecasting (DSBF): s42(2)(d).</b> Making it easier for large electricity users to respond actively to wholesale market conditions.	<b>On track for Code changes to be completed by 1 November 2011.</b> The Code change proposal has been completed, but has not been made, pending finalisation of a cost and timetable for implementation due from the System Operator in December 2010.
<b>More standardised tariff structures and use of system agreements: s42(2)(e) and (f).</b> Work on two previous projects has been brought together to investigate standardisation issues. These include work on model use of system agreements (MUOSA) and distribution pricing principles.	<b>On track for completion by 1 November 2011.</b> Information gathering has taken place with retailers, distributors and consumers. An information paper on standardised lines company tariffs and contracts was released in advance of an industry workshop in September 2010. The Commission's work has been passed to the Authority to finalise the scope of work in this area. There is a need to determine a clear scope that addresses the Government policy expectations.
<b>Hedge market liquidity: s42(2)(g).</b> Addressing the Authority's role, complementary to industry led initiatives to improve the energy hedge market (such as the ASX establishing market making agreements with generators to stimulate liquidity within the derivatives market).	Market-led initiatives are being monitored.
<b>Future of Whirinaki.</b> This project is to determine whether Whirinaki should be removed from the Reserve Energy Scheme and, if it is, under what conditions.	Working with MED to facilitate the transfer.
<b>Facilitating and promoting customer switching</b>	The Commission initiated work on this new function for the Authority. Progress was made on a Joint strategy with MCA and is on track for finalisation by the Authority and MCA by December 2010. An RFP was issued for a baseline survey, which has subsequently been awarded by the Authority. The survey will also provide information that will feed in to programme design.

Table 2: Progress on other key projects

Project	Status
<b>Transmission pricing review</b>	Transmission pricing options were discussed with industry at the May 2010 MDP conference. An options consultation closed in September 2010. The Authority plans to review the timetable for this project.
<b>Smart meters, switching and development of smart networks</b>	Consultation on proposed Part 10 of the Electricity Industry Code guidelines for metering standards closed 30 September 2010. Finalised advanced metering infrastructure (AMI) guidelines are expected to be completed early in the 2011 calendar year.
<b>Next day publication of wholesale market bids and offers</b>	<b>Completed:</b> Rule change recommended 17 June and gazetted on 1 July 2010. The Rules came into force on 31 August 2010.
<b>Switching timeframes</b>	<b>Completed:</b> addressed as part of Part E, H & J rule changes that will be gazetted on 26 July 2010. Rule changes came fully into effect on 30 September 2010.
<b>Improving PowerSwitch</b>	<b>Completed:</b> PowerSwitch upgrade completed in September 2009.
<b>Monitoring and analysis of wholesale market data</b>	Being considered as part of a wider assessment of role and requirements in relation to industry monitoring and analysis for the Authority.
<b>Terms and conditions for small scale distributed generation</b>	Development was commenced on a scope and project plan to investigate mandatory terms and conditions for purchase by retailers of power from small-scale, distributed generation. The Authority expects to complete the scope and project plan by Christmas. The target is to have voluntary guidelines in place by June 2011, and Code changes (if required) by June 2012.

Project	Status
<b>Event management – extended load control</b>	The SO draft assessment of a modified compliance regime has been completed. The SO is currently not in agreement with the approach set out by the Commission. The Authority's intention is to work with the proposed Wholesale Advisory Group to pursue a way forward.
<b>Frequency regulation - multiple frequency keepers</b>	Draft detailed design discussed at technical stakeholder group in June 2010. Design stage initiated including addressing market integration and software specification. The SO has been contracted to complete a design proposal for a prototype system by 31 January 2011.

## Transmission investment approvals

The Commission approved a total of \$3.067 billion in transmission investment. In the first four months of 2010/11, \$307.2 million was approved (see table 3).

This function will be undertaken by the Commerce Commission from 1 November 2010.

**Table 3: Summary of grid upgrade applications and approvals in 2010/11**

Proposal	Amount	Result to 31 October 2010
Upper North Island dynamic reactive support investment proposal	\$110.2 m	<b>Approved:</b> Submitted 20 May 2010. Notice of intention to approve issued on 5 July 2010. No request was made for a public conference and the decision became final ten working days later.
Lower South Island renewables economic investment proposal	\$197 m	<b>Approved:</b> Submitted 30 November 2009. A notice of intention to approve the proposal was published on 26 April 2010. A request was made for a public conference, which was held in Alexandra on 28 June 2010. On 9 August 2010, the Commission decided to confirm its decision to approve the proposal.
Lower South Island reliability transmission investment proposal	\$62.4 m	<b>Approved:</b> submitted 31 May 2010. The proposal is to increase the core grid capacity between Roxburgh and Invercargill, and maintain non-core grid security of supply to Gore and the surrounding area. Notice of intention to approve issued on 6 September 2010. No request was made for a public conference and the decision became final ten working days later.
Bunnythorpe-Haywards thermal upgrade (2006) investment proposal	\$3.5 m	<b>Approved:</b> submitted 21 July 2010. The proposal is to recover costs associated with thermally upgrading the Bunnythorpe-Haywards 1 and 2 circuits in 2006. Notice of intention to approve issued on 6 September 2010. No request was made for a public conference and the decision became final ten working days later.

## Other developments

### Statement of Opportunities

The 2010 Statement of Opportunities was published on 3 September 2010.

The Commission draws on specialist external advice, academic literature, insights from other parties involved in electricity demand forecasting, industry submissions and in-house modelling resources. These sources have been used to develop demand outlook and supply scenarios for the period to 2040, to assist in decision-making on grid investment and other developments.

### Interim pricing period

New interim pricing period rules came into force on 1 October 2010. The rules introduce a new price type, interim prices, to complement final and provisional prices.

Prices are now published as interim prices for a period prior to their being published as final. This allows participants, interested parties and the Commission to review prices and make a pricing error claim to the Pricing Manager if an input or calculation error is suspected.

**Changes to Electricity and Gas Complaints Commissioner Scheme constitution approved**

In September 2010, the Commission approved changes to the Constitution for the Electricity and Gas Complaints Commissioner Scheme.

**Vulnerable and medically dependent consumer guidelines: compliance review**

In October 2010 the Commission initiated the annual review of retail companies' compliance with the Guideline on arrangements to assist vulnerable consumers (VC Guideline) and Guideline on arrangements to assist medically dependent consumers (MDC Guideline). Information requests have been issued and responses are due by 26 November 2010.

**System Operator annual self-review and assessment 2009/2010**

On 30 September 2010, the Commission received the System Operator's annual self-review and assessment of its performance in the 12 months period to 31 August 2010. The report has been published and the Commission commenced the review and assessment of the System Operator's performance. The review will be completed by the Electricity Authority.

**Sector alignment with suggested retail contract terms**

Following completion of the baseline review of individual retailer's domestic contracts, on 20 September 2010 a consolidated report was published commenting on alignment with suggested minimum terms across the sector.

Although many of the minimum terms are drawn from existing standards, this is the first time there has been an independent assessment of the extent to which retailers' contracts meet these standards. There are some pleasing results in some areas and some retailers have performed well. However, the majority of retailers could do better, and some need to make substantial amendments to their contracts if they are to show an improvement over the next two years. In particular, there are some very important areas (such as access to property, disconnections, bonds, and price changes) where the Commission considers that a large number of retailers need to make some significant improvements in their contracts.

**Generator fault ride through investigation**

The stage 2 report of the investigation to determine a suitable fault ride through (FRT) requirement was released in September 2010.

The report, by Transpower as System Operator, proposes an island based FRT envelope at this stage, because of differences in North and South Island system performance.

**Historic lake storage: report and datasets**

A brief history of storage fluctuations in major hydro lakes was published in October 2010.

The report converts lake levels to hydro generation potential (GWh) and was produced with support from Genesis Energy, Mighty River Power, Meridian Energy, and Contact Energy, as well as data from NIWA's national hydrometric archive.

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**Electricity efficiency**

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Progress on electricity efficiency programmes continued strongly during the four months to 31 October 2010.

The focus of activity is starting to be directed towards increasing capability in the private sector which involves increasing awareness by consumers of electricity efficiency opportunities and benefits and similarly increasing the amount and level of private sector expertise in developing and delivering electricity efficiency solutions.

The commencement of specialist courses on lighting efficiency at Massey University and new training programmes for facilities managers, energy specialists and other stakeholders in the commercial buildings sector have been a highlight of the first four months of 2010/11.



Programmes such as these are key to increasing the “natural” uptake of electricity efficiency measures over time, and hence in the longer term reducing the need for government intervention.

The Commission has much to be proud of with the results from the electricity efficiency programmes to date which have been ahead of targets and at less budgeted cost than was forecasted in 2007 when Cabinet approved funding electricity efficiency programmes for the period to 2010/11 and outyears.

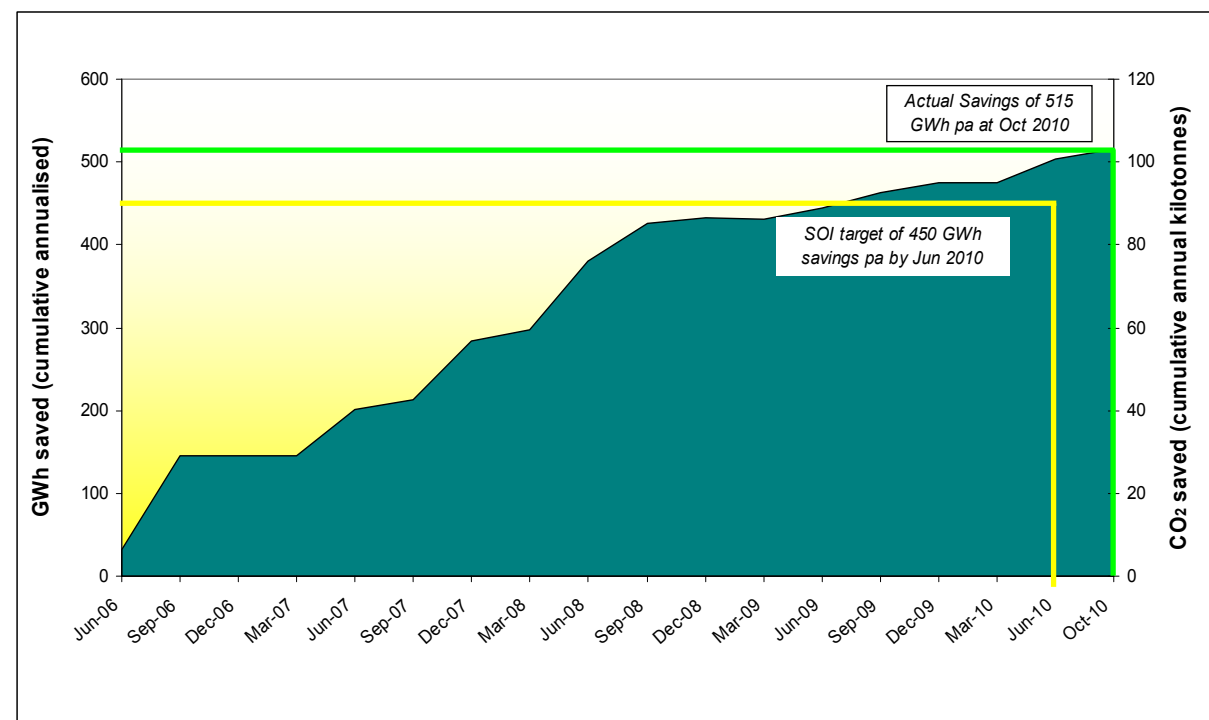
The challenge will be to not only preserve those gains but to grow the capability and momentum while at EECA.

Estimated electricity efficiency programme annual savings are illustrated in figure 1. As at 31 October 2010, these exceed:

- 515 GWh per annum of electricity usage
- 217 MW savings in electricity use at peak times
- 103 kilo tonnes less CO<sub>2</sub> emissions per annum
- \$351 million present value of programme-lifetime savings.

Average programme costs are less than 1 cent per kWh saved, against a marginal cost of generation of 10-12 cents.

**Figure 1: Actual electricity efficiency savings to 31 October 2010 (GWh pa and CO<sub>2</sub> saved)**



## **Handover to the Electricity Authority**

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The Commission put in considerable effort to provide a seamless transition to the new arrangements under the Electricity Industry Act, including completing the new Electricity Industry Participation Code 2010 (the Code) to replace the Rules and various regulations, and progressing projects to a logical level to handover to the Authority.

A significant number of rule changes were completed in the last year of operation, a significant 'clearing of the decks', allowing the Authority to focus on new matters as set out in section 42(2) of the Electricity Industry Act.

The Commission provided considerable support to the Electricity Authority Chief Executive designate and the Establishment Board to enable a smooth start up for the new organisation.

As can be seen from table 1, the Commission has given the Authority a 'running start' on the new matters it is charged with addressing within its first year of operation. These are all substantial and substantive matters affecting the industry and the public of New Zealand, requiring robust and enduring solution.

## Statement of responsibility

Pursuant to section 45J of the Public Finance Act 1989 the Minister of Finance has transferred the responsibility for preparing the final Electricity Commission annual report to the Electricity Authority.

Pursuant to the Crown Entities Act 2004, the Electricity Authority's Board is responsible for the preparation of the statement of service performance and financial statements included in part one of this annual report, and for the judgments used in them.

The Board confirms that the Electricity Commission established and maintained a system of internal control designed to provide reasonable assurance as to the integrity and reliability of the Commission's financial and non-financial reporting.

In the Board's opinion the statement of service performance and financial statements reflect fairly the operations and financial position of the Electricity Commission for the period 1 July 2010 to 31 October 2010.

Pursuant to the Electricity Act 1992, the Board is also responsible for the preparation of the report against the Government Policy Statement performance standards on Electricity Governance (GPS), included in part two of this Annual Report.

In the Board's opinion the GPS report fairly reflects progress to 31 October 2010.



Brent Layton  
Chair  
Electricity Authority



Roger Sowry  
Member  
Electricity Authority

14 March 2011

# Audit report

AUDIT NEW ZEALAND

Mana Arotake Aotearoa

## Independent Auditor's Report

### To the readers of the Electricity Commission's financial statements and performance information for the 4 months ended 31 October 2010

The Auditor-General is the auditor of the Electricity Commission. The Auditor-General has appointed me, Phil Kennerley, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and performance information of the Electricity Commission on her behalf.

We have audited:

- the financial statements of the Electricity Commission on pages 20 to 36, that comprise the statement of financial position as at 31 October 2010, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the 4 months ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the Electricity Commission that comprises the statement of service performance of the Electricity Commission on pages 13 to 19 for the 4 months ended 31 October 2010, and the report against the Government Policy Statement on Electricity Governance (the report against the GPS) on pages 37 to 48 for the 4 months ended 31 October 2010.

## Opinion

In our opinion:

- the financial statements of the Electricity Commission on pages 20 to 36 that are prepared on a dissolution basis:
  - comply with generally accepted accounting practice in New Zealand; and
  - fairly reflect the Electricity Commission's:
    - financial position as at 31 October 2010; and
    - financial performance and cash flows for the 4 months ended on that date;
- the statement of service performance of the Electricity Commission on pages 13 to 19:
  - complies with generally accepted accounting practice in New Zealand; and
  - fairly reflects, for each class of outputs for the 4 months ended 31 October 2010:
    - its service performance compared with the forecasts in the statement of forecast service performance at the start of the period; and
    - its actual revenue and output expenses compared with the forecasts in the statement of forecast service performance at the start of the period; and
- the Electricity Commission's report against the GPS on pages 37 to 48 provides appropriate, adequate and accurate performance information against objectives, outcomes and standards in the Statement of Intent relating to the GPS, that enables an informed assessment to be made of those matters.

## Emphasis of matter - the financial statements are appropriately prepared on a dissolution basis

Without modifying our opinion, we considered the accounting policy on page 34 about the financial statements being prepared on a dissolution basis. The Electricity Industry Act 2010 dissolved the Electricity Commission from 31 October 2010 and vested its assets and liabilities in the Electricity Authority.

We consider the basis of preparation of the financial statements and the related disclosures to be appropriate to the Electricity Commission's circumstances.

Our audit was completed on 14 March 2011. This 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 Electricity Commission, the Electricity Authority and the Auditor, and explain our independence.

### **Basis of opinion**

We carried out our audit in accordance with the Auditor-General's Auditing Standards, and the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and performance information are free from material misstatement.

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

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and performance information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation and completion of the financial statements and performance information that fairly reflect the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Electricity Commission and the Electricity Authority;
- the adequacy of all disclosures in the financial statements and performance information; and
- the overall presentation of the financial statements and performance information.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and performance information. We have obtained all the information and explanations we have required and we believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

### **Responsibilities of the Electricity Commission and the Electricity Authority**

The Electricity Commission's financial statements and performance information for the 4 months ended 31 October 2010 have been completed by the Electricity Authority under authority from the Minister of Finance in accordance with section 45J of the Public Finance Act 1989. The Electricity Authority is responsible for completing financial statements, a statement of service performance and a report against the GPS, for the Electricity Commission, that:

- comply with generally accepted accounting practice in New Zealand;
- fairly reflect the Electricity Commission's financial position, financial performance and cash flows; and
- fairly reflects its service performance achievements, including information to enable an informed assessment to be made of the performance of the Electricity Commission against the objectives, outcomes and standards in the Statement of Intent relating to the GPS.

Up until 31 October 2010, the Electricity Commission was responsible for such internal control as it determined necessary to enable the preparation of financial statements and performance information that are free from material misstatement, whether due to fraud or error. From 1 November 2010, the Electricity Authority is responsible for such internal control as it determined necessary to enable the completion of those financial statements and performance information.

The Electricity Authority's responsibilities arise from the Public Finance Act 1989, the Crown Entities Act 2004, the Electricity Act 1992, and the Electricity Industry Act 2010.

## Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and performance information and reporting that opinion to you based on our audit. Our responsibilities include providing assurance on the appropriateness, adequacy and accuracy of performance information against objectives, outcomes and standards in the Statement of Intent relating to the GPS, that enables an informed assessment to be made of those matters. Our responsibilities arise from section 15 of the Public Audit Act 2001, the Crown Entities Act 2004, and the Electricity Act 1992.

## Independence

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

Other than the audit, and the Auditor-General being the auditor of the Electricity Authority, we had no relationship with or interests in the Electricity Commission.



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

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

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

This audit report relates to the financial statements, statement of service performance and the report against the Government policy statement on electricity governance (GPS) for the period 1 July to 31 October 2010 included on the Electricity Authority's website. The Authority's Board is responsible for the maintenance and integrity of its website. We have not been engaged to report on the integrity of the Authority's website. We accept no responsibility for any changes that may have occurred to the financial statements, statement of service performance, and GPS report since they were initially presented on the website.

The audit report refers only to the financial statements, statements of performance, and GPS report named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements, statement of service performance, and GPS report. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and statement of service performance as well as the related audit report dated 14 March 2011 to confirm the information included in the audited financial statements, statement of service performance and GPS report presented on this website.

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

# Part one—performance information

## Statement of service performance

The statement of service performance reports on actual achievement against performance targets and measures in the Commission's 2010–2011 SOI. The statement of service performance report is provided in accordance with section 151 of the Crown Entities Act 2004.

## Summary of revenue and expenditure by output class

The Electricity Commission manages the following Vote Energy appropriations on behalf of the Ministry of Economic Development (MED) for which costs are summarised in table 4.

The **electricity governance and market operations** appropriation provides for governance and monitoring of New Zealand's electricity market under the Rules and regulations. The appropriation funds the general operations of the Commission, including the Board and advisory groups. It also covers core electricity system and market operation functions, carried out under service provider contracts. This appropriation funds the electricity governance and market operations output class.

The **electricity efficiency** appropriation provides funding for the development and delivery of electricity efficiency programmes. This appropriation funds the electricity efficiency output class.

The **reserve energy and emergency measures—availability** appropriation is to ensure that reserve energy can be made available to meet emergency situations, should they arise. This is achieved by tendering for emergency options, and by covering the availability cost of the Whirinaki power station. This appropriation excludes reserve energy generation (primarily fuel for the Whirinaki power station).

The **reserve energy and emergency measures—variable** appropriation covers the cost of fuel for the Whirinaki power station (offset by revenue from the sale of electricity if the fuel is used). The appropriation can also be used to fund the implementation of emergency measures.

The **Electricity Commission litigation fund** appropriation provides funding to ensure that the Electricity Commission is able to participate in litigation effectively and without delay. This is a Crown expense appropriation.

**Table 4: Summary of revenue and expenditure by output class**

	(\$ millions)		
	2009/10 actual	2010/11 actual (1 Jul – 31 Oct)	2010/11 budget
Electricity governance and market operations—revenue	51.417	18.740	59.236
<i>Electricity governance and market operations—expenditure</i>	50.955	18.485	59.236
Electricity efficiency—revenue	10.295	2.420	13.000
<i>Electricity efficiency—expenditure</i>	10.295	2.420	13.000
Reserve energy and emergency measures—availability—revenue	29.177	7.763	29.981
<i>Reserve energy and emergency measures—availability—expenditure</i>	29.177	7.763	29.981
Reserve energy and emergency measures—variable—revenue	6.402	0.672	6.000
<i>Reserve energy and emergency measures—variable—expenditure</i>	2.320	0.071	6.000
Electricity Commission litigation fund—revenue	(0.013)	0.000	0.444
<i>Electricity Commission litigation fund—expenditure</i>	(0.013)	0.000	0.444
<b>Total Electricity Commission—revenue</b>	<b>97.278</b>	<b>29.595</b>	<b>108.661</b>

	(\$ millions)		
	2009/10 actual	2010/11 actual (1 Jul – 31 Oct)	2010/11 budget
<b>Total Electricity Commission—expenditure</b>	<b>92.734</b>	<b>28.739</b>	<b>108.661</b>

### Output class one—electricity governance and market operations

The electricity governance and market operations output class provides for the operation, governance and monitoring of New Zealand's electricity market under the Rules and various regulations. This output class includes the general operations of the Commission, including the Board, and operation of the electricity system and market operations. The major activities and performance measures for the 2010/11 financial year are set out below.

**Operation of the electricity system in real-time**—this work addresses paragraph 67 of the GPS. Transpower New Zealand Limited is the System Operator. The System Operator is responsible for scheduling and dispatching electricity in a manner that avoids fluctuations in frequency or disruption of supply. The System Operator contract with the Commission includes meeting all relevant requirements of the Rules and regulations.

Performance measure	2008/09 result	2009/10 result	2010/11 target	Result to 31 October 2010
1. The System Operator meets the requirements of the Rules (Principal Performance Obligations-PPOs), regulations and service provider contract.	NA – new measure	NA – new measure	Contract management and monitoring actions completed as appropriate *	Achieved.
2. The annual performance review of the System Operator is completed within three months of receipt of the System Operator's report.	Met	Met	Within three months of receipt of the System Operator's report	System Operator report received 30 September 2010. On track for completion of the review by the Electricity Authority by 31 December 2010.
3. Annual update of the System Operator Policy Statement in accordance with the Rules and the Electricity Act 1992, by 1 September 2010.	Met	Met	Update completed 1 September 2010	Achieved.
4. The annual update of the System Operator Procurement Plan is completed in accordance with the Rules and the Electricity Act 1992, by 1 December 2010.	Met	Met	Completed by 1 December 2010	On track for completion by the Electricity Authority by 1 December 2010. <sup>1</sup>

**Note:** \* Contract management and monitoring actions include system audits, monitoring of System Operator reports, and completion of the annual performance review (see performance measure 2).

**Transition note: electricity system and market operations**—the Electricity Industry Act transfers service provider management, compliance functions, development of the Code, and information provision to the Electricity Authority.

<sup>1</sup> The update was subsequently completed and went live on 1 December 2010.



**Operation of the wholesale and retail markets**—this work addresses paragraph 67 of the GPS. Operation of the wholesale and retail markets is delivered primarily through the management of contracts with service providers. Where services are contracted to a third party, the performance standards for the delivery of those services are contained within the relevant contracts, and include meeting all relevant requirements of the Rules and regulations.

Performance measure	2008/09 result	2009/10 result	2010/11 target	Result to 31 October 2010
5. Operation of the wholesale and retail markets by the Clearing Manager, Pricing Manager, Wholesale Information and Trading Services, Reconciliation Manager and Registry meet the requirements of the Rules, regulations and service provider contracts.	NA – new measure	NA – new measure	Contract management and monitoring actions completed as appropriate *	Achieved.

**Note:** \* Contract management and monitoring actions include annual system audits, monitoring of service provider reports, completion of annual performance reviews, and addressing significant issues, as necessary. The Commission also monitors maintenance of insurance certificates for wholesale and retail market service providers.

**Transition note: Electricity system and market operations**—the Electricity Industry Act transfers service provider management, compliance functions, development of the Code, and information provision to the Electricity Authority.

**Monitoring and compliance**—the Commission monitors and enforces compliance with the regulations and Rules, including operation of the wholesale markets (spot and hedge), operation of the retail market, consumer protection activities, and monitoring of the Electricity Governance (Connection of Distributed Generation) Regulations 2007 and Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004. This work addresses paragraph 9 of the GPS.

Performance measure	2008/09 result	2009/10 result	2010/11 target	Result to 31 October 2010
6. The number of Rule-breach notifications closed.	267	204	170–230	88 completed (52 notifications in the period)
7. The percentage of investigations of alleged Rule breaches completed within three months of notification.	72%	71%	70%	49% *
8. The percentage of investigations of alleged Rule breaches completed within six months of notification.	93%	81%	85%	90%

**Notes:**

\* Timeliness measure not achieved due to a number of older breach notifications being closed. The result was also impacted by the timing of Electricity Governance Rules Committee meetings.

**Regulatory development**—the Commission develops voluntary arrangements and advises the Minister on statutory regulations and the Rules relating to the electricity sector. This work addresses requirements throughout the GPS (paragraphs 38–50, 62–63, 65–66, 68–69, 97, 100–103, 110–116) and is detailed in part three of this SOI.

Performance measure	2008/09 result	2009/10 result	2010/11 target	Result to 31 October 2010
9. The percentage of published reports that meet the quality standard specified on page 9 of the SOI.	100%	100%	100%	100%
10. The percentage of published reports that meet the timeliness standard as set out in part three of this report, or varied by agreement with the Minister.		NA – new measure	80%	100%
11. The number of successful legal challenges to the Electricity Commission's exercise of statutory functions.	No legal challenges	No successful legal challenges	No successful legal challenges	No successful legal challenges

**Transition note: Rules and regulations**—the Electricity Industry Act provides for the Rules and some of the regulations to be replaced by an Electricity Industry Code to be administered by the Electricity Authority as an Independent Crown Entity.

**Information services**—the Commission collects and publishes a wide range of information to inform the efficient operation of the electricity system and markets. This work addresses paragraphs 8 and 77 of the GPS. Publications include the Statement of Opportunities (SOO) and Centralised Dataset (CDS).

Performance measure	2008/09 result	2009/10 result	2010/11 target	Result to 31 October 2010
12. The number of Centralised Dataset (CDS) published.	2	2	2	A CDS update was on track for release in November 2010
13. Statement of Opportunities (SOO) published.	29 August 2008	NA – published in alternate years	30 September 2010	Achieved: published 3 September 2010
14. SOO meets the quality standard on page 9 of the Statement of Intent 2010/11.	NA	NA	Standard met	Achieved

**Transition note: Monitoring and compliance**—the Electricity Industry Act provides for MED to develop and publish future SOOs.

**Grid investment decision-making**—the Commission is responsible for decision-making on Transpower's grid investment proposals. The Commission is required to meet the process requirements of the Rules, including applying the Grid Investment Test (GIT). This work addresses paragraphs 70–96 of the GPS.

Performance measure	2008/09 result	2009/10 result	2010/11 target	Result to 31 October 2010
15. The percentage of grid investment decisions made in accordance with published timetables (or varied by agreement with Transpower or by Commission stipulation).	100%	100%	100%	100%
16. The number of successful legal challenges to grid investment decisions.	No successful legal challenges	No successful legal challenges	No successful legal challenges	No successful legal challenges

**Transition note: Grid investment decision-making**—the Electricity Industry Act transfers grid investment decision-making to the Commerce Commission from 1 November 2010.

**Security of supply governance**—the Commission is required to use reasonable endeavours to ensure security of supply, in accordance with Government policy. Activities include an annual security assessment, information provision and monitoring, and contingency planning for emergency management. This work addresses GPS paragraphs 8, and 10–37. This work is supported by contracting for reserve energy and emergency measures, and delivery of reserve energy, as required, under output classes two and three.

Performance measure	2008/09 result	2009/10 result	2010/11 target	Result to 31 October 2010
17. The annual security assessment report is completed.	November 2008	By 1 March 2010	By 30 June 2011	Not applicable in the timeframe
18. The annual security assessment report meets the Commission's quality standard.	Met	Met	Met	Not applicable in the timeframe

**Transition note: Security of supply governance**—the Electricity Industry Act transfers some security of supply functions to Transpower (as System Operator) from 1 November 2010. The Authority, with advice from the Security and Reliability Council, will maintain oversight of security of supply functions.

## Output class two—reserve energy and emergency measures—availability

The purpose of the reserve energy and emergency measures—availability appropriation and output class is to ensure the availability of reserve energy and emergency options, if needed. The Commission is required to ensure that reserve energy capacity and capability are available, whether or not they are used. The reserve energy and emergency measures—availability output class addresses various GPS requirements under paragraphs 10–37. The major activities are:

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

Performance measure	2008/09 result	2009/10 result	2010/11 target	Result to 31 October 2010
19. Whirinaki power station availability is delivered in accordance with the contract.	Met	Met	Contract management and monitoring actions completed as appropriate *	Contract management and monitoring actions completed as appropriate
20. Conduct tendering of reserve energy generation and emergency options for demand reduction, if needed.	As required	As required	As required	Not required in the period
21. Publish, or update as necessary, the Commission's Emergency Response Plan.	As required	As required	As required	Not required in the period

**Note:** \* Contract management and monitoring actions include system audits, monitoring of monthly reports, approval/declines of requests in accordance with the contract, and completion of the annual review.

**Transition note** The Electricity Industry Act provides for the abolition of the reserve energy scheme.

### Output class three—reserve energy and emergency measures—variable

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

Performance measure	2008/09 result	2009/10 result	2010/11 target	Result to 31 October 2010
22. Whirinaki power station generation is delivered in accordance with the contract.	Met	Met	Contract management and monitoring actions completed as appropriate *	Achieved

**Note:** \* Contract management and monitoring actions include system audits, monitoring of monthly reports, approval/declines of requests in accordance with the contract, and completion of the annual review.

**Transition note:** The Electricity Industry Act provides for the abolition of the reserve energy scheme.

### Output class four—electricity efficiency

The Commission's electricity efficiency output class is part of a multi-class output expense appropriation: Energy efficiency and conservation. This annual report addresses only the electricity efficiency output class component of the appropriation, EECA administer the remainder of the appropriation. The Commission's electricity efficiency output class includes development and delivery of programmes that provide incentives for cost-effective electricity efficiency savings, in response to market failures and barriers. The output class includes research work to support programme design. This output class addresses paragraphs 8, 54–60, and 64 of the GPS. The Commission manages programmes for efficient lighting, industrial efficiency (including compressed air systems and electric motors), and commercial efficiency.

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

Performance measure	2008/09 result	2009/10 result	Result to 31 October 2010
23. The cumulative number of GWh saved from electricity efficiency programmes.	444	500	515
24. The cumulative kilotonnes of CO <sub>2</sub> output avoided as a result of electricity efficiency programmes.	88.9	100	103
25. The cumulative savings in MW peak demand from electricity efficiency programmes.	195.8	217	219
26. The cost per kWh saving delivered by electricity efficiency programmes.	< 1c/KWh	< 1c/KWh	< 1c/KWh

**Transition note: Electricity efficiency**—from 1 November 2010 EECA is the agency responsible for electricity efficiency programmes.

## Electricity Commission litigation fund

The Commission litigation fund appropriation provides funding to ensure that the Commission is able to participate in litigation effectively and without delay. This is a Crown expense appropriation, which is drawn on only for major litigation. There is no output class for this appropriation.

### Bay of Plenty Energy proceedings

On 25 November 2010, Bay of Plenty Energy Limited served a notice of appeal to the High Court at Wellington against the Electricity Commission's decision to grant an exemption to the Reconciliation Manager. The Commission has been named as first respondent, the Electricity Authority as second respondent, TrustPower Limited as third respondent and Contact Energy Limited as fourth respondent.

The appeal is on the basis that the Commission made an error of law in granting the exemption. The appeal has a case management conference scheduled for 7 February 2011.

The Authority's costs in respect of the appeal will be met from the Authority's Litigation Fund and MED has been notified accordingly. There will be no costs against the Electricity Commission litigation fund appropriation.

## Financial statements

The financial statements report actual results against budget information in the Commission's 2010–2011 SOI. These statements are provided in accordance with section 151 of the Crown Entities Act 2004.

### Statement of comprehensive income for the period 1 July to 31 October 2010

Actual 2010 (full year) \$000		Note	Actual Oct 2010 (4 months) \$000	Budget 2011 (full year) \$000
90,414	Crown appropriations	1	28,668	102,661
6,402	Whirinaki spot revenue		672	-
417	Interest income		213	300
45	Other income		42	36
<b>97,278</b>	<b>Total income</b>		<b>29,595</b>	<b>102,997</b>
8,887	Employee benefits	2	2,882	8,448
1,881	Depreciation and amortisation	8,9	633	2,021
2,320	Whirinaki fuel		71	-
79,646	Other expenses	3	25,153	92,193
<b>92,734</b>	<b>Total expenditure</b>		<b>28,739</b>	<b>102,662</b>
(4,082)	Distribution of Whirinaki net spot revenue to levy payers	4	(601)	-
<b>462</b>	<b>Net operating surplus</b>	5	<b>255</b>	<b>335</b>
-	Other comprehensive income		-	-
<b>462</b>	<b>Total comprehensive income</b>		<b>255</b>	<b>335</b>

### Statement of movements in taxpayers' funds for the period 1 July to 31 October 2010

Actual 2010 (full year) \$000		Note	Actual Oct 2010 (4 months) \$000	Budget 2011 (full year) \$000
<b>8,294</b>	<b>Opening balance at 1 July</b>		<b>8,756</b>	<b>8,720</b>
462	Total comprehensive income		255	335
-	Capital injections		-	-
-	Capital withdrawals		-	-
<b>8,756</b>	<b>Closing balance at 31 October</b>		<b>9,011</b>	<b>9,055</b>

## Statement of financial position as at 31 October 2010

Actual 2010 \$000		Note	Actual Oct 2010 \$000	Budget 2011 \$000
8,756	<b>Taxpayers' funds</b>		9,011	9,055
	<b>Assets</b>			
	<i>Current assets</i>			
13,941	Cash and cash equivalents	6	18,580	11,372
1,865	Receivables and prepayments	7	660	6
1,001	Property, plant and equipment	8	947	-
8,285	Intangible assets	9	8,101	-
<b>25,092</b>			<b>28,288</b>	<b>11,378</b>
	<i>Non-current assets</i>			
-	Property, plant and equipment	8	-	970
-	Intangible assets	9	-	7,327
-			-	<b>8,297</b>
<b>25,092</b>	<b>Total assets</b>		<b>28,288</b>	<b>19,675</b>
	<b>Liabilities</b>			
	<i>Current liabilities</i>			
9,737	Payables and accruals	10	6,391	10,000
680	Employee entitlements	11	519	620
239	GST payable		553	-
4,082	Distribution of net spot revenue to levy payers	4	4,683	-
1,221	Refund of appropriation to the Crown	12	6,901	-
377	Other provisions	13	230	-
<b>16,336</b>			<b>19,277</b>	<b>10,620</b>
	<i>Non-current liabilities</i>			
-	Other provisions		-	-
-			-	-
<b>16,336</b>	<b>Total liabilities</b>		<b>19,277</b>	<b>10,620</b>
<b>8,756</b>	<b>Net assets employed</b>		<b>9,011</b>	<b>9,055</b>

### Statement of cash flows for the period 1 July to 31 October 2010

Actual 2010 (full year) \$000		Note	Actual Oct 2010 (4 months) \$000	Budget 2011 (full year) \$000
<b>Cash flows from operating activities</b>				
96,080	Receipts from the Crown		34,347	102,661
6,806	Receipts from Whirinaki spot revenue		2,193	-
417	Interest from investments		214	300
45	Receipts from third parties		42	36
(8,882)	Repayment of appropriation to the Crown		-	(500)
(1,621)	Distribution of net spot revenue to levy payers		-	(2,500)
(82,897)	Payments to suppliers		(29,033)	(92,193)
(8,802)	Payments to employees		(3,042)	(8,448)
1,096	Goods and services tax (net)		313	-
<b>2,242</b>	<b>Net cash flows from operating activities</b>	14	<b>5,034</b>	<b>(644)</b>
<b>Cash flows from investing activities</b>				
(155)	Purchase of property, plant and equipment		(66)	(366)
(953)	Purchase of intangibles		(329)	(1,190)
<b>(1,108)</b>	<b>Net cash flows from investing activities</b>		<b>(395)</b>	<b>(1,556)</b>
1,134	Net increase/(decrease) in cash and cash equivalents		4,639	(2,200)
12,807	Cash and cash equivalents at beginning of year		13,941	13,572
<b>13,941</b>	<b>Cash and cash equivalents at end of year</b>		<b>18,580</b>	<b>11,372</b>

The GST (net) component of operating activity reflects the net GST paid and received with the Inland Revenue Department. It has been presented on a net basis as the gross amounts do not provide meaningful information for financial statement purposes, and this presentation is consistent with the other primary financial statements.



## Statement of commitments as at 31 October 2010

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

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

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

The System Operator service provider agreement commenced on 1 July 2009. The agreement has no fixed end date. The figures below represent a five year commitment, being an initial period of two years from the commencement of the contract during which notice cannot be given, followed by a three year notice period.

The Reserve Generation Capacity Agreement for the generation of reserve energy by the Whirinaki power station commenced on 1 April 2005 and ends on 14 June 2015. As a result of the Ministerial Review the Commission is now recognising a commitment to 31 October 2011 when the Crown plans to transfer its interest in Whirinaki to Meridian. Whirinaki contract commitments are calculated using a combination of known costs to 31 October 2011 and projections of other costs based on historic information.

	Actual Oct 2010 (31 Oct 10) \$000	Actual 2010 (30 Jun 10) \$000
<b>Operating commitments</b>		
<i>Building lease commitments</i>		
Not later than one year	592	592
Later than one year but not later than five years	1,135	1,333
Later than five years but not later than ten years	0	0
	<b>1,727</b>	<b>1,925</b>
<i>Service provider contract commitments</i>		
Not later than one year	36,550	36,550
Later than one year but not later than five years	99,215	113,542
Later than five years but not later than ten years	0	0
	<b>135,765</b>	<b>150,092</b>
<i>Whirinaki contract commitments</i>		
Not later than one year	23,646	23,133
Later than one year but not later than five years	0	5,821
Later than five years but not later than ten years	0	0
	<b>23,646</b>	<b>28,954</b>
<b>Total operating commitments</b>	<b>161,138</b>	<b>180,971</b>

## Efficiency programme commitments

The Commission promotes and facilitates electricity efficiency by developing and implementing programmes to provide incentives to deliver energy savings. The Commission has contractual arrangements with selected providers to run programmes in the areas of lighting, motors, compressed air and commercial buildings. These contracts extend beyond 31 October 2010 and result in future financial commitments totalling \$3.4 million (2010: \$4.3 million). From 1 November 2010 EECA will assume responsibility for levy-funded electricity efficiency programmes.

## Statement of contingent liabilities and contingent assets as at 31 October 2010

There is currently legal action being brought against the Electricity Commission which may or may not result in a financial impact for the Commission. If the action is successful the financial impact would be approximately \$15,000.

There are no other known contingent liabilities or contingent assets and no known guarantees under the Crown Entities Act 2004 (2010: nil).

## Notes to the financial statements

### 1. Crown appropriations

The Commission manages appropriations from the Crown under Vote Energy (see page 13 for explanation of appropriations). Appropriations are recognised as revenue to the extent that they are spent.

	Oct 2010 (4 months) \$000	Jun 2010 (full year) \$000
Electricity governance and market operations	18,485	50,955
Reserve energy and emergency measures - availability	7,763	29,177
Reserve energy and emergency measures - variable	-	-
Electricity efficiency	2,420	10,295
Electricity Commission litigation fund	-	(13)
	<b>28,668</b>	<b>90,414</b>

### 2. Employee benefits

	Oct 2010 (4 months) \$000	Jun 2010 (full year) \$000
Salaries and contractors	2,865	8,638
Contributions to defined contribution plans	67	206
Increase/(decrease) in annual and long service leave provision	(50)	43
	<b>2,882</b>	<b>8,887</b>

### 3. Other operating expenses

	Oct 2010 (4 months) \$000	Jun 2010 (full year) \$000
Service provider contracts	12,043	31,472
Whirinaki contract	7,763	29,142
External advice	2,249	6,863
Litigation fund	-	(13)
Efficiency programmes	1,902	8,857
Audit fees	38	38
Auditor fees for other services	5	10
Advisory and working group fees	41	116
Commissioners' fees	175	657
Rulings Panel fees	72	125
Operating lease expenses	229	958
Travel expenses	50	180
Other operating expenses	586	1,241
	<b>25,153</b>	<b>79,646</b>

#### 4. Refund to levy payers

##### Refund from the Crown

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

In the period 1 July to 31 October 2010, Commission expenditure was less than levies collected. The refund to levy payers is expected to be \$8.498 million. This is in addition to \$0.601 million of Whirinaki net spot revenue (see Refund from the Electricity Commission below). The final refund to levy payers may vary from this amount, and some levy payers may be required to pay additional levies depending on whether they are generators, retailers or distributors, and based on variations from estimated volumes of dispatches, sales and customer connections.

	Oct 2010 (4 months) \$000	Jun 2010 (full year) \$000
Total Commission expenditure	28,739	92,734
Exclude Whirinaki fuel	(71)	(2,320)
Add MACQS	-	2,897
<b>Total costs to be recovered by levy</b>	<b>28,668</b>	<b>93,311</b>
Actual levies collected	37,166	101,022
<b>Refund of over-collected levies to levy payers</b>	<b>8,498</b>	<b>7,711</b>

##### Refund from the Electricity Commission

If the Whirinaki power station is required to operate, the GPS states that the cost to levy payers should be offset by spot revenue received from the sale of reserve energy less the cost of fuel used in generation. In the period 1 July to 31 October 2010 the Commission earned \$0.601 million of net spot revenue. This will be included in the refund to levy payers.

	Oct 2010 (4 months) \$000	Jun 2010 (full year) \$000
Whirinaki spot revenue	672	6,402
Less Whirinaki fuel	(71)	(2,320)
<b>Distribution of net spot revenue to levy payers – current year</b>	<b>601</b>	<b>4,082</b>
Distribution of net spot revenue to levy payers – prior year (unpaid 31 Oct)	4,082	-
<b>Total distribution of net spot revenue to levy payers</b>	<b>4,683</b>	<b>4,082</b>

#### 5. Net operating surplus

The Commission may elect to retain interest income and other revenue (excluding spot revenue from Whirinaki) in order to maintain an appropriate level of working capital. The Commission has exercised this option in the period 1 July to 31 October 2010 and the operating surplus of \$0.255 million has been used to increase equity. Net operating surplus is made up as follows:

	Oct 2010 (4 months) \$000	Jun 2010 (full year) \$000
Interest income	213	417
Other income	42	45
<b>Net operating surplus</b>	<b>255</b>	<b>462</b>

## 6. Cash and cash equivalents

	31 Oct 2010 \$000	30 Jun 2010 \$000
Cash in current account	1,180	341
Cash on call in interest-bearing money market account	17,400	13,600
<b>Total cash and cash equivalents</b>	<b>18,580</b>	<b>13,941</b>

The Commission holds cash with Westpac. Westpac is part of the Crown Retail Deposit Guarantee Scheme, therefore all deposits up to \$0.5 million held with Westpac are guaranteed by the Crown.

## 7. Receivables and prepayments

	31 Oct 2010 \$000	30 Jun 2010 \$000
Spot revenue receivable from the Crown	-	1,838
Other receivables	660	27
Less: provision for impairment	-	-
<b>Total receivables and prepayments</b>	<b>660</b>	<b>1,865</b>

## 8. Property, plant and equipment

	Computer hardware \$000	Office equipment \$000	Furniture and fittings \$000	Leasehold improvement \$000	Total \$000
<b>Cost or valuation</b>					
Balance at 1 July 2009	1,392	195	249	632	2,468
Additions	141	5	4	5	155
Revaluation increase	-	-	-	-	-
Disposals	(72)	-	-	-	(72)
Balance at 30 June 2010	<b>1,461</b>	<b>200</b>	<b>253</b>	<b>637</b>	<b>2,551</b>
Balance at 1 July 2010	1,461	200	253	637	2,551
Additions	73	-	-	-	73
Revaluation increase	-	-	-	-	-
Disposals	(21)	-	-	-	(21)
Balance at 31 October 2010	<b>1,513</b>	<b>200</b>	<b>253</b>	<b>637</b>	<b>2,603</b>
<b>Accumulated depreciation and impairment losses</b>					
Balance at 1 July 2009	632	95	184	308	1,219
Depreciation expense	234	28	25	67	354
Eliminate on revaluation	-	-	-	-	-
Eliminate on disposal	(72)	-	-	-	(72)
Impairment losses	49	-	-	-	49
Balance at 30 June 2010	<b>843</b>	<b>123</b>	<b>209</b>	<b>375</b>	<b>1,550</b>
Balance at 1 July 2010	843	123	209	375	1,550
Depreciation expense	82	9	7	22	120
Eliminate on revaluation	-	-	-	-	-
Eliminate on disposal	(14)	-	-	-	(14)
Impairment losses	-	-	-	-	-
Balance at 31 October 2010	<b>911</b>	<b>132</b>	<b>216</b>	<b>397</b>	<b>1,656</b>

**Carrying amounts**

At 1 July 2009	760	100	65	324	<b>1,249</b>
At 30 June and 1 July 2010	618	77	44	262	<b>1,001</b>
At 31 October 2010	602	68	37	240	<b>947</b>

**9. Intangible assets**

	Acquired software	Total
	\$000	\$000
<b>Cost or valuation</b>		
Balance at 1 July 2009	11,573	<b>11,573</b>
Additions	953	<b>953</b>
Disposals	-	-
Balance at 30 June 2010	<b>12,526</b>	<b>12,526</b>
Balance at 1 July 2010	12,526	<b>12,526</b>
Additions	329	<b>329</b>
Disposals	-	-
Balance at 31 October 2010	<b>12,855</b>	<b>12,855</b>
Balance at 1 July 2009	2,764	<b>2,764</b>
Amortisation expense	1,477	<b>1,477</b>
Disposals	-	-
Impairment losses	-	-
Balance at 30 June 2010	<b>4,241</b>	<b>4,241</b>
Balance at 1 July 2010	4,241	<b>4,241</b>
Amortisation expense	513	<b>513</b>
Disposals	-	-
Impairment losses	-	-
Balance at 31 October 2010	<b>4,754</b>	<b>4,754</b>
<b>Carrying amounts</b>		
At 1 July 2009	8,809	<b>8,809</b>
At 30 June and 1 July 2010	8,285	<b>8,285</b>
At 31 October 2010	8,101	<b>8,101</b>

**10. Payables and accruals**

	31 Oct 2010	30 Jun 2010
	\$000	\$000
Whirinaki diesel	6	141
Whirinaki contract payments	842	2,948
Service providers	3,532	3,460
Electricity efficiency	790	1,707
Other creditors and accruals	1,221	1,481
	<b>6,391</b>	<b>9,737</b>

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

## 11. Employee entitlements

	31 Oct 2010	30 Jun 2010
	\$000	\$000
Annual and long service leave	479	529
Salary accrual	40	151
<b>Total employee entitlements</b>	<b>519</b>	<b>680</b>

## 12. Provision for refund of appropriation to the Crown

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

The Commission receives appropriations monthly according to a funding profile agreed at the start of the year. The provision for refund of appropriation to the Crown is the difference between funding received during the period and total Commission expenditure for the period. This amount will be repaid to the Crown after the financial statements have been audited.

	31 Oct 2010	30 Jun 2010
	\$000	\$000
Total Crown appropriations drawn down	34,348	96,635
Less appropriation surplus repaid during the period	-	(5,000)
<b>Net Crown appropriations drawn down</b>	<b>34,348</b>	<b>91,635</b>
Total Commission expenditure (excluding Whirinaki diesel)	(28,668)	(90,414)
<b>Provision for refund of appropriation to the Crown - current year</b>	<b>5,680</b>	<b>1,221</b>
Add provision for refund of appropriation to the Crown - prior year	1,221	-
<b>Total provision for refund of appropriation to the Crown</b>	<b>6,901</b>	<b>1,221</b>

## 13. Other provisions

	31 Oct 2010	30 Jun 2010
	\$000	\$000
<b>Other provisions are represented by:</b>		
Restructuring	-	143
Onerous contracts	160	164
Lease make-good	70	70
<b>Total other provisions</b>	<b>230</b>	<b>377</b>

Movements by class of provision	Restructuring	Lease make-good	Onerous contracts	Total
	\$000	\$000	\$000	\$000
Balance at 30 June 2010	143	70	164	377
Additional provisions made	-	-	-	-
Amounts used	(143)	-	(4)	(147)
Unused amounts reversed	-	-	-	-
Balance at 31 October 2010	-	70	160	230

**14. Reconciliation of net operating surplus to net cash flows**

	Oct 2010 (4 months) \$000	Jun 2010 (full year) \$000
<b>Net operating surplus</b>	<b>255</b>	<b>462</b>
<b>Add non-cash items</b>		
Depreciation and amortisation	633	1,881
<b>Total non-cash items</b>	<b>633</b>	<b>1,881</b>
<b>Add movements in working capital items</b>		
(Increase) decrease in debtors and prepayments	1,205	442
Increase (decrease) in payables and accruals	(3,346)	(1,346)
Increase (decrease) in GST on operations	314	1,096
Increase (decrease) in employee entitlements	(161)	86
Increase (decrease) in provisions	(147)	377
Increase (decrease) in provision for refund of appropriation	5,680	(3,217)
Increase (decrease) in provision for distribution of net spot revenue	601	2,461
<b>Net working capital movements</b>	<b>4,146</b>	<b>(101)</b>
<b>Net cash flow from operating activities</b>	<b>5,034</b>	<b>2,242</b>

**15. Employee remuneration**

The General Manager's remuneration and benefits are in the \$280,000–289,999 band. These include termination benefits which are not included in the table below, in accordance with the Crown Entities Act 2004. In 2009/10 the General Manager's remuneration and benefits were in the \$270,000–279,999 band.

During the period 1 July to 31 October 2010, three employees (2010: 1) received compensation and other benefits in relation to cessation totalling \$224,194 (2010: \$33,000). No Board members received compensation or other benefits in relation to cessation (2010: 0).

The remuneration bands for the current year are based on annual salary rather than actual salary received in the four month period 1 July – 31 October 2010.

Remuneration band	Number of employees	
	2011	2010
\$100,000–\$109,999	2	1
\$110,000–\$119,999	3	2
\$120,000–\$129,999	4	5
\$130,000–\$139,999	8	8
\$140,000–\$149,999	1	4
\$150,000–\$159,999	5	2
\$160,000–\$169,999	-	2
\$170,000–\$179,999	3	3
\$180,000–\$189,999	3	3
\$190,000–\$199,999	1	1
\$200,000–\$209,999	-	1
\$250,000–\$259,999	1	-
\$270,000–\$279,999	1	1
\$280,000–\$289,999	-	-
\$290,000–\$299,999	-	1
	<b>31</b>	<b>34</b>

## 16. Key management remuneration

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

	Oct 2010 (4 months) \$000	Jun 2010 (full year) \$000
Salaries and other short-term employee benefits	815	2,446
Post-employment benefits	15	54
Other long-term benefits	-	-
Termination benefits	189	-
<b>Total key management remuneration</b>	<b>1,019</b>	<b>2,500</b>

## 17. Commissioners' remuneration

There were no Commissioner changes during the period 1 July to 31 October 2010.

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

The following fees were paid to Commission members:

	Oct 2010 (4 months) \$000	Jun 2010 (full year) \$000
D Caygill	117	340
R Bentley	11	50
D Bull	17	83
L Constable	9	62
P Harris	11	65
R Sowry	10	52
S Rodger	-	5
	<b>175</b>	<b>657</b>

## 18. Rulings Panel remuneration

	Oct 2010 (4 months) \$000	Jun 2010 (full year) \$000
Gael Webster	26	29
Peter Dengate Thrush	13	24
John Isles	9	24
John O'Sullivan	12	24
Craig Taylor	12	24
	<b>72</b>	<b>125</b>



## 19. Advisory group and working group fees

		Oct 2010 (4 months) \$000	Jun 2010 (full year) \$000
Retail and Consumer Advisory Group	Keith Tempest (Chair)	1	1
	Anne Herrington	0	3
	Peter Rutledge	1	4
	Ralph Matthes	0	1
	Scott Harnett	1	2
Market Development Advisory Group	James Moulder (Chair)	1	6
	John Walsh	0	1
	Stephen Peterson	0	2
	Sue Chetwin	1	2
Investment Advisory Group	Bill Heaps (Chair)	1	14
	Stephen Lewis	0	4
Security Advisory Group	John Scott (Chair)	0	7
	Molly Melhuish	0	4
	Terrence Currie	0	5
Locational Price Risk Technical Group	Carl Hansen (Chair)	0	17
	Bill Heaps (Chair)	1	0
	Ralph Matthes	1	1
Scarcity Pricing and Default Buyback Technical Group	James Moulder (Chair)	6	8
	Graham Pinnell	4	5
	Molly Melhuish	3	3
	Sue Chetwin	2	2
Transmission Pricing Technical Group	Carl Hansen (Chair)	0	13
	John Scott	5	0
AGC Technical Stakeholder Group	Terrence Currie	1	1
AMI Working Group	Nick Bennetts (Chair)	10	7
Standing Data Formats Group	Nick Bennetts (Chair)	2	3
		<b>41</b>	<b>116</b>

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

## 20. Related party transactions

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

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

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

		Transaction value		Balance outstanding	
		Oct 2010 (4 months) \$000	Jun 2010 (full year) \$000	31 Oct 2010 \$000	30 Jun 2010 \$000
Roger Sowry (Commissioner)	Director of Citylink (provider of broadband services to the Commission)	1,328	3,837	-	-

## **21. Financial instrument risks**

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

### **Interest rate risk**

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

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

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

### **Credit risk**

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

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

### **Liquidity risk**

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

### **Currency risk**

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

## **22. Capital management**

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

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

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

## **23. Post balance date events**

The Electricity Commission was dissolved on 31 October 2010. All key assets transferred to the Electricity Authority on 1 November 2010. No significant events which would materially affect the financial statements have occurred between the 31 October 2010 and the date of signing the financial statements.

## **24. Explanation of major variances against budget**

These financial statements report actual results for the four month period from 1 July 2010 to 31 October 2010 when the Commission was dissolved. The Commission's 2010-2011 SOI provides budget information for the full 2010/11 financial year. A comparison of actual results against the SOI budget is therefore not meaningful and no commentary is provided.

The Commission will carry forward any underspent appropriation to the Electricity Authority, with the exception of the Electricity Efficiency appropriation, which will be transferred to EECA.

## **Statement of accounting policies for the four month period ended 31 October 2010**

### **Reporting entity**

The reporting entity is the Electricity Commission, which is a Crown agent in terms of the Crown Entities Act 2004 and the Public Finance Act 1989. The Commission was established under the Electricity Act 1992 and was disestablished as at 31 October 2010 under the Electricity Industry Act 2010.

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

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

The financial statements for the Electricity Commission are for the period 1 July to 31 October 2010, and were signed by Brent Layton and Roger Sowry on 14 March 2011.

### **Basis of preparation**

#### **Statement of compliance**

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

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

#### **Measurement base**

The financial statements have been prepared on an historical cost basis, except where modified by the revaluation of certain items of property, plant and equipment. The accounting policies that materially affect the measurement of financial performance, financial position and cash flows are set out below and have been applied consistently to all periods presented in these financial statements.

#### **Functional and presentation currency**

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

#### **Budget figures**

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

#### **Comparative figures**

Comparative figures are for a full financial year. Information has been reclassified, where necessary, to achieve consistency in disclosure with the current year.

#### **Actual figures**

Actual figures are for the four months of the Electricity Commission prior to dissolution from 1 July 2010 to 31 October 2010. These figures are therefore not directly comparable with budget and comparative figures which are for a full financial year.

#### **Accounting estimates and assumptions**

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

### **Dissolution of the Electricity Commission and going concern**

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

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

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

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

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

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

- NZ IAS 24 *Related Party Disclosures (Revised 2009)* replaces NZ IAS 24 *Related Party Disclosures (Issued 2004)* and is effective for reporting periods commencing on or after 1 January 2011. The revised standard:
  - i Removes the previous disclosure concessions applied by the Commission for arms-length transactions between the Commission and entities controlled or significantly influenced by the Crown. The effect of the revised standard is that more information is required to be disclosed about transactions between the Commission and entities controlled or significantly influenced by the Crown.
  - ii Provides clarity on the disclosure of related party transactions with Ministers of the Crown. Further, with the exception of the Minister of Energy and Resources, the Commission will be provided with an exemption from certain disclosure requirements relating to transactions with other Ministers of the Crown. The clarification could result in additional disclosures should there be any related party transactions with Ministers of the Crown.
  - iii Clarifies that related party transactions include commitments with related parties.

NZ IFRS 9 Financial Instruments will eventually replace NZ IAS 39 Financial Instruments: Recognition and Measurement. NZ IAS 39 is being replaced through the following 3 main phases: Phase 1 Classification and Measurement, Phase 2 Impairment Methodology, and Phase 3 Hedge Accounting. Phase 1 on the classification and measurement of financial assets has been completed and has been published in the new financial instrument standard NZ IFRS 9. This uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in NZ IAS 39. The approach in NZ IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in NZ IAS 39. The new standard is required to be adopted for the year ending 30 June 2014.

### **Significant accounting policies**

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

## Revenue

### *Crown revenue*

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

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

### *Levies*

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

### *Spot revenue*

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

### *Interest*

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

## Leases

### *Operating leases*

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

## Cash and cash equivalents

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

## Receivables and prepayments

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

## Property, plant and equipment

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

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

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

### *Depreciation*

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

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

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

**Intangible assets**

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

*Amortisation*

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

Computer software	3–8 years
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**Impairment of non-financial assets**

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

**Payables and accruals**

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

**Employee entitlements**

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

*Annual leave*

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

*Sick leave*

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

*Long service leave*

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

*Superannuation*

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

**Income tax**

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

**Goods and services tax (GST)**

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

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

## Part two—report against the GPS

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

The table below provides a summary of the GPS requirements and reports on the Commission's progress against those requirements to 31 October 2010.

GPS para.	GPS requirement	GPS performance standard for 2010/11	Result to 31 October 2010
<b>1. Commission powers and approach</b>			
1–3	General expectations on process, approach and consultation	Ongoing requirements	The requirements are being met.
<b>Consultation</b>			
4–5	Consultation processes	Ongoing requirements	Seven consultation processes were completed during the 1 July to 31 October 2010 period.  Eight rule changes were concluded during the 1 July to 31 October 2010 period.
5	Consultation protocol	Maintain	The protocol has been published and is being observed.
6	Consultation with the Ministry of Consumer Affairs	Ongoing activity	The requirements are being met.
<b>Innovation</b>			
7	Encouraging innovation in Commission work	Ongoing requirements	The requirements are being met.
<b>Information</b>			
8	Information collection, analysis and dissemination	Ongoing activity	The Commission has published extensive information on its website, including:  <b>Commission update</b> —weekly updates on operational matters.  <b>Notes from the Chair and updates from the General Manager</b> —periodic updates on key issues and initiatives.  Regular statistical reports have been published for the wholesale and retail markets.
8	Centralised dataset (CDS)	Two CDS updates	CDS updates were published in December 2009 and May 2010. Work was undertaken on a further update, which the Authority subsequently published in November 2010.



GPS para.	GPS requirement	GPS performance standard for 2010/11	Result to 31 October 2010
<b>Administration of regulations and rules</b>			
9	Monitoring and compliance with the Rules and regulations	Ongoing monitoring and compliance  Enforcement, if necessary	A total of 88 notified breaches were closed in the 1 July to 31 October 2010 period.
<b>2. Security of supply</b>			
<b>Security of supply background, key requirements and objective for the Commission</b>			
10–16	Winter 2008 Review		Priority actions are included in the <b>Market Development Programme</b> (MDP)—see GPS paragraph 67.
<b>Security of supply policy</b>			
17–19, 37	Implement reserve energy review recommendations	No action required	No action required.
<b>Information, forecasting and monitoring</b>			
20–23	Information, forecasting and monitoring	Ongoing requirements	Regular security of supply updates were published on the website, including hydro risk curves (replacing the Minzone) and assessments of risk to security of supply (Riskmeter).
<b>Hydro storage guidelines</b>			
24–25	Hydro storage guidelines	Included as part of the annual security assessment	An update to the hydro storage guidelines was published in June 2009. A further update was published in February 2010.
<b>Reserve energy</b>			
26–32	Contracting reserve energy capacity	Annual Security Assessment report published by 31 December 2010	The <i>Annual Security Assessment 2009</i> was last published on 1 March 2010.
<b>Emergency management</b>			
33–34	Response planning and contingency arrangements	Implement reserve energy and emergency options as needed (see output class 3)  All scheduled participants to have approved Participant Outage Plans (for rolling outages)  Becomes business-as-usual under current regulations.	The <i>Security of Supply Outage Plan</i> (SOSOP), covering rolling outages as a last-resort contingency measure, was published in October 2009. Most parties who must prepare participant outage plans (POPs) under the Electricity Governance (Security of Supply) Regulations 2008 have done so and these have been approved.
<b>Levy</b>			
35–36	Cost and recovery from reserve energy requirements	Ongoing arrangements	Ongoing arrangements met.



GPS para.	GPS requirement	GPS performance standard for 2010/11	Result to 31 October 2010
<b>3. Consumer protection</b>			
<b>Domestic consumer contracts</b>			
38–41	Domestic consumer contracts	<p>Ongoing monitoring</p> <p>Complete first annual review by 30 June 2011</p>	<p>A final paper on the approach to domestic retail contracting arrangements was published in May 2010 including voluntary principles and minimum terms.</p> <p>A baseline review of alignment between retailers' domestic contracting arrangements and voluntary principles and minimum terms commenced in June 2010. A consolidated report was published on 20 September 2010.</p> <p>(Also covers GPS paragraph 103.)</p>
<b>Low fixed charges</b>			
42–43	Monitoring the Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004	<p>Ongoing monitoring</p> <p>Enforcement, if necessary</p>	As a result of feedback received and research carried out in 2008/09, and consistent with the overall advisory function, a review was undertaken of the effectiveness of the Regulations. Advice was provided to the Ministry in December 2009.
<b>Arrangements for the benefit of low-income and vulnerable domestic consumers</b>			
44–45	Guidelines on arrangements to assist low-income and vulnerable domestic consumers	<p>Ongoing monitoring</p> <p>Recommend regulations, if necessary</p> <p>Complete annual review by 31 December 2010.</p>	<p>Compliance with the guideline is under continuous review.</p> <p>In October the Commission initiated the annual review of retail companies' compliance with the Guideline on Arrangements to Assist Vulnerable Consumers (VC Guideline) and Guideline on Arrangements to Assist Medically Dependent Consumers (MDC Guideline). Information requests have been issued and responses are due by 26 November 2010.</p>
<b>Arrangements in the event of retailer insolvency</b>			
46	Arrangements in the event of retailer insolvency	Project on hold pending establishment of the Electricity Authority	Based on feedback from consultation and Ministerial Review recommendations, this project was placed on hold.
<b>Consumer complaints resolution system</b>			
47–53	Development and approval of consumer complaints resolution scheme	<p>Ongoing monitoring</p> <p>Consideration of any change proposals</p>	<p>In December 2009 the Commission notified approval of the Electricity and Gas Complaints Commission Scheme and this came into effect on 1 April 2010. Monitoring has commenced.</p> <p>On 30 September 2010, the Electricity Commission approved changes to the Constitution for the Electricity and Gas Complaints Commissioner Scheme.</p> <p><i>NB this work was transferred to the Ministry of Consumer Affairs on 1 November 2010.</i></p>
<b>4. Electricity efficiency</b>			
55	Electricity Efficiency Potentials Study	Ongoing research to support programme design	Specific studies to provide more detailed information on efficiency potentials in certain sectors have been carried out and made available (e.g. the BRANZ residential lighting survey).
56–60	General requirements, inter-agency work	Ongoing requirements	The requirements were met. Efficiency efforts were coordinated with EECA and other relevant agencies.

GPS para.	GPS requirement	GPS performance standard for 2010/11	Result to 31 October 2010
60	Memorandum of understanding (MOU) with EECA	Ongoing requirements	The MOU was last updated in November 2008.
<b>Other arrangements and programmes</b>			
<b>Generation</b>			
62	Hydro spill information disclosure	Ongoing industry reporting of hydro spill data under a voluntary arrangement	Industry reports were published on the Commission's website.
<b>Conveyance</b>			
63	Load management		See the MDP report under GPS paragraph 67— <b>Property rights for load management project.</b>
<b>End use</b>			
64, 115	Metering technology	<p>Ongoing monitoring of the operation of the Advanced Meter Infrastructure (AMI) Guidelines</p> <p>Complete update of AMI Guidelines, as recommended to the Minister in December 2009</p> <p>Complete formats for information transfer between AMI providers and users</p>	<p>Operation of the Advanced Metering Infrastructure Guidelines is being monitored and a report was provided in December 2009. Amendments to the AMI Guidelines were proposed for consultation in March 2010 and are intended to be finalised early in the 2011 calendar year.</p> <p>The Advanced Metering Infrastructure Working Group (AMIWG) was established to:</p> <ul style="list-style-type: none"> <li>Consider the addition of new interfaces relating to information exchanges between AMI system providers, and between system providers and users</li> <li>Recommend changes to existing interfaces for consideration by the Standing Data Formats Group</li> <li>Promote awareness and use of interfaces and standardised communication media within the industry.</li> </ul> <p>The working group has completed this work and has developed a number of standardised protocols for AMI information exchange. These are expected to be consulted on by the Authority early in the 2011 calendar year.</p> <p>(See also the report about the Part D review under GPS paragraph 115.)</p>
64	Demand-side initiatives following from Market Design Review		See the MDP report under GPS paragraph 67— <b>Demand side initiatives.</b>
64	Efficient lighting	Implement phase two of RightLight, including additional work on improving awareness and quality of information, to enable consumers to make informed choices (year two of a three year programme).	<p>The lighting programme is delivering estimated savings of 441 GWh per annum as at 31 October 2010.</p> <p>The RightLight website, launched in June 2009, had over 183,000 visitors to 31 October 2010.</p> <p>In addition the RightLight programme has delivered targeted information and training to sales staff at major DIY and lighting stores across New Zealand. Promotion of the site and the benefits of efficient lighting has also continued online, at point-of-sale and in print.</p> <p>Feedback from the lighting industry indicates the programme is having a significant impact on the sale of efficient lamps to both the residential and business sectors.</p>

GPS para.	GPS requirement	GPS performance standard for 2010/11	Result to 31 October 2010
64	Efficient lighting (continued)	Implement phase two of the road lighting programme, building on 2009/10 development and rollout, to ensure resources are relevant and used by territorial authorities.	An online street-lighting resource was released in December 2009.  Supporting training was successfully completed with over 200 participants from councils and lighting consultancies.
		Commence new financial programmes to support commercial and industrial efficient lighting in July 2010 (tendered in March 2010).	In July 2010 a new programme was launched to provide financial assistance to improve the efficiency of lighting in the commercial and industrial sectors. Four providers were appointed. The programme will be completed in June 2011.
		<i>Heated towel-rail timer information programmes (not in SOI)</i>	An RFP to promote the use of heated towel-rail timers in homes was issued in April 2010. Providers were appointed as part of an integrated programme to work alongside heated towel-rail suppliers on the roll out of a timer programme in early 2011.
64	Industrial electricity efficiency (includes compressed air and electric motors)	Continue compressed air auditing scheme	209 assessments and audits have been completed, along with establishing related action plans with the client sites. Estimated savings total 26.5 GWh per annum as at 31 October 2010.  Four auditors have been accredited under the compressed air auditor accreditation scheme with several more pursuing accreditation.  Technical content of an air efficiency rating scheme for small to medium enterprises (SME) compressed air systems was completed. The scheme was piloted by three compressed air service providers and a full roll out is targeted for early in 2010/11.
		Continue motor bounty scheme until January 2011	Savings of 9.4 GWh per annum have been estimated from the bounty scheme to 31 October 2010. The scheme was extended to 31 January 2011.  A motor policy guide, to guide business decisions on motor replacement versus repair, received positive feedback during its trial phase. As a result of an RFP in March 2010, contracts have been awarded to four service providers who are currently piloting this policy guide on large industrial sites.
		Complete roll-out of motor rewind workshop quality scheme	The rewind workshop quality code was launched in November 2009. Twelve rewind workshops have been certified against the code and a further six workshops have their applications underway.
		Continue motor optimisation projects	The motor systems optimisation programme, which addresses motor systems efficiencies over a broad range of industrial processes, was estimated to have made savings of 2.3 GWh per annum as at 31 October 2010.
64	Commercial electricity efficiency	Ongoing monitoring of results for programmes that end on 30 June 2010	As at 31 October 2010, 151 projects were committed to, with savings estimated at 36 GWh per annum.

GPS para.	GPS requirement	GPS performance standard for 2010/11	Result to 31 October 2010
64	Commercial electricity efficiency (continued)	Launch training and information programmes (tendered November 2009)	An RFP for information and training programmes concluded in December 2009.  Contracts are now in place with two providers for the development and delivery of electricity efficiency training and accreditation programmes.
		Commence new financial programmes in July 2010 (tendered March 2010)	An RFP for funding programmes for 2010/11 was released in April 2010. Seventeen new providers were contracted. Programmes commenced July 2010.
<b>5. Renewable energy</b>			
65–66	Market to enable renewables	Ongoing application to TPM and SOO development, and transmission investment decision-making  Initiate long-term alignment of market development, and facilitation of integration of intermittent generation	No further work was carried out by the Commission on this project during the 1 July to 31 October 2010 period.  Transpower has started work on renewables-enabling transmission investments.
65–66, 67	Strategic wind project	Complete fault ride through rule changes, if needed	The Stage 2 report of the investigation to determine a suitable Fault Ride Through (FRT) requirement as part of the Electricity Governance Rules and regulations, has been released in 2009/10.  The report, by Transpower as System Operator, proposes an island based FRT envelope at this stage, because of differences in North and South Island system performance.  Draft Code changes are expected to be considered by the Electricity Authority.
		Complete frequency keeping cost allocation rule changes	A consultation paper was published in June 2010. Draft Code changes are expected to be considered by the Electricity Authority.
		Complete asset owner performance obligations (normal frequency) rule changes Complete review of asset owner performance obligations for under-frequency and voltage and initiate rule changes, if needed	A consultation paper was published in June 2010. Draft Code changes are expected to be considered by the Electricity Authority.  An investigation was initiated. This work is to be completed by the Authority.

GPS para.	GPS requirement	GPS performance standard for 2010/11	Result to 31 October 2010
<b>6. System operation and wholesale related markets</b>			
67	Contracting for the operation of the electricity system and markets	Ongoing requirements (see output class 1)	Ongoing monitoring took place.
67	Addressing ad hoc matters in relation to operation of the electricity system and markets	Ongoing requirements, including addressing rule change and exemption requests	<b>Reconciliation improvement rule-changes</b> —Rule changes were recommended to the Minister concerning the reconciliation and switching process contained in parts A, E, H and J. The rule changes were gazetted on 26 July 2010 and came fully into force by 30 September 2010.
<b>67. Market development programme (MDP)</b>			
67	Scarcity pricing	Determine if scarcity pricing has positive net benefits	Developing scarcity pricing mechanisms that enable efficient investment in generation to supply energy at times of scarcity. Options were consulted on from 16 October 2009 to 7 December 2009.  Options for an administered spot price during a conservation campaign or dry-year power cuts were discussed with industry at the May 2010 MDP conference, and development of a consultation paper has commenced with the expectation that Authority will be able to publish it by December 2010.  Implementation is timed for winter 2012.
67	Default buy-back (consumer compensation scheme)	Determine if default buyback has positive net benefits  If so, finalise proposals, including draft rule changes, and draft implementation plans	<b>On track for Code change completion by April 2011.</b>  Consultation has been completed on proposed Code changes.  The objective is for Code changes to be implemented by 1 April 2011, in time for winter 2011.
67	Locational hedges	Complete changes to the Rules.  Commence implementation.	<b>On track for Code change completion by July 2011, to be implemented early 2012.</b>  A consultation paper on the introduction of a locational hedge, based on a two-hub inter-island financial transmission right (FTR), was released in September 2010. Consultation closed 22 October 2010. The submissions were published in November 2010.  The Electricity Authority intends to complete Code changes by July 2011.
67	Whirinaki plant	Address requirements resulting from the Ministerial Review, as necessary	The Commission worked with the Ministry of Economic Development on the future of Whirinaki.

GPS para.	GPS requirement	GPS performance standard for 2010/11	Result to 31 October 2010
67	Transmission pricing review	Publish preferred option paper	<p>Transmission pricing options were discussed with the industry at the May 2010 MDP conference. A stage-two options consultation paper was released in July 2010 and submissions closed on 24 September 2010. The submissions have been released.</p> <p>Work commenced on an issues paper, which was handed over to the Authority.</p> <p>Any subsequent changes to Transpower's Transmission Pricing Methodology are expected to be effective from the start of the 2012 pricing year, dependent on implementation requirements.</p>
67	Distribution pricing review and contracting review (more standardised distribution tariff structures and use-of-system rules)	Complete survey and investigation, and develop a project plan to address greater standardisation of tariff structures and use-of-system rules	<p>The Distribution pricing principles and information disclosure guidelines were published on 1 March 2010.</p> <p>Information gathering has taken place with retailers, distributors and consumers in relation to increasing standardisation of distribution tariff structures. An information paper was released in advance of an industry workshop in September 2010.</p> <p>The Authority will finalise the scope of work in this area.</p>
67	Extended load control	<p>Adapted post event compliance methodology implemented</p> <p>Complete awareness programme</p> <p>Complete rule changes, if required</p>	<p>The System Operator (SO) draft assessment of a modified compliance regime has been completed. The SO is currently not in agreement with the approach set out by the Commission.</p> <p>The Authority will work with the proposed Wholesale Advisory Group to pursue a way forward.</p>
67	Multiple frequency keepers	Complete detailed design	<p>Draft detailed design discussed at technical stakeholder group in June 2010.</p> <p>Design stage initiated including addressing market integration and software specification. The SO has been contracted to complete a design proposal for a prototype system by 31 January 2011.</p>
67	Property rights for load management project	Implement recommendations of Property Rights for Load Management report	<p>Consultation took place in August-September 2009 on the provisional findings and conclusions of the property rights for load management project. A final report was published in December 2009.</p>
67	Demand-side bidding and forecasting	<p>Complete changes to the Rules</p> <p>Commence implementation</p>	<p><b>On track for Code changes to be completed by 1 November 2011.</b></p> <p>The Code change proposal has been completed, but has not been made, pending finalisation of a cost and timetable for implementation from the System Operator.</p> <p>Specifications have been provided to the System Operator (SO). The Electricity Authority and the SO are now working together to finalise the design, cost estimates, and timeline for implementation, which are expected to be confirmed by December 2010.</p>



GPS para.	GPS requirement	GPS performance standard for 2010/11	Result to 31 October 2010
67	Dispatchable demand	Determine if dispatchable demand has positive net benefits  If so, finalise proposal, including draft rule changes, and draft implementation plan	<b>On track for Code changes to be completed by June 2011.</b>  Consultation has been completed on a proposal for a dispatchable demand regime.  The objective is for Code changes to be completed by June 2011 and implementation to be completed by December 2011.
115	Review of part D of the Rules (metering)	Rule changes completed by 31 December 2010.  Implementation of changes commences January 2011 (with completion by 31 December 2011)	Consultation on proposed guidelines and standards for smart meters, switching and the development of smart networks—the Part D review—closed on 30 September 2010 and the submissions have been released.  A summary of submissions is expected to be completed by December 2010 and Code changes finalised by March 2011.  <b>Advanced metering</b> —see separate item under GPS paragraph 64.
<b>67. Non-MDP System operation and wholesale related markets work</b>			
67	Wind programme	Wind forecasting, information, dispatch flexibility—Rule changes and implementation for some enhancements completed by 31 August 2010  Other enhancement completed post 1 October 2010	<b>Initial set of initiatives arising out of the wind project</b> —work has been completed with no rule changes arising.  <b>Medium-term set of initiatives arising out of the wind project</b> —a paper on wind forecasting and market integration options was consulted on in March–April 2010.
67	Reduced gate closure	Determine if reduced gate closure has positive net benefits  If so, finalise proposal, including draft rule changes, and draft implementation plan	Consideration is being given to reducing or removing the offer and bid-gate closure rule to allow more plant flexibility to compensate for the unpredictability of intermittent generation.
67	Pricing process improvements	Review UTS processes—final decision on the need, or not, for a rule change  Complete rule change, if needed	Consultation in May 2010 proposed a rule change regarding republication of final prices, should a UTS be found, so the inconsistency in the Rules is not carried forward into the proposed Electricity Industry Participation Code. Submissions were generally supportive of the change.  Rule changes come into effect on 1 September 2010.  A further matter to be addressed by the Authority will be a time limit on the republication of final prices.

GPS para.	GPS requirement	GPS performance standard for 2010/11	Result to 31 October 2010
67	Pricing process improvements (continued)	Complete interim pricing period rule change	<p>New interim pricing period rules came into force on Friday, 1 October 2010. The rules introduce a new price type, interim prices, to complement final and provisional prices.</p> <p>Prices are now being published as interim prices for a period prior to their being published as final. This allows participants, interested parties and the Commission to review prices and make a pricing error claim to the Pricing Manager if an input or calculation error is suspected.</p>
67, 115	Electricity hedge market development	Complete survey every two years	<b>Hedge market survey</b> —the survey was last conducted in November 2009, with the report published in February 2010.
		Ongoing monitoring	<p>An outline of the hedge disclosure regime has been made available on the website, which also includes:</p> <ul style="list-style-type: none"> <li>• The annual list of nodes, and associated grid zones and location factors</li> <li>• The form to use for annual certification of disclosed information</li> <li>• Information sheets (explaining obligations contained in the Rules)</li> <li>• Examples of how to calculate contract prices for disclosure purposes</li> <li>• A guidance note (November 2009) setting out observations on compliance and tips to avoiding breaches.</li> </ul>

#### Transmission risk management

70	Transmission investment decision-making process improvement	No action planned due to proposed legislative changes	No action due to proposed legislative changes.
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## 7. Transmission

#### Connection to and use of the national grid

72–75	Grid reliability standards: Value of unserved energy (value of lost load)	Consider analysis of survey results and recommendations	This project was delayed due to difficulty obtaining data from lines companies. The data issue has since been resolved to allow the assessment to continue but has delayed the ability to update rules if required.
		Determine scope and timetable for rule changes, if any	<p>A pilot survey of consumers has commenced as a key input into determining a revised value of lost load.</p> <p>A report on the survey is expected to be published by the Authority in 2011.</p>
76	Transmission contracting arrangements (Benchmark Agreement (BA), and Interconnection Rules (ICR))	Ongoing monitoring	Arrangements are being monitored and a number of agreements have been received and published.
		Complete consultation on new schedule F6 by 31 March 2011	<p>In February - March 2010, following review of Transpower's 2009 annual report on interconnection asset capacity and grid configuration.</p> <p>Following consultation, the Commission recommended that schedule F6 of the Interconnection Rules be updated to include the information in the 2009 annual report. The Rule change came into force on 1 June 2010.</p>



GPS para.	GPS requirement	GPS performance standard for 2010/11	Result to 31 October 2010
<b>Investment in and maintenance of the transmission network, investment in minor transmission works, planning ahead, environmental effects, transmission alternatives</b>			
77, 8	Statement of Opportunities (SOO)	SOO published by 30 September 2010.	On 3 September 2010, the Commission published its 2010 Statement of Opportunities.
78–96	Grid investment decision-making	Ongoing requirements (see output class 1)	Grid investment decisions were made on several proposals, as listed in the introduction section of this report, in accordance with published timetables.
<b>Pricing for connection to and use of the national grid, and cost recovery and pricing principles</b>			
97–99, 63	Transmission pricing methodology (TPM)		See report under MDP, GPS paragraph 67 above— <b>Transmission pricing review.</b>
<b>8. Distribution</b>			
<b>Pricing methodologies</b>			
100–102	Distribution pricing methodologies		See report under MDP, GPS paragraph 67 above— <b>Distribution pricing review.</b>
<b>Use of system agreements</b>			
103	Distribution use-of-system agreements	Ongoing monitoring	See report under MDP, GPS paragraph 67 above— <b>Distribution pricing and contracting review.</b>
<b>9. Interrelationship with the Commerce Commission</b>			
104–109	Memorandum of understanding (MOU)	Update if necessary	The MOU was last updated on 28 November 2008.
<b>10. Distributed generation</b>			
111	Guidelines or standards for domestic-scale distributed generation	Publish guidelines, if required	An investigation and gap analysis has been completed. The next steps are to be determined by the Authority.
112–113	Purchase of surplus generation by retailers	Investigate the case for mandatory terms and conditions for retailer purchase of power from small scale distributed generation	Guidelines were completed as part of the model domestic contract. (Also see the report against GPS paragraphs 38–41.)  Work has been initiated to investigate mandatory terms and conditions regarding purchase by Retailers of power from small scale distributed generation. This was discussed at the Retail and Consumer Advisory Group in June 2010.  Development of a scope and project plan has commenced and was presented to the Authority board in November 2010.
<b>11. Retail</b>			
114	Market development improvements in the retail area		<b>Powerswitch</b> —the enhanced website went live in September 2009.  <b>Household energy affordability project</b> —this work is being led by the Ministry of Social Development and EECA with Commission participation and support. A literature review was published on the EECA website on 6 May 2010. The Authority will not be involved in this project.

GPS para.	GPS requirement	GPS performance standard for 2010/11	Result to 31 October 2010
115	Review of part D of the Rules (metering)		See report under MDP, GPS paragraph 67 above— <b>Review of Part D of the Rules (metering)</b> .
115	Consumer switching rules compliance	Ongoing monitoring	<p>Registry information is being monitored and exceptions noted and breach reports are being submitted to the Market Governance team when appropriate.</p> <p>On 9 June 2010 rule changes were recommended including reducing the switching timetable from 23 to 10 working days (see <b>Reconciliation improvement rule-changes</b> under GPS paragraph 67). The changes will be gazetted on 26 July 2010 and in force by 30 September 2010.</p>

#### Reconciliation of, and payment for, distribution line losses

116	Loss factors methodology—including loss factors and loss optimisation	Ongoing monitoring of Guidelines via use of Loss Factor Review Panel	<p>Guideline monitoring was given low priority as emphasis was being placed on MDP initiatives and retail audits.</p> <p>The Authority expects to consult on and release updated guidelines for industry use, by June 2011.</p>
		Revised loss factor methodology guidelines agreed by Board and published for use by industry	An issues and options paper on minimising non-technical distribution losses was prepared but was put on hold by the Commission in order to focus on higher priorities arising from the Ministerial Review.

## 12. Accountability requirements

118	Quarterly report to the Minister	Ongoing reporting	Quarterly reports are provided to the Minister.
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## Part three—other information

This report is written as at 31 October 2010. However, it should be noted that the Electricity Industry Act 2010 dissolved the Electricity Commission on 31 October 2010, prior to the publication of the report.

### The Electricity Commission

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

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

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

The Government policy statement on electricity governance (GPS) sets out the Government's expectations of the Commission, including the objectives and outcomes that the Government wants the Commission to give effect to.

### Governance and management

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

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

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

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

### Organisational health and capability

The SOI sets out the following main operational performance measures for 2010/11.

Main operational performance measures	Result to 31 October 2010
1. The consultation protocol is followed, when applicable	Achieved
2. Manage within appropriations	Achieved
3. Maintain a low level of staff turnover	Achieved
4. Meet good employer obligations	Achieved

**Management and capability**

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

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

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

**Leadership, accountability and culture**

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

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

**Recruitment, selection and induction**

Turnover for the 1 July to 31 October 2010 period was 9.2% (2009/10 year = 12.4 per cent).

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

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

**Employee development**

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

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

**Flexibility and work design**

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

**Remuneration, recognition and conditions**

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

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

**Safe and healthy environment**

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

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

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

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

## Risk management

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

## Value for money of the Commission's work

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

- **Appropriation consultation**—the Commission's planned work priorities and appropriations are scrutinised through public consultation in accordance with section 172ZCA of the Electricity Act 1992. The Commission provides information on its proposed work priorities and high-level information on intended expenditure. Where relevant and possible, information is provided on the potential benefits being sought in terms of net present value. The information provided allows levy payers and other interested parties to provide feedback on the value being provided by the Commission.
- **Assessment of proposed regulations**—the benefits and costs of proposed regulation or rule changes are scrutinised through public consultation process in accordance with sections 172F and 172H of the Electricity Act 1992.
- **Assessment of electricity efficiency programmes**—the Commission assesses potential costs and benefits of electricity efficiency programmes compared with the long-run marginal cost of new generation.

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

## Performance improvement actions

The Commission identified one performance improvement action for 2010/11.

Performance improvement action	Result to 31 October 2010
1. The Commission provides appropriate contributions and support to enable the smooth transition of functions to the Electricity Authority, Commerce Commission, EECA, MED and Transpower as proposed in the Electricity Industry Bill 2009. (NB subject to the passage of the Bill.)	Achieved

## Planning and reporting

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

In developing the Statement of Intent (SOI), the Commission consulted with levy payers as required by section 172ZCA of the Act. It also consulted with the industry on the projects to be included in the Workplan. The draft SOI was provided to the Minister for comment, before being finalised and tabled in Parliament after Budget day.

This Annual Report has been prepared in accordance with section 150 of the Crown Entities Act 2004. This report has been produced by the Electricity Authority (the Authority) under authority from the Minister of Finance in accordance with section 45J of the Public Finance Act 1989.

This report also provides the information on GPS performance standards required under section 172ZM of the Electricity Act 1992. The financial performance, non-financial performance, and GPS performance are audited by Audit New Zealand. The report is tabled in Parliament and then published on the Electricity Authority website: [www.ea.govt.nz](http://www.ea.govt.nz)

### **Directions issued by ministers**

There were no directions issued by Ministers in the period 1 July to 31 October 2010 applicable to the Commission.

## **Board, committees and advisory groups**

### **Board**

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

The Board members at 31 October 2010 were David Caygill (Chair), Richard Bentley, David Bull, Linda Constable, Peter Harris, and Roger Sowry.

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

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

### **Rulings Panel**

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

### **Advisory and project groups**

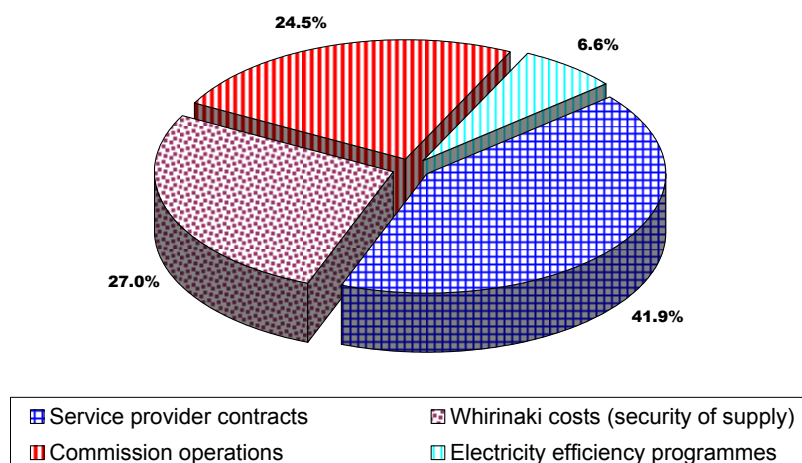
The Commission used advisory groups to provide advice on sector development. The advisory groups were:

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

## Funding and levy

The Commission is funded by appropriations from Parliament under Vote Energy. The appropriations cover all the services and activities of the Commission. Figure 2 shows the broad areas of the Commission's expenditure for 1 July to 31 October 2010.

**Figure 2: expenditure 1 July to 31 October 2010**



### Notes:

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

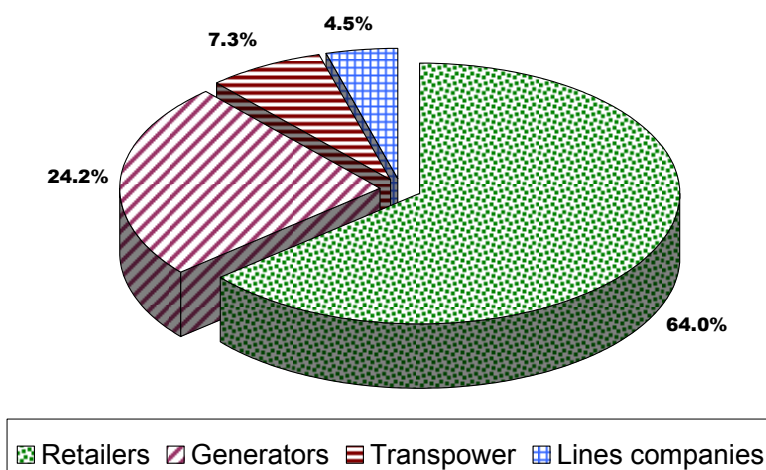
**Commission operations**—all operational costs of the Commission (except service provider costs) including rent, overheads, staff costs, Board costs, and external legal and other professional advice.

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

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

The Crown is reimbursed for the cost of the Commission by way of a levy on the electricity industry. The levy is collected by the Commission on behalf of the Crown. The various components of the Commission's funding are levied on different sectors of the electricity industry. The amount paid by an individual company depends on the volume of activity for that company. Allocation of the levy to electricity industry sectors for 1 July to 31 October 2010 is shown in figure 3.

**Figure 3: levy allocation 1 July to 31 October 2010**



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