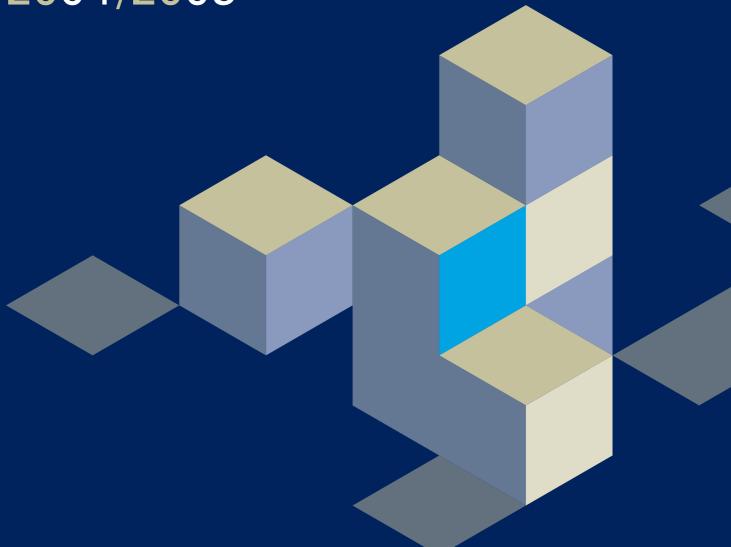


Annual Report 2004/2005



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

The Commission regulates the operation of the electricity industry and wholesale and retail markets in accordance with the Electricity Act and government energy policy.

The Commission has authority to recommend regulations to the Minister of Energy to achieve its aims. However, before proposing new regulations, the Commission will examine other means of achieving its objectives, and will consult widely with stakeholders.

The Commission's principal objectives are:

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

Report of the Electricity Commission

for the year ended 30 June 2005

Presented to the House of Representatives pursuant to section 172ZN of the Electricity Amendment Act 2004

Abbreviations used in this annual report

Act Electricity Act 1992

Board Electricity Commission board

Commission Electricity Commission

EECA Energy Efficiency and Conservation Authority

FTRs Financial Transmission Rights

GPS Government Policy Statement on Electricity Governance

GRS Grid Reliability Standards

GUP Grid Upgrade Plan

MARIA Metering and Reconciliation Information Agreement

MED Ministry of Economic Development

Minister Minister of Energy

NEECS National Energy Efficiency and Conservation Strategy

NZEM New Zealand Electricity Market

Regulations Electricity Governance Regulations 2003

RMA Resource Management Act 1991
Rules Electricity Governance Rules 2003

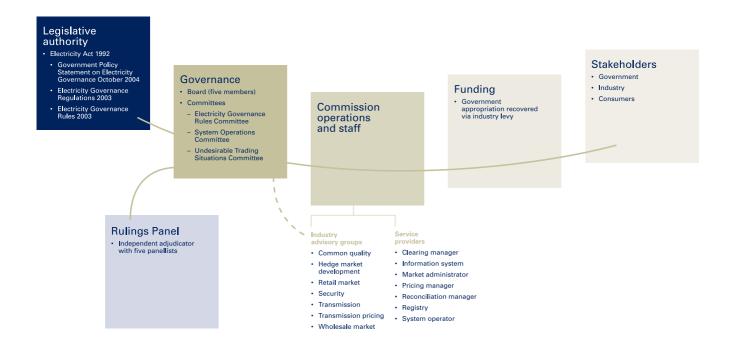
SOI Statement of Intent

SOO Statement of Opportunities
UTS Undesirable trading situation

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Governance and operational structure



Board

The Electricity Commission is governed by an executive chair and from four to eight other members appointed by the Minister of Energy. The current five board members have been appointed on the basis of their extensive knowledge of, or experience in, the electricity industry, electricity markets, regulatory processes, and public policy. Members hold office for a term not exceeding three years and may be reappointed. They have met on a two-weekly cycle for most of the reporting year and also meet at short notice if required. Their fees, listed on page 39, are funded by a levy on the electricity industry which also funds the Commission's day-to-day operations.



Roy Hemmingway, *Chair* BA JD



David Close MA(Hons) MA(Essex)



Doug Dell BE(Hons) DPA



Peter Harris BCom(Hons)



Graham Pinnell BE(Hons)



Christine Southey BA(Hons) LLB Resigned in May 2005



Roy Hemmingway

Chair's report

The year 2004/05 was the first full year of operation for the Electricity Commission.

The Commission's primary task under the Government Policy Statement of Electricity Governance (GPS) and the Electricity Act is to oversee the electricity industry to ensure it delivers electricity in an efficient, reliable, fair, and environmentally sustainable manner. I am pleased to report the industry made significant progress this year towards these goals.

The two highest priorities for the Commission in 2004/05 have been security of supply and transmission. These priorities were set by government through the GPS. The Commission has accomplished major work in these areas.

Considerable effort was undertaken in security of supply to ensure there was no repeat of the problems that have occurred in recent years. Using newly developed modelling tools, the Commission analysed lake levels, projected inflows, fossil fuel supplies, and electricity demand. The Commission concluded additional reserve generation was not needed to meet predicted winter demands in 2006 and the operation of existing plants should be sufficient to get the country through the winter without shortages, even in a one-in-60 dry-year scenario. The various factors this decision is

based on will be monitored; if market change occurs in any factor the Commission may review its decision.

Security of supply monitoring information, for example, available fuel supplies, is now available on the Commission's website for use by members of the industry and the public.

During the year under review, the Commission concluded a reserve generation capacity agreement with the Crown for the output of the Whirinaki power station. Following this contract conclusion, the Commission continued with the offer strategy developed by the Ministry of Economic Development (MED) and commenced a review of this strategy.

In transmission, the Commission accomplished several tasks and began work on significant areas. It worked with Transpower and the electricity industry throughout the year to put in place the framework to enable transmission investment. This included establishing grid-reliability standards, creating a grid-investment test against which transmission proposals are measured, producing an initial statement of opportunities, and initiating work on a benchmark transmission agreement.

In April 2005, the Minister of Energy asked the Commission to place particular emphasis on consulting with communities about alternatives to





Transpower's proposed 400kV line from Whakamaru in South Waikato, to Otahuhu in South Auckland. The Commission has a strong commitment to underpinning this responsibility with sound objective analysis. Quality analysis will ensure a process of high integrity and enable all stakeholders to have confidence in the decision-making process.

The Commission has held meetings with communities affected by Transpower's proposed transmission line upgrade from South Waikato to South Auckland. Further consultation meetings will be occurring later this year. The Commission will begin its formal consideration of Transpower's proposal in the coming months.

The electricity system remained sound during the year. Winter security of supply was not in jeopardy and indications are that investment in new generation is being made. However, two areas—wholesale and retail electricity markets and electricity efficiency—require attention.

Questions about the competitiveness of the retail market have been raised during the year. The bulk of domestic consumers remain with their incumbent retailer, which possibly intensifies regional market dominance. Rates of customers switching between suppliers are not high and no independent retailers are entering the market. There has also been increasing concern about retail prices.

The wholesale market, which trades nearly all the country's power every half hour, appears to work well in terms of ensuring prices reflect the availability of electricity and enabling dispatch of the least cost generation at any particular point in time. However, there are continuing questions about the liquidity of the hedge market and appropriate terms and conditions for hedges, and whether the market is enabling generation investment.

The GPS requires the Commission to develop market components such as financial transmission rights and hedge market liquidity. The Commission has initiated work on a series of discussion papers on market design to consider these various market components in an integrated way. The Commission is interested in the level of competition that truly exists and the appropriate level of downward pressure on prices. Work started this year will continue with an increasing focus into the next year and the Commission's release of discussion papers on this matter.

left: Security of supply monitoring information is on the Commission's website for industry and public use. *Commission senior adviser reserve energy, Gari Bickers.*

right: The Commission is committed to objective transmission analysis in its decision-making process on Transpower's proposed 400kV line from Whakamaru to Otahuhu. Commission transmission team, from left to right: Peter Smith; Carolyn van Leuven; Karen Bradley; Dr Simon Todd; and senior adviser transmission, John Gleadow.













Approach

As a regulator the Commission aims to:

- seek best available information and sound analysis in making decisions;
- be open, transparent and comprehensive in its decisionmaking:
- consult broadly with those substantially affected by its decisions;
- deliver consistency so that market participants know what to expect from electricity regulation;
- respect evidence and communicate appropriately;
- focus on long-term benefit over short-term expediency;
- limit intervention in electricity markets to those times when it is necessary to preserve or enhance market functioning; and
- conduct the highest ethical standards without favour to any interest within the electricity industry.

this and preceeding page: In April 2005, the Minister of Energy asked the Commission to place particular emphasis on consulting with communities about alternatives to Transpower's proposed 400kV line from Whakamaru to Otahuhu. The Commission has held public briefings in Waikato and South Auckland with communities affected by the proposed line, to discuss transmission alternatives, and to ensure a high process of integrity in its decision-making process on Transpower's proposal

I am pleased to report that electricity efficiency, an area in which New Zealand is deficient, is starting to gain traction. Working with the Energy Efficiency and Conservation Authority (EECA), the Commission is building a consensus amongst industry participants that electricity efficiency is far more than a traditional 'green' approach to conservation. It is potentially a large economic resource that helps to meet the country's electricity needs and reduces the need for capital spending on new generation. However, it is not a substitute for new generation.

The Commission has launched electricity efficiency pilot schemes in Auckland, Waikato, and Christchurch (see page 14), aimed at building the capacity for effective programmes. The Commission views the programme design and the delivery channels for electricity efficiency as critical success factors in actually capturing electricity efficiency as a resource. The Commission is pleased with the greater than expected interest from both the public and the industry in these pilot programmes, which are also referred to in the Review of operations (see page 18).

The Commission has no authority to direct the building of generation. However, it does have responsibilities to assist potential builders of new generation. To this end, it released for the first time a central dataset. This includes, for example, hydrology





data, half-hour metering and market data, and network configuration information. The dataset will be updated quarterly. Associated with the central dataset is a fully independent national demand forecast. Work is underway to develop regional level data forecasts, which will be released as part of an update to the central dataset in due course.

The Commission also established an intermittent generation project. Investors have high levels of interest in wind generation development and the Commission believes it is essential to enable the maximum possible integration of wind, or other intermittent or renewable generation, into the grid. This significant project will continue through the next financial year.

A challenge for the Commission in 2004/05 and for the coming year is to remain focused on its primary task, that of guaranteeing the integrity of the electricity system. The Commission has produced some 60 consultation papers across its workstreams during 2004/05 (see Appendix 1, Summary of consultation papers, 2004/05, page 46). It has not been possible for the Commission to attend to every request that comes before it. Each of the consultation or discussion papers has had to be developed, put out for submissions, submissions assessed, then considered in the board's decision-making process.

I thank the board for their immense contribution throughout the demanding year. An essential and substantial contribution was also made by Commission staff, other stakeholders who made submissions, and people who served on the Commission's advisory groups. These contributions are valued highly by the Commission. With their help, the electricity industry can continue to serve New Zealand with affordable and reliable power supplies.

Roy Hemmingway

Roy Herry

Chair

left: The Commission assists potential investors in transmission and transmission alternatives by providing information through its central dataset and national and regional demand forecasts. Commission forecasting and modelling team, from left to right: Mark Pickup; Nicky McLean; Brian Kirtlan; Dr Phil Bishop; and forecasting and modelling senior adviser, Dr Bruce Smith.

right: The Commission is working with a range of consumer representative groups to deliver consumer protection arrangements. Meeting from left to right: David Russell, Consumers' Institute; Nick Clark, Federated Farmers of New Zealand Inc; Charles Finny, Wellington Regional Chamber of Commerce; Ralph Matthes, Major Electricity Users' Group; Commission assistant adviser retail, Lisa White; George Riddell, Business New Zealand, Peter Rutledge, Grey Power; and Commission senior adviser retail, Robert Reilly.









Pilot programmes pave way for electricity efficiency—a case study in collaborative efficiency initiatives

Electricity efficiency is an important energy resource for the New Zealand economy. The cost of electricity efficiency can be significantly lower than the cost of new infrastructure. Electricity efficiency is an important complement to new generation and transmission and it is a valuable resource that must be captured.

The Commission is initiating a study to assess the extent of the electricity efficiency resource available across all sectors of the economy. This study is being integrated with the review of the National Energy Efficiency and Conservation Strategy (NEECS) being carried out by EECA.

During the year, the Commission also launched a series of electricity efficiency pilot programmes in partnership with a number of organisations. The programmes include residential electricity efficiency projects in Auckland, Waikato, and Central Canterbury, as well as industrial and commercial projects in Lower Hutt and Rotorua.

The programmes' effectiveness will be assessed and, if successful, expanded.

Residential sector programmes

- In Auckland, a pilot project is targeting 2000 homes to achieve energy savings of up to 13 per cent, or an average of \$160 a household each year. Every household will be equipped with energy efficient lamps, hot water cylinder wraps, and pipe lagging at a cost of \$89 to each household. In partnership with the Commission, Energy Smart and Mercury Energy are implementing this project and will be investigating further opportunities for savings in these households.
- In Christchurch, a campaign will encourage householders to replace 200,000 regular light bulbs with energy efficient light bulbs. The programme aims to save \$27 million over the nine-year life expectancy of the 200,000 lamps. The Commission's partners in this project are Meridian Energy Ltd

Together with Meridian Energy and Orion, the Commission is facilitating and promoting an electricity efficiency pilot programme in Christchurch that encourages householders to replace 200,000 regular light bulbs with energy efficiency light bulbs. The programme aims to save \$27 million over the nine-year life expectancy of the lamps, which are available through participating Foodstuffs supermarkets.

and Orion New Zealand Ltd. The lightbulbs will be available through participating local Foodstuffs supermarkets.

In the Waikato region, a recycling programme
offering rebates on new fridges exchanged for old
fridges, will save participants up to \$70 each a year.
The Commission is partnering with WEL Energy
Trust, Genesis Energy Ltd, and Fisher & Paykel
Holdings Ltd to offer a \$100 rebate on new fridges in
exchange for old fridges to be recycled.

Commercial sector programmes

 In Rotorua, the Commission is working with Power Solutions Ltd to implement energy savings in the Rotorua District Council buildings. The costs and benefits of the measures will be quantified and used as a case study for implementing similar energy savings measures in other buildings throughout New Zealand.

Industrial sector programmes

 The Commission is working with Nelson-based consultancy Energy Associates Ltd to trial a range of strategies to improve the efficiency of electric motor systems by addressing practices throughout the life-cycle of the motor systems. The Commission

- aims to incorporate these strategies into a national programme on completion of this pilot programme.
- The Commission is working with Demand Response Ltd and Fonterra Co-operative Group Ltd to encourage investment in efficient equipment. This is being achieved through Fonterra's Energy Reduction Project with emphasis on compressed air supplies.
- The Commission is supporting Power Solutions
 Ltd and Winstone Aggregates to implement energy
 savings measures at its quarry in Belmont, Lower
 Hutt. Metering and targeting are being used to
 determine potential energy efficiency savings, costs,
 and benefits.

This mix of programmes to achieve savings and carry out research reflects the Commission's approach to building electricity efficiency knowledge and experience over time, which can then be extended to all New Zealand electricity users.



Mervyn Englisl General Manager

Review of operations

The Commission has faced a substantial workload in the last 12 months. This has been driven by GPS requirements and work inherited from the previous self-governance arrangements. A particular challenge has been to establish a rules framework that enables assessment of proposed transmission investment. This is now largely in place.

Along with the demands on Commission staff to complete this work, there have been substantial demands on electricity sector staff, and the staff of consumer organisations and other key stakeholder organisations.

Submissions on consultation documents have required considerable input and commitment from stakeholders. The Commission has appreciated the work undertaken by submitters. The progress made by the industry during the last 12 months would not have been possible without this commitment from members of the electricity industry and other stakeholders.

The Commission's advisory groups have also played an essential role (*see Organisation information*, *page 59*). At times, the groups have had to consider papers and proposals at short notice. Their contribution has been across a wide range of issues, many of which can be technically complex. The Commission is monitoring

advisory group work and, as appropriate, refining arrangements supporting them to enable them to continue their valuable contributions.

At the point of the Commission's establishment, a basic organisational structure was put in place. During the year, a number of functions were reviewed. The organisation of corporate services was refined to strengthen financial and project management. For example, significant progress was made with the Commission moving from MED's IT platform onto its own.

Legal services was also reviewed to achieve a better balance of in-house and externally-provided legal services. Knowledge of the new regulatory regime had previously been 'exported' to external providers rather than 'internal' experience being built.

The Commission tendered for a range of external advice. The outcome of this process was the establishment of a preferred consultant panel, the shifting of the market governance role and some administrative tasks in-house, and more clearly specified service provider contracts for advice and support to advisory groups. In the new year, other service provider contracts will be put out to competitive tender.

Over the last 18 months, there has been significant change and development in regulatory rules, particularly

Achievements in brief

- Initiating demand-side and loadmanagement projects, including load-management and technology workshops leading to more efficient electricity usage.
- Starting work on market design and the inter-relationship of issues such as financial transmission rights and gross pool and energy hedges.
- Establishing an independent national level forecast to be refined at a regional level.
- Producing an Initial Statement of Opportunities to make available information about the state of the transmission system to enable interested parties to initiate innovative solutions.
- Developing a grid investment test against which transmission alternatives may be assessed.
- Initiating a consultation process to consider alternatives to assess Transpower's proposed 400kV transmission line upgrade from Whakamaru to Otahuhu.
- Starting a wind generation project to investigate the optimal integration of wind generation into the electricity system in support of generation investment.

- Developing security-of-supply monitoring procedures online along with models and policies.
- Publishing the first version of the Commission's centralised dataset to assist market participants making investment decisions.
- Holding public forums in Christchurch and Wellington to advance draft model contracts setting out minimum terms and conditions offered by retailers and/or distributors for consumer protection.
- Commencing a project on how to balance the rights and duties of low-income consumers with the rights and duties of electricity retailers.
- Providing independent analysis to the Waitaki Catchments Water Allocation Board regarding the impact of its draft decision on the electricity sector and consumers.
- Establishing market governance functions to carry out investigations into breaches and reach settlements between parties.
- Implementing rule changes in the wholesale area to improve the information provided to participants, the consistency of the trading rules, and the process required to provide interruptible load.

relating to transmission. These new frameworks will take some time to be understood, and refinements may be necessary over time. The Commission will be seeking to create more opportunities for discussion with interested parties as these frameworks are implemented.

The Commission has developed a successful compliance regime, which concentrates on achieving compliance and good practice instead of imposing penalties.

Only two breaches were referred to the Rulings Panel, representing considerable savings to the Commission, levy payers, and potential litigants.

Later in this annual report, the Commission reports on its performance against its Statement of Intent (SOI) 2004–2007 targets and GPS requirements. The need to make rapid progress on some issues has meant many of the 2004/05 targets in the SOI 2004–2007 were set as stretch targets, and while most were achieved, some were not.

A number of factors contributed to this. In some cases, the target, often a completion date for a piece of work, was too ambitious due to the complexities of the issues under consideration.

An example is the model distribution 'use-of-system' agreement. The Commission decided the best approach was to allow the industry group working on this matter to continue in its considered way, rather than prematurely seeking an outcome.

Allowing implementation beyond the SOI 2004–2007 target date has also been beneficial in establishing the electricity efficiency targets. An early focus for the Commission was to seek value for money when implementing the programmes. Through taking a deliberate approach the Commission has been able to establish partnerships with major partners within the electricity sector and also within commercial organisations. These partnerships have led to cofunding of pilot programmes of a wider scope than the Commission could have achieved on its own.

The Commission has delayed its electricity efficiency research programme to synchronise it with EECA's review of the National Energy and Efficiency Conservation Strategy (NEECS).

During the year, as the Commission came up to full strength, work processes settled and new priorities began to emerge. It has become increasingly apparent the many issues presented to the Commission by stakeholders need to be prioritised. Consequently, the Commission is building its capacity with new systems and staff for planning and interaction with stakeholders to reach a stronger consensus about priorities.

The Commission considers it is important to build relationships that are objective and professional with regard to implementing and monitoring the rules and the regulatory functions; while at the same time





enabling sound, collegial discussions to address common issues and problems in the sector.

During the year, the board has met regularly with individual companies, with CE forums, and with other key stakeholders. Staff also continue to develop their interaction with stakeholders. In particular, there has been concern to build interaction with a wider range of consumers. To this end, the Commission ran consumer workshops in Auckland, Wellington and Christchurch. It also initiated workshops in load management with consumers and the supply side of the industry.

While progress has been made in building relationships and communication, the Commission sees this as an area of continuing focus.

The service performance section that follows (see pages 24–31) provides details of how the Commission performed against its performance targets as set out in its SOI 2004–2007.

Mervyn English
General Manager

left: The Commission oversees the maintenance of appropriate common quality standards and the efficient, well-co-ordinated operation of the power system in real time. From left to right: Commission adviser operations, Mike Collis; and senior adviser system operations and common quality, Darryl Renner.

right: The Commission has developed a successful governance regime that concentrates on achieving compliance and good practice. Commission market governance team, from left to right: Peter Wakefield; Anthony Wong; manager market governance, Richard Norris; and Chavdar Petkov.

Statement of responsibility

We acknowledge responsibility for the preparation of these financial statements and for the judgements used in them.

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

In our opinion these financial statements reflect fairly the financial position and operations of the Commission for the period ended 30 June 2005.

Roy Hemmingway

Chair

Mervyn English

General Manager

28 October 2005

28 October 2005



Audit report to the readers of the Electricity Commission's financial statements for the period ended 30 June 2005

The Auditor-General is the auditor of the Electricity Commission. The Auditor-General has appointed me, John O'Connell, using the staff and resources of Audit New Zealand, to carry out the audit on his behalf. The audit covers the financial statements and the statement of service performance included in the Annual Report of the Electricity Commission for the year ended 30 June 2005.

Audit opinion

Opinion on the financial statements

In our opinion the financial statements of the Electricity Commission on pages 24 to 43:

- · comply with generally accepted accounting practice in New Zealand; and
- · fairly reflect:
 - the Electricity Commission's financial position as at 30 June 2005; and
 - the results of its operations and cash flows for the year ended on that date.

Opinion on the statement of service performance

We are required to provide assurance on the appropriateness of the information contained in the statement of service performance to enable an informed assessment to be made of the performance of the Electricity Commission against the objectives and outcomes of the Government Policy Statement on Electricity Governance (GPS) and against the performance standards in the Statement of Intent for the year ended 30 June 2005.

While the information contained in the statement of service performance is not inappropriate, we consider that the performance standards are largely task oriented and short-term in focus. We expect the Electricity Commission to move towards more outcome based reporting in future periods to demonstrate achievement of GPS objectives and outcomes.

In our opinion, except for the need to further enhance the appropriateness of the performance standards as outlined above, the statement of service performance of the Electricity Commission on pages 24 to 31:

- complies with generally accepted accounting practice in New Zealand; and
- contains adequate and accurate information about the performance of the Electricity Commission against:
 - the objectives and outcomes of the GPS; and
 - the performance standards in the Statement of Intent for the year ended 30 June 2005; and

- enables an informed assessment to be made of the performance of the Electricity Commission against:
 - the objectives and outcomes of the GPS; and
 - the performance standards in the Statement of Intent for the year ended 30 June 2005.

The audit was completed on 28 October 2005, and is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the board and the Auditor, and explain our independence.

Basis of opinion

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

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

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

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

Audit procedures generally include:

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

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

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

Responsibilities of the board and the Auditor

The board is responsible for preparing financial statements and a statement of service performance in accordance with generally accepted accounting practice in New Zealand. The financial statements must fairly reflect the financial position of the Electricity Commission as at 30 June 2005 and the results of its operations and cash flows for the year ended on that date. The statement of service performance must contain appropriate, adequate and accurate information about the performance of the Electricity Commission—and enable an informed assessment to be made of the performance of the Electricity Commission—against the objectives and outcomes of the GPS and the performance standards in the Statement of Intent for the year ended 30 June 2005. The board's responsibilities arise from the Public Finance Act 1989 and the Electricity Act 1992.

We are responsible for expressing an independent opinion on the financial statements and statement of service performance and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001, the Public Finance Act 1989, and the Electricity Act 1992.

Independence

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

In addition to the Audit we have carried out an Assurance Audit pursuant to section 172ZO of the Electricity Act 1992. We also carried out assurance assignments with respect to the levy model for 2005, the calculation of levy, and in relation to amendments to the Electricity Act 1992. Other than the audit and the above assignments we have no relationship or interests in the Electricity Commission.

John O'Connell

Audit New Zealand

John Stornell

On behalf of the Auditor-General

Wellington, New Zealand

Matters relating to the electronic presentation of the audited financial statements

This audit report relates to the financial statements of the Electricity Commission for the year ended 30 June 2005 included on the Electricity Commission's website. The Commission is responsible for the maintenance and integrity of its website. We have not been engaged to report on the integrity of the Commission's website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 28 October 2005 to confirm the information included in the audited financial statements presented on this website.

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

Statement of service performance

The statement of service performance reports on actual achievement against performance targets and measures listed in the Electricity Commission Statement of Intent (SOI) 2004–2007.

The SOI 2004–2007 sets out the Commission's performance targets and measures for 2004/05. They are the annual performance standards required by section 172ZL of the Electricity Act.

The Commission's completion of the tasks précised in the Performance targets and measures for 2004/05 section (see SOI 2004–2007, pages 23–26) indicates its focus on consultation, response to submissions, and delivery of substantial, high-quality work.

Table 1 following, reports against the SOI 2004–2007 targets and measures for 2004/05 and summarises the Commission's measurable work undertaken during 2004/05.

Table 1: Report against the Statement of Intent 2004–2007 performance targets and measures (see SOI 2004–2007, pages 23–26)

| GOVERNMENT OBJECTIVE | GPS REQUIREMENT (one–three years) | PERFORMANCE MEASURE FOR 2004/05 | TARGET 2004/05 | STATUS |
|--|---|--|----------------|--|
| Principal objectives, Electricity Act, 1992: • to ensure that electricity is produced and delivered to all classes of consumers in an efficient, fair, reliable, and environmentally sustainable manner; and • to promote and facilitate the efficient use of electricity. | The model domestic consumer contracts have been drafted to ensure that consumer contracts 'reflect the reasonable expectations of consumers' and contain balanced and fair arrangements and the provision of reliable supply. The Commission will complete the model domestic consumer contracts, release them for consultation, and then monitor uptake of the contracts by retailers. (GPS, paragraphs 12–14) | Draft-domestic consumer contracts released for consultation. | March 2005 | Achieved. Draft domestic consumer contracts published for consultation, September 2004. Revised contracts published April 2005, before stakeholder workshop, April 2005. |
| | The system operator's procurement plan is a document that sets the policies and processes required for the real-time operation of the national grid. | Procurement plan recommended to Minister. | Aug. 2004 | Achieved. |
| | The Commission is required each year to review the system operator's policy statement and recommend to the Minister of Energy whether the policy statement should be included in the Rulebook. | Policy statement recommended to Minister. | June 2005 | Achieved, July 2005. Commission requested and was granted extension, in recognition of complexities of 2005 policy statement and related Act and rules processes. |

| GOVERNMENT OBJECTIVE | GPS REQUIREMENT (one-three years) | PERFORMANCE MEASURE FOR 2004/05 | TARGET 2004/05 | STATUS |
|---|---|--|----------------|--|
| Principal objectives, Electricity Act, 1992: • to ensure that electricity is produced and delivered to all classes of consumers in an efficient, fair, reliable, | The Commission plans to promote the efficient use of electricity by end users. (GPS, paragraph 31) | Establish a set of electricity efficiency pilot programmes. | March 2005 | Contracts signed between May and July 2005, with programme providers to implement pilot programmes covering domestic lighting, hot water and refrigeration, commercial lighting, and industrial motors. |
| and environmentally sustainable manner; and to promote and facilitate the efficient use of electricity. Energy and other resources are used efficiently. Specific outcome 2(a) | | Implement electricity- efficiency research programmes. | March 2005 | Commission anticipates completion of investigation programme and a report presented to the Minister by December 2005. This will enable Commission to co-ordinate investigation project with the NEECS review, which is out for tender in consultation with EECA. |

| GOVERNMENT OBJECTIVE | GPS REQUIREMENT (one-three years) | PERFORMANCE MEASURE FOR 2004/05 | TARGET 2004/05 | STATUS |
|---|--|--|----------------|--|
| Risks (including price risks) relating to security of supply are properly and efficiently managed. Specific outcome 2(b) | Security of supply policy will be developed, to include a security of supply standard, steps the Commission will take during a dry-year event including emergency measures, procurement policies for reserve energy, and protocols to manage potential conflicts of interest between the Commission's role as a contractor for reserve energy and as a regulator. (GPS, paragraphs 41–46) | Publish security of supply policy. | June 2005 | Commission published an initial security of supply policy in June 2005. It covers further definition of the one-in-60 dry-year security standard, the broad approach to monitoring security of supply, providing information, establishing an emergency zone, assessing the need for reserve energy triggering the use of contracted reserve energy, and managing conflicts of interest. Commission consulted on an emergency response plan, with interim plan due at end of 2005, and final emergency response plan incorporated into policy by April 2006. Policy consultation for reserve energy procurement concluded aspects of reserve energy tender design and review of further work, given the Commission's decision against tendering for reserve energy for 2006 and expectations that the commissioning of e3p at Huntly will meet 2007 demand growth. |
| | The Commission will contract for reserve energy (generation and contracted demand response) to provide additional security of supply beyond the level achieved by the ordinary market. (GPS, paragraphs 47–67) | Complete needs analysis for reserve energy in 2006. | Jan. 2005 | Achieved. Commission resolved not to tender for reserve energy for 2006, and will monitor the situation closely. |
| | | If necessary procure ad- ditional reserve energy for the winter of 2006. | June 2005 | No additional procurement of reserve energy required. |

| GOVERNMENT OBJECTIVE | GPS REQUIREMENT (one-three years) | PERFORMANCE MEASURE FOR 2004/05 | TARGET 2004/05 | STATUS |
|----------------------|--|---|----------------|--|
| | The Commission will publish a detailed forecast of short- and long-term on security of supply, including likely availabilities of fuels and new generation options. This will support decision-making in the industry regarding generation options. (GPS, paragraphs 38-40) | Security of Supply forecast published. | June 2005 | Achieved. Security of supply forecast and new generation information for 2006 and 2007 published within needs analysis released for consultation in November 2004. Fuels information published on the Commission website since April 2005. |
| | The Commission will develop national and regional level demand forecasts for the grid planning assumptions and detailed generation scenarios. This will support decision-making in the industry regarding transmission. (GPS, paragraph 86) | Publish detailed demand and supply forecasts. | Feb. 2005 | National demand forecast, achieved and published with the Statement of Opportunities (SOO) July 2005. Interim regional demand forecasts, achieved and published with the SOO July 2005. Regional forecasts based on revised methodology to be published with SOO 2006. |
| | The Commission will develop a centralised dataset in order to support decision-making in the industry about new investment in transmission or transmission alternatives. | Release consultation paper on contents of centralised dataset. | Dec. 2004 | Achieved. |
| | | Publish centralised dataset. | March 2005 | Dataset was published in July 2005. Extended time required for incoming data, work on the Initial Statement of Opportunities, and responses to submissions on proposals for centralised dataset. |

| GOVERNMENT OBJECTIVE | GPS REQUIREMENT (one-three years) | PERFORMANCE MEASURE FOR 2004/05 | TARGET 2004/05 | STATUS |
|---|---|--|----------------|--|
| Barriers to competition in electricity are minimised for the long-term benefit of end users. Specific outcome 2(c) | The model distribution agreement sets out model terms and conditions between retailers and distributors for the use of electricity distribution networks. This will reduce compliance costs for retailers when entering new markets. Model distribution agreements were previously developed by the industry. The Commission will undertake a review of the existing model agreements against the criteria set out in the GPS and the Commission's principal objectives. It will also analyse the uptake of existing model contracts to identify any potential barriers to implementing model agreements. (GPS, paragraph 100) | Review and update existing model arrangements. | June 2005 | Expected to be published December 2005. Review panel considering model agreements is addressing key, multi-faceted issues that have important interactions with other areas of the industry. |
| | A standard distribution pricing methodology will enable retailers to operate in multiple distribution networks on a standard pricing arrangement, thus reducing transaction costs. The Commission is liaising with the Electricity Networks Association Pricing Arrangements Working Group, which is developing a model approach to distribution pricing. This will be taken over by the Commission for refining and completion in line with the GPS and the Commission's principal objectives. (GPS, paragraph 98) | Completed model distribution pricing methodoogy released for consultation. | June 2005 | Model distribution pricing awaiting promulgation of upcoming regulations on connection of distributed generation (work on these regulations led by MED), and approval of a transmission pricing methodology, targeted December 2005. Revised target for publication of a model distribution pricing methodology, June 2006. |

| GPS REQUIREMENT (one-three years) | PERFORMANCE MEASURE FOR 2004/05 | TARGET 2004/05 | STATUS |
|--|---|--|---|
| The Commission will publish a grid investment test to support transmission decisions. The grid investment test is an economic test designed to reflect an appropriate balance between different levels of reliability and the value of energy at risk. | Publish draft grid investment test for public consultation. | Oct. 2004 | Achieved. Published September 2004. |
| | Make final recommendation to Minister on grid investment test. | Dec. 2004 | Achieved. Recommendation made December 2004. |
| The Commission is required to publish a SOO. The SOO will enable the identification of potential opportunities for efficient management of the grid, including investment in upgrades and investment in transmission alternatives. (GPS, paragraphs 86–88) The Commission is to oversee the development of financial transmission rights (FTRs) in accordance with the GPS and to formulate and make recommendations concerning regulations and rules relating to FTRs in accordance with the Act. (GPS, paragraph 78, appendix one) | Release Draft Initial SOO for consultation. | March 2005 | Draft Initial SOO published May 2005, due to project complexity. |
| | Publish final SOO. | May 2005 | Final Initial SOO published July 2005. As above. |
| | Report to Minister on the design and development of FTRs. | June 2005 | Achieved. Commission noted in report to Minister it will consider FTRs and alternatives as part of market design work. Following policy development and consultation process, if FTRs or similar considered unnecessary, Commission will recommend to Minister GPS requirements modified. Commission aims to publish issues and options paper, March 2006. It will focus on energy-hedge and transmission-hedge issues. Views and potential options for implementing FTRs to be |
| | The Commission will publish a grid investment test to support transmission decisions. The grid investment test is an economic test designed to reflect an appropriate balance between different levels of reliability and the value of energy at risk. (GPS, paragraphs 87–89) The Commission is required to publish a SOO. The SOO will enable the identification of potential opportunities for efficient management of the grid, including investment in upgrades and investment in transmission alternatives. (GPS, paragraphs 86–88) The Commission is to oversee the development of financial transmission rights (FTRs) in accordance with the GPS and to formulate and make recommendations concerning regulations and rules relating to FTRs in accordance with the Act. | The Commission will publish a grid investment test to support transmission decisions. The grid investment test is an economic test designed to reflect an appropriate balance between different levels of reliability and the value of energy at risk. (GPS, paragraphs 87–89) The Commission is required to publish a SOO. The SOO will enable the identification of potential opportunities for efficient management of the grid, including investment in transmission alternatives. (GPS, paragraphs 86–88) The Commission is to oversee the development of financial transmission rights (FTRs) in accordance with the GPS and to formulate and make recommendations concerning regulations and rules relating to FTRs in accordance with the Act. | The Commission will publish a grid investment test to support transmission decisions. The grid investment test is an economic test designed to reflect an appropriate balance between different levels of reliability and the value of energy at risk. (GPS, paragraphs 87–89) The Commission is required to publish a SOO. The SOO will enable the identification of potential opportunities for efficient management of the grid, including investment in upgrades and investment in transmission alternatives. (GPS, paragraphs 86–88) The Commission is to oversee the development of financial transmission rights (FTRs) in accordance with the Act. Make final recommendation to Minister on grid investment test. Release Draft Initial SOO for consultation. Publish final SOO. Publish final SOO. Report to Minister on the design and development of financial transmission rights (FTRs) in accordance with the Act. |

| GOVERNMENT OBJECTIVE | GPS REQUIREMENT (one-three years) | PERFORMANCE MEASURE FOR 2004/05 | TARGET 2004/05 | STATUS |
|--|--|---|----------------|---|
| and transporting each additional unit of electricity are signalled. Specific outcome 2(e) Delivered electricity costs and prices are subject to sustained downward pressure. These will be used in developing its p transmission prici to recover its rever designated transmission prici to recover its rever designated transmission prici to recover its rever designated transmission prici to reversity pricing the subject to recover its rever designated transmission prici to reversity pricing the subject to recover its rever designated transmission prici transmission prici to reversity pricing the subject to recover its rever designated transmission prici transmission prici transmission prici transmission prici transmission prici to recover its rever designated trans | A hedge is a financial contract that allows market participants to manage risks associated with being | Release transmission pricing guidelines for consultation. | Sept. 2004 | Achieved. Published for consultation, September 2004. Transmission pricing guidelines completed and published, December 2004. Board considers guidelines provisional until January 2006. Judicial review proceedings initiated by Contact Energy Ltd and Meridian Energy Ltd challenged the Commission's decision on the guidelines. |
| | exposed to spot prices. It is considered an effective hedge market would encourage new participants to enter the wholesale and retail markets and allow existing participants to better manage financial risks. Accordingly, the Commission is required to advise the Minister about the state of the current hedge markets, and initiatives that may improve hedge market transparency and liquidity, including considering regulation and rule changes. (GPS, paragraphs 76–77) The Commission maintains the Rulebook, which supports the operation of the electricity market. The Commission and participants will work to continuously improve the Rulebook to reduce compliance and transaction costs and improve market systems. (GPS, paragraph 5) | Release electricity hedge market issues paper for consultation. | May 2005 | The project scope is complex, with diverse views being put forward from the hedge market development steering group. Market research is underway on hedge market issues, and work programme will be developed covering high-level market design issues (including hedge market). Issues and options consultation paper, to be published by March 2006, will incorporate the Commission's market design work. |
| | | Four to six wholesale issues resolved through rule changes. | June 2005 | Achieved. Nine recommendations for wholesale rule changes were gazetted during the year to 30 June 2005. |
| | | Eight to 10 retail issues resolved through rule changes. | June 2005 | Seven recommendations for retail rule changes gazetted during the year to 30 June 2005. Twenty-five rule changes recommended, including nine wholesale, seven transmission changes, and two common quality rule changes. Transmission and common quality related rule changes not included within SOI targets. |

| GOVERNMENT OBJECTIVE | GPS REQUIREMENT (one-three years) | PERFORMANCE MEASURE FOR 2004/05 | TARGET 2004/05 | STATUS |
|---|--|--|----------------|---|
| The electricity sector contributes to achieving the government's climate change objectives by minimising unnecessary hydro spill, efficiently managing transmission and distribution losses and constraints, promoting demand-side management and energy efficiency, and removing barriers to investment in new generation technologies, renewables, and distributed generation. Specific outcome 2(g) | The Commission will consider new rules to improve the process for demand-side bidding and forecasting. A benefit of introducing these rules is that more accurate information will be available to participants, on which to base demand-side decisions. | Paper on proposed rule changes to improve demand-side bidding and forecasting released for consultation. | Feb. 2005 | Due to complexities of this subject, further time is required for due consideration. Commission published consultation paper in May 2005 for comments on policy development. Consultation on proposed rule changes expected by end of 2005. |

Financial statements

Statement of financial performance for the year ended 30 June 2005

| Actual 2004 \$000 | | Note reference | Actual 2005 \$000 | Amended budget 2005 \$000 (note 14) | Original SOI budget 2005 \$000 |
|-------------------------|--|-------------------|-------------------|---|---|
| 18,533 | Crown revenue | | 55,784 | 58,127 | 51,913 |
| 72 | Interest income | | 639 | 600 | 70 |
| _ | Other revenue | | 20 | _ | _ |
| 18,605 | Total operating revenue | | 56,443 | 58,727 | 51,983 |
| | | | | | |
| 1,236 | Personnel | | 3,715 | 4,394 | 4,394 |
| 2,596 | External advice | | 4,293 | 5,019 | 5,489 |
| 2,330 | Electricity efficiency programmes | | 215 | 534 | 1,867 |
| 11,809 | Service provider contracts | (15) | 34,986 | 37,538 | 37,538 |
| - | Whirinaki contract | (15) | 5,484 | 7,333 | - |
| 18 | Advisory group fees | (10) | 201 | 303 | 303 |
| 115 | Rental of premises | | 198 | 398 | 398 |
| 75 | Travel | | 141 | 258 | 258 |
| 621 | Commissioners' fees | (12) | 852 | 804 | 804 |
| 11 | Rulings Panel fees | (15) | 23 | 407 | 407 |
| 24 | External audit fees | | 32 | 18 | 18 |
| - | Fees paid to auditors for other services | ; | 21 | _ | _ |
| 197 | Other operating costs | | 604 | 704 | 704 |
| 61 | Depreciation | | 202 | 200 | 200 |
| - | Capital charge | | - | 217 | 217 |
| 16,763 | Total cost of services | | 50,967 | 58,127 | 52,597 |
| | | | | | |
| 1,842 | Repayment to levy payers | | 5,476 | 600 | (614) |
| | | | | | |
| - | Net surplus (deficit) | | _ | - | - |

Statement of movements in equity for the year ended 30 June 2005

| Actual 2004 \$000 | | Actual 2005 \$000 | Amended budget 2005 \$000 | Original SOI budget 2005 \$000 |
|-------------------------|---|-------------------------|------------------------------------|---|
| - | Public equity as at 1 July 2004 | 869 | 869 | 869 |
| | | | | |
| 869 | Capital contribution | 530 | 530 | 530 |
| - | Total recognised revenues and expenses for the period | - | - | - |
| | | | | |
| 869 | Public equity as at 30 June 2005 | 1,399 | 1,399 | 1,399 |

Statement of financial position as at 30 June 2005

| Actual 2004 \$000 | | Note reference | Actual 2005 \$000 | Amended budget 2005 \$000 (note 14) | Original SOI budget 2005 \$000 |
|-------------------------|--|-------------------|-------------------------|---|---|
| 869 | Public equity | | 1,399 | 1,399 | 1,399 |
| | Assets | | | | |
| | Current assets | | | | |
| 6,861 | Cash and bank | (15) | 19,564 | 12,777 | 100 |
| - | Short-term investments | | - | - | 8,648 |
| 93 | Debtors and prepayments Crown debtor | | 36 190 | 30 | 30 |
| _ | Levy debtors | (5), (15) | 11,224 | 6,000 | _ |
| 6,954 | Total current assets | | 31,014 | 18,807 | 8,778 |
| | | | | | |
| | | | | | |
| 342 | Non-current assets Property, plant and equipment | (1) | 524 | 443 | 442 |
| 342 | Total non-current assets | (7) | 524 | 443 | 442 |
| J42 | Total non-current assets | | 324 | 440 | 772 |
| 7,296 | Total assets | | 31,538 | 19,250 | 9,220 |
| | Liabilities | | | | |
| | Current liabilities | | | | |
| 3,909 | Payables | (2) | 8,362 | 3,700 | 5,750 |
| 612 | GST payable | (3) | 1,193 | 1,000 | 750 |
| 33 | Employee entitlements | (4) | 125 | 150 | 70 |
| - | Levies payable to Crown | (5), (15) | 14,928 | 10,500 | _ |
| 1,842 | Provision for refund to levy payers | | 5,476 | 2,441 | 1,228 |
| 10 | Leased asset liability | | 12 | 12 | 7 |
| 6,406 | Total current liabilities | | 30,096 | 17,803 | 7,805 |
| | | | | | |
| | Non-current liabilities | | | | |
| 21 | Leased asset liability | | 43 | 48 | 16 |
| 21 | Total non-current liabilities | | 43 | 48 | 16 |
| 6,427 | Total liabilities | | 30,139 | 17,851 | 7,821 |
| | | | | | |
| 869 | Net assets | | 1,399 | 1,399 | 1,399 |
| | | | | | |

Statement of cash flows for the year ended 30 June 2005

| Actual 2004 \$000 | | Actual 2005 \$000 | Amended budget 2005 \$000 | Original SOI budget 2005 \$000 |
|-------------------------|---|-------------------------|------------------------------------|---|
| | Cash flows from operating activities | | | |
| | Cash was provided from: | | | |
| 18,533 72 | supply of outputs to the Crown | 53,752 | 58,127 | 51,913 |
| - | interest received revenues from services provided | 639 20 | 600 | 70 _ |
| 18,605 | • | 54,411 | 58,727 | 51,983 |
| | Cash was applied to: | | | |
| (1,202) | payments to employees | (3,622) | (4,244) | (4,394) |
| (11,637) | payments to suppliers | (42,541) | (51,938) | (45,433) |
| 612 | GST on operations | (435) | 500 | (491) |
| (12,227) | | (46,598) | (55,682) | (50,318) |
| 6,378 | Net cash flows from operating activities | 7,813 | 3,045 | 1,665 |
| | Cash flows from investing activities | | | |
| | Cash was applied to: | | | |
| (070) | leased assets | 24 | 60 | (8) |
| (372) | purchase of physical assets | (384) | (294) | (300) |
| (372) | Net cash flows from investing activities | (360) | (234) | (308) |
| | Cash flows from financing activities | | | |
| | Cash was provided from: | | | |
| 869 (13) | capital contributions | 530 | 530 | 530 |
| (13) | rental bond net levies payable to Crown | 3,704 | 4,500 | |
| _ | GST on levies | 1,016 | 500 | _ |
| 856 | Net cash flows from financing activities | 5,250 | 5,530 | 530 |
| | | | | |
| 6,861 | Net increase (decrease) in cash held | 12,703 6,861 | 8,341 4,436 | 1,887 6,861 |
| _ | Plus opening cash | 0,001 | 4,430 | 0,001 |
| 6,861 | Closing cash balance | 19,564 | 12,777 | 8,749 |
| | | | | |

Statement of contingencies

as at 30 June 2005

A judicial review challenging the Commission's decision on transmission pricing guidelines was ruled against the Commission. A contingency of \$70,000 exists in relation to the application for costs payable by the Commission to the applicants Contact Energy Ltd and Meridian Energy Ltd.

The Commission has no other known contingent liabilities or assets and no known guarantees under the Public Finance Act 1989 (2003/04: nil contingent liabilities).

Statement of commitments

as at 30 June 2005

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

The Commission has operating leases on office premises in two Wellington buildings. An eight-year lease was recently entered into for additional office space.

| | 2005 | 2004 |
|--|--------|---------|
| | \$000 | \$000 |
| Operating lease commitments | | |
| Not later than one year | 254 | 173 |
| Later than one year but not later than two years | 211 | 74 |
| Later than two years but not later than five years | 633 | _ |
| Later than five years but not later than ten years | 686 | - |
| Total operating lease commitments | 1,784 | 247 |
| Service provider contract commitments | | |
| Not later than one year | 26,429 | 33,747 |
| Later than one year but not later than two years | 22,841 | 27,863 |
| Later than two years but not later than five years | 38,069 | 64,104 |
| Total service provider commitments | 87,339 | 125,714 |

Notes to the financial statements

1. Property, plant and equipment

| | Cost | Current | Accumulated | Net book value |
|---|------------|-----------------------|-----------------------|-------------------|
| 2005 | \$000 | depreciation \$000 | depreciation \$000 | \$000 |
| Leasehold improvements | 139 | 69 | 106 | 33 |
| Computer hardware | 166 | 48 | 58 | 108 |
| Furniture and fittings | 147 | 25 | 32 | 115 |
| Office equipment | 70 | 11 | 13 | 57 |
| Computer software | 198 | 40 | 40 | 158 |
| Leased assets | 63 | 9 | 10 | 53 |
| Total fixed assets | 783 | 202 | 259 | 524 |
| 2004 | | | | |
| Leasehold improvements | 123 | 37 | 37 | 86 |
| Computer hardware | 112 | 12 | 12 | 100 |
| Furniture and fittings | 99 | 6 | 6 | 93 |
| Office equipment | 27 | 2 | 2 | 25 |
| Computer software | 9 | 1 | 1 | 8 |
| Leased assets | 33 | 3 | 3 | 30 |
| Total fixed assets | 403 | 61 | 61 | 342 |
| | | | | |
| 2. Payables | | | | |
| | | | 2005 | 2004 |
| | | | \$000 | \$000 |
| Service providers | | | 2,810 | 2,884 |
| Market support | | | 344 | _ |
| Whirinaki contract payments (May and June 2005) | | | 3,692 | - |
| Other creditors and accruals | | | 1,516 | 1,025 |
| Total accounts payable | | | 8,362 | 3,909 |
| | | | | |
| 3. GST payable | | | | |
| | | | 2005 | 2004 |
| | | | \$000 | \$000 |
| Levy invoices excluding security of supply | (May 2005) | | 533 | _ |
| Security of supply levy invoices (April and | | | 483 | _ |
| Commission operations | | | 177 | 612 |
| Total GST payable | | | 1,193 | 612 |
| | | | | |
| 4. Employee entitlements | | | | |
| | | | 2005 | 2004 |
| | | | \$000 | \$000 |
| Annual leave | | | 125 | 33 |
| Total employee entitlements | | | 125 | 33 |
| | | | | |

5. Levy debtors and levies payable to the Crown

Levy debtors

Levy debtors represent uninvoiced and/or unpaid levies as at 30 June 2005. Levies are invoiced in the month following the levy month. The security of supply levy was established in the last quarter of the financial year and backdated to 1 April 2005.

| | 2005 \$000 | 2004 \$000 |
|--|---------------|---------------|
| Levy invoices excluding security of supply (May and June 2005) | 4,787 | _ |
| Security of supply levy invoices (April, May, and June 2005) | 6,437 | _ |
| Total levy debtors | 11,224 | _ |

Levies payable to the Crown

Levies are transferred to the Crown at the end of the month following receipt. Levies payable to the Crown represents levy debtors plus levies received but not yet transferred to the Crown.

6. Short-term deposits

As at balance date the Commission held no short-term deposits (2003/04: nil short-term deposits).

7. Finance lease liabilities

| | 2005 \$000 | 2004 \$000 |
|--|---------------|---------------|
| Not later than one year | 18 | 12 |
| Later than one year but not later than two years | 18 | 12 |
| Later than two years but not later than five years | 37 | 17 |
| | 73 | 41 |
| Future finance charges | (18) | (10) |
| Recognised as a liability | 55 | 31 |

8. Remuneration

| | Number of | Number of employees | |
|-----------------------|-----------|---------------------|--|
| Salary band | 2005 | 2004 | |
| \$100,000 - \$109,999 | 2 | 2 | |
| \$120,000 - \$129,999 | 1 | 1 | |
| \$130,000 - \$139,999 | 3 | 3 | |
| \$140,000 - \$149,999 | 1 | 0 | |
| \$150,000 – \$159,999 | 0 | 2 | |
| \$160,000 – \$169,999 | 2 | 0 | |
| \$190,000 – \$199,999 | 0 | 1 | |
| \$220,000 - \$229,999 | 1 | 1 | |
| \$230,000 - \$239,999 | 1 | 0 | |
| | 11 | 10 | |

No employees received remuneration and benefits of \$100,000 or more in the 2004 comparative financial year, as the majority of staff commenced employment with the Commission during the second half of that financial year. The comparative figures for 2004 represent the number of staff who would have received remuneration of \$100,000 or more on an annualised basis.

The general manager's annual remuneration and benefits are in the 220,000 - 229,999 band 2003/04: 190,000 - 199,999 band).

9. Related party transactions

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

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

10. Financial instruments

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

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

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

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

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

Currency and interest rate risk

Currency risk is the risk that debtors and creditors due in foreign currency will fluctuate because of changes in foreign exchange rates. The Commission has no significant exposure to currency risk on its financial instruments. Interest rate risk is the risk that the Commission's return on any funds it has invested and the cost of borrowed funds will fluctuate due to changes in market interest rates. Under the Public Finance Act, the Commission cannot raise a loan without ministerial approval and all such loans have ministerial approval. Accordingly there is no interest rate exposure on funds borrowed.

11. Post balance date events

No significant events, which would materially affect the financial statements, have occurred between 30 June 2005 and the date of signing the financial statements.

12. Fees

The following fees were paid to and earned by Commission members.

| | 2005 \$000 | 2004 \$000 |
|----------------|---------------|---------------|
| L H Hemmingway | 300 | 240 |
| D C Close | 95 | 52 |
| D G Dell | 100 | 61 |
| P S Harris | 88 | 54 |
| G C Pinnell | 137 | 90 |
| C B Southey | 132 | 124 |
| | 852 | 621 |

The Commission was established on 15 September 2003. Therefore, fees paid in 2004 do not represent payment for a full year.

13. Reconciliation of net operating surplus to net cash flows

| | 2005 \$000 | 2004 \$000 |
|--|---------------|---------------|
| Net operating surplus | - | - |
| Add non-cash items | | |
| Depreciation | 202 | 61 |
| Increase in employee entitlements | 92 | 33 |
| Repayments to levy payers | 5,476 | 1,842 |
| Increase (decrease) in Crown creditor | (1,842) | _ |
| Total non-cash items | 3,928 | 1,936 |
| Add movements in working capital items | | |
| (Increase) decrease in debtors and prepayments | 57 | (80) |
| (Increase) decrease in Crown debtor | (190) | _ |
| Increase (decrease) in payables | 4,453 | 4,522 |
| Increase (decrease) in GST on operations | (435) | _ |
| Net working capital movements | 3,885 | 4,442 |
| Net cash flows from operating activities | 7,813 | 6,378 |

14. Reconciliation of Statement of Intent budget to amended budget

| | \$000 |
|---|---------|
| Total operating revenue per Statement of Intent 2004–2007 | 51,983 |
| Expense transfer to 2005/06—wind project | (230) |
| Expense transfer to 2005/06—electricity efficiency | (1,333) |
| New appropriation—Whirinaki | 7,333 |
| New appropriation—litigation fund | 444 |
| Increase in expected interest income | 530 |
| Total operating revenue per amended budget | 58,727 |
| Total cost of services per Statement of Intent 2004–2007 | 52,597 |
| Expense transfer to 2005/06—wind project | (230) |
| Expense transfer to 2005/06—electricity efficiency | (1,333) |
| New appropriation—Whirinaki | 7,333 |
| New appropriation—litigation fund | 444 |
| Increase in expected surplus | (684) |
| Total cost of services per amended budget | 58.127 |

15. Major budget variances

Statement of financial performance

Crown revenue was lower than budget in relation to Whirinaki, electricity efficiency, and the litigation fund.

- · Whirinaki-the budget was determined prior to finalisation of the Crown contract. The funding received from the Crown reflects anticipated costs according to the contract, which were estimated to be \$1.556 million lower than budget.
- · Electricity efficiency—approval in principle was obtained for an expense transfer to 2005/06 of approximately \$0.500 million.
- · Litigation fund—the litigation fund was not required to be fully drawn down in the current financial year.

Expenditure on development projects relating to service providers was unable to be progressed during the year. The expenditure will be incurred in the next financial year.

Expenditure on security of supply under the Whirinaki contract with the Crown was \$1.849 million lower than budget for the reasons stated above.

Rulings Panel fees were below budget as no complaints were referred to the Rulings Panel during the year.

Statement of financial position

Levy debtors and levies payable to the Crown were significantly higher than budget at year end as a result of the Commission taking over management of the Whirinaki power station from 1 April 2005. This resulted in unanticipated additional levies totalling \$5.955 million for the months of April, May, and June 2005. The additional security of supply levies were invoiced in arrears at the end of the financial year.

Cash and bank is higher than budgeted due to the existence of a surplus at year end.

Statement of significant underlying assumptions

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

Statement of accounting policies

Reporting entity

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

These financial statements have been prepared in accordance with section 41 of the Public Finance Act 1989.

Measurement system

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

Particular accounting policies

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

a) Budget

The budget figures are those approved by the board at the beginning of the financial year.

The same policies are used for budgets as for the actual amounts in these financial statements.

b) Receivables

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

c) Property, plant, and equipment

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

d) Depreciation

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

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

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

All assets are assumed to have no residual value.

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

e) Gains/losses on fixed assets

Realised gains and losses arising from the disposal or sale of physical assets are recognised in the statement of financial performance in the period in which the transaction occurs.

f) Provision for employee entitlements

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

g) Taxation

The Commission is a public authority in terms of the Income Tax Act 1994 and consequently is exempt from income tax

h) Revenue recognition

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

i) Goods and services tax (GST)

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

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

j) Leases

Leases are classified as operating leases where the lessor retains all the risks and rewards incident to ownership. Operating-lease costs are recognised on a systematic basis over the period of the lease.

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

k) Financial instruments

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

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

I) Statement of cash flows

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

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

m) Taxpayers' funds

This is the Crown's net investment in the Crown entity.

Changes in accounting policies

There have been no changes in accounting policy.

Statement of funding

Funding and spending

The Commission is funded by appropriations from Parliament, which cover the range of services the Commission provides.

Figure 1 shows the broad areas of the Commission's budgeted spending for 2005/06, which totals \$81.4 million.

Service provider costs—costs that cover the agreements between the Commission and the companies that provide services to keep the electricity markets operating (see Organisation information, Service providers, page 60).

Commission operations—costs incurred for all operational activities of the Commission. These include costs for rent, overheads, staff, board, and professional advice.

Electricity efficiency—costs for pilot programmes, research, and longer-term projects being established in this area.

Security of supply—predominantly costs for the Commission's contract with the Crown for the Whirinaki reserve energy plant. Also included is the cost for tendering for reserve energy, if needed.

Electricity Commission levy

The Crown is reimbursed for the cost of the Commission by way of a levy on the electricity industry. The levy is collected by the Commission on behalf of the Crown.

The Commission was underspent by \$5.476 million in the 2004/05 year. This amount will be refunded to levy payers.

Before the establishment of the Commission in September 2003, the industry paid for the operation of the electricity market under self-regulation. These costs amounted to approximately \$41 million in 2001. This sum did not include funding for security of supply or electricity efficiency programmes, which are now included with the Commission's responsibilities. The Commission's funding in 2005/06, excluding security of supply and electricity efficiency, amounts to \$48 million.

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

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

Figure 2 illustrates the percentages of the levy allocated across different parts of the industry.

Figure 1: Spending 2005/06

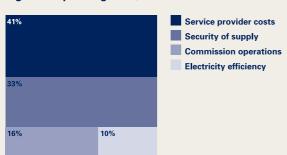


Figure 2: Levy allocation 2005/06



Compliance with good-employer obligations

The Commission approved an equal employment opportunities policy in May 2005. The Commission will report on its performance against this policy for the 2005/06 year.

At the heart of its policy, and in accordance with guidance on the interpretation of equal employment opportunities by the State Services Commission, is the merit principle. This principle ensures everyone is able to participate and compete equitably, to develop their full potential, and to be rewarded fairly for their contribution regardless of matters that are irrelevant to their skill and ability to do the job. Therefore, the policy provides equal access, consideration, and encouragement in all areas of recruitment, selection, promotion, conditions of employment, and career development.

Appendix 1

Summary of consultation papers, 2004/05

The Commission produced some 60 consultation papers during the year 2004/05 including the papers listed below with the respective submission closing dates.

Ancillary services procurement plan 14 July 2004

Reconciliation information 9 August 2004

Wiring of transformers 18 August 2004

Subcontracting of metering work 18 August 2004

Meter accuracy 18 August 2004

Frequency of meter reads 18 August 2004

Capacity reserves 24 August 2004

Forward estimate audit 1 September 2004

Embedded networks 1 September 2004

Amendments for limitation of liability and force majeure for ancillary service agents under the EGRs 8 September 2004

HVDC component flows and risk offsets 23 September 2004

Preliminary consultation paper on transmission contract structure and counterparties 25 October 2004

Reserve offer period for embedded generators

26 October 2004

Registry access 26 October 2004

Model contracts for domestic consumers 26 October 2004

Initial Statement of Opportunities 29 October 2004

Draft grid investment test 29 October 2004

Transmission pricing methodology guidelines issues paper 5 November 2004

Code of Practice D3 *12 November 2004*

Group offer and dispatch of interruptible load *3 December 2004*

Security of supply policy development *3 December 2004*

Review of instantaneous reserves event charge 6 December 2004

Recommended approach and rule changes regarding extreme voltage range obligations 8 December 2004

Tendering for reserve energy 22 December 2004

2006 Reserve energy needs analysis 23 December 2004

Transmission pricing process 19 January 2005

Testing of measuring transformers 21 January 2005

Centralised dataset 31 January 2005

Risk management emergency measures 31 January 2005

Limitation of liability and force majeure 31 January 2005

Dispatch of generators for voltage support 31 January 2005

Draft grid reliability standards 9 February 2005

State of competition and barriers report 11 February 2005

Double charging of dispensation costs 24 February 2005

Report of the profile project team 28 February 2005

Rule change 10 17 March 2005

Policy statement rule change 21 March 2005

Embedded networks guidelines 22 March 2005

Rule change proposal 65 24 March 2005

Information system definition 22 April 2005

Reconciliation rule changes proposal 62 29 April 2005

Commission funding appropriation 12 May 2005

Options for determining transmission service definitions

13 May 2005

2005 Policy statement 13 May 2005

Customer switching rule change 20 May 2005

Survey offer and dispatch 3 *June 2005*

Statement of Opportunities *10 June 2005*

Recertification of category 2 metering installations
15 June 2005

Demand-side bidding and forecasting proposal

17 June 2005

Transition of fully certified metering installations

30 June 2005

Capacity reserve proposed rule change 8 *July 2005*

Auckland transmission alternatives 13 July 2005

Wind generation investigation project 14 July 2005

Tactical wind generation project 14 July 2005

Information system definition amendment 15 July 2005

Core grid determination 20 July 2005

Procurement plan 2005/06 *22 July 2005*

Options for enabling transmission alternatives 22 July 2005

Appendix 2

Report against the requirements of the Government Policy Statement on Electricity Governance

Table 2 below summarises the GPS requirements and updates the Commission's progress against those requirements since its establishment in September 2003.

Table 2: Report against requirements of the Government Policy Statement on Electricity Governance

| issue (relevant gps paragraph) | GPS REQUIREMENT | COMMISSION'S ACTIVITIES |
|---|---|--|
| Commission powers and a | oproach | |
| Make information available (GPS, paragraph 10) | Publish high-quality information to support decision-making by market participants and to inform public debate. | The Commission published the first version of its centralised dataset in a DVD format, July 2005. Purpose of centralised dataset is to support efficient planning processes by ensuring collection and maintenance of historical information required to make decisions on transmission and transmission alternatives. It includes: |
| | | |
| | | half-hourly metering and market data; |
| | | hydrology data; and network configuration data |
| | | network-configuration data. Substantial work is underway to add generator modelling data for a second version of the centralised dataset. |
| | | The Commission published national-demand forecasts on its website and in its Initial SOO. It also published the econometric model it uses to calculate forecasts. Regional-demand forecasts are under development. Further information is available on the Commission's website. |
| Administration of regulations/rules (GPS, paragraph 11) | Monitor and enforce compliance. | The Commission has in-sourced the market compliance function previously provided by a service provider. Processes for dealing with notifications of alleged breaches are now well established. The Commission will initially carry out a fact-finding stage and, if appropriate, an investigation into an alleged breach. A subcommittee of the board (the EGR Committee) has delegated authority from the board to make decisions on alleged rule breaches onbehalf of the board. The board decided to lay complaints with the Rulings Panel about two notified breaches involving the system operator, which have been the first complaints to be laid with the Rulings Panel. |

| ISSUE (RELEVANT GPS PARAGRAPH) | GPS REQUIREMENT | COMMISSION'S ACTIVITIES |
|---|---|--|
| Consumer protection | | |
| Domestic consumer contracts (GPS, paragraphs 12–14) | Develop model domestic consumer contracts. Monitor uptake of model contracts and recommend regulation if necessary. | The Commission consulted on draft model domestic consumer contracts in September 2004. It published a further draft in April 2005, prior to stakeholder workshops in April 2005. Information is available on the Commission's website. The Commission published a draft version of model domestic consumer contracts in August 2005. The Commission will monitor uptake of model arrangements and it intends to consider, during 2006/07, if further action is required to protect consumer interests. |
| Low fixed charges (GPS, paragraphs 15–17) | Monitor compliance with and enforce low fixed-charge regulations. | Electricity (Low Fixed Charge Tariff Option For Domestic Consumers) Regulations 2004, came into force on 1 October 2004. Initial monitoring of compliance established that all retailers and distributors have provided information required by the Regulations, and all have compliant tariff regimes, except in some minor respects. The Commission is developing a compliance framework to monitor and enforce ongoing compliance. |
| Arrangements for low income consumers (GPS, paragraphs 18–19) | Develop appropriate arrangements to ensure options are available to protect the interests of low-income consumers. | The Commission is considering implementing a series of guidelines to assist low-income domestic electricity consumers. It published a consultation paper on 4 July 2005, inviting submissions on proposed guidelines. Submissions were due 8 August 2005. |
| Retailer insolvency (GPS, paragraph 20) | Implement arrangements to ensure orderly transition for consumers where retailer becomes insolvent. | The Commission expects to publish a consultation document, October 2005, covering arrangements for transitioning consumers in the event a retailer becomes insolvent. The Commission expects to put arrangements in place, June 2006. |
| Consumer complaints (GPS, paragraphs 21–24) | Ensure quality complaints system in place. | The Commission expects to approve one or more complaints resolution systems under s158G of the Electricity Act 1992 by February 2006. Provision requires every retailer and distributor to participate in an approved complaints resolution system, covering consumers, potential consumers, and land owners and occupiers, when the Commission has approved one or more such systems. The Electricity and Gas Complaints Commission is expected to apply later in 2005 for its scheme to be approved by the Electricity Commission under s158G. The Commission received a separate application from Bay of Plenty Electricity for approval of a complaints resolution scheme. The Commission is able to recommend regulations pursuant to |
| | | s172D(1)(27), if necessary, to establish a complaints resolution system and require participation. |

| issue (relevant gps paragraph) | GPS REQUIREMENT | COMMISSION'S ACTIVITIES |
|---|---|--|
| Electricity efficiency | | |
| Electricity efficiency potential (GPS, paragraph 26) | Undertake a joint review with EECA of potential and cost effectiveness of efficiency measures. | Commission expects to commence, by December 2005, a review of the potential to reduce electricity use through electricity efficiency. |
| Promote electricity efficiency and demand-side management (GPS, paragraphs 27–33) | Establish programmes to promote electricity efficiency in: • generation; • wholesale market, including demand-side management; • conveyance; and • end use. | The Commission published in October 2004 a request for expressions of interest from parties for involvement in developing a number of pilot electricity efficiency programmes. Forty-six responses were received. Negotiations were conducted with a short-list of preferred parties. Agreements were reached with four parties and negotiations are near completion with three parties to implement pilot programmes covering: • domestic lighting, hot water, and refrigeration; • commercial lighting; and • industrial motors. The Commission expects to complete plans for expanding the programmes and developing longer-term programmes based on the pilot programmes and the investigation project in March 2006. The Commission held a conference on load management and metering in May 2005. Feedback is being used to develop an integrated work programme for demand-side issues across the electricity sector. The Commission consulted in May 2005 on broad proposals to rationalise a demand-bidding process and improve demand forecasting. It will consider submissions and consult later in the 2005/06 financial year on proposed detailed rule changes. |
| Memorandum of understanding with EECA (GPS, paragraph 34) | Agree MoU with EECA. | The Commission entered into an MoU with EECA in August 2005. |

| ISSUE (RELEVANT GPS PARAGRAPH) | GPS REQUIREMENT | COMMISSION'S ACTIVITIES |
|--|--|--|
| Security of supply | | |
| Publish and monitor security information (GPS, paragraphs 38–40, 43–45, 68–71) | Publish information, including minimum hydro zone, and monitor security of supply. | The Commission publishes security of supply information on its website, including minimum hydro zone and regularly-updated risk assessments. The board receives regular reports on security levels. If the Commission's monitoring of hydro-thermal co-ordination indicates arising problems, it will consider making recommendations (as provided, GPS paragraph 71). |
| Contract reserve energy as required (GPS, paragraphs 47–59) | Carry out an analysis of reserve energy needs, and enter appropriate contracts. | The Crown announced in July 2003 it would build a new 155MW power plant to increase electricity security. The power plant was completed at Whirinaki in Hawke's Bay to provide reserve generation by winter 2004. The Commission was required to include the plant in its portfolio of reserve energy. The Commission decided in April 2004 not to seek additional reserve energy (ie, additional to Whirinaki plant) for winter 2005. The Commission resolved in January 2005 not to tender for additional reserve energy for 2006. It noted it would continue to monitor security levels and would keep open the option of tendering for demand-side reserves at a later date. The Commission concluded in March 2005 a reserve generation capacity agreement with the Crown for the output of the Whirinaki plant. The agreement came into effect on 1 April 2005. It is available on the Commission's website. The Commission sought information in June 2005 to undertake an assessment of reserve energy needs for 2006–09. The Commission intends to review its decision on the need for additional reserve energy for 2006 and assess the needs for 2007–09 inclusive. The Commission's approach to reserve energy needs assessments is outlined in its <i>Initial Security of Supply Policy</i> published June 2005. |

| issue (relevant gps paragraph) | GPS REQUIREMENT | COMMISSION'S ACTIVITIES |
|--|--|--|
| Publish security of supply policy (GPS, paragraphs 41–64, 72–74) | Publish policy or recommend regulations and rules covering: • emergency measures including provision for conservation campaign and managing non-dry-year risks; • reserve energy procurement; • trigger mechanism for reserve energy; and • management of conflicts of interest. | The Commission consulted on security of supply policy development in November 2004, and tendered for reserve energy in November 2004 and emergency measures in December 2004. The Commission published its <i>Initial Security of Supply Policy</i> in June 2005. The initial policy includes the definition of a one-in-60 dry-year security standard, a broad approach to monitoring security of supply, establishing an emergency zone, assessing the need for reserve energy, triggering the use of contracted reserve energy, and managing conflicts of interest. The completion of an interim emergency response plan is anticipated at the end 2005. A final emergency response plan is expected to be incorporated into a policy in March 2006. The Commission decided to conclude policy aspects of reserve energy tender design then review whether to proceed with further work, given it has decided against tendering for reserve energy for 2006 at this point, and the expectation that commissioning of e3p at Huntly will meet 2007 demand growth. The Commission published a consultation paper in July 2005 on the proposed Whirinaki offer strategy. |
| Review reserve energy policy (GPS, paragraphs 65–67, 71) | Carry out a review of reserve energy policy. | The Commission will initiate a review of efficiency and effectiveness of the reserve energy policy during 2006/07. The review is expected to be completed by December 2006, with recommendations to the Minister in March 2007. |

| ISSUE | | , |
|--------------------------|-----------------|-------------------------|
| (RELEVANT GPS PARAGRAPH) | GPS REQUIREMENT | COMMISSION'S ACTIVITIES |

System operation and wholesale

| Common quality and system operation (GPS, paragraph 75) | Improve rules relating to system operation, common quality, and the wholesale market. | The Commission has systems in place to receive proposals for rule changes and to prioritise work to develop amendments to rules. The Commission recommended to the Minister during 2004/05, five rule changes in part C (Common Quality) and seven rule changes in part G (Trading Arrangements) of the Rules. During 2005/06 the Commission intends to analyse lower North Island wind-generation data to identify any immediate rule changes required to parts C or G of the Rules. It also intends to investigate and develop policy to facilitate optimal integration of wind generation in the long term. Each year, the Commission recommends an amended procurement plan for ancillary services (the most recent change was gazetted on 19 August 2004); and an amended system operator policy statement (the most recent change was recommended on 7 July 2005). |
|---|---|--|
| Hedge market (GPS, paragraphs 76–77) | Improve access to robust forward prices. | The Commission is carrying out market research on hedge market issues and will also develop a work programme covering high-level market design issues, including hedge market issues, by December 2005. The Commission expects to publish an issues and options consultation paper by March 2006. |
| Transmission hedges (GPS, paragraph 78 and appendix 1) | Develop financial transmission rights. | Transmission hedge issues will be considered by the Commission as it develops its work programme covering high-level market design issues. Transmission hedge issues will be considered in a hedge market issues and options consultation paper, to be published in March 2006. (The paper will focus primarily on energy hedges). Firmer views and potential options for implementing FTRs are expected to be presented to the board in mid-2006. |

| issue (relevant gps paragraph) | GPS REQUIREMENT | COMMISSION'S ACTIVITIES | | | |
|---|--|--|--|--|--|
| Transmission | Transmission | | | | |
| Grid reliability standards (GPS, paragraphs 81–84) | Develop grid reliability standards. | The Commission published draft grid reliability standards for consultation in December 2004. Stakeholders were given a further short period to comment on a revised proposal in March 2005. The Commission recommended the Grid Reliability Standards (GRS) to the Minister on 1 April 2005. Associated rule amendments, formally notified in the <i>Gazette</i> on 14 April 2005, came into force on 13 May 2005. The Commission consulted on an approach to the determination of the core grid in June 2005. This was an important step in the process of completing the GRS framework. When the core grid is determined the capability of the grid to meet the GRS can be assessed. The Commission expects to make a recommendation to the Minister for determination of the core grid in December 2005. | | | |
| Benchmark transmission agreements (GPS, paragraph 85) | Develop benchmark transmission agreements. | The Commission is preparing draft benchmark agreements for connection to the transmission grid and/or use of the grid. The Commission undertook preliminary consultation on the structure of, and counterparties for, benchmark transmission agreements in September 2004. It consulted on high-level policy options and recommendations about the scope and content of benchmark agreements in April 2005. The Commission expects to recommend benchmark transmission agreements to the Minister during 2006. | | | |
| Statement of Opportunities (GPS, paragraph 86) | Prepare a SOO at least every two years. | The Commission published an Initial SOO in July 2005. A draft of the second SOO is to be published in 2006. | | | |
| Grid upgrade decision (GPS, paragraphs 87–89) | Make decision on approval of Transpower's grid upgrade plans including consideration of transmission alternatives. | The Commission requested and received from Transpower a grid upgrade plan (GUP) pursuant to part F of the Rules. The Commission published a consultation paper on 27 May 2005, Alternatives to Transpower's proposed Whakamaru-Otahuhu transmission upgrade. The paper gave information to and sought input by submissions from interested parties, in advance of the Commission receiving Transpower's GUP. The Commission held a series of public meetings in Waikato and South Auckland between June and September 2005 to brief interested parties about its consultation process, to hear views on alternatives to Transpower's proposed transmission grid upgrade, and to provide feedback on submissions received. The Commission expects to make a decision on approving or not approving the proposed Whakamaru to Otahuhu grid upgrade project by June 2006. A draft decision is expected to be published in February 2006. | | | |

| issue (relevant gps paragraph) | GPS REQUIREMENT | COMMISSION'S ACTIVITIES |
|--|--|--|
| Transmission alternatives (GPS, paragraphs 89–90) | Consult on mechanisms for encouraging transmission alternatives. | The Commission published a consultation document on policy options to enable consideration and provision of transmission alternatives on 31 May 2005. It expects to approve a policy framework for transmission alternatives by March 2006, and it expects to approve detailed arrangements for transmission alternatives by June 2006. |
| Transmission pricing (GPS, paragraphs 91–93) | Consult on and approve transmission pricing methodology. | The Commission consulted on transmission pricing guidelines in September 2004. After considering submissions it published the guidelines on its website in December 2004. The Commission's decision on the pricing of the HVDC was challenged successfully by Meridian Energy Ltd and Contact Energy Ltd in the High Court. This will affect Commission's future work programme in this area. |
| Distribution | | |
| Distribution agreements and pricing (GPS, paragraphs 98–100) | Develop model distribution use-of-system agreement and model approaches to distribution pricing. | The model distribution use-of-system agreements were developed under the Multilateral Metering and Reconciliation Agreement (MARIA) in 2002–03. The Commission expects to publish updated model distribution use-of-system agreements in December 2005. It expects to publish model distribution pricing methodology in June 2006. |
| Commerce Commission | | |
| Relationship with the Commerce Commission (GPS, paragraph 107) | Develop Memorandum of Understanding with Commerce Commission. | The Commission expects to develop a MoU with the Commerce Commission in June 2006. |
| Distributed generation | | |
| Connection of distributed generation (GPS, paragraph 110) | Administer regulations for connection of distributed generation. | The MED has responsibility for preparing regulations governing connection of distributed generation to distribution networks. Regulations have not yet been promulgated. |
| Sale of surplus generation (GPS, paragraphs 111–13) | Establish model arrangements to enable sale of surplus generation to retailers. | Model arrangements for retailers to purchase surplus generation from generation units owned or operated by consumers are to be included in model domestic consumer contracts (see above for GPS, paragraphs 12–14). |

| ISSUE (RELEVANT GPS PARAGRAPH) | GPS REQUIREMENT | COMMISSION'S ACTIVITIES |
|---|---|--|
| Retail | | |
| Retail competition (GPS, paragraphs 114, 118, 119, 120) | Determine arrangements to promote and facilitate greater competition, eg metering and switching issues. | The Commission invited submissions in November 2004 on a report, Analysis of the state of competition and investment and entry barriers to New Zealand's wholesale and retail electricity markets, prepared by Law and Economic Consulting Group and TWS Consulting Limited. The Commission expects to develop benchmark competition indicators during 2005/06, and is finalising arrangements for a quantitative competition study, possibly in conjunction with the Commerce Commission. |
| Reconciliation (GPS, paragraph 117) | Improve reconciliation processes for efficiency of managing distribution losses. | The Commission consulted on proposed amendments to the Rules in relation to reconciliation in February 2005. A series of workshops was held to discuss proposals in April 2005. The Commission expects to recommend a new part J of the Rules, covering reconciliation in June 2006. |

Glossary

Act

Electricity Act 1992, as amended from time to time. The 2001 and 2004 amendments of the Electricity Act (Electricity Amendment Act 2001 and Electricity Amendment Act 2004) relate directly to the Commission and the Electricity Governance 2003 (Regulations).

Ancillary service

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

Appropriation

Money voted by Parliament to fund the operations of a government department or agency.

Centralised dataset

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

Common quality

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

Consumer

Any person who is supplied electricity for consumption, which includes a residential customer, a large electricity user, a distributor, a retailer, or a generator, when supplied with electricity for consumption.

Demand-side initiative

An initiative that encourages or facilitates electricity consumers to implement demand-side management.

Demand-side management

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

Distributed generation

Generation connected to a local network rather than the national grid.

Distributor

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

Electricity Act 1992

The Electricity Act 1992 (Act), as amended by later Acts, that regulates the New Zealand electricity industry, and under which the Commission operates.

Electricity Amendment Act 2004

Enacted in October 2004, it added to and clarified the Commission's responsibilities and authorities. The changes were part of a package of government policy announcements made at the time the Commission was formed.

Electricity and Gas Complaints Commission

The Electricity and Gas Complaints Commission is a separate organisation from the Electricity Commission. It provides electricity consumers with a free and independent dispute-resolution service for complaints about their electricity lines or retail companies.

Electricity Governance Regulations 2003 and Electricity Governance Rules 2003

The Electricity Governance Regulations 2003 (Regulations) and the Electricity Governance Rules 2003 (Rules) under which the electricity market has operated since 1 March 2004.

 The Regulations include provisions related to service provider agreements, undesirable trading situations, rule breaches and exemptions, and the establishment and proceedings of the Rulings Panel. The Rules set out various authorities and responsibilities of the Commission to carry out market and system governance functions, as well as to make a number of decisions relating to Transpower and the transmission grid (part F of the Rules). These Rules (parts A, C, D, E, G, H, and I) were approved by the Minister of Energy on 18 December 2003, and took effect during February and March 2004. Part F, dealing only with transmission issues, came into force in May 2004. Part B is reserved for future use and part J, the retail reconciliation process, is under development.

Energy Efficiency and Conservation Authority (EECA)

The organisation established under section 20 of the Energy Efficiency Conservation Act 2000. It promotes energy efficiency, energy conservation, and renewable energy.

Estimates

The government's formal Budget document as released on Budget night each year. It outlines funding and performance for all government entities for the year ahead.

Financial transmission rights (FTRs)

A financial risk management product that protects against price risks arising from transmission losses and constraints.

Generator

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

Government Policy Statement on Electricity Governance (GPS)

A document that specifies the Minister of Energy's objectives and outcomes the government wants the Commission to give effect to on the governance of the electricity industry, and against which the Commission must report and be examined accordingly.

Grid Investment Test

A test for reliability investments and economic investments in the grid developed in accordance with rule 6 of section III of part F of the Rules.

Grid/national grid

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

Grid Upgrade Plan

A plan for expansion, replacements, and upgrades to the national electricity grid, developed in accordance with rule 12 of section III of part F of the Rules.

Hedge contract

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

Intermittent generation

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

Minzone

The minzone represents the minimum level of hydro storage required at any time of year to ensure, given a low-flow event, from that point in time demand can still be met when all available thermal plants are run to capacity.

One-in-60 dry year

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

Participant

Participants are the industry-related groups or individuals who engage with the Commission and include:

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

Regulations

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

Retailer

A company that supplies/sells electricity to a consumer or to another retailer. This includes an independent retailer and an incumbent retailer.

Ring-fenced generation

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

Rule breach

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

Rules

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

Spot market

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

Statement of Opportunities

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

System operations

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

Undesirable trading situation

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

Organisation information

Commissioners

- Roy Hemmingway (chair)
- · David Close
- · Doug Dell
- Peter Harris
- · Graham Pinnell
- Christine Southey (resigned, May 2005)

Commission managers

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

Rulings Panel

The Commission appoints the members of the Rulings Panel, a body corporate established under the Regulations, 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 the Rules. The Rulings Panel comprises five independent members listed below.

Rulings Panel members

- Neville Young (chair)
- John Isles
- · John O'Sullivan
- · Craig Taylor
- Gael Webster

Advisory groups

The GPS sets out the objectives and outcomes for how the Commission should go about its work. The GPS requires the Commission to make extensive use of advisory groups, wherever possible, to develop industry arrangements and make recommendations concerning the Regulations and the Rules.

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

The groups' various responsibilities and functions include the following:

- considering and advising on the Commission's work programme and strategic direction;
- advising on proposed regulation and rule changes, including all
 practicable alternatives and the relative cost benefit trade-off of
 each alternative;
- providing technical advice and industry expertise in the preparation of such outputs as:
 - system operator policy statement;
 - system operator procurement plan;
 - grid investment test;
 - grid reliability standards;
 - grid planning assumptions;
 - statements of opportunities;
 - transmission alternatives; and
 - transmission pricing methodology.
- advising on the development of the retail, wholesale, and energy hedge and transmission hedge markets;
- advising on how the Commission may use reasonable endeavours to ensure security of supply in a one-in-60 dryyear, without assuming any demand reduction from emergency campaigns, while minimising distortions to the normal operation of the electricity market; and
- providing general advice to the Commission on other matters raised

The Commission also uses project teams and specialist consultants for specific tasks as required. These include a tactical steering group that has been established under the wind generation investigation project (WGIP). The WGIP is considering issues related to the integration of wind generation over the next 5–10 years.

Advisory group members

Common quality

- Toby Stevenson (independent chair)
- Tim Chatterton—Vector Ltd
- · John Clarke—Transpower New Zealand Ltd
- Terrence Currie—TC Associates
- · Chris Ewers—Meridian Energy Ltd
- · Adam Fletcher—Mighty River Power Ltd
- Bryan Leyland—consulting engineer
- Darryl Renner—senior adviser system operations and common quality (Commission representative)

Hedge market development (steering group)

- Tony Baldwin (independent chair)
- · Carl Daucher—New Zealand Exchange Ltd
- Russell Longuet—consultant
- · Paul McIver—TrustPower Ltd
- Ralph Matthes—Major Electricity Users' Group
- James Moulder—Mighty River Power Ltd
- · Mark Trigg—Contact Energy Ltd
- Tim Street—senior adviser wholesale (Commission representative)

Retail market

- Bill Heaps (independent chair)
- Paul Doocey—Consumers' Institute of New Zealand Inc.
- Phil Hawkey—NGC Holdings Ltd
- Vince Hawksworth—Genesis Energy
- Anne Herrington—Smart Power Ltd
- Rob Jamieson—Orion New Zealand Ltd
- John Pask—Business New Zealand
- Peter Rutledge—Grey Power
- Keith Tempest—TrustPower Ltd
- John van Brink—Vector Ltd
- Robert Reilly—senior adviser retail (Commission representative)

Security

- Peter Harris (chair)—board member, Electricity Commission
- · Simon Coates—Contact Energy Ltd
- Barbara Elliston—Elliston Power Consultants
- Duncan Head—Vector Ltd
- · Peter Kimber—Genesis Energy
- John Noble—Grey Power
- · Ari Sargent—Meridian Energy Ltd
- · Kevin Small—Transpower New Zealand Ltd
- · Peter Whitehouse—Business New Zealand
- Gari Bickers—senior adviser reserve energy (Commission representative)

Transmission

- Denis Clifford (independent chair)
- · Malcolm Alexander—Genesis Energy
- · Peter Calderwood—TrustPower Ltd
- · Dr Tim Densem—Mighty River Power Ltd
- Kevin Mackey—Transpower New Zealand Ltd
- Ralph Matthes—Major Electricity Users' Group
- · Tas Scott—Orion New Zealand Ltd
- Bob Simpson—Transpower New Zealand Ltd
- John Walsh—Delta Utility Services Ltd
- · Michael Whaley—Powerco Ltd
- · Dick Whitelaw—New Zealand Steel Ltd
- John Gleadow—senior adviser transmission (Commission representative)

Transmission pricing

- Carl Hansen (independent chair)
- Graeme Ancell—Transpower New Zealand Ltd
- Simon Coates—Contact Energy Ltd
- · Ray Deacon—Comalco Ltd
- Nevill Gluyas—Meridian Energy Ltd
- Duncan Head—Vector Ltd
- Neil Williams—Mighty River Power Ltd
- John Gleadow—senior adviser transmission (Commission representative)

Wholesale market

- Bill Heaps (independent chair)
- Steve Cross—Contact Energy Ltd
- Doug Goodwin—Transpower New Zealand Ltd
- Bruce Mason—Mighty River Power Ltd
- John Scott—consultant
- Grant Sullivan—Meridian Energy Ltd
- Therese Thorn—TrustPower Ltd
- Kit Wilson—King Country Energy Ltd
- Tim Street—senior adviser wholesale (Commission representative)

Wind generation investigation project (tactical steering group)

- Bill Heaps (independent chair)
- Stephen Batstone—Mighty River Power Ltd
- John Galambos—Meridian Energy Ltd
- James Glennie—NZ Wind Energy Association
- Richard Norris (project manager)—Electricity Commission
- Richard Spearman—TrustPower Ltd
- John Woods—Contact Energy Ltd
- Darryl Renner—senior adviser system operations and common quality (Commission representative)

The terms of reference for the advisory groups, working papers, and minutes are on the Commission's website at: http://www.electricitycommission.govt.nz/advisorygroups/

Service providers

The Commission has contracted a number of service providers that operate under individual agreements as agreed with the Commission. The service providers are listed below.

Clearing manager—Energy Clearing House Ltd (guarantor—The Marketplace Company Ltd (M-co))

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

Information system—M-co

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

Market administrator—Electricity Commission

Provides operational administration of the Rules, administration and analysis of rule changes, education and advisory services, and enforcement of the Rules.

Pricing manager—M-co

Calculates and publishes final prices.

Reconciliation manager—Energy Market Services Ltd (EMS) Reconciles the quantities of electricity produced and consumed in the electricity markets.

Registry—Jade Direct NZ Ltd

Manages the database that contains every point of electricity connection. This enables customers to switch from one retailer to another.

System operator—Transpower New Zealand Ltd

Ensures the economic scheduling and dispatching of electricity while meeting the Commission's principal performance obligations including frequency, voltage, and system stability.

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





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