Statement of Intent

2009–2012

Electricity Commission
Te Komihana Hiko

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Statement of Intent
2009–2012

Prepared in accordance with part 4
of the Crown Entities Act 2004
and section 172ZL
of the Electricity Act 1992

Statement of Intent

This Statement of Intent 2009–2012 (SOI) is the Commission's formal public accountability document setting out its plans for 2009/10 in detail, and for the subsequent two years in more general terms. The SOI is required to be tabled in Parliament and published.

The SOI provides a range of information required by the Crown Entities Act 2004 and the Electricity Act 1992.

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

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The new Government has clear priorities. It aims to restore New Zealand's growth in the face of an international recession and to raise the country's economic performance in the longer term.

The electricity sector can help meet both these challenges, both as a component of the economy in its own right and as a contributor to the performance and wellbeing of others.

Accordingly the Commission is focussed on activities that will raise the sector's and the country's performance. Three pieces of prior work are contributing to our current programme.

First is the review completed in December 2008 into the events of last winter. This external report recommended a number of changes to provide greater confidence the next time we face low rainfall.

Second is the Commission's review of the electricity market. More than a decade after its establishment and five years after the Commission's, it is timely to stand back and identify ways we can improve the market's performance. Feedback from successive rounds of consultation with the sector has identified a number of priorities for attention.

The Commission is also eagerly awaiting the release of the Commerce Commission's investigation into the extent of generator/retailer compliance with the Commerce Act, which has yet to occur at the time of writing.

These three pieces of work lead to two clear priorities for the Commission in 2009/10:

- Raising confidence in the reliability of the electricity system
- Raising the sector's efficient performance by encouraging more competition.

The first of these priorities will be achieved through such actions as the timely approval of investment proposals from the grid owner. Over $2 billion of grid investment has been approved in the past three years. Attention is now being paid to the processes in respect of minor works, in the context of changes to the Government Policy Statement on Electricity Governance and related proposed changes to the Electricity Governance Rules.

The Commission has also embarked on a review of the transmission pricing methodology in response to industry concerns as to its fairness and efficiency.

Greater competition and reliability are being encouraged in a number of contexts. The Commission's work programme this year includes the following significant items:

- Considering how best to reflect scarcity in wholesale prices (as recommended by the Winter 2008 Review)
- Considering the future of the plant at Whirinaki (again as recommended by the Winter 2008 Review)
- Determining the best form of introducing locational hedges—to encourage more competition between retailers
- Achieving greater competition in the provision of frequency-keeping and interruptible reserves
- Clarifying the ownership of the rights to control load, which will facilitate competition from the demand-side of the industry

- Improving the monitoring of system security and the provision of better information (again as recommended by the Winter 2008 Review)
- Reviewing part D of the Rules (which deals with metering) and monitoring the rollout of advanced meters.

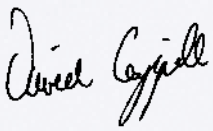
The Statement of Intent provides more information about the Commission's activities as well as a breakdown of the Commission's expenditure. The largest portion of the Commission's funding (approximately $35 million) is committed to the essential electricity system and market operation functions that are provided to the Commission by third parties such as the System Operator.

Another large part of the Commission's present funding (over $29 million) provides for the reserve energy plant at Whirinaki to be available if needed in an electricity shortage.

A further $11 million is committed to electricity efficiency programmes, for which the Commission has a statutory mandate. These too are typically delivered by third parties contracted by the Commission. This sum is reduced from the $18.398 million appropriated last year.

The Commission's development work outlined above, as well as its regulatory functions such as decision-making on Transpower's grid upgrade proposals and monitoring compliance with the Rules and regulations, costs less than $20 million per annum of a total budget of $96.080 million (of annual appropriations). For 2009/10 the Commission has made savings of $0.420 million in this area.

Achievement of the Commission's priorities above, and the detailed objectives set out in this SOI, will require continued effort from Commission staff and advisers, quality input from industry and consumer stakeholders, and clear and consistent regulatory arrangements on the part of the Government. The Commission welcomes the Government's review of the current regulatory arrangements, which are vital to the future security and efficiency of the electricity system and markets in New Zealand.



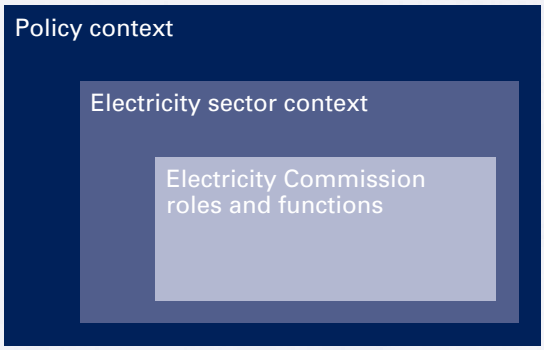
David Caygill
Chair

Part one

operating context

This part of the Statement of Intent (SOI) provides the context for the Commission's work. The Commission's SOI takes into account its operating context (see figure 1) and input from the Government, the electricity industry and electricity consumers.

Figure 1: Electricity Commission operating context and functions



Source: Electricity Commission 2009

Policy context

The 2008 election and the formation of the new Government has resulted in a changed political environment and evolving policy context. The Government has expressed key focuses of infrastructure development and ensuring value for money public services. The Commission has addressed this policy direction in developing this SOI. The Government has also set out high-level goals, outcomes and impacts for the energy sector, which the Commission has addressed in setting out its outcomes and intentions in part two of this SOI.

In May 2009 the Minister of Energy and Resources provided a new Government Policy Statement on Electricity Governance (GPS). This SOI has been developed to reflect the new GPS.

Electricity sector context

The electricity system (see figure 2) consists of:

- Power stations (generators) that sell power on the wholesale electricity spot market
- The wholesale market, comprising a short-term spot market and electricity hedges
- System operation (including the provision of ancillary services)
- High-voltage power lines (the national grid owned by Transpower)
- Low-voltage power lines (owned by local lines companies, also called distribution companies or networks)
- Retailers that buy electricity on the electricity wholesale market, and sell it to consumers
- Electricity consumption, for example, plant, equipment, and lighting for industrial, commercial and residential purposes.

There are other dimensions to this picture:

- Embedded (or distributed) generation is any generation facility that produces electricity for use at the point of location, or supplies electricity to other consumers through a local lines distribution network. This power is not generally sold on the spot market (but can be). When these parties sell power they are generally selling to the retailer.
- Distributors can also be generators, but the Electricity Industry Reform Act 1998 limits how much generation they can have.

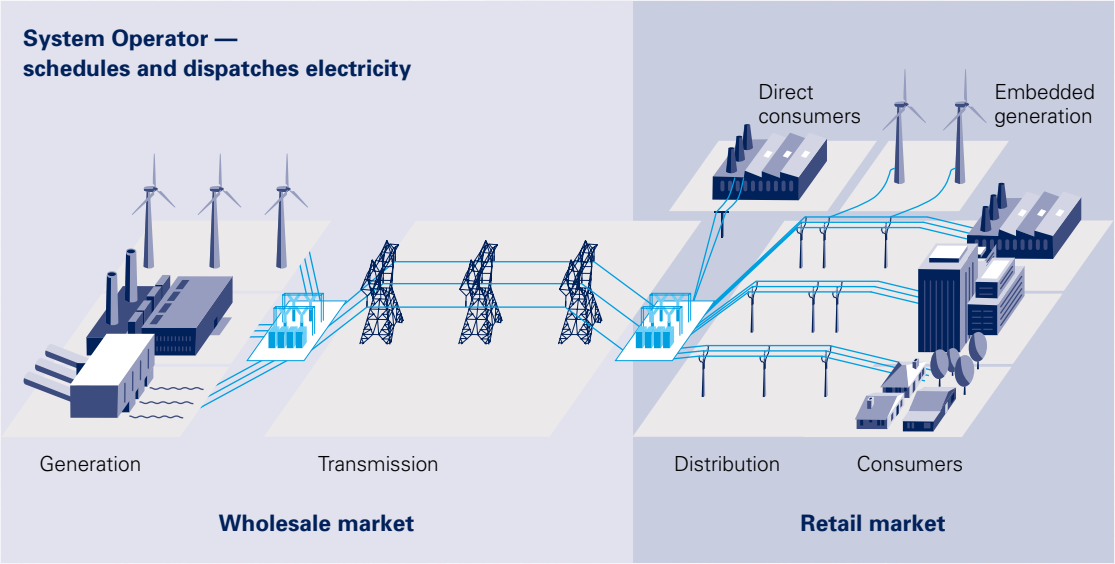
The global economic situation and consequential impacts on New Zealand has significantly changed the overall operating context for the electricity sector, and hence for the Commission and its work.

The Commission has taken account of the impacts of this situation in its planning, including:

- Impacts for business, for example implications for raising capital for generation investment
- Impacts for consumers, for example in ensuring energy affordability.

Specifics of intended work are set out in part four, for example energy affordability is covered in the Market Development programme (MDP), page 50. A particular focus has been on rapidly progressing work that can release financial benefits, for example through improving efficiency and facilitating enhanced competition. Careful consideration has also been given to minimising the compliance costs of voluntary arrangements and regulation.

Figure 2: The electricity system



Source: Electricity Commission 2009

The Electricity Commission

The Electricity Commission was established in September 2003 to regulate the electricity sector, and to provide the core operating systems for the wholesale and retail electricity markets and the day-to-day operation of the electricity system.

The Commission is a Crown Agent and operates in accordance with the Crown Entities Act 2004, including the requirement to publish statements of intent and annual reports.

The Electricity Act 1992 sets out the principal objectives and specific outcomes with which the Commission is charged (see part two).

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

The Government Policy Statement on Electricity Governance (GPS) sets out the Government's expectations of the Commission, including the objectives and outcomes that the Government wants the Commission to give effect to[1].

To meet its objectives, the Commission carries out (or contracts with others to carry out) the following key functions:

- Operation of electricity markets
- Real time system operation
- Transmission: review of investment plans and pricing methodologies
- Security of supply monitoring and reserve energy procurement
- Promotion of electricity efficiency, and
- Modelling and information provision.

1 The Regulations, Rules and GPS are available on the Commission's website: www.electricitycommission.govt.nz

Part two

Commission outcomes

This part of the SOI addresses the outcome information requirements of the Crown Entities Act 2004. It provides information about the Commission's intended operations for the next three years. The detailed outputs and development programme are provided in parts three and four respectively of this SOI.

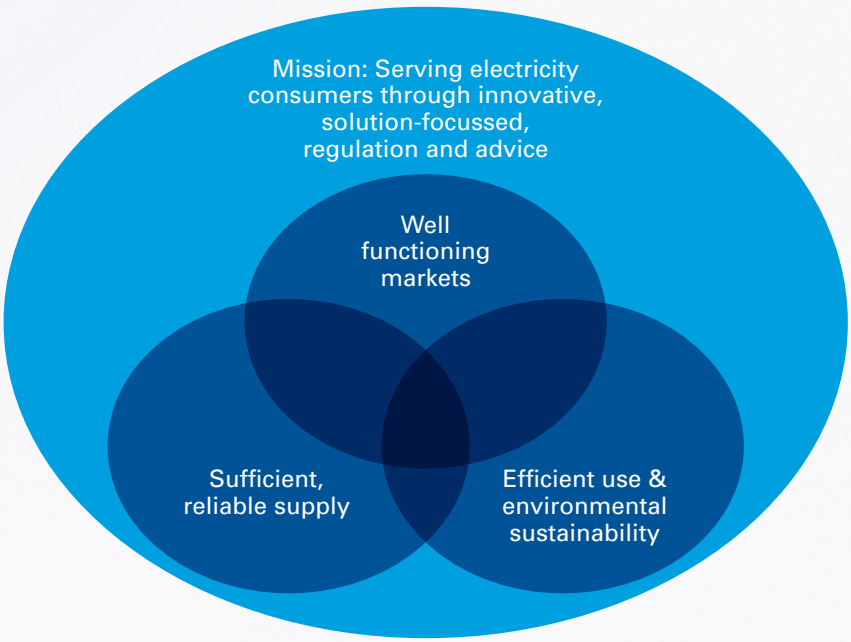
The Government has set out its strategic direction for the energy sector. The Commission has addressed the following Government goal, outcome and impact statements in developing this SOI.

Government Goal	Grow the New Zealand economy in order to deliver greater prosperity, security and opportunities to all New Zealanders
Government Outcome	Efficient, reliable and responsive infrastructure services
Impacts	Competitive and secure energy supplies Improved energy and health outcomes through increased energy efficiency

Section 172N of the Electricity Act 1992 sets out principal objectives and specific outcomes for the Commission. The Commission also receives direction from the GPS.

Figure 3 illustrates the Commission mission and objectives. The mission relates to how the Commission provides leadership and works with stakeholders in order to achieve its objectives. The objectives are closely linked, have no hierarchy and cannot be considered in isolation from the Government direction, principal objectives and specific outcomes in the Act, or the GPS.

Figure 3: Electricity Commission mission and objectives



Source: Electricity Commission 2009

Mission

Energy sources, technology and uses are in a state of transition internationally. New Zealand's electricity supply and system will be impacted by these changes. Consumers are becoming more aware about energy issues and are seeking to more actively manage energy use.

It is the Commission's task to develop and maintain an appropriate regulatory environment to shape an efficient, fair, reliable and environmentally sustainable electricity future for New Zealand.

In addressing its objectives, the Commission is focussing strongly on looking forward. The Commission seeks to enable innovation and flexibility in the electricity sector.

The Commission's mission is to lead continual improvement in the electricity sector by **serving electricity consumers through innovative, solution-focussed, regulation and advice**.

Commission objectives

The links between the Commission objectives and the principal objectives and specific outcomes of the Act are shown in figure 4. The links to the GPS are shown in part four of this SOI.

Figure 4: Commission objectives—links with the principal objectives and specific outcomes in the Electricity Act 1992

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

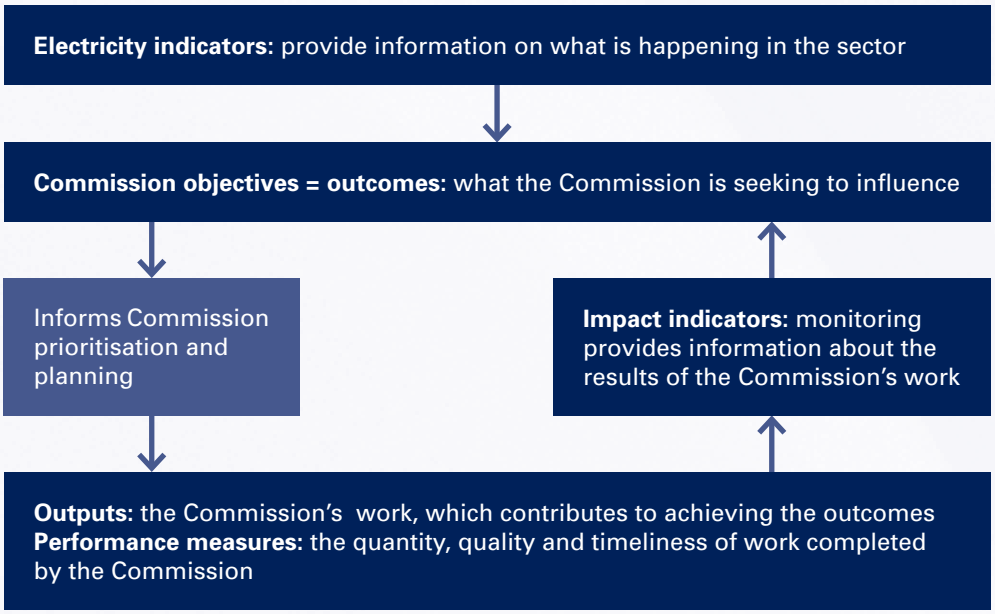
Source: Electricity Commission 2009

In the sections that follow, for each of the Commission objectives, we answer the following questions:

- **What are we seeking to achieve?** Outlining the overall results desired for New Zealand. The Commission has identified a number of **electricity indicators** that provide high-level information about these outcomes, but are not within the Commission's control.
- **Why is this objective a priority?** Outlining the main drivers or policy source that the Commission has considered in developing the objective.
- **What will we do to achieve the objective?** Listing the work the Commission is carrying out to progress the objective. More detailed information is provided in parts three and four of this SOI.
- **How will we demonstrate success?** Listing **impact indicators** to which the Commission expects to make a positive contribution over the longer term. However, a wide range of factors outside the Commission's control will also influence the impact indicators. In reporting against the indicators in its Annual Report, the Commission will provide both data and commentary, as appropriate, for each impact indicator.

The links between these questions and information provided is illustrated in figure 5.

Figure 5: how indicator information is used



Objective 1
well functioning markets

What are we seeking to achieve?

Ensuring that the electricity system and markets operate fairly and efficiently to meet the needs of consumers involves:

- Effective and efficient day-to-day management of the wholesale, retail and ancillary service markets
- Ensuring that the needs of consumers for reliable service and reasonable price are appropriately balanced
- Enabling innovation and investment that meets current and future energy demand
- Ensuring market mechanisms provide appropriate signals and incentives for investment
- Ensuring there are appropriate checks and controls in place, including those that protect consumers.

Electricity indicators	Rationale
A Electricity company market share (generation and retail)	The proportion of each company's energy generated and purchased to supply retail customers is considered to be an indicator of the incentive for competition. Competition is considered to be enhanced by multiple companies being active in these markets and if some separation remains between the generation and retail share owned by individual companies. Change in market share over time may also indicate active competition.
B Consumer switching and market share of 'incumbent' retailers	Two statistics provide some insight into customer switching behaviour: **Incumbent market share—**the percentage of the market that is retained by the retailer that was in place before deregulation (the 'incumbent' retailer). **Connection changes—**this statistic includes a customer changing retailer and a customer moving house and account. Improving consumer understanding of how to switch retailer and ensuring clear information about the available alternatives can facilitate retail competition.
C Electricity consumer prices	Real prices indicate the amount of price change over and above inflation. Prices are influenced by the level of competition and other factors such as fuel costs and the cost to build and maintain generation, transmission and distribution infrastructure. Price increases inconsistent with these factors, or increasing price differentials between types of consumers could indicate a need for further analysis.

Why is this objective a priority?

This objective supports the following outcomes:

- The Government's outcome of *efficient, reliable and responsive infrastructure services*—well functioning markets send appropriate signals to potential investors about development of generation, transmission and distribution infrastructure.
- The Government's desired impact of *competitive and secure energy supplies*—well functioning markets stimulate competition leading to pressure for better services and prices.
- The 'fair and efficient' components of the principal objectives, and specific outcomes a, b, c, d, e, f, and g of the Electricity Act 1992 (see figure 4).
- The requirements of the GPS related to wholesale markets, consumer protection, retail, and distributed generation.

What will we do to achieve the objective?

The Commission is responsible for contracting for the day-to-day operation of electricity market services. It can influence market behaviour through the development of voluntary arrangements and rules. The Commission also monitors and enforces regulations and rules, including those relating to consumer protection. Other agencies also have consumer protection responsibilities, including the Commerce Commission, the Ministry of Consumer Affairs, and the consumer complaints scheme provider.

The Commission's key contributions are:

Output class one, page 27:

- **Core systems**—providing the core services, and monitoring and enforcing contracts needed for the operation of the electricity system and wholesale and retail markets:
  - System Operator
  - Clearing Manager
  - Pricing Manager
  - Wholesale Information and Trading System
  - Registry
  - Reconciliation Manager.
- **Market Development Programme**—examining and, where efficient, improving pricing signals for the wholesale and retail markets. Enhancing the incentives for market participants to manage risks in a way that contributes positively to the performance of the markets.
- **Consumer protection**—developing, monitoring and enforcing appropriate consumer protection mechanisms.
- **Information**—ensuring robust information and analysis is available to assist in decision-making by policy-makers, market participants and consumers.
- **Market governance**—providing information to improve adherence with the regulations and rules that govern the electricity system and markets and monitoring and managing compliance.

How will we demonstrate success?

The Commission expects to make a positive contribution to the following impact indicators over the longer term. The indicators will be reported in the 2009/10 Annual Report.

Impact indicators	Rationale
1 The number of rule-breaches reduces	If the Rules are clear and consistently enforced, then over time it is expected that the number of breaches will reduce. The Commission considers this a reasonable indicator but acknowledges that changes in any of the following could affect this indicator: the Rules; participant behaviour; and monitoring approaches.
2 The number of advanced meters installed increases	The Commission considers that the major benefits of advanced meters is the potential to deliver more innovative tariff options to consumers to better meet their needs, and to promote efficient use of electricity. There is a need to install a significant number of advanced meters before there is sufficient incentive for retailers to develop and offer new tariff structures. Electricity retailers are funding and installing advanced meters. The Commission seeks to encourage the uptake of advanced meters through its approach (e.g. use of guidelines or regulation), and undertaking work that supports consumer benefits from the roll-out (e.g. through work on pricing arrangements).
3 Satisfaction with the hedge market increases—as measured by the two-yearly hedge market survey	The Commission seeks, through its work on hedge market rules and arrangements (such as disclosure), to improve the functioning of hedge markets over the longer term. The Commission acknowledges that factors beyond its control, such as the amount of electricity sought and offered through hedges, will have a significant impact on satisfaction with hedge markets.

Objective 2
Sufficient, reliable supply

What are we seeking to achieve?

A sufficient, reliable supply is achieved when the electricity system (generation, transmission and distribution) can meet current demand and reasonably foreseeable demand. Ensuring sufficient, reliable electricity supply involves:

- Timely investment in generation capacity, transmission infrastructure, distribution services and demand-side initiatives.
- Regulation of monopoly elements of the system to ensure efficient operation and effective performance.
- Management of supply risks such as low inflow years within the agreed policy for the cost/insurance tradeoffs.
- Secure and efficient management of the electricity system on a day-to-day basis, which develops in line with demand patterns, new technology, and the evolution of the wider electricity environment.

Electricity indicators	Rationale
D New Zealand energy winter margin	Forecasts of winter margins are an indicator of future security. The Commission can purchase reserve energy to mitigate the risk. The energy winter margin is a key indicator for the security of supply policy, which was updated in 2008.
E Transmission system minutes interrupted (SMI)	Transpower is a monopoly, and the costs of investment are passed on. The Government has made the Commission accountable for assessing and approving (or declining) capital investment proposals to ensure market efficiency. The Commission does not plan for or initiate investment by Transpower, nor does the Commission have any involvement in maintenance decisions. Reliability is influenced by both maintenance and investment. Transpower determines where and how much investment it considers appropriate. System minutes interrupted (SMI) is an internationally used indicator of transmission system reliability. This data is sourced from Transpower as the grid owner and operator.
F Consumer interruption indicators (SAIDI, SAIFI, CAIDI)[2]	Distribution network outages are those most likely to directly impact consumers. Reliability in this area is therefore significant to consumers. SAIDI, SAIFI and CAIDI are used internationally, however, these indicators are most likely to be impacted by the local distribution networks, which are primarily under the regulatory oversight of the Commerce Commission.

Why is this objective a priority?

This objective supports the following outcomes:

- The Government's outcome of *efficient, reliable and responsive infrastructure services*—the Commission's information provision role and transmission investment decision-making role assist with robust decision-making for electricity infrastructure.
- The Government's desired impact of *competitive and secure energy supplies*—'overbuilding' the electricity system, particular the monopoly areas, can result in higher prices for consumers. The Commission's regulatory and information provision roles assist with ensuring that investment takes place in line with demand.
- The 'reliable' component of the principal objectives, and specific outcomes a, b, c, d and g of the Electricity Act 1992 (see figure 4).
- The requirements of the GPS related to system operation, transmission, distributed generation and security of supply, in particular addressing peak and winter capacity and capability.

2 SAIDI: indicates the total amount of time (in minutes) the average customer is without supply over the course of a year.
SAIFI: indicates how often a customer, on average, experiences an outage during the course of a year.
CAIDI: indicates the average duration of a single outage (in minutes).

What will we do to achieve the objective?

While the Commission cannot direct investment, it seeks to contribute to ensuring a secure, reliable supply. The Commission's key contributions are:

Output class one, page 27:

- **Core systems—**providing the core services needed for operation of the electricity system, and undertaking work to improve the operation of in the electricity system.
- **Security development programme—**development work to improve the operation of the electricity system and markets during dry-years and other shortages, including:
  - Monitoring and facilitating the management of generation supply risks, for example publishing the hydro risk information, thermal generation, fuel stocks etc
  - Advising the Government on security of supply policy
  - Carrying out security of supply governance functions including monitoring, advice on security, and procurement of reserve energy, if necessary.
- **Information—**providing independent analysis of future demand, high-level generation scenarios and transmission options (Statement of Opportunities (SOO)). Publishing a comprehensive centralised data set and other information to assist analysis and decision-making by investors.
- **Transmission investment decisions—**facilitating timely processes and appropriate decisions for economic grid investment.

Output classes two and three, pages 30 and 31:

- Ensuring plans and arrangements are in place to manage shortage of supply emergencies, if needed
- If necessary, taking action to ensure security of supply in line with the Government's policy.

How will we demonstrate success?

Impact indicators	Rationale
4 Total value of grid investment approvals/declines[3]	The amount approved/declined for grid investment proposals can be influenced by sound information provision, for example the Statement of Opportunities, clear processes, and a sound working relationship with Transpower. However, the responsibility for putting forward proposals, and ensuring that they meet the regulatory test, rests with Transpower. The degree of influence exercised by the Commission is relatively small compared to that of Transpower. The Commission is seeking to develop more appropriate impact indicators in this area.

3 Noting that a declined transmission investment proposal is likely to result in a new application.

Impact indicators	Rationale
5 The security margin is maintained or increased	The security margin is primarily a factor of commissioning new generation in time to meet consumer demand. Appropriate regulatory settings can assist with providing an appropriate environment for investment in generation capacity. Consent processes under the Resource Management Act 1991 for generation investments are outside the scope of the Commission's work and may affect this indicator.
6 The amount of contracted reserve energy required reduces	The Commission can purchase reserve energy to mitigate security margin risk. If the market is providing sufficient reserve capacity, the need for the Commission to contract reserves will reduce over the longer term.
7 The operation of the electricity system meets quality and reliability standards—as indicated by breaches of Principal Performance Obligations	The Commission contracts Transpower as System Operator. The part C rules include a series of obligations on the System Operator called Principal Performance Obligations (PPO's) which are a measure of the quality of the System Operator's performance. Examples of PPO's are to avoid cascade failure, maintain system frequency within a band, limit momentary frequency fluctuations and manage time error.
8 The operation of the electricity system meets frequency management standards—as indicated by the number of frequency excursions	The number of momentary frequency fluctuations outside the normal frequency band is a measure of the quality of the electricity being delivered. The System Operator is required to act as a reasonable and prudent operator with the objective of ensuring the aggregated rate of occurrence of momentary frequency fluctuations does not exceed levels specified in the System Operator Contract (Principal Performance Obligations).

Objective 3
efficient use and environmental sustainability

What are we seeking to achieve?

There are world-wide developments in energy, including a drive for sustainability and efficiency, that impact on New Zealand and the future development of the electricity system. These include:

- New technologies for generation (including small and micro-scale), transmission, and electricity system management
- New technologies for electricity end-use and demand-side management
- Changing patterns of fuel availability, use and cost
- Increasing awareness of the energy sector and its influence on economies and climate
- Developing understanding of the operation and impacts of emissions trading.

The Commission seeks to contribute to:

- Improved efficiency of generation, transmission, distribution and electricity use
- Removal of barriers to renewable generation
- Improved environmental sustainability of the electricity sector by providing information, facilitation of voluntary arrangements, and development of regulation.

The Commission has several projects that will help improve electricity efficiency and environmental sustainability. However, many of the impacts of electricity production and delivery are addressed by regional and local authorities and the Environment Court through the Resource Management Act 1991—the Commission has limited involvement in these processes.

Electricity indicators	Rationale
G Electricity generation by fuel type	Renewable generation has lower environmental impacts than thermal generation. However, some thermal generation is necessary for a balanced system, for example to ensure dry-year security. Some variation is expected in renewable generation due to factors such as rainfall, particularly with a high proportion of renewables coming from hydro sources. For example, the dry period leading into the 2008 winter resulted in higher use of non-renewable generation during that period.
H Percentage of electricity generation from renewable resources	Increasing the proportion of generation from renewable generation sources contributes to mitigating climate change.
I Thermal electricity generation gross CO_2 equivalent emissions	CO_2 is a major greenhouse gas. The CO_2 equivalent output from electricity generation in New Zealand has approximately doubled from 1990. Climate change mitigation involves reducing CO_2 output.

Why is this objective a priority?

This objective supports the following outcomes:

- The Government's outcome of *efficient, reliable and responsive infrastructure services*—the Commission's development work is assisting with removal of barriers to renewable generation, facilitating efficient investment that will improve the electricity infrastructure.
- The Government's desired impact of *competitive and secure energy supplies*—the Commission's electricity efficiency investment only takes place where costs are substantially lower than the equivalent cost of building new generation, resulting in an overall more efficient, and cheaper, electricity system.
- The Government's desired impact of *improved energy and health outcomes through increased energy efficiency*—the Commission's electricity efficiency work has the effect of deferring the need for new generation investment, at a significantly lower cost, providing an efficiency gain and improving security.
- The 'environmentally sustainable' and 'efficient use' components of the principal objectives, and specific outcomes a, d and g of the Electricity Act 1992 (see figure 4).
- The requirements of the GPS related to electricity efficiency and renewable energy.

What will we do to achieve the objective?

The Commission's key contributions are:

Output class one, page 27:

- **Transmission investment decisions—**ensuring that transmission investment decisions address transmission alternatives and potential future renewable generation.
- **Market Development Programme—**including:
  - Providing analysis of the implications of potential developments for the New Zealand electricity system
  - Progressing the understanding of variable generation and its implications for the electricity system
  - Completing work on improvements to facilitate integration of wind generation into the electricity system
  - Identifying and advancing initiatives to improve efficiency and minimise losses in the electricity system
  - Progressing work on improving load management
  - Developing solutions to remove undue barriers to the development of renewables, small scale generation and demand-response initiatives.

Output class four, page 31:

Electricity efficiency programmes—investing in end-use electricity efficiency initiatives where these are cost-effective.

How will we demonstrate success?

The Commission expects to make a positive contribution to the following impact indicators over the longer term. The indicators will be reported in the 2009/10 Annual Report.

Impact indicators	Rationale
9 The number of GWh saved from electricity efficiency programmes increases	The Commission's electricity efficiency programmes aim to achieve costs-effective savings that would not otherwise have been made. GWh savings deliver CO_2 reductions. The programmes also provide peak demand savings, making the electricity system more efficient and improving security.
10 The amount of CO_2 saved from electricity efficiency programmes increases	
11 Savings in MW peak demand from electricity efficiency programmes increase	
12 Electricity efficiency programmes are cost-effective—delivered at below the cost of constructing equivalent new generation	

Part three

performance information

This part contains the Commission's forecast financial and non-financial performance information required by the Crown Entities Act 2004.

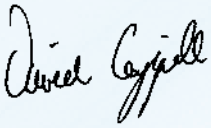
Statement of responsibility

Pursuant to the Crown Entities Act 2004, we acknowledge responsibility for the preparation of the statement of forecast service performance and forecast financial statements included in this part of the Statement of Intent 2009–2012, including the appropriateness of the assumptions underlying the forecast financial statements and all other required disclosures.

Pursuant to the Electricity Act 1992, we acknowledge the responsibility for the preparation of annual performance standards relating to the GPS objectives and outcomes, included in part four of this Statement of Intent 2009–2012.

We acknowledge the responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of the Commission's performance, financial and GPS reporting, and to ensure that GPS reporting provides the basis for an informed assessment to be made of the performance of the Commission against the GPS.

We certify that the information contained in this report is consistent with the appropriations contained in the Estimates for the year ending 30 June 2010 that were laid before the House of Representatives under section 9 of the Public Finance Act 1989.



David Caygill
Chair
11 May 2009

Peter Harris
Commissioner
11 May 2009

Statement of forecast service performance

This statement of forecast service performance contains the information required by sections 141(1)(f) and 142(1)(b) of the Crown Entities Act 2004. This information will be reported against in the Commission's Annual Report for 2009/10 and will be audited.

The Commission's output classes are aligned one-to-one with its appropriations. Each output class statement on the following pages provides a brief description and the main performance measures.

Figure 6 outlines the Commission's output classes, appropriations for 2009/10, main activities, and contribution to the Commission objectives in part two of this SOI.

Figure 6: Summary of output classes and main activities

Output class	Appropriations: 2009/10 ($ million)	Main activities	Contribution to Commission objectives		
			1 Well functioning markets	2 Sufficient, reliable supply	3 efficient use and environmental sustainability
1 Electricity governance and market operations	55.099*	• Electricity system and market operations • Monitoring and compliance • Regulatory development • Information services • Transmission investment decisions • Security of supply governance	✔	✔	✔
2 Reserve energy and emergency measures—availability	29.981	• Contingency plans for emergency situations • Tendering for generation and emergency options as required • Contracting for the availability of the Whirinaki power station for the generation of reserve energy as required	✓	✔	
3 Reserve energy and emergency measures—variable	86.000 over five years**	• Multi-year reserve energy and emergency measures—variable appropriation is available to implement emergency options if needed, including fuel for Whirinaki (covers the period 1 July 2007 to 30 June 2012)	✓	✔	
4 Electricity efficiency	11.000***	• Maintaining the electricity efficiency potentials model • Electricity efficiency programmes to promote and facilitate the efficient use and conservation of electricity		✓	✔

Notes:

✓ Contribution ✔ Major contribution as set out in part two

* 2008/09 appropriation $49.043 million. The increase is made up of Commission savings of $0.420 million and an extra $6.476 million for System Operator costs.

** This appropriation was previously $6 million. Cabinet approved an increase in the appropriation of $80 million on 14 July 2008 to enable the Electricity Commission to act, if needed, to ensure security of supply. The Commission has recommended a reduction to the appropriation back to $6 million and this will be considered during the 2009/10 year.

*** The original 2008/09 appropriation was $18.398 million, including a provision of $5 million for a potential EnergyWise programme. The Commission decided not to proceed with this programme in December 2008 and $5 million was deducted from the appropriation in the Supplementary Estimates as a result of the decision. The revised appropriation for 2008/09 is $13.401 million. The 2009/10 appropriation was further reduced based on revised projections of uptake due to the economic climate.

Commission quality standard

Quality is assessed for Board papers, advice or reports to the Minister of Energy and Resources, rule-change recommendations, consultation documents, publication of final decisions and published information documents. The Commission quality standard is applied to relevant ongoing outputs and to all projects.

Commission quality standard

The required standard for all consultation papers, reports to the Minister, rule-change recommendations, and published information reports is for the following to be achieved, where applicable:

- **Issue definition**—provides a clear statement of the issue or problem being addressed.
- **Objectives and outcomes assessment**—provides an assessment of the issues or problem in terms of the principal objectives and specific outcomes in the Electricity Act 1992. Provides an assessment against GPS requirements, if applicable.
- **Options assessment**—considers the range of viable options to address the policy issue. For each option: explains how it would address the issue, provides intervention logic for how it would achieve the objectives, discusses the costs and benefits, and sets out the advantages and disadvantages.
- **Assumptions**—states any assumptions made in the analysis.
- **Consultation**—demonstrates the Commission has applied an appropriate consultation process, and issues raised have been considered.
- **Conclusions**—are based on the information and evidence available.
- **Recommendations**—contains clear, logical recommendations.
- **Written for audience**—presented clearly, logically and accurately for intended audiences.
- **Meeting all appropriate requirements**—legislative requirements will be met for all work and advice will conform with ministerial or Cabinet Office requirements, as appropriate.

The Annual Report for the 2009/10 year will include a report against the quality standard in aggregate form, as assessed as part of the Commission's quality review process.

Output class one
electricity governance and market operations

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

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

1 **Electricity system and market operations**—operation of the electricity system and wholesale and retail markets is delivered primarily through the management of contracts with service providers. This work addresses paragraph 67 of the GPS.

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

3 **Regulatory development**—the Commission develops voluntary arrangements and advises the Minister of Energy and Resources on statutory Regulations and Rules relating to the electricity sector. This work addresses requirements throughout the GPS and is detailed in part four of this SOI. The major focus during 2009/10 is on the Market Development Programme, including addressing issues arising from the Winter 2008 Review. Examples of key projects for 2009/10 include clarifying ownership of load control, reviewing the status of Whirinaki and reviewing transmission pricing.

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

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

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

The Commerce Commission also has some responsibilities in this area. The two commissions have a memorandum of understanding (MOU) to ensure that these areas of mutual or related interest are managed efficiently and effectively.

Main performance measures 2009/10

1 Contracts are in place, monitored and enforced (if necessary) for the operation of the electricity system, wholesale market and retail market (System Operator, Clearing Manager, Reconciliation Manager, Pricing Manager, Wholesale Information and Trading System, Registry)

2 The annual performance review of the System Operator is completed within three months of receipt of the System Operator's report

3 Progress is on track for the annual update of the System Operator Policy Statement in accordance with the Rules and the Electricity Act 1992, by 1 September 2010

4 The annual update of the System Operator Procurement Plan is completed in accordance with the Rules and the Electricity Act 1992, by 1 December 2009

5 The number of Rule-breach notifications closed (estimated range 170–230)

6 Rule-breach investigations of alleged breaches are completed:

- 50% within three months of notification
- 85% within six months of notification

7 Consultation papers, reports to the Minister, investigation reports and published information reports listed in the part four of this SOI meet the Commission's quality standard

8 Consultation papers, reports to the Minister, investigation reports and published information reports listed in the part four of this SOI meet the GPS performance standard for timeliness

9 There are no successful legal challenges of the Commission's decisions or recommendations

10 Wholesale and retail market information reports are published monthly

11 Grid investment decisions are made in accordance with published timetables, which may be varied by agreement, or by Commission stipulation

12 The annual review of need for reserve energy report is completed and meets the Commission's quality standard

13 Security of supply information is published on a timely basis and in accordance with risk status

Appropriation—electricity governance and market operations

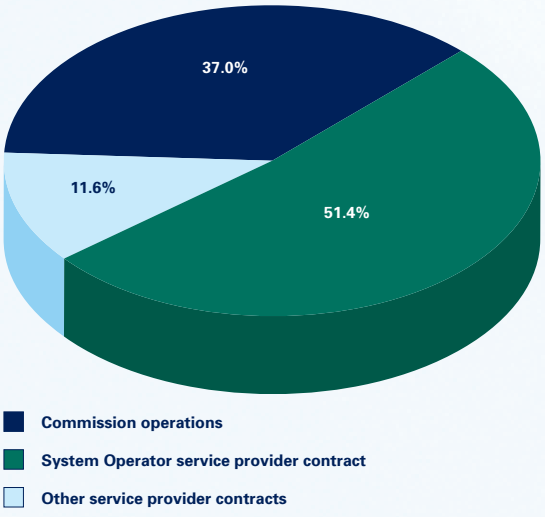
($ million excluding GST)	2008/09 budget	2009/10 budget	2010/11 forecast	2011/12 forecast
Electricity governance and market operations—income	**49.043**	**55.099**	**59.236**	**60.632**
Electricity governance and market operations—expenditure	***49.043***	***55.099***	***59.236***	***60.632***

Breakdown of electricity governance and market operations appropriation by major costs

($ million excluding GST)	2008/09 budget	2009/10 budget	2010/11 forecast	2011/12 forecast
System Operator service provider costs	**22.452**	**28.344**	**32.481**	**34.877**
Other service provider contracts: Clearing Manager, Pricing Manager, Wholesale Information and Trading System, Registry, Reconciliation Manager	**5.952**	**6.371**	**6.560**	**6.755**
Commission operations: including market development, regulatory monitoring and compliance, security of supply policy and monitoring, advisory group, Board and Rulings Panel costs	**20.639**	**20.384**	**20.195**	**20.000**

Figure 7 provides a breakdown of the major costs in this appropriation.

Figure 7: percentage of 2009/10 electricity governance and market operations appropriation by major costs



Output class two
reserve energy and emergency measures—availability

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

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

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

Main performance measures 2009/10

14 Whirinaki power station availability is delivered in accordance with the contract

15 Conduct tendering of reserve energy generation and emergency options for demand reduction, as required

16 Publish, or update as necessary, the Commission's Emergency Response Plan

Appropriation—reserve energy and emergency measures—availability

($ million excluding GST)	2008/09 budget	2009/10 budget	2010/11 forecast	2011/12 forecast
Reserve energy and emergency measures—availability—income	**29.981**	**29.981**	**29.981**	**29.981**
Reserve energy and emergency measures—availability—expenditure	***29.981***	***29.981***	***29.981***	***29.981***

Output class three
reserve energy and emergency measures—variable

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

Main performance measures 2009/10

17 Whirinaki power station generation is delivered in accordance with the contract

Appropriation—reserve energy and emergency measures—variable

($ million excluding GST)	2008/09 budget	2009/10 budget	2010/11 forecast	2011/12 forecast
Reserve energy and emergency measures—variable—income				**86.000*** **(over five years 1 July 2007 to 30 June 2012)**
Reserve energy and emergency measures—variable—expenditure				***86.000*** ***(over five years 1 July 2007 to 30 June 2012)***

Note:

* This appropriation was previously $6 million. Cabinet approved an increase in the appropriation of $80 million on 14 July 2008 to enable the Electricity Commission to act, if needed, to ensure security of supply. The Commission has recommended a reduction to the appropriation back to $6 million and this will be considered during the 2009/10 year.

Output class four
electricity efficiency

The Commission's electricity efficiency output class is part of a multi-class output expense appropriation: Energy Efficiency and Conservation. This SOI addresses only the electricity efficiency output class component of the appropriation.

The Commission's electricity efficiency output class includes:

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

The Commission manages programmes for electricity efficiency in the following areas:

- Efficient lighting
- Industrial—compressed air systems and electric motors
- Commercial.

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

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

Main performance measures 2009/10

18 Electricity efficiency potential information is available to targeted stakeholder groups and an annual update takes place for relevant information

19 Reports for electricity efficiency programmes listed in part four of this SOI meet the Commission's quality standard

20 Reports for electricity efficiency programmes listed in part four of this SOI meet the GPS performance standard for timeliness

Appropriation—electricity efficiency

($ million excluding GST)	2008/09 budget	2009/10 budget	2010/11 forecast	2011/12 forecast
Electricity efficiency—income	**13.401***	**11.000**	**17.519**	**17.519**
Electricity efficiency—expenditure	***13.401***	***11.000***	***17.519***	***17.519***

Note:

* Original appropriation as shown in 2008–2011 Statement of Intent was $18.401 million, including a provision of $5 million for a potential EnergyWise programme. The Commission decided not to proceed with this programme in December 2008 and $5 million was deducted from the appropriation in the Supplementary Estimates as a result of the decision.

Electricity Commission litigation fund

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

($ million excluding GST)	2008/09 budget	2009/10 budget	2010/11 forecast	2011/12 forecast
Electricity Commission litigation fund —income	**0.444**	**0.444**	**0.444**	**0.444**
Electricity Commission litigation fund —expenditure	***0.444***	***0.444***	***0.444***	***0.444***

Prospective financial statements

The Crown Entities Act 2004 requires prospective financial statements to be presented in the Statement of Intent. The purpose of these financial statements is to provide a base against which the Commission's actual financial performance can be assessed to promote public accountability.

These prospective financial statements are prepared for the purpose described above and the information may not be appropriate for any other purpose. Actual financial results achieved for the period covered may vary from the information presented, and the variations may be material.

There is no intention to update the prospective financial statements subsequent to presentation.

Reporting entity

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

The Commission is a public benefit entity, as defined under NZIAS 1 and a reporting entity for the purposes of the Financial Reporting Act 1993, the Public Finance Act 1989, and the Crown Entities Act 2004.

Statement of compliance and basis of preparation

These prospective financial statements have been prepared in accordance with Generally Accepted Accounting Practice (GAAP) in New Zealand, adopting the New Zealand equivalents to International Financial Reporting Standards (NZIFRS) and its interpretations approved by the Accounting Standards Review Board.

The financial statements are presented in New Zealand dollars rounded to the nearest thousand.

The accounting policies below have been applied consistently to all periods presented in the financial statements.

These prospective financial statements comply with FRS42.

Statement of significant assumptions

These financial statements have been compiled on the basis of government policies and legislation at the time the statements were finalised.

A conservative view has been adopted with the assumption that funding will remain at the currently appropriated levels over the forecast period of these statements.

Budget and forecast expenditure is based on the assumption that the cost of inputs will increase in line with general inflation, except where specific contractual obligations exist.

Prospective statement of comprehensive income

	Note	Budget 2009/10 $000	Forecast 2010/11 $000	Forecast 2011/12 $000
Crown revenue	1	96,524	107,180	108,576
Whirinaki spot revenue[4]		–	–	–
Interest income		300	300	300
Other revenue		40	40	40
Total revenue		**96,864**	**107,520**	**108,916**
Employee benefits	3	8,325	8,325	8,325
Depreciation and amortisation expense		1,967	2,056	2,066
Finance costs		–	–	–
Other expenses	2	86,232	96,799	98,185
Total expenditure		**96,524**	**107,180**	**108,576**
Surplus/(deficit) for the year		**340**	**340**	**340**
Other comprehensive income		–	–	–
Total comprehensive income for the year		**340**	**340**	**340**

Prospective statement of movements in equity

	Budget 2009/10 $000	Forecast 2010/11 $000	Forecast 2011/12 $000
Opening balance at 1 July	**8,635**	**8,975**	**9,315**
Comprehensive income by appropriation:			
– Electricity governance and market operations	340	340	340
– Reserve energy and emergency measures—availability	–	–	–
– Reserve energy and emergency measures—variable	–	–	–
– Electricity efficiency	–	–	–
– Electricity Commission litigation fund	–	–	–
Total comprehensive income	**340**	**340**	**340**
Closing balance at 30 June	**8,975**	**9,315**	**9,655**

4 Spot revenue is earned when the Whirinaki power station generates electricity. Whirinaki only generates electricity under specific conditions that may or may not occur. Due to the unpredictable nature of its operation, these figures are not able to be estimated with any degree of certainty. For this reason they are not included in the forecast financial statements.

The statement of accounting policies forms an integral part of, and should be read in conjunction with, the financial statements.

Prospective statement of financial position

	Note	Opening at 1 July 2009 $000	Budget 2009/10 $000	Forecast 2010/11 $000	Forecast 2011/12 $000
Taxpayers' funds		8,635	8,975	9,315	9,655
Assets					
Current assets					
Cash and cash equivalents		14,552	7,561	9,914	12,279
Receivables and prepayments		6	6	6	6
		14,558	7,567	9,920	12,285
Non-current assets					
Property, plant and equipment	4	1,068	1,088	800	519
Intangible assets	5	8,577	8,028	6,445	4,847
		9,645	**9,116**	**7,245**	**5,366**
Total assets		**24,203**	**16,683**	**17,165**	**17,651**
Liabilities					
Current liabilities					
Payables and accruals		7,000	7,140	7,282	7,428
Employee benefits		568	568	568	568
Provisions		8,000	–	–	–
		15,568	**7,708**	**7,850**	**7,996**
Total liabilities		**15,568**	**7,708**	**7,850**	**7,996**
Net assets employed		**8,635**	**8,975**	**9,315**	**9,655**

The statement of accounting policies forms an integral part of, and should be read in conjunction with, the financial statements.

Prospective statement of cash flows

	Budget 2009/10 $000	Forecast 2010/11 $000	Forecast 2011/12 $000
Cash flows from operating activities			
Receipts from the Crown	96,524	107,180	108,576
Repayment of surplus receipts to the Crown	(8,000)	–	–
Receipts from Whirinaki spot revenue	–	–	–
Receipts from third parties	40	40	40
Payments to suppliers	(86,092)	(96,656)	(98,040)
Payments to employees	(8,325)	(8,325)	(8,325)
Net GST refunded/(paid) on operations	–	–	–
Net cash flows from operating activities	**(5,853)**	**2,239**	**2,251**
Cash flows from investing activities			
Interest received from investments	300	300	300
Acquisition of property, plant and equipment	(390)	(86)	(86)
Acquisition of intangibles	(1,049)	(100)	(100)
Net cash flows from investing activities	**(1,139)**	**114**	**114**
Net increase/(decrease) in cash and cash equivalents	(6,992)	2,353	2,365
Cash and cash equivalents at beginning of year	14,553	7,561	9,914
Cash and cash equivalents at end of year	**7,561**	**9,914**	**12,279**

The statement of accounting policies forms an integral part of, and should be read in conjunction with, the financial statements.

Statement of significant accounting policies

a) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to New Zealand dollars at the foreign exchange rate at that date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income.

b) Property, plant, and equipment

Classes of property, plant and equipment

The major classes of property, plant, and equipment are as follows:

- Leasehold improvements
- Computer hardware
- Furniture and fittings
- Office equipment.

Owned assets

Items of property, plant and equipment are stated at cost, less accumulated depreciation and impairment losses. Where material parts of an item of property, plant, and equipment have different useful lives, they are accounted for as separate items of property, plant, and equipment.

Disposal of property, plant and equipment

Where an item of plant and equipment is disposed of, the gain or loss recognised in the statement of comprehensive income is calculated as the difference between the net sale price and the carrying amount of the asset.

Leased assets

Leases where the Commission assumes substantially all the risks and rewards of ownership are classified as finance leases. The assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Subsequent costs

Subsequent costs are added to the carrying amount of an item of property, plant, and equipment when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Commission. All other costs are recognised in the statement of comprehensive income as an expense as incurred.

Depreciation

Depreciation is charged to the statement of comprehensive income using the straight line method. Depreciation is set at rates that will write off the cost of the assets, less their estimated residual values, over their useful lives. The estimated useful lives of major classes of assets and resulting rates are as follows:

Type of asset	Estimated life	Depreciation rate
Computer hardware	3–5 years	20%–33%
Furniture and fittings	5 years	20%
Office equipment	5 years	20%

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 and not depreciated until the asset is completed and fully operational.

The statement of accounting policies forms an integral part of, and should be read in conjunction with, the financial statements.

c) Intangible assets

Software

Software applications that are acquired by the Commission are stated at cost, less accumulated amortisation and impairment losses.

Subsequent expenditure

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation

Amortisation is charged to the statement of comprehensive income on a straight line basis over the estimated useful lives of intangible assets.

Type of asset	Estimated life	Depreciation rate
Software	3–8 years	12.5%–33%

d) Receivables and prepayment

Receivables and prepayments are stated at cost less impairment losses. Bad debts are written off during the period in which they are identified.

e) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Commission's cash management are included as a component of cash and cash equivalents for the purpose of the prospective statement of cash flows.

f) Impairment

The carrying amounts of the Commission's assets are reviewed at each balance date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount for the asset is estimated. The estimated recoverable amount is the greater of the fair value for the asset, less costs to sell and value in use.

If the estimated recoverable amount of an asset is less than its carrying amount, the asset is written down to its estimated recoverable amount and an impairment loss is recognised in the statement of comprehensive income.

g) Employee benefits

Defined contribution plans

Obligations for contributions to defined contribution plans are recognised as an expense in the statement of comprehensive income as incurred.

Long service leave

The Commission's net obligation for long service leave is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value. The discount rate is the market yield on relevant New Zealand government bonds at the balance sheet date.

Annual leave

Annual leave is a short-term obligation and is calculated based on the actual amount the Commission expects to pay.

Sick leave

The Commission provides for accumulating sick leave to the extent that it is probable that the employees will take more than their future annual entitlements. The calculation of the provision for sick leave is based on historical payroll information, using remuneration rates current as at the reporting date to measure the liability.

h) Provisions

A provision is recognised when the Commission has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

i) Payables and accruals

Payables and accruals are stated at cost.

j) Income tax

The Commission is a public authority under the Income Tax Act 1994 and is therefore exempt from income tax.

k) Goods and services tax

All amounts are shown exclusive of goods and services tax (GST), except for receivables and payables, which are stated inclusive of GST. Where GST is not recoverable as an input tax, it is recognised as part of the related asset or expense.

l) Revenue

Crown revenue

The Commission is funded by appropriations from Parliament that cover the range of outputs the Commission provides to the Crown. Revenue from appropriations is recognised when matched by expenditure in the period in which it is incurred.

Whirinaki spot revenue

The Commission earns spot revenue from the sale of electricity generated by the Whirinaki power station. This revenue is recognised when earned and is reported in the financial period to which it relates.

Interest income

Interest income is recognised in the income statement as it accrues, using the effective interest method.

Other revenue

Other revenue is for services provided to third parties. Such revenue is recognised when earned and is reported in the financial period to which it relates.

m) Expenses

Operating lease payments

Payments made under operating leases are recognised in the statement of comprehensive income on a straight line basis over the term of the lease.

Changes in accounting policies

There have been no changes in accounting policies.

Notes to the financial statements

1 Crown revenue

	Budget 2009/10 $000	Forecast 2010/11 $000	Forecast 2011/12 $000
Governance and market operations	55,099	59,236	60,632
Reserve energy and emergency measures—availability[5]	29,981	29,981	29,981
Reserve energy and emergency measures—variable[6]	–	–	–
Electricity efficiency	11,000	17,519	17,519
Electricity Commission litigation fund	444	444	444
	96,524	**107,180**	**108,576**

2 Other expenses

	Budget 2009/10 $000	Forecast 2010/11 $000	Forecast 2011/12 $000
Service provider contracts	34,715	39,041	40,632
Whirinaki contract	29,333	29,333	29,333
Whirinaki fuel costs[7]	–	–	–
External advice	8,620	8,306	8,063
Efficiency programmes	9,579	16,098	16,097
Audit fees	50	50	50
Auditor fees for other services	12	12	12
Advisory and working group fees	86	86	86
Commissioners' fees	878	878	878
Rulings Panel fees	140	140	140
Operating lease expenses	631	631	631
Travel expenses	361	361	361
Other operating expenses	1,827	1,863	1,902
	86,232	**96,799**	**98,185**

5 *Reserve energy and emergency measures—availability* is an annual appropriation to fund the availability of reserve energy if security of supply is at risk. Costs forecast under this appropriation are primarily to maintain the Whirinaki power station on standby for the generation of reserve energy. The Whirinaki power station incurs costs in accordance with a contract between the Commission and the Crown, which includes an annual increase in fixed costs based on the Producers Price Index (PPI). In 2009/10 costs are likely to reach the level of the full appropriation. Further PPI increases in out years may make it necessary to seek additional funding to meet contractual obligations.

6 *Reserve energy and emergency measures—variable* is a multi-year appropriation to cover the cost of fuel for Whirinaki and the purchase of load reduction during periods of supply risk. A nil forecast is presented in the prospective statement of comprehensive income because spot revenue earned from the sale of electricity generated by Whirinaki is likely to exceed the cost of fuel, and the low probability and unpredictable nature and magnitude of load purchasing makes the value of forecasting any other outcome questionable.

7 Whirinaki fuel costs arise when electricity is generated. The Whirinaki power station only generates electricity under specific conditions that may or may not occur. Due to the unpredictable nature of its operation, these figures are not able to be estimated with any degree of certainty. For this reason they are not included in the forecast financial statements.

3 Employee benefits

	Budget 2009/10 $000	Forecast 2010/11 $000	Forecast 2011/12 $000
Salaries and wages	8,090	8,090	8,090
Contributions to defined contribution plans	235	235	235
Increase/(decrease) in employee benefit provisions	–	–	–
	8,325	**8,325**	**8,325**

4 Property, plant and equipment

	Budget 2009/10 $000	Forecast 2010/11 $000	Forecast 2011/12 $000
Computer hardware	112	92	72
Computer hardware (service provider)	605	407	209
Office equipment	79	70	63
Furniture and fittings	37	36	40
Leasehold improvements	255	195	135
Net book value at 30 June	**1,088**	**800**	**519**

5 Intangible assets

	Budget 2009/10 $000	Forecast 2010/11 $000	Forecast 2011/12 $000
Software	589	412	221
Software (service provider)	7,439	6,033	4,626
Net book value at 30 June	**8,028**	**6,445**	**4,847**

The statement of accounting policies forms an integral part of, and should be read in conjunction with, the financial statements.

Part four

operations and development programme

The Commission's operations and development programme lists key activities and projects in the order in which they appear in the GPS. The programme includes GPS performance standards for 2009/10 required by section 172ZL of the Electricity Act 1992. The performance standards relate to both ongoing operations and development work and relevant documents (such as consultation papers and final reports) are notified in the Commission Update and published on the Commission's website.

The Annual Report for 2009/10 will provide a report against all GPS performance standards in this SOI. The Annual Report will provide the information that is necessary to enable an informed assessment to be made of the performance of the Commission against the GPS objectives and outcomes and against the performance standards for 2009/10. The report will provide information on ongoing activities such as monitoring and statistical reporting. The actual results for transmission investment proposal timetables will be reported in the Annual Report.

2009 GPS section / main paragraphs	Output class reference	GPS project	Expected progress 2008/09[8]	GPS performance standard for 2009/10[9]	2010/11 and 2011/12 expected progress	Contribution to Commission objectives		
						1 Well functioning markets	2 Sufficient, reliable supply	3 Efficient use and environmental sustainability
Commission powers and approach								
1–3	All	General expectations on process, approach and consultation	Ongoing requirements	Ongoing requirements	Ongoing requirements	✓	✓	✓
4–6		**Consultation**						
4–5	All	Consultation processes	Ongoing requirements	Ongoing requirements	Ongoing requirements	✓	✓	✓
5	All	Consultation protocol	Completed 2007	Maintain	Maintain	✓	✓	✓
6	1	Consultation with the Ministry of Consumer Affairs	Requirement first included in the 2008 GPS	Ongoing activity	Ongoing activity	✓		
7		**Innovation**						
7	All	Encouraging innovation in Commission work	Ongoing requirements	Ongoing requirements	Ongoing requirements	✓	✓	✓
8		**Information**						
8	1	Information collection, analysis and dissemination	Ongoing activity	Ongoing activity (also see output class 1, performance measure 10)	Ongoing activity	✓	✓	✓
8	1	Centralised dataset (CDS)	CDS, 4 datasets to November 2007	Two CDS updates	Ongoing CDS updates	✓	✓	✓

8 These statements of expected progress will be reported on in the Commission's Annual Report for 2008/09. Actual results are not available until the end of the financial year and may affect performance expectations in following years.

9 These statements address the requirements of section 172ZL of the Electricity Act 1992. They will be reported against in the Commission's Annual Report for 2009/10 as described above.

2009 GPS section / main paragraphs	Output class reference	GPS project	Expected progress 2008/09	GPS performance standard for 2009/10	2010/11 and 2011/12 expected progress	Contribution to Commission objectives		
						1 Well functioning markets	2 Sufficient, reliable supply	3 Efficient use and environmental sustainability
8, 77	1	Statement of Opportunities (SOO)—see paragraph 77						
8	1	Market modelling, including the Generation Expansion Model (GEM) and market simulation	Development started in 2006 GEM published 2007 Ongoing GEM updates published	Ongoing update of models	Ongoing update of models	✓	✓	
9		**Administration of regulations and rules**						
9	1	Monitoring and compliance with the Rules and regulations	Ongoing monitoring and compliance Enforcement, if necessary	Ongoing monitoring and compliance Enforcement, if necessary (also see output class 1, performance measures 5 and 6)	Ongoing monitoring and compliance Enforcement, if necessary	✓	✓	✓
Security of supply								
10–16		**Security of supply background, key requirements and objective for the Commission**						
10–16		Winter 2008 Review	Independent review completed Action plan developed	Complete project work as set out in the winter review action plan	Potential further work	✓	✓	
10–16	1	Correlation of intermittent generation	Modify security assessment to factor in correlation between periods of low hydraulic inflows and wind	Publish report	Potential further research work	✓	✓	✓
10–16	1	Price demand elasticity assessment	–	Carry out analysis to develop understanding of demand response to price	Potential further work	✓	✓	✓

2009 GPS SECTION / MAIN PARAGRAPHS	OUTPUT CLASS REFERENCE	GPS PROJECT	EXPECTED PROGRESS 2008/09	GPS PERFORMANCE STANDARD FOR 2009/10	2010/11 AND 2011/12 EXPECTED PROGRESS	CONTRIBUTION TO COMMISSION OBJECTIVES		
						1 WELL FUNCTIONING MARKETS	2 SUFFICIENT, RELIABLE SUPPLY	3 EFFICIENT USE AND ENVIRONMENTAL SUSTAINABILITY
17–19		**Security of supply policy**						
17–19 37	1	Implement reserve energy review recommendations	Initial Security of Supply Policy published in June 2005 Independent review published May 2007 Complete implementation of review recommendations	No action required	Next review to be completed by the end of the 2012 calendar year		✓	✓
20–23		**Information, forecasting and monitoring**						
20–23	1	Information, forecasting and monitoring	Ongoing requirements	Ongoing requirements (also see output class 1, performance measure 13)	Ongoing requirements	✓	✓	✓
24–25		**Hydro storage guidelines**						
24–25	1	Hydro storage guidelines	Addressed as part of the review of the security of supply policy	Included as part of the annual security assessment	Included as part of the annual security assessment		✓	✓
26–32		**Reserve energy**						
26–32	1	Contracting reserve energy capacity	From 1 April 2005, reserve generation capacity provided by the Whirinaki 155MW power station	Considered as part of the annual security assessment (also see output class 1, performance measure 12, and output class 2, performance measure 14)	Considered as part of the annual security assessment	✓	✓	
33–34		**Emergency management**						
33–34	2, 3	Response planning and contingency arrangements	Interim response plan completed	Implement reserve energy and emergency options as needed (also see output class 3, performance measure 16)	Implement reserve energy and emergency options as needed	✓	✓	

2009 GPS section / main paragraphs	Output class reference	GPS project	Expected progress 2008/09	GPS performance standard for 2009/10	2010/11 and 2011/12 expected progress	Contribution to Commission objectives		
						1 Well functioning markets	2 Sufficient, reliable supply	3 Efficient use and environmental sustainability
35–36		**Levy**						
35–36	2, 3	Cost and recovery from reserve energy requirements	Ongoing arrangements	Ongoing arrangements	Ongoing arrangements	✓	✓	
Consumer protection								
38–41		**Domestic consumer contracts**						
38–41	1	Domestic consumer contracts	Development completed	Ongoing monitoring	Ongoing monitoring	✓		
42–43		**Low fixed charges**						
42–43	1	Monitoring the Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004	Ongoing monitoring Enforcement, if necessary	Ongoing monitoring Enforcement, if necessary	Ongoing monitoring Enforcement, if necessary	✓		
44–45		**Arrangements for the benefit of low-income and vulnerable domestic consumers**						
44–45	1	Guidelines on arrangements to assist low-income and vulnerable domestic consumers	Guidelines updated July 2007 and in February 2008	Ongoing monitoring Recommend regulations, if necessary	Ongoing monitoring Recommend regulations, if necessary	✓		
46		**Arrangements in the event of retailer insolvency**						
46	1	Arrangements in the event of retailer insolvency	Project put on hold to allow focus on higher priorities	Project to be completed or on hold	Project restarts if necessary, resources permitting	✓		
47–53		**Consumer complaints resolution system**						
47–53	1	Development and approval of consumer complaints resolution scheme	Development of scheme	Complete approval of scheme and commence monitoring	Ongoing monitoring Recommend regulations, if necessary	✓		

2009 GPS SECTION / MAIN PARAGRAPHS	OUTPUT CLASS REFERENCE	GPS PROJECT	EXPECTED PROGRESS 2008/09	GPS PERFORMANCE STANDARD FOR 2009/10	2010/11 AND 2011/12 EXPECTED PROGRESS	CONTRIBUTION TO COMMISSION OBJECTIVES		
						1 WELL FUNCTIONING MARKETS	2 SUFFICIENT, RELIABLE SUPPLY	3 EFFICIENT USE AND ENVIRONMENTAL SUSTAINABILITY
54–64		**Electricity efficiency**						
55	4	Electricity Efficiency Potentials Study	Potentials study completed and published	Update to model developed and made available (also see output class 4, performance measure 17)	Ongoing updates	✓	✓	✓
56–60	4	General requirements, inter-agency work	Ongoing requirements	Ongoing requirements	Ongoing requirements	✓	✓	✓
60	4	Memorandum of understanding (MOU) with EECA	MOU signed in August 2005, updated in 2008	Ongoing requirements	Ongoing requirements	✓	✓	✓
61–64		**Other arrangements and programmes**						
62		**Generation**						
62	1	Hydro spill information disclosure	Ongoing industry reporting of hydro spill data under a voluntary arrangement	Ongoing industry reporting of hydro spill data under a voluntary arrangement	Ongoing industry reporting of hydro spill data under a voluntary arrangement	✓		✓
63		**Conveyance**						
63	1	Load management	Clarify ownership rights for load control	Complete consultation on options for potential changes to policy/ guidelines/rules in relation to ownership of load and related information	Load management development work may continue into 2010/11 and 2011/12	✓	✓	✓
64		**End use**						
64, 115	1	Metering technology	Complete advanced metering guidelines. Monitor implementation of guidelines	Make recommendation about mandating (or not) the regulation of smart meters by 31 December 2009	Ongoing monitoring Development of regulations, if necessary	✓	✓	✓

2009 GPS section / main paragraphs	Output class reference	GPS project	Expected progress 2008/09	GPS performance standard for 2009/10	2010/11 and 2011/12 expected progress	Contribution to Commission objectives		
						1 Well functioning markets	2 Sufficient, reliable supply	3 Efficient use and environmental sustainability
64	1	Demand-side initiatives following from Market Design Review (see paragraph 67)	Complete demand-side initiatives as in the 2007–10 SOI Market Design Options Paper	Demand side bidding and forecasting—complete implementation plan Dispatchable demand option—publish formal proposal	Work will continue from 2009/10	✓	✓	✓
64	4	Efficient lighting	Complete compact fluorescent lamps (CFL) programme. National lighting strategy developed Broader lighting efficiency programmes implemented	Continue lighting efficiency programme At least one new request for proposals (RFP) completed	Ongoing programme	✓	✓	✓
64	4	Industrial electricity efficiency (includes compressed air and electric motors	Develop and deliver best practice package for compressed air operation and maintenance Complete RFPs for compressed air auditors and electric motors scheme	Continue compressed air systems efficiency programme Continue bounty scheme for electric motors Establish motor rewind workshop quality system	Programme continues	✓	✓	✓
64	4	Commercial electricity efficiency	Complete RFP and implementation of commercial programme	Continue commercial programme Possible further RFP for extended or expanded programme	Continue commercial programme to end of 2010/11	✓	✓	✓
Renewable energy								
65–66	1	Transmission enabling renewables	Project initiated in October 2007 Issue identification completed Phases 1 and 2 completed	Possible implementation of some components of policy solutions	Possible implementation of policy solutions	✓	✓	✓

2009 GPS SECTION / MAIN PARAGRAPHS	OUTPUT CLASS REFERENCE	GPS PROJECT	EXPECTED PROGRESS 2008/09	GPS PERFORMANCE STANDARD FOR 2009/10	2010/11 AND 2011/12 EXPECTED PROGRESS	CONTRIBUTION TO COMMISSION OBJECTIVES		
						1 WELL FUNCTIONING MARKETS	2 SUFFICIENT, RELIABLE SUPPLY	3 EFFICIENT USE AND ENVIRONMENTAL SUSTAINABILITY
65–66, 67	1	Strategic wind project	Strategic wind project completed Implementation started	Technical standards work on fault-ride-through completed Initiate cost allocation work	Cost allocation work rule changes and software changes completed.	✓	✓	✓
System operation and wholesale related markets								
67	1	Contracting for the operation of the electricity system and markets	Ongoing monitoring against contracts	Ongoing monitoring against contracts (also see output class 1, performance measures 1 to 4)	Ongoing monitoring against contracts	✓	✓	✓
67	1	Market Development Programme (MDP)	Market Design Issues Paper published May 2007 Market Design Options Paper published July 2008 Market Development Programme initiated	Market Development Programme implementation phase – includes a range of projects	Potential work may continue from 2009/10	✓	✓	✓
67	1	Market information project	Market Design Options Paper	Market Development Programme to improve market information and analysis	Work may continue from 2009/10	✓	✓	✓
67	1	Offer and dispatch rule development	Industrial co-generation rules completed Consultation papers covering: a. dispatch of HVDC b. minor offer and dispatch rule changes	Completion of initial set of initiatives arising out of the wind project Set out medium-term set of initiatives arising out of the wind project Dispatch of HVDC rule change completed and implemented	Medium-term set of initiatives arising out of the wind project progressed	✓	✓	✓

2009 GPS SECTION / MAIN PARAGRAPHS	OUTPUT CLASS REFERENCE	GPS PROJECT	EXPECTED PROGRESS 2008/09	GPS PERFORMANCE STANDARD FOR 2009/10	2010/11 AND 2011/12 EXPECTED PROGRESS	CONTRIBUTION TO COMMISSION OBJECTIVES		
						1 WELL FUNCTIONING MARKETS	2 SUFFICIENT, RELIABLE SUPPLY	3 EFFICIENT USE AND ENVIRONMENTAL SUSTAINABILITY
67, 114–115	1	Guidelines for secondary networks	Embedded network guidelines completed	Consult on and complete guidelines for the creation and operation of consumer networks and network extensions	Include in ongoing monitoring programme	✓		
67	1	Pricing process improvements	First consultation paper and initial set of initiatives implemented Publish second consultation paper	Review and update UTS processes—regulation change Introduce interim pricing period—rule change Improvement to pricing inputs—rule change	Possible implementation of additional initiatives	✓		
67	1	Scarcity pricing	Work arising out of the Market Design Review and Winter 2008 Review	Complete consultation on options for introducing scarcity pricing into spot prices	Complete implementation	✓	✓	

2009 GPS SECTION / MAIN PARAGRAPHS	OUTPUT CLASS REFERENCE	GPS PROJECT	EXPECTED PROGRESS 2008/09	GPS PERFORMANCE STANDARD FOR 2009/10	2010/11 AND 2011/12 EXPECTED PROGRESS	CONTRIBUTION TO COMMISSION OBJECTIVES		
						1 WELL FUNCTIONING MARKETS	2 SUFFICIENT, RELIABLE SUPPLY	3 EFFICIENT USE AND ENVIRONMENTAL SUSTAINABILITY
67	1	Common quality development programme—frequency regulation	Scope and investigation	Expand normal frequency band—complete rule changes and implement Multiple frequency keepers—complete market integration investigation and expert technical investigation and complete implementation HVDC frequency sharing capability—complete investigation and recommend course of action if not completed in 2008/09 Frequency keeper offer selection—complete rule change and initiate software development	Ongoing work to complete 2009/10 programme	✓	✓	
67, 115	1	Electricity hedge market development	Two surveys completed Complete development and implement effective and liquid energy hedge arrangements and disclosure rule changes	Complete survey Monitor industry led developments to inform policy development and identification of potential improvement initiatives	Ongoing monitoring, including regular surveys, if warranted Potential review of hedge market performance	✓	✓	
68–69		**Transmission risk management**						
68–69	1	Transmission hedge market development	Survey and report completed 2006/07 Development of proposal including assessing options e.g. LRA and FTR	Complete implementation	Ongoing monitoring	✓	✓	

2009 GPS SECTION / MAIN PARAGRAPHS	OUTPUT CLASS REFERENCE	GPS PROJECT	EXPECTED PROGRESS 2008/09	GPS PERFORMANCE STANDARD FOR 2009/10	2010/11 AND 2011/12 EXPECTED PROGRESS	CONTRIBUTION TO COMMISSION OBJECTIVES		
						1 WELL FUNCTIONING MARKETS	2 SUFFICIENT, RELIABLE SUPPLY	3 EFFICIENT USE AND ENVIRONMENTAL SUSTAINABILITY
Transmission								
70–71		**Transmission background and objectives**						
70	1	Transmission investment decision-making process improvement	Grid Upgrade Investment Review Policy (GUIRP) developed	Minor GUIRP process improvements Review the regulatory process for transmission decision-making, including addressing rule-change proposals from Transpower received in December 2008	Ongoing improvement, if necessary	✓	✓	
72–76		**Connection to and use of the national grid**						
72–75		Grid reliability standards (GRS)	GRS completed February 2006 Issues paper regarding a potential review of the GRS	Complete assessment of value of unserved energy and update rules Consider need for a review of the GRS	Ongoing improvement, if necessary	✓	✓	
76	1	Transmission contracting arrangements (Benchmark Agreement (BA), and Interconnection Rules (ICR))	BA completed 2006/07 Connection code, outage protocol and interconnection services developed 2007/08 Implementation completed	Establish monitoring arrangements and commence ongoing monitoring	Ongoing monitoring Develop improvements if necessary	✓	✓	
77–96		**Investment in and maintenance of the transmission network, planning ahead, environmental effects, transmission alternatives**						
77, 8	1	Statement of Opportunities (SOO)	Initial Statement of Opportunities (SOO) in July 2005	GPA published Sept 2009 (alternate year to SOO). SOO on track for publication by September 2010.	SOO September 2010	✓	✓	

2009 GPS section / main paragraphs	Output class reference	GPS project	Expected progress 2008/09	GPS performance standard for 2009/10	2010/11 and 2011/12 expected progress	Contribution to commission objectives		
						1 Well functioning markets	2 Sufficient, reliable supply	3 Efficient use and environmental sustainability
78–96	1	Grid investment decision-making	Ongoing decision-making	Grid investment decisions made in accordance with published timetables, which may be varied by agreement, or by Commission stipulation (also see output class 1, performance measures 9 and 11)	Ongoing analysis and decision-making on proposals from Transpower	✓	✓	
87–88		Investment in minor transmission works		Address transmission implications of the 2009 GPS			✓	
97–99		**Pricing for connection to and use of the national grid, and cost recovery and pricing principles**						
97–99, 63	1	Transmission pricing methodology (TPM)	Final TPM gazetted on 12 July 2007	Transmission pricing review investigation and analysis completed	Transmission pricing review completion expected in 2010/11 including rule changes, if needed	✓		✓
Distribution								
100–102		**Pricing methodologies**						
100–102	1	Distribution pricing methodologies	Complete development of principles or model approaches to distribution pricing	Establish guidelines by 31 December 2009 Monitor distribution pricing methodology	Ongoing monitoring	✓	✓	✓
102	1	Monitoring of changes in urban and rural lines charges	–	Formal monitoring implemented	Ongoing monitoring	✓		

2009 GPS SECTION / MAIN PARAGRAPHS	OUTPUT CLASS REFERENCE	GPS PROJECT	EXPECTED PROGRESS 2008/09	GPS PERFORMANCE STANDARD FOR 2009/10	2010/11 AND 2011/12 EXPECTED PROGRESS	CONTRIBUTION TO COMMISSION OBJECTIVES		
						1 WELL FUNCTIONING MARKETS	2 SUFFICIENT, RELIABLE SUPPLY	3 EFFICIENT USE AND ENVIRONMENTAL SUSTAINABILITY
103		**Use of system agreements**						
103	1	Distribution use-of-system agreements	The Commission published model distribution use-of-system agreements in December 2005	Ongoing monitoring	Ongoing monitoring	✓	✓	
Interrelationship with the Commerce Commission								
104–109	All	Memorandum of understanding (MOU)	The MOU between the two Commissions was last updated in November 2008	Update if necessary	Update if necessary	✓		
Distributed generation								
110	1	Guidelines or standards for domestic-scale distributed generation	–	Initiate an investigation on potential guidelines or standards for domestic-scale distributed generation, including assessing impact on compliance costs and safety	Potential for further action depending on the results of the investigation	✓	✓	✓
112–113	1	Distributed generation: itemised billing and technical standards	Itemised billing guidelines completed as part of the model domestic contract	Ongoing monitoring of model domestic contracts	Ongoing monitoring of model domestic contracts	✓		
Retail								
114	1	Market development improvements in the retail area	Market Design Issues Paper published May 2007 Market Design Options Paper published July 2008 Market Development Programme (MDP) initiated	Develop retail market monitoring capability Potential enhancements to Powerswitch Participate in Household Energy Affordability project	Potential continued work from 2009/10	✓		✓

2009 GPS SECTION / MAIN PARAGRAPHS	OUTPUT CLASS REFERENCE	GPS PROJECT	EXPECTED PROGRESS 2008/09	GPS PERFORMANCE STANDARD FOR 2009/10	2010/11 AND 2011/12 EXPECTED PROGRESS	CONTRIBUTION TO COMMISSION OBJECTIVES		
						1 WELL FUNCTIONING MARKETS	2 SUFFICIENT, RELIABLE SUPPLY	3 EFFICIENT USE AND ENVIRONMENTAL SUSTAINABILITY
115	1	Review of part D of the Rules (metering)	Review initiated	Development of a new regulatory framework (replacement of part D of the Rules)	New part D recommended to the Minister Implementation completed in 2011/12	✓		
115	1	Consumer switching rules compliance	Ongoing monitoring	Ongoing monitoring	Ongoing monitoring	✓		
116		**Reconciliation of, and payment for, distribution line losses**						
116	1	Loss factors methodology—including loss factors and loss optimisation	Complete development of Guidelines on the calculation of loss factors and the use of loss factors for reconciliation purposes.	Ongoing monitoring of Guidelines via use of Loss Factor Review Panel Establish options for minimising non-technical distribution losses	Ongoing monitoring Develop regulations if necessary Implement options	✓		✓
Accountability requirements								
118	NA	Quarterly report to the Minister	Ongoing reporting	Ongoing reporting	Ongoing reporting	✓	✓	✓

Part five

other information

Board, Rulings Panel, and advisory groups

Board

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

The Board members are:

- David Caygill, Chair
- Richard Bentley
- David Bull
- Linda Constable
- Peter Harris
- Stan Rodger
- Roger Sowry.

Further information about Board members is provided on the Commission's website at: http://www.electricitycommission.govt.nz/aboutcommission/board/

The Board has established a number of committees. These are:

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

The Board committees are described on the Commission's website at: http://www.electricitycommission.govt.nz/aboutcommission/committees

Rulings Panel

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

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

Advisory and project groups

The Commission has established advisory groups with industry, consumer, and independent representatives as appropriate to the role of the group. Advisory groups provide a wide range of advice and input on the operation of regulations and the Rules as well as on other policy and work programme matters.

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

The Commission also uses project teams and specialist advisers for specific tasks as required. Information on all project-related teams is available on the Commission's website at: http://www.electricitycommission.govt.nz/advisorygroups/pjtteam

Organisational health and capability

The Commission has identified main operational performance measures that relate to how the Commission works.

Main operational performance measures 2009/10

1 The Commission's consultation protocol is followed when applicable

2 The Commission manages within its appropriations

3 The Commission maintains a low level of staff turnover

The Commission values the people who choose to work in the organisation and is committed to providing a work environment that supports employees to achieve their full potential.

Work at the Commission is necessarily of a high standard in keeping with the magnitude of the issues. In completing work and fulfilling obligations the Commission recognises the need to operate with consistently high standards of behaviour and integrity.

Review of the policies and procedures that support the Commission's goal to comply with good employer obligations is an ongoing process, as is reporting against these goals.

Staff retention and recruitment

The Commission is conscious of the need to retain staff as well as to provide a working environment into which it can recruit new staff, if needed. The focus is on maintaining a culture of excellence, mutual respect, enthusiasm and personal development. The Commission maintains a watch on role design and flexibility to maximise recruitment and retention opportunities.

Staff turnover at the Commission is low. The aim for the coming year is to maintain low turnover.

The Commission recognises the importance of a healthy work life balance and provides a staff support package which encourages an awareness of health and fitness issues. This package is reviewed regularly to ensure ongoing fit for organisation and purpose.

Employee development

The Commission recognises the importance of continued development for staff within their current roles and for potential moves within the organisation. Emphasis is placed on leadership development for the management team, formalising of the development plans for all staff, and succession planning.

Business and information systems

In 2005 the Commission completed a review of the pathway forward for information management. Since that time various projects have been undertaken that have enabled, for example:

- Improved access to the Commission's systems for staff who need to work remotely
- Improved use of standard document formats for both staff and external advisers working for the Commission.

The Commission continues to outsource the management of its desktop and server environment. This approach is working well with no change of approach forecast in this area.

Risk management

In 2006 the Board established a Risk and Audit Committee. The Committee's role includes:

- Overseeing the quality and integrity of financial reporting
- Considering the appropriateness of the Commission's operational policies and management processes regarding risk identification
- Overseeing the internal audit process to evaluate the effectiveness of risk management.

The Committee has approved a risk policy and risk register. The risk register is regularly updated and mitigation actions recorded. The Chief Financial Officer, General Manager and Risk and Audit Committee monitor progress on mitigation actions.

The Commission has a business continuity plan that contains guidance for staff and, in particular, includes steps to be taken in the event of a pandemic.

Communication and stakeholder relationships

The Commission relies heavily on its ongoing relationship with companies in the electricity industry to gain feedback on proposals for the development of improvements to the operation of the New Zealand electricity market.

Value for money of the Commission's work

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

1 **Appropriation consultation**—the Commission's planned work priorities and appropriations are scrutinised through public consultation in accordance with section 172ZCA of the Electricity Act 1992. The Commission provides information on its proposed work priorities and intended expenditure. Where relevant and possible, information is provided on the potential benefits being sought in terms of net present value. While very detailed costing information is not available at this stage of the planning cycle, the information provided allows levy-payers and other interested parties to provide feedback on the value being provided by the Commission.

2 **Value assessment in the planning process**—all project work is assessed in terms of contributions to the Commission objectives, value of benefits, and impact of deferral. This assessment is used to develop a prioritised work programme within the constraints of the available resources. Lower value work is deferred or ended.

3 **Assessment of proposed regulations**—the benefits and costs of proposed regulation or rule changes are scrutinised through public consultation in accordance with sections 172F and 172H of the Electricity Act 1992.

4 **Assessment of electricity efficiency programmes**—the Commission assesses potential costs and benefits of electricity efficiency programmes and compares these with the long-run marginal cost of new generation.

Commission planning and reporting

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

In developing the Statement of Intent (SOI), the Commission identified a set of three-year objectives that it used to establish draft priorities for its work. It then consulted with levy-payers as required by section 172ZCA of the Act. The Commission used this input to develop its three-year objectives, statement of service performance, and operations and development programme, for this SOI. The draft SOI was provided to the Minister of Energy and Resources for comment, before being finalised and tabled in Parliament after Budget day.

Section 141(g) of the Crown Entities Act 2004 requires the Statement of Intent to include matters on which:

- **The Commission will consult or notify the Minister of Energy and Resources before making a decision**—there are no specific matters on which the Commission is required to consult or notify the Minister. The Commission provides the Minister with briefings and advice as requested or on its own volition.
- **The matters on which the Commission will report to the Minister, and the frequency of reporting**—the Commission provides the Minister with ad hoc reports as agreed and a quarterly report, which includes:
  - Year-to-date progress against outputs as set out in part three of this SOI
  - Year-to-date financial performance
  - Life-to-date progress against the GPS
  - Quarterly updates on published consultation papers and completed rule changes.

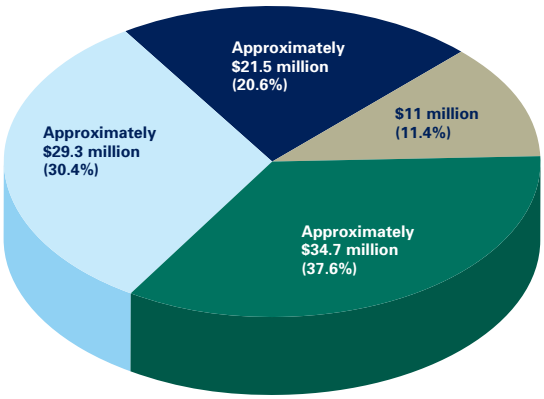
The Commission prepares an Annual Report in accordance with section 150 of the Crown Entities Act 2004. The report also provides the information on GPS performance standards required under section 172ZM of the Electricity Act 1992. The financial performance, non-financial performance, and GPS performance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

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

Electricity Commission funding and levy

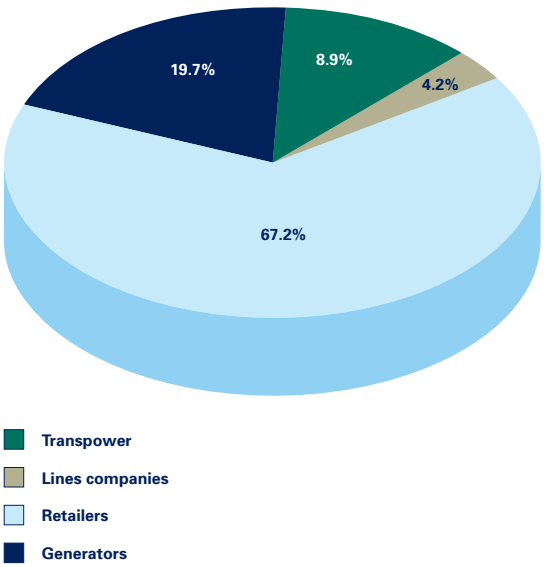
The Commission is funded by appropriations from Parliament under Vote Energy. The appropriations cover all the services and activities of the Commission. Figure 8 shows the broad areas of the Commission's planned expenditure for 2009/10.

Figure 8: forecast expenditure 2009/10



The Crown is reimbursed for the cost of the Commission by way of a levy on the electricity industry. The levy is collected by the Commission on behalf of the Crown. The various components of the Commission's funding are levied on different sectors of the electricity industry. The amount paid by an individual company will depend on the volume of activity for that company. Provisional allocation of the levy to electricity industry sectors is shown in figure 9.

Figure 9: provisional levy allocation 2009/10



Notes:

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

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

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

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

Glossary and abbreviations

Advanced metering systems—electronic meters that measure electricity, record consumption and meter event information electronically, have two-way communications, and can be remotely read. Advanced meters may also have a range of additional attributes.

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 reserve (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. Ancillary services are described in the annual System Operator Procurement Plan, available on the Commission's website.

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

Carbon dioxide (CO_2)—carbon dioxide, methane (CH_4), and nitrous oxide (N_2O) are considered to be the main 'greenhouse' gases. CO_2 is the most significant of the three.

Centralised dataset (CDS)—a collection of data published by the Commission to support planning processes underlying decisions on transmission and transmission alternatives. The Commission retains information relating to transmission and transmission services, under section III, part F of the Rules.

Committee—a committee of the Board of the Electricity Commission appointed by the Commission as provided for by the Crown Entities Act 2004.

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. Common quality is often referred to in conjunction with system operations.

Compact fluorescent lamp (CFL)—an energy-saving replacement for incandescent light bulbs.

Consumer—any person who is supplied electricity for consumption. A consumer may include a distributor, a retailer or a generator when supplied with electricity for consumption.

Demand-side initiative—an initiative that encourages or facilitates electricity consumers to modify their usage in a way that reduces consumption in a specific time period or shifts consumption from one time period to another.

Demand-side management (DSM)—implementation of policies or measures designed to control or influence the demand for electricity.

Distributed generation—a distributed (or embedded) generator is a small-scale generator that commonly inputs electricity to the distribution network rather than the transmission grid. A distributed generator can include an industrial plant or domestic generation system that sells excess generation into the system.

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

Electricity Act 1992 (the Act)—as amended by later Acts, it regulates the New Zealand electricity industry, and provides the statutory basis for the Electricity Commission's operation.

Electricity Amendment Act 2004—enacted in October 2004, this Act added to and clarified the Commission's responsibilities and authorities, including adding electricity efficiency functions. The changes were part of a package of government policy announcements made at the time the Commission was formed.

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

Electricity efficiencies potentials study—also referred to as the potentials study. The study, published in September 2007, was conducted by the

Commission and EECA to answer the following questions:

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

Electricity Governance Regulations (Regulations) and Electricity Governance Rules (Rules)—the Electricity Governance Regulations 2003 and the Electricity Governance Rules 2003 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 several decisions relating to Transpower and the transmission grid (part F of the Rules).

Electricity Governance Rules Committee—the Electricity Governance Rules Committee (EGR Committee) is a committee of the Board. The Board has delegated responsibility to the EGR Committee to make decisions on how breach notifications should be responded to. In cases where participants wish to settle investigated breaches, the Board is required to approve any formal agreements. For more serious breaches, the Board may lay complaints with the Rulings Panel, which operates independently from the Board.

Embedded generation—see **distributed generation**.

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

Estimates of Appropriations (Estimates)—the formal budget document as released on Budget day each year. This document outlines funding and performance for all government entities for the year ahead. The Commission receives funding under Vote Energy.

Frequency-keeping—the frequency of the New Zealand grid is normally maintained at 50 Hertz frequency, which is the number of cycles per second. Frequency-keeping is delivered through contracting generation that keeps the frequency of the grid within its normal band. Frequency-keeping involves increasing or decreasing generation within a set band to ensure that supply equals demand on a second-by-second basis.

Generator—a person who owns generating units connected to the grid or to a local network, or a person who acts, under 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)—issued by the Minister of Energy and Resources and specifies the objectives and outcomes the Government wants the Commission to give effect to, and against which the Commission must report. Authority for the GPS is provided by section 172ZK of the Electricity Act 1992. Under section 172ZL of the Act, the Commission is obliged to include in its SOI performance standards that relate to all of the GPS objectives and outcomes. These performance standards are subsequently reported on in the Annual Report in accordance with section 172ZM of the Act. The latest GPS was published in May 2009.

Grid or national grid—the high-voltage electricity transmission network that transmits electricity throughout New Zealand. This network is used to connect grid injection points and grid exit points to transmit electricity, throughout the North and South Islands of New Zealand over more than 12,000 kilometres of transmission lines, including the HVDC link. It connects major power generation stations to local distribution networks, operated by local lines companies and large industrial users. The grid is owned by state-owned company, Transpower New Zealand Limited.

Grid investment test (GIT)—applied to transmission investment proposals from Transpower. The GIT is provided for under part F of the Rules

and requires that a proposed investment maximise the expected net market benefit or minimise the expected net market cost compared with alternative projects.

Grid upgrade plan (GUP)—Transpower's plan for investments in grid upgrades, which must be provided to the Commission for review and approval.

Hedge contract—a financial risk management product that protects against price risks associated with the spot price of electricity.

High-voltage direct-current (HVDC)—at present the only high-voltage direct-current transmission is the line and cable under Cook Strait that connects the Haywards substation in the North Island with Benmore power station in the South Island.

Hydro risk curve—a tool for monitoring security of supply risk during periods of low hydro inflows. Detailed information is available at http://www.electricitycommission.govt.nz/opdev/secsupply/

Intermittent generation—generation for which the source is intermittent and not easily predicted, such as wind or wave generation.

Megawatt hour (MWh)—one megawatt hour is equal to 1,000 kilowatt hours. Megawatt hours are the metering standard unit for the wholesale market.

Ministry for the Environment (MFE)—responsible for the Resource Management Act 1991 (RMA). The Ministry is a government department, responsible to the Minister for the Environment.

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

Minzone—under the October 2008 Security of Supply Policy, the Minzone has been replaced by hydro risk curves.

Outcome—the result that the Commission is seeking to influence or achieve. An outcome is defined in the Public Finance Act 1989 as "a state or condition of society, the economy, or the environment; and includes a change in that state or condition".

Output—a product or service that the Commission is responsible for delivering to a specified quality, timeliness and quantity (if appropriate). Outputs are defined in the Public Finance Act 1989 as "goods or services that are supplied by a department, Crown entity, Office of Parliament, or other person or body; and includes goods or services that a department, Crown entity, Office of Parliament, or other person or body has agreed or contracted to supply on a contingent basis, but that have not been supplied".

Parliamentary Commissioner for the Environment (PCE)—the Parliamentary Commissioner for the Environment was established under the Environment Act 1986. As an independent Officer of Parliament, the PCE has wide-ranging powers to investigate environmental concerns.

Participants—participants are the industry-related groups or individuals who engage with the Commission as defined in the Regulations. Participants 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
- Approved test houses.

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

Reserve energy—energy capability bought by the Commission as a reserve against peak, winter or dry year hydro shortfalls. Reserve energy requirements cover tendering for reserve energy generation and

emergency options, and the costs associated with the Whirinaki reserve energy plant being available.

Resource Management Act 1991 (RMA)—the primary legislation relating to the use of land, air and water. Land-use activities, including those associated with generation and transmission of electricity and discharges or taking of water, are required to comply with rules prepared under the RMA and consents granted under the RMA. Consent applications are generally heard and determined by local authorities and may be appealed to the Environment Court.

Retailer—a person or company that supplies electricity to a consumer or to another retailer.

Ring-fenced generation—using a generation plant or demand-side initiatives dedicated to providing reserve energy.

Risk and Audit Committee—a committee of the Board. The Committee has agreed a risk policy and register and oversees internal audit processes.

Riskmeter—a high-level graphical representation of the outlook for electricity supply. The Riskmeter is available on the Commission's website and is updated as necessary.

Rule breach—occurs when a participant fails to meet its obligations under the Regulations or Rules.

Rulings Panel—established under the Electricity Governance Regulations 2003, deals with the formal complaints of breaches of the Regulations or Rules by market participants referred to it by the Commission. If the Rulings Panel upholds a complaint, it has several options available including imposing penalties against participants, awarding costs or compensation, issuing suspension or termination orders, and recommending rule changes. It also determines certain disputes between participants and can hear appeals on specific decisions made by the System Operator.

Service providers—the Electricity Commission is responsible for ensuring the effective day-to-day operation of the electricity system and markets through the operation of core system and market services in accordance with the Rules. The Commission provides the following services through service provider contracts:

- Clearing Manager
- Wholesale Information and Trading System
- Pricing Manager
- Reconciliation Manager
- Registry
- System Operator.

Smart meters—see advanced metering systems.

Spot market—the buying and selling of wholesale electricity is done through 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 Intent (SOI)—published in accordance with part 4 of the Crown Entities Act 2004. The SOI is the Commission's formal public accountability document, setting out its plans and financial information for one year in detail and the next two years in more general terms. The SOI provides information on what the Commission will be doing to progress the principal objectives and specific outcomes in section 172N of the Electricity Act 1992, and includes performance standards for the objectives and outcomes of the GPS as required by section 172ZL of the Act. The Commission's achievements against the SOI expectations, and its financial management, are audited by Audit New Zealand and reported to Parliament in the Annual Report.

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

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

System Operations Committee—a committee of the Board.

System Operator—the service provider responsible for scheduling and dispatching electricity in real-time, and avoiding fluctuations in frequency or disruption of supply.

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 can investigate any potential UTS and take certain actions it considers appropriate.

Undesirable Trading Situations Committee—a committee of the Board.

Winter energy margin—expected available generation (after allowing for planned and unplanned outages, available thermal fuel and transmission constraints) minus expected demand (as a proportion of expected demand for the winter period (April to September)). For the purpose of assessing expected available hydro, mean inflows will be used. For the purposes of assessing expected available wind generation, long-run averages will be used.

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