



COMPETITION



RELIABILITY



EFFICIENCY

We're working to enhance competition for buying and selling electricity. We focus on facilitating consumer participation and reducing barriers to competition in the markets for electricity and electricity-related services. This includes taking into account long-term opportunities and incentives for the efficient entry, exit, investment and innovation in these markets.

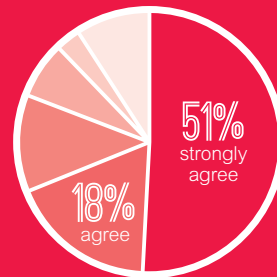


Prices play a critical role in the electricity market by providing information and incentives for generation and investment decisions by power companies, as well as the consumption and investment decisions by consumers.

One way we encourage competitive pricing and consumer choice is by promoting the benefits to consumers of comparing the options available.

In its fourth year, our award-winning *What's My Number* campaign continues to raise awareness among consumers that they can shop around for electricity.

69%
of New Zealanders
think it's easy to
switch electricity
providers



Source: Electricity Authority – *What's My Number* tracker surveys

**WHAT'S MY
NUMBER:**

73% campaign
recall

visited
website 31%

35% either
switched
or were
thinking of
switching

Source: UMR Research report for the Electricity Authority: *Shopping Around for Electricity Retailers: A Quantitative Study among the General Public*, February 2014





RELIABILITY



Our work in the reliability area is about encouraging industry participants to efficiently develop and operate the electricity system to manage security and reliability in ways that minimise total costs while being robust to adverse events.

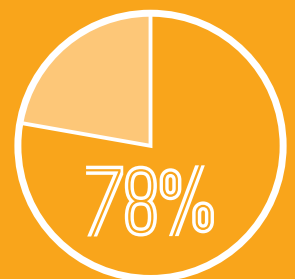
Most importantly for consumers, this work is about making sure market arrangements are in place to keep the lights on, even in dry years and during foreseeable short-term emergencies.

The Authority's work in this area was recognised by being named a finalist in the Institute of Public Administration New Zealand Gen-I Public Sector Excellence Awards 2014.

MORE THAN
1//2

of New Zealanders think a good balance is achieved between the costs to consumers of power cuts versus the cost of maintaining supply

an increasing number of stakeholders rated the reliability of electricity supply as 'good'



Source for both: UMR Research report for the Electricity Authority: *CRE Aspirations: A quantitative study among stakeholders*, March 2014



a finalist in the Institute of Public Administration New Zealand Gen-I Public Sector Excellence Awards

Our work on efficiency doesn't just look at how the market is working today, but how it could work in the future. To deliver long-term benefits for consumers, we need to ensure the market arrangements support innovation so suppliers can develop new services and pricing plans to deliver greater value for electricity consumers.

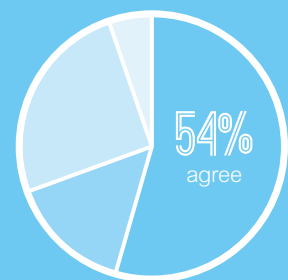
Our work in the efficiency area takes into account the transaction costs of market arrangements and the administration and compliance costs of regulation, as well as the implications under the Commerce Act 1986 for the non-competitive part of the electricity industry.



76%

of stakeholders agree that the wholesale market is an efficient mechanism

the New Zealand electricity market ensures that the right mix of power stations is built in time to meet growing demand for power.



MORE THAN
1/2

of New Zealanders think the market ensures electricity is generated and supplied efficiently

Source for all: UMR Research report for the Electricity Authority: *CRE Aspirations: A quantitative study among stakeholders*, March 2014 and *CRE Aspirations: A qualitative study among the general public*, February 2014



EFFICIENCY



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KEY TO SYMBOLS



Achieved, or on track for achievement if the time frame goes beyond the financial year.



At risk of programmed actions not being achieved (only applies if the time frame goes beyond the financial year).



Not achieved.



Report content relating to our work in the area of **competition**



Report content relating to our work in the area of **reliability**



Report content relating to our work in the area of **efficiency**



Presented to the House of Representatives pursuant to section 150(3) of the Crown Entities Act 2004.

Purpose of this annual report

This annual report is the Electricity Authority's formal report to Parliament on its results for the period 1 July 2013 to 30 June 2014. The report contains information required by sections 150–155 of the Crown Entities Act 2004. Further information about the Authority and its work is available from: www.ea.govt.nz.

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3.0 New Zealand licence. In essence, you are free to copy, distribute and adapt the material, as long as you attribute it to the Electricity Authority and abide by the other licence terms.

Glossary and abbreviations

There are many technical terms used in the electricity sector and some of these occur in this report. To assist readers, a glossary and list of abbreviations used in this report is provided at the end of the report. In addition, the Authority has a glossary of common electricity industry terms on its website at www.ea.govt.nz/glossary.



CHAIR'S REPORT

I am pleased to present the Electricity Authority's fourth annual report

Electricity is one of the most capital intensive industries. The costs involved with both the development and management of generation, transmission and distribution are significant as are the investments made by many large industrial consumers into their infrastructure. The magnitude of the investment means it is vital the electricity industry rules and regulatory environment are based on sound, impartial and professional advice.

Against this backdrop, the Authority was set up in November 2010 as an independent rule-maker – a tier three legislator. This is important, as the unintended consequences from rule changes are a very real and potentially extremely serious problem. The Authority Board takes its responsibility in this regard extremely seriously and seeks to develop long-term, robust solutions that will deliver the Authority's statutory objective.

Working towards workable competition

Our overall goal is a workably competitive electricity market. Importantly, this is different from a perfectly competitive market.

In a workably competitive market, prices broadly reflect the costs of supply and costs are driven towards an efficient level. This creates an environment in which suppliers are encouraged to innovate so they can better serve their customers and get ahead of their rivals.

On the face of it, a perfectly competitive market sounds an ideal goal. Who would not aim for perfection? However, if the Authority used this standard when deciding on Code changes and market facilitation measures, it would be seeking prices that always equal marginal costs and costs that always equal efficient costs. While this would appear to be desirable, such a goal falls down for a very

important reason. In a perfectly competitive market, there are no financial reasons for suppliers to innovate because their ideas are immediately copied and applied by their competitors and they receive no benefit from the initiatives.

It is important to understand when reflecting on the Authority's strategic direction and work programme that it is required by statute to seek the long-term benefit of consumers. This implies the Authority should ensure there are incentives to invest and innovate in an environment where consumers can make real choices according to their preferences, and, by doing so, influence prices and offerings.

Progressing towards performance improvements

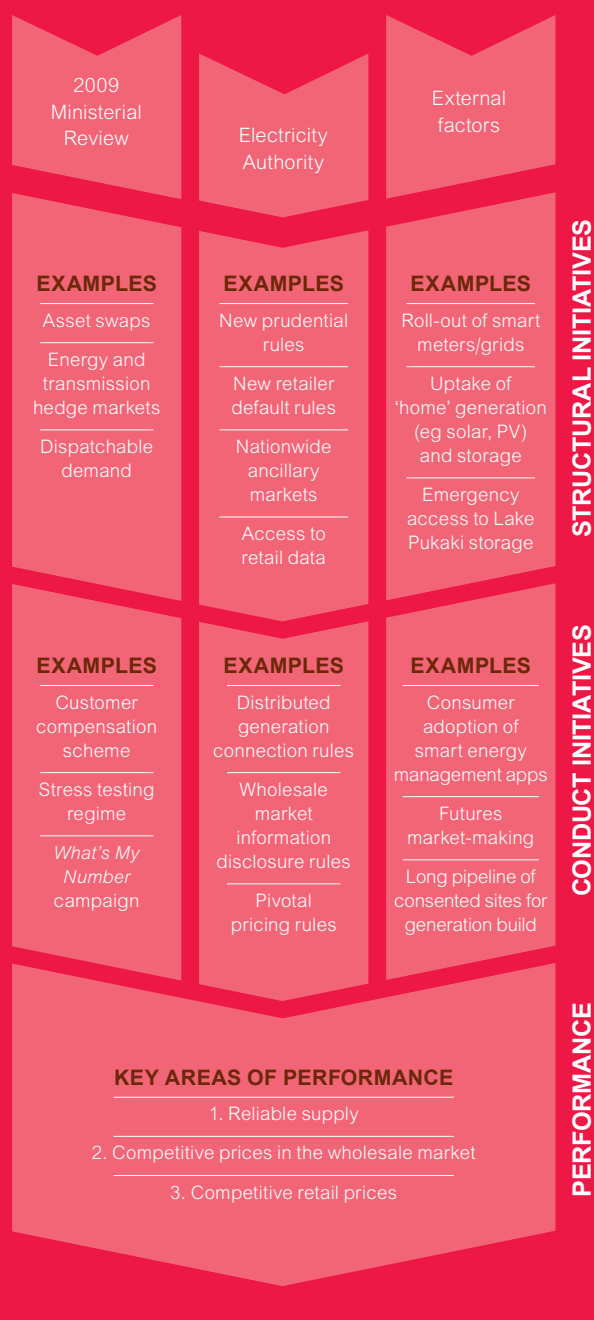
Last year the Authority completed the final policy change outlined in the 2009 Ministerial Review with the implementation of dispatchable demand. The outcomes we expect to see from dispatchable demand are highlighted in the Chief Executive's report and later in this document. Moving beyond these initiatives, the Authority's focus has been firmly on promoting retail competition.

To assess progress towards a workably competitive market, the Authority uses a framework that looks at the structure, conduct and performance of the market. Under this framework, structure determines conduct, and conduct drives performance. An example of the different Authority-led initiatives and external factors impacting on the three areas of this framework is shown in Figure 1.

We are now seeing the impacts of the structural and conduct changes that have been made flowing into performance. The Herfindahl-Hirschman Index (HHI) and concentration ratio statistics continue to fall year on year, which show that the structure of the market is improving as concentration levels fall.

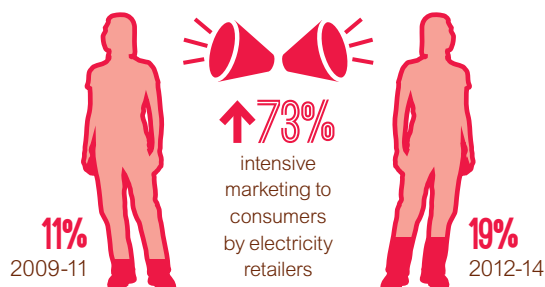
This positive outcome is also reflected in our consumer research on retailer conduct. We assessed how often consumers had been approached by a different electricity

COMPETITION



retailer over the previous two years. In 2011, 11% of consumers had been approached three or more times in the previous two years but in 2014 this had increased to 19%. **This represents a 73% increase in the rate of intensive marketing to consumers.**

We have also observed a positive result in the cost index developed by the New Zealand Institute of Economic Research (NZIER) to assess relative changes in electricity prices and costs. This shows that prices have increased much more slowly than costs over the last three-plus years, an indicator of competitive pressure. More detailed results showing our progress towards a workably competitive electricity market are outlined in part two of this Annual Report.



A strategic focus on regulation

As we look towards 2014/15 there are a number of structural changes ahead that may have a very significant role in the electricity market. The Authority is actively responding to these to ensure external factors do not adversely impact on the goal of an increasingly workably competitive market.

Structural changes that will have an impact on the market include even more widespread roll-out of smart meters, smart grids and energy management applications that could help to enable direct consumer participation in the wholesale electricity market. The workably competitive electricity market approach facilitates all these developments because it allows for the diverse range of options and decision-making by many different people and organisations.

The primary focus for the Authority over the next year is on further enhancing retail market competition. This reflects the Authority's drive to deliver long-term benefits to consumers. The aim is to have a market where retailers can enter and exit with ease, and to ensure there is a 'level playing field' on which they compete for customers. The aim is to make it easy for consumers to find and choose the best tariff plans for their particular circumstances, understand and respond to tariff changes, and make other electricity decisions.

The Authority's work programme targets both the supply side and demand side of the retail market. The supply side projects aim to reduce barriers to retailer entry and expansion, for

FIGURE 1

Structure, conduct and performance framework

example through hedge market development or the project to investigate the competition effects of saves and win-backs. The demand side projects aim to enhance consumer participation and engagement in the retail market, for example through *What's My Number* or the retail data project.

Since June 2013 we have put greater emphasis on projects to enhance retail competition by enhancing consumer participation. The evidence indicates that those consumers who are engaged and shop around are able to secure good deals from retailers. This means a key aim of the Authority is to encourage more consumers to be engaged. The intention is to create a virtuous cycle where engaged consumers drive retailers to deliver more consumer focused services, which in turn creates more engaged consumers.

These consumer participation initiatives are underpinned by the *What's My Number* campaign that the Authority has run in conjunction with Consumer NZ and the Ministry of Consumer Affairs (now part of MBIE) since May 2011. The campaign greatly enhanced consumer participation initiatives to make it easier for consumers to confidently find the best deal in the market.

As well as continuing its focus on facilitating consumer participation, the Authority's work programme for the next year will look further at the structure of the market. The transmission pricing methodology review is now well underway. This is a wide-ranging review of options for the allocation methodology for transmission costs. In the next year a second issues paper will be released that will be informed by the feedback we have received on a suite of working papers on key issues and options.

The Authority will also begin work on distribution pricing methodologies. Our focus with both projects is on ensuring that pricing structures encourage efficient investment decisions by consumers and electricity market participants.

The distribution pricing review is particularly important as there is a rapidly increasing number of consumers installing small scale distributed generation and batteries at home, such as solar photovoltaic generation. Home generation reduces the volume of grid-supplied energy over which the fixed costs of transmission and distribution can be recovered. This means that consumers with their own generation continue to receive the 'back up' services provided by transmission and distribution assets but pay only a fraction of the costs involved in supplying those services. Widespread adoption of home generation is therefore likely to increase transmission and distribution charges to other consumers. This situation has already occurred in other countries so it is important that we review current pricing structures to ensure consumers face commercial incentives that match the economic costs their decisions impose on the electricity system.

Words of thanks

Finally, my thanks to all those who contributed to the Authority's work over the last year through submissions, informal discussions and technical input. The Board particularly values the advice and recommendations it receives from the Authority's advisory and technical groups.

The Security and Reliability Council (SRC) continues to play a very important role advising on reliability of supply issues, with a particular emphasis on a medium- to long-term view. I'd like to acknowledge Dr Kevin Thompson who completed his term as chair of the SRC in 2013. The SRC is now ably led by Mike Underhill.

The Retail Advisory Group and Wholesale Advisory Group (RAG and WAG) help to ensure a breadth of stakeholder and customer views are considered. The sterling work completed by these groups is illustrated in the statement of performance section of this annual report, which highlights a number of the important projects that have been driven by RAG or WAG. Often it is the real world experience of the members of these groups that ensures proposals receive careful analysis and unintended consequences are minimised.

Authority staff also value the technical support of the Standing Data Formats Group and Settlement and Prudential Security Technical Group, both of which help guide projects in their specific areas of expertise.

I would also like to thank the management and staff of the Authority. Each year the Board is impressed by the skills and dedication of staff and the truly world-leading thinking they bring. I am also indebted to my colleagues on the Board and the Chief Executive for their support and the rigorous and innovative thinking they bring to the board table.



Dr Brent Layton
CHAIR

AUTHORITY BOARD



Dr Brent Layton **CHAIR**



David Bull



Susan Paterson

AUTHORITY SENIOR LEADERSHIP TEAM

Carl Hansen
Chief Executive

Fraser Clark
General Manager
Market Services

Androula Dometakis
General Manager
Corporate Services





Hon Roger Sowry ONZM



Elena Trout

Ross Hill
General Manager
Legal and Compliance



John Rampton
General Manager
Market Design



Bruce Smith
General Manager
Market Performance



STATEMENT OF RESPONSIBILITY

The Board is responsible for the preparation of the Electricity Authority's statement of performance (part three of this report) and financial statements (part five of this report) and for the judgements made in them.

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

In the Board's opinion, the statement of performance and financial statements fairly reflect the operations of the Electricity Authority and its financial position for the period 1 July 2013 to 30 June 2014.

Signed on behalf of the Board:



Dr Brent Layton
CHAIR
ELECTRICITY AUTHORITY

2 September 2014



Susan Paterson
AUDIT AND FINANCE
COMMITTEE CHAIR
ELECTRICITY AUTHORITY

2 September 2014



PART ONE

CHIEF EXECUTIVE'S REPORT

Only five years ago New Zealanders couldn't be certain they would have a reliable electricity supply all year round, retail competition was limited and consumers lacked confidence in market arrangements.

It's against this backdrop that the 2009 Ministerial Review identified the need to overhaul the regulatory regime, which included the creation of the Electricity Authority.

When we were founded in November 2010, the intention was not a short-term fix. There is no 'silver bullet' to achieving our statutory objective – **to promote competition in, reliable supply by, and the efficient operation of, the New Zealand electricity industry for the long-term benefit of consumers.**

Since then, the Authority has completed a range of significant market development initiatives. The wider electricity industry has also achieved major change. In this year's annual report, I'm pleased to report that we are now seeing the outcomes of much of this effort.

Security of supply issues seem to have been resolved

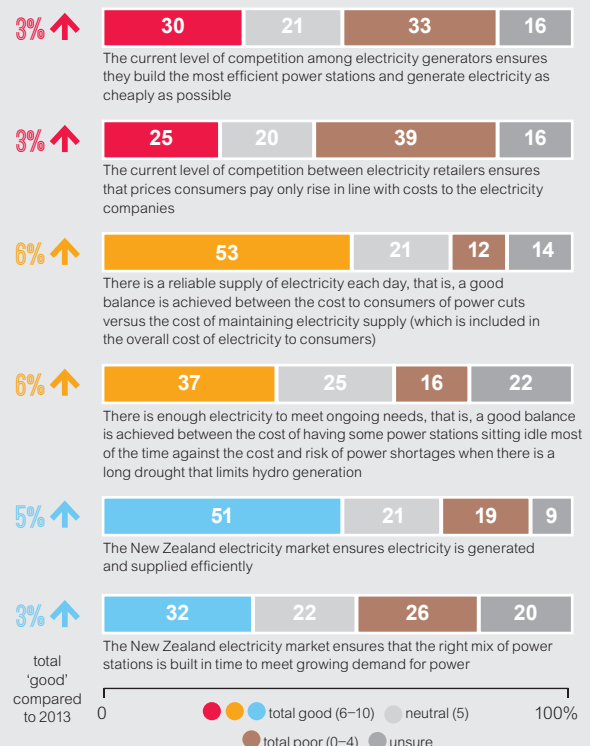
The evidence to date is that the series of regulatory initiatives introduced to combat security of supply issues have worked well.

These initiatives were tested during the driest calendar year on record (2012) and another extremely dry spell (between February and April 2013). During both these periods, hydro lake levels were carefully managed and as a result there were no calls for public electricity savings or lobbying in the media.

Most importantly, New Zealand consumers were able to go about their business without worrying about their electricity supply. While all signs are extremely positive, we will of course continue to keep a vigilant eye on future developments.

These initiatives earned us a position as one of the finalists of the Institute of Public Administration New Zealand Gen-I Public Sector Excellence Awards 2014 for our regulatory work on security of supply. Our independent public surveys also illustrate the growing confidence that New Zealand's electricity supply is secure.

FIGURE 2 Consumer perceptions of competition, reliability and efficiency



Source: UMR Research report for the Electricity Authority: CRE Aspirations: UMR omnibus results, February 2014



Improving efficiency through good behaviour

What: In June 2014 we amended the Code to require generators to meet a high standard of trading conduct when making offers in a pivotal pricing situation. A pivotal situation is when the competitive forces in the spot market are temporarily reduced, generally due to a short-term transmission constraint. The new requirement promotes behaviour to ensure spot market prices do not increase to inefficiently high levels when generators are pivotal. This approach still allows very high spot prices to occur when genuine supply shortages occur, which is essential to maintain security of supply for consumers and also to encourage new entrants into the spot market.

This Code amendment concluded an extensive consultation process and detailed recommendations from the Wholesale Advisory Group.

Why this matters: Previously, generators could set high prices in locations where there was no other competition, which tended to occur about two per cent of the time between 2011 and 2013. We were concerned this behaviour could reduce retail competition, particularly in outlying regions as it would discourage new retailers to enter those areas. This, in turn, could undermine confidence in the wholesale market – both outcomes would be contrary to our statutory objective, which focuses on the long-term benefits to consumers.

Our retail market is significantly more competitive

In last year's annual report I indicated that we would be focusing on ways to further enhance retail market competition. Our work this year has continued to make it easier for new electricity retailers to enter the market and expand their offers and there have been several significant new developments.

In June 2013 the Financial Transmission Rights (FTR) market started. Currently FTRs from Benmore and Otahuhu are offered as hedge products to help parties manage the risk posed by large and often unpredictable differences in wholesale electricity prices between the North and South islands. We have recently approved the next FTR allocation plan which will see three new nodes introduced and new reconfiguration auctions. We expect these initiatives will improve the flexibility and efficiency of the market. Implementation of additional auctions begins on 1 November 2014.

Another Electricity Industry Participation Code 2010 (Code) amendment of note was the change to the electricity information exchange protocols (EIEPs) to require compliance with EIEPs 1, 2 and 3. The protocols provide a set of formats that distributors and traders use when electronically exchanging operational business information. This Code amendment also becomes effective in November 2014. This change is important as we believe that more standardisation of these protocols across multiple network areas will support greater levels of retail competition. We appreciate the support and insight provided by the Standing Data Formats Group over many years to guide the development of these protocols.

This year we have also implemented two amendments to the Code that should have a significant impact in the future. Code amendments to the prudential and settlement requirements were gazetted just before Christmas in 2013. These arrangements are set to go live on 24 March 2015 but we have already seen their impact on behaviour. The prudential and settlement changes make it easier for retailers to enter the market and expand their offers by reducing the bond that retailers (and other purchasers) need to deposit with the wholesale market. I've had several positive conversations with potential new entrant retailers this year, including one who indicated this change was the trigger to its decision to enter the market.

We are expecting a positive impact from the Code amendment on dispatchable demand that was gazetted in May 2014. Dispatchable demand will help improve not just competition but also the reliability and efficiency of the market. When approved parties begin making bids to dispatch plant, this could create increased price certainty for all electricity consumers and will help ensure more efficient use of generation resources.

Although retail electricity prices have risen faster than general inflation rates in recent years, the primary driver of this in the

**TABLE 1**

Average percentage change
in residential prices (based on the QSDEP)

	LAST QUARTER*	LAST 3 YEARS**	PREVIOUS 7 YEARS†
Energy component (competitive)	-0.7%	0.5%	7.1%
Lines component (monopoly)	6.7%	6.2%	5.0%
Total price	2.3%	2.7%	6.3%

* Quarter ending June 2014

** Quarter ended 15 August 2011 to the quarter ended 15 May 2014

† Quarter ended 15 August 2004 to the quarter ended 15 May 2011

Source: www.med.govt.nz/sectors-industries/energy/energy-modelling/data/prices/electricity-prices

last three years has been higher transmission and distribution (lines) charges. Table 1 above shows the rate of increase in the prices that electricity retailers offer in the market to attract new customers (based on a hypothetical average consumer using 8,000 kilowatt hours (kWh) per year of electricity). This price series is measured by MBIE's quarterly survey of domestic electricity prices (QSDEP).

Based on the QSDEP, prices for the competitive part of the sector – covering energy, metering and retail services (called the energy component) – have increased at an average rate of 0.5% over the last three years and have even dropped in the last quarter. This is dramatically lower than the 7.1% rate of increase for the previous seven years (2004–2011). It is also substantially lower than the increases from the monopoly part of the sector which is regulated by the Commerce Commission.

Increased competition helps encourage innovation and participation

Increasing the conditions for competition also increases the opportunity for innovation. Not only do we have a record number of retailers in the market, but also, more importantly, we are now seeing a real diversity in the type of contracts, payment methods and added benefits offered to consumers.

At the start of 2014, New Zealand reached a milestone of one million smart meter installations. With an average of 15,000 installations every month, this number continues to increase. The roll-out of smart meter technology has been managed very successfully in New Zealand as it has been undertaken in a competitive manner rather than in a highly regulated way. This means retailers are motivated to realise the benefits smart meters offer. It has also meant that New Zealand consumers did not have to pay a fee for the installation of a smart meter, a common cost in other countries.

While competition in the retail market has certainly improved, we believe there is still room for further improvement, particularly around how information is provided to consumers to ensure they can make informed choices. This is borne out in our consumer research, which shows year on year improvements, but much room for further improvement.

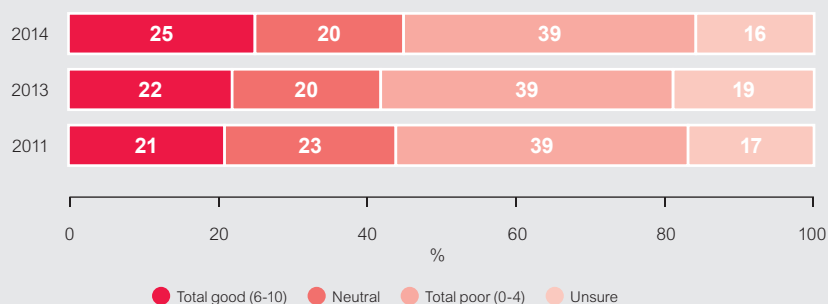
As the Chair indicates in his foreword, the Authority's work programme in 2014/15 remains heavily focused in the area of retail competition.

In the next year, we are expecting to complete our work on improving transparency about the sources of retail price changes for each consumer, provide consumers with easier access to their consumption data so they can more easily choose tariff options that best suit their circumstances, and amend the switching process to ensure all retailers (but particularly new entrant retailers) compete on a level playing field. The successful implementation of the prudential and

FIGURE 3

Consumer perceptions of competition

The current level of competition between electricity retailers ensures that prices consumers pay only rise in line with costs to the electricity companies.



Source: UMR Research report for the Electricity Authority: *CRE Aspirations: UMR omnibus results*, February 2014



settlement arrangements (outlined above) will also have a crucial impact. The Authority has an important role to provide information and education to both electricity participants and the general public. Over the next year, we will be working to further improve accessibility to our information and the ability for a wider range of people to input into consultation processes.

Working for a shared purpose

We value the positive and constructive relationships we have across the electricity industry. A recent highlight was signing a new relationship charter with the system operator arm of Transpower New Zealand Ltd in June 2014. This charter recognises and declares for the first time that both parties are working to a joint objective: the long-term benefit of New Zealand's electricity consumers.

We appreciate the time and effort of all those who have engaged with the Authority over the last year. The insights we receive through consultation processes and in advisory and technical groups are particularly vital. We remain conscious that the outcomes of our work can have major impacts on industry and stakeholders and we look forward to continuing to develop these positive relationships over the coming years.

There is more to do

As I indicated earlier, there is no 'silver bullet' to improving the electricity market. The Authority's work is driven by a robust, thoughtful process. We must make sure that the changes we make are durable and will deliver the long-term benefits we seek.

The Chair has already reflected on some of our key programmes of work for the year ahead. This programme remains focused; we will push further into the retail competition space and continue our work on the transmission pricing methodology. We will also begin new work around distribution pricing as well as enhance competition and efficiency of ancillary service markets.

The intention of this work is to build on the achievements of the last three years and continue in pursuit of our statutory objective to promote competition in, reliable supply by, and the efficient operation of, the New Zealand electricity industry for the long-term benefit of consumers.



Carl Hansen
CHIEF EXECUTIVE



From switching to checking

What: *What's My Number* was the central programme of activity in the Consumer Switching Fund. Over the course of this award-winning campaign almost 1.5 million consumers visited www.whatsmynumber.org.nz to compare their electricity retailer options. While the Consumer Switching Fund has now concluded (on 30 April 2014), a refreshed *What's My Number* campaign continues with a renewed focus on encouraging consumers to make a habit of checking that they are on the best power deal for their circumstances.

Why this matters: We always knew switching retailers was just one part of a more complex equation, but it provided a compelling campaign message for the first three years of this programme. Now we need to focus on keeping consumers actively motivated in participating in the electricity industry. One day we hope regularly checking you are receiving the best power deal becomes just as much of a habit as checking your vehicle's warrant of fitness is up to date.

No such thing as information overload

What: This year we overhauled our online presence as we developed a dedicated data website and a more streamlined corporate website. Both projects were developed with extensive and vital feedback from stakeholders.

Why this matters: We pride ourselves on making our data and decision-making transparent and with the launch of the Electricity Market Information website, and the refresh of our corporate web presence, this is further improved. Through emi.ea.govt.nz our datasets are available for review and analysis, and through ea.govt.nz the Code is more accessible and we are able to provide dedicated consumer-facing material. Further development on both sites will occur this year.



PART TWO

REPORT ON
OUTCOMES
AND IMPACTS

Measuring outcomes and impacts

This part sets out the measures we use to track progress against the high-level results we are seeking.

We measure:

- outcomes – the results for New Zealand from the electricity industry
- impacts – the changes we are seeking to bring about through our work.

Our measurement of outcomes uses a combination of survey tools and statistical analysis. Our impact measurement is a mix of quantitative analyses and qualitative assessments.

Outcome and impact measurement is complex and there are multiple factors that can influence results. The cause and effect relationship between our work and measurable change in the electricity markets is not straightforward, and in some cases may take several years to become clear. Factors outside our control can often have a significant influence on results. Significant year-to-year variations are possible, and an understanding is needed of the many complex interactions between variables in the operation of the electricity market to understand the implications of the raw outcome results and what, if any, action the Authority could or should take in response to undesirable outcomes.

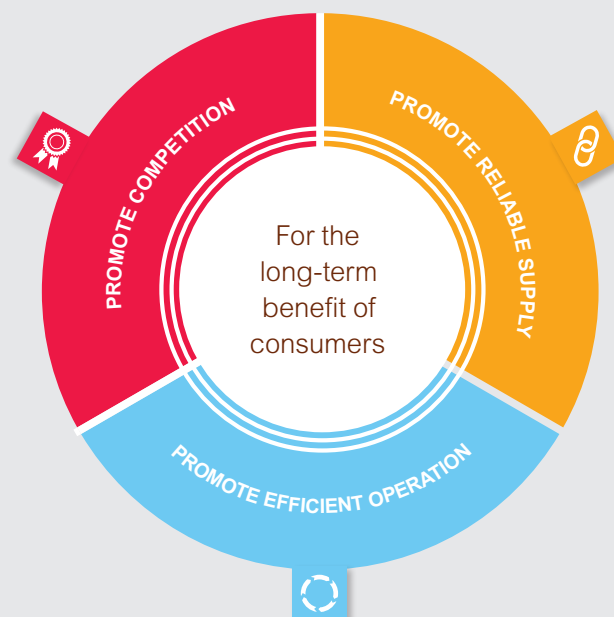
We continue to refine and develop our measurement of these high-level results.

Outcomes report

We progress our statutory objective by improving competition, reliability and efficiency. This is shown in Figure 4.

We measure outcomes in two ways: through public perception surveys and our annual electricity market performance review.

FIGURE 4 | The competition, reliability and efficiency limbs of the statutory objective

OUR STATUTORY
OBJECTIVE

Our first perception survey was completed in August 2011. Follow-up surveys were completed in February 2013 and February 2014.¹ Results to date are summarised below.

We also publish annual electricity market performance reports. These are major analytical reports on outcome performance.²

Outcome measures for competition

Our focus is on workable competition in the retail electricity market – where ordinary consumers buy electricity. Where

possible we also work to encourage competition in the wholesale market, and in transmission and distribution services. The wholesale market includes the spot market, the over-the-counter hedge market, the futures market, the metering market, and various ancillary service markets (including instantaneous reserves, frequency keeping, voltage support and black start).

We facilitate or encourage increased competition in the markets for electricity and electricity-related services, taking into account long-term opportunities and incentives for efficient entry, exit, investment and innovation in those markets.

TABLE 2 Competition measures

HIGH-LEVEL RESULTS SOUGHT	HOW WE TRACK RESULTS	TARGET	RESULT
Widespread confidence among investors and consumers in the competitiveness of electricity markets.	<p>Perception surveys: Percentage of survey respondents with an opinion on the matter who rate the electricity industry as neutral or better against the statements:</p> <p>“The current level of competition among electricity generators ensures they build the most efficient power stations and generate electricity as cheaply as possible.”</p> <p>“The current level of competition between electricity retailers ensures that prices consumers pay only rise in line with costs to the electricity companies.”</p>	Overall improvement in suite of survey results.	There is an improvement demonstrated in the survey results. See Figure 5.
Overall improvement across a suite of statistics on electricity market competition.*	<p>Electricity market performance review: Covering residential, spot, hedge and ancillary service markets. Statistics will also address entry and exit data, dynamic efficiency, and information about investment and innovation.</p>	Overall improvement in suite of competition statistics.	There is an overall improvement in the suite of competition statistics that follow. Further work is to be done on RS analysis (Figure 9). See Figures 6 to 13.

* The suite of statistics is:³

- retail market concentration (HHI statistic)
- retail market share (CR4 statistic)
- residual supplier analysis of the spot market (RS analysis)
- hedge market concentration (HHI statistic)
- concentration in the ancillary services market (HHI of reserves statistic)
- increased number of retailers' approaches to consumers with offers to induce switching (measured by survey).

1 The survey reports are available at www.ea.govt.nz/about-us/corporate-projects/2014-2017-planning-and-reporting/implementation/consumer-and-stakeholder-surveys-2014/

2 The reports are available at www.ea.govt.nz/monitoring/year-in-review/

3 See the glossary for explanations of these statistics. Detailed statistical information and analysis is contained in the annual electricity market performance reviews, available at www.ea.govt.nz/monitoring/year-in-review/

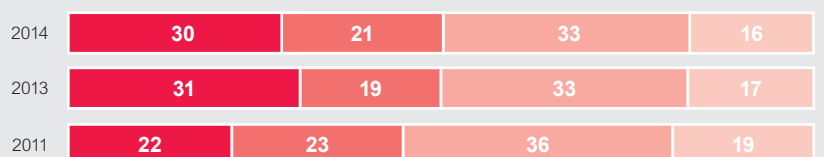
Results of public perception surveys

Figure 5 shows the results for competition-related questions in our public perception surveys that have been carried out over the last three years.

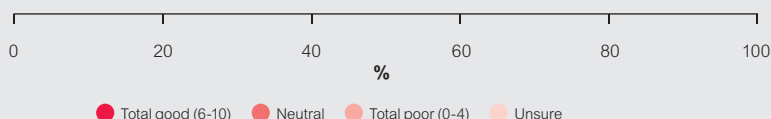
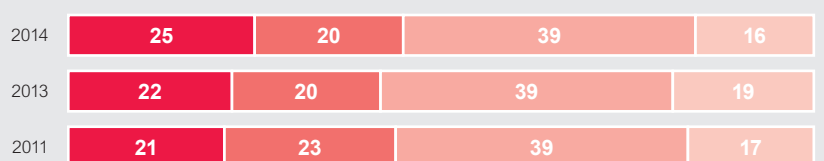
FIGURE 5

Perception survey results for competition questions
– survey of residential consumers

The current level of competition among electricity generators ensures they build the most efficient power stations and generate electricity as cheaply as possible.



The current level of competition between electricity retailers ensures that prices consumers pay only rise in line with costs to the electricity companies.



Source: UMR Research report for the Electricity Authority: *CRE Aspirations: UMR omnibus results*, February 2014

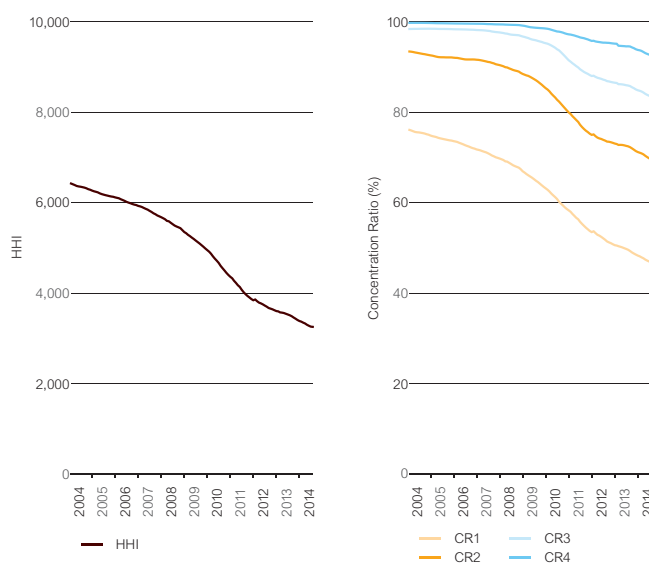
Retail market concentration

We take a structure-conduct-performance approach to assessing competition. We use the Herfindahl–Hirschman Index (HHI) and concentration ratio statistics as measures of concentration. These measures help to assess the structure of the market.

Figure 6 shows that these measures are falling in the retail market. This indicates that the structure of the market is improving.

FIGURE 6

HHI and concentration ratio statistics (residential only)

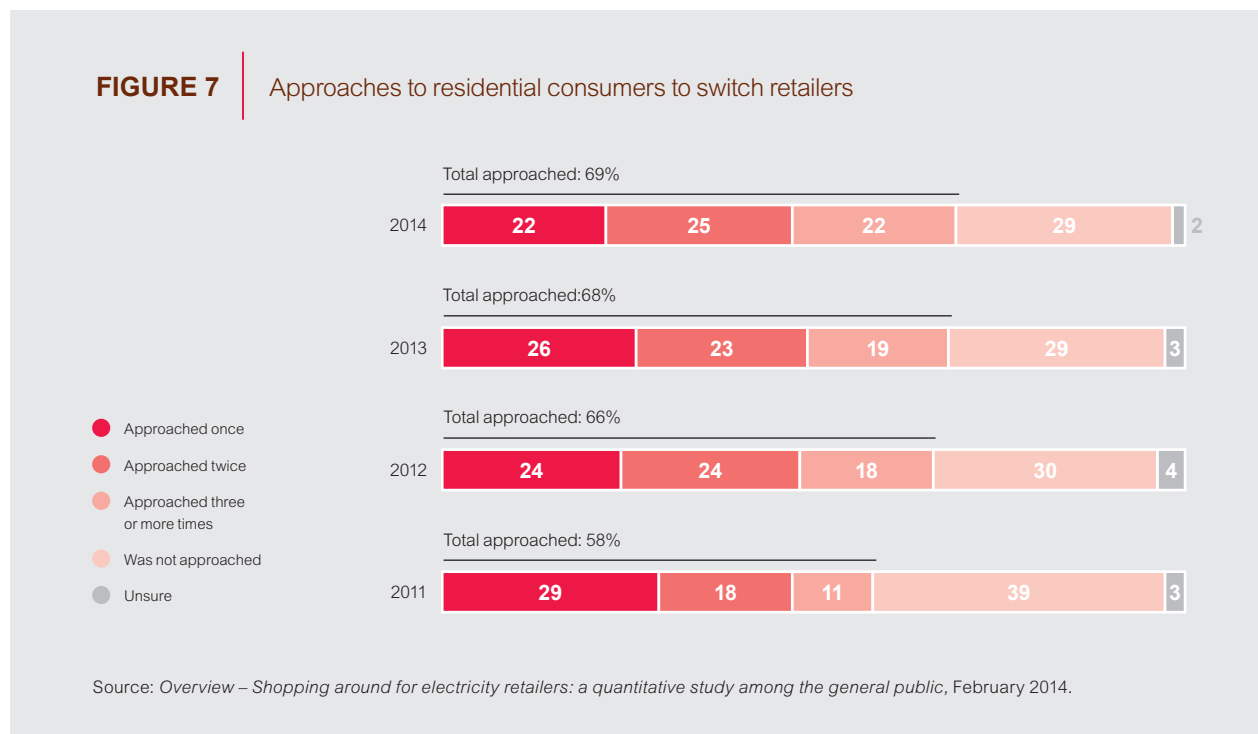


Key: HHI = Herfindahl–Hirschman Index, CR = concentration ratio (see Glossary for definitions)
Source: Registry data (available from EMI)

Approaches to consumers to switch

In February 2014 we published the findings of a survey on residential consumers' shopping around for electricity deals⁴. The survey shows strong competition among power companies with 69% of households having been approached about switching by at least one power company in the last two years. There has been a steady increase since the first survey in 2011. See Figure 7.

We consider that this increasing trend indicates improved residential market competition.



Costs versus prices

We use a cost index developed by NZIER to assess relative changes in electricity prices and costs. Figure 8 shows that prices have increased more slowly than costs, an indicator of competitive pressure. Again this suggests that the retail market is increasingly competitive.

The graph also includes indices calculated by Statistics New Zealand and the Ministry of Business, Innovation, and Employment (MBIE).

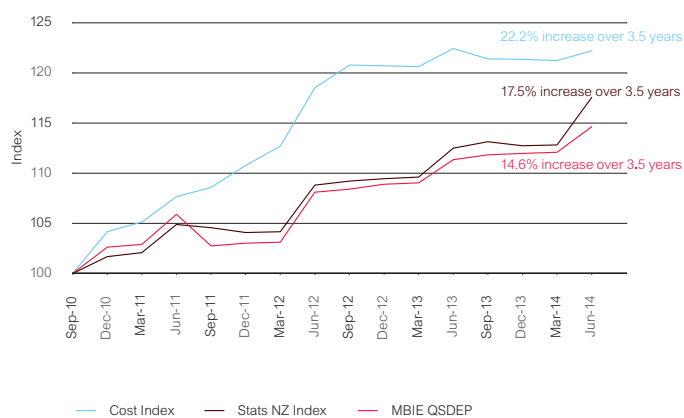
Statistics New Zealand calculates an index of residential electricity prices for an average New Zealand consumer based on 15 regions in New Zealand, and three types of model consumer.

MBIE uses two methods to model prices. It uses total sales and total delivered energy to estimate an average cost per kWh for residential consumers (the 'sales survey'). This data is currently available annually but will be released quarterly from September 2014.

MBIE also uses a survey of the prices available in around 40 towns and cities as well as a consumption profile for an average consumer. This information is used to estimate the price for an average consumer in each distribution region based on the best available price plan. The individual region prices are then averaged to create a New Zealand-wide price. This is the quarterly survey of domestic energy prices, or the QSDEP, which is shown in Figure 8.

These three different methodologies are all attempts to measure the average prices that residential consumers pay for electricity. Prices consumers pay may not be advertised on retailer websites, may involve payments that are offered to win back switching customers, or there could be special deals offered door-to-door. This means it is necessary to model the prices paid by consumers. These three methodologies are examples of different approaches to do this modelling, each with a slightly different purpose.

⁴ This survey was conducted by UMR Research. The survey reports are available at www.ea.govt.nz/consumers/whats-my-number/annual-review-of-the-whats-my-number-campaign/.

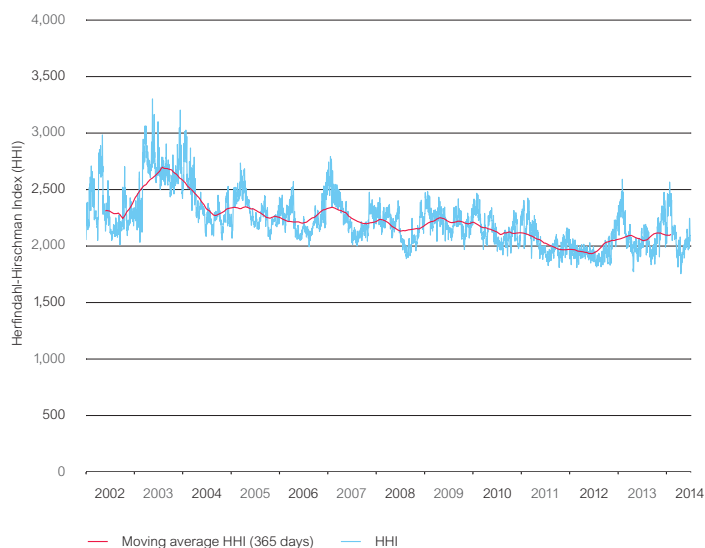

FIGURE 8 Cost indices versus price indices


Source: Cost index from NZIER. Statistics New Zealand and MBIE indices – see preceding text

Generation market concentration

We also look at HHI in the area of electricity generation. Figure 9 shows that the HHI is trending downwards although there is some seasonality with the HHI climbing during periods where water is scarce. Low inflows during the last three summers have meant the HHI has fallen as large hydro generators produce less. This evens out market share creating the reduction in the HHI.

The chart shows a trend for decreasing concentration, which is a pre-condition for increasing competition.


FIGURE 9 HHI for generation


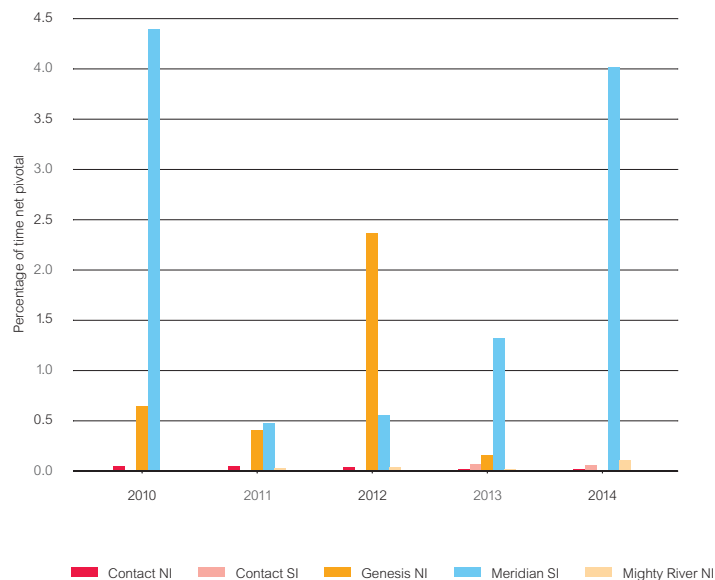
Source: Electricity Authority

Net pivotal analysis

To assess conduct we look at the percentage of time that large generators are net pivotal. A net pivotal generator can profitably and unilaterally raise prices. This measure is calculated using a simulation where we raise a trader's generation and reserve offers to an unusually high level and calculate the amount of energy that the trader would have to produce. The trader's net obligations are subtracted for this amount. Most often this gives a negative number which means that the trader would not be able to profitably increase its offers. We measure the percentage of time that a trader's residual amount of energy is positive. We define the trader as being net pivotal in these cases.

Figure 10 shows the number of times that large traders are net pivotal. Overall the trend is downwards with the exception of Meridian in the South Island. We saw a large fall between 2010 and 2011, which was mostly due to the Government's transfer of Tekapo A and B from Meridian to Genesis and virtual asset swap agreements, which meant capacity was more evenly shared between generators.⁵ Since 2011 Meridian's load profile in the South Island has changed from a winter to a summer peak. This means that Meridian's obligations are low when overall demand is high in the winter so they are dispatched for greater amounts of energy in our simulation. Given this, it may be more appropriate to do the simulation at a national level, which we plan to do in future years.

FIGURE 10 Net pivotal periods



Source: Electricity Authority

⁵ The virtual asset swap contracts involves Meridian Energy selling electricity by way of financial hedges, up to 450 GWh/year to Genesis Energy and 700 GWh/year to Mighty River Power in the South Island, and buying the same volumes of electricity from Genesis Energy and Mighty River Power in the North Island.

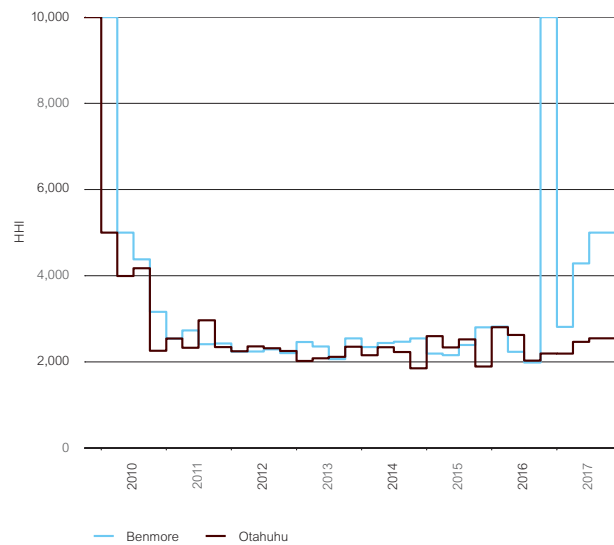
Hedge market concentration

We monitor the hedge market's HHI. Figures 11 and 12 show the HHI for hedge sellers and buyers respectively. We monitor both because it is possible to take a position in either direction in a hedge market. The HHI in this context is more a measure of conduct than structure. The HHI in future periods helps us monitor how positions are changing in the market. Both figures show much higher HHI in the future. This is because there are currently very low volumes being traded for these periods. Once we are closer to these periods (when more trades have been carried out) the HHIs will fall.

The downward trends over the last four years indicates low concentration in the hedge market, which is a pre-condition for competition. This is considered a healthy level.



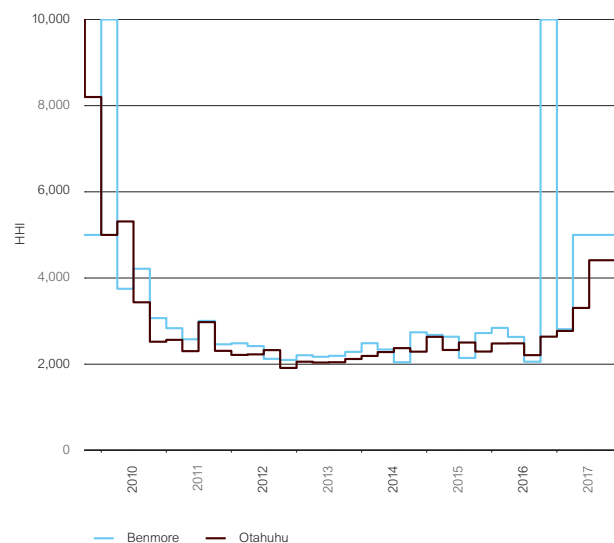
FIGURE 11 HHI for hedge buyers



Source: ASX data (available from www.asx.com.au/products/energy-derivatives/new-zealand-electricity.htm)



FIGURE 12 HHI for hedge sellers

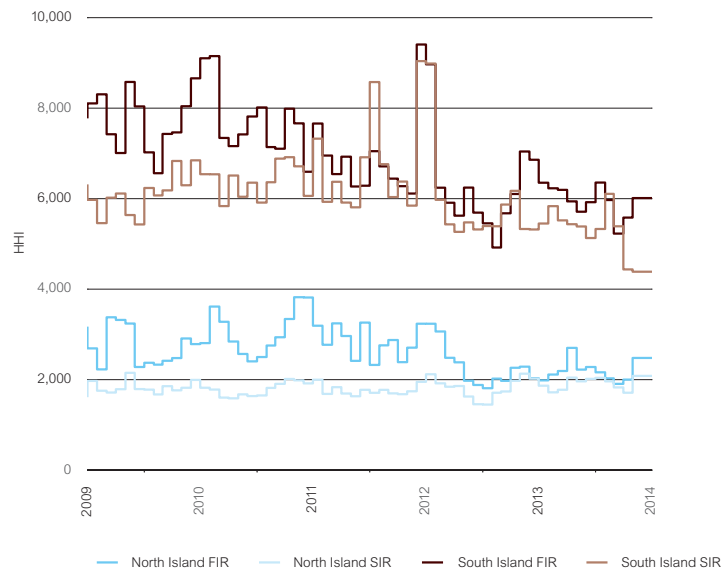


Source: ASX data (available from www.asx.com.au/products/energy-derivatives/new-zealand-electricity.htm)

Reserves market concentration

The structure of the reserves market is shown in Figure 13, which tracks the monthly HHI for the reserve markets in both islands. The South Island is more concentrated than the North Island simply because there are fewer generators that are able to provide the service. The trend in both markets is downwards (the desired direction), and is expected to continue to decline once the Authority has implemented nationwide markets for reserves.

FIGURE 13 HHI for the reserves markets



Source: Electricity Authority



Outcome measures for reliability

We seek efficient levels of supply reliability across the supply chain (generation, transmission, distribution, metering and retailing).

Reliable supply means both reliability and security in the continuity and quality of supply.

We facilitate and encourage industry participants to efficiently develop and operate the electricity system to manage security and reliability in ways that minimise total costs while being robust to adverse events.



TABLE 3 Reliability measures

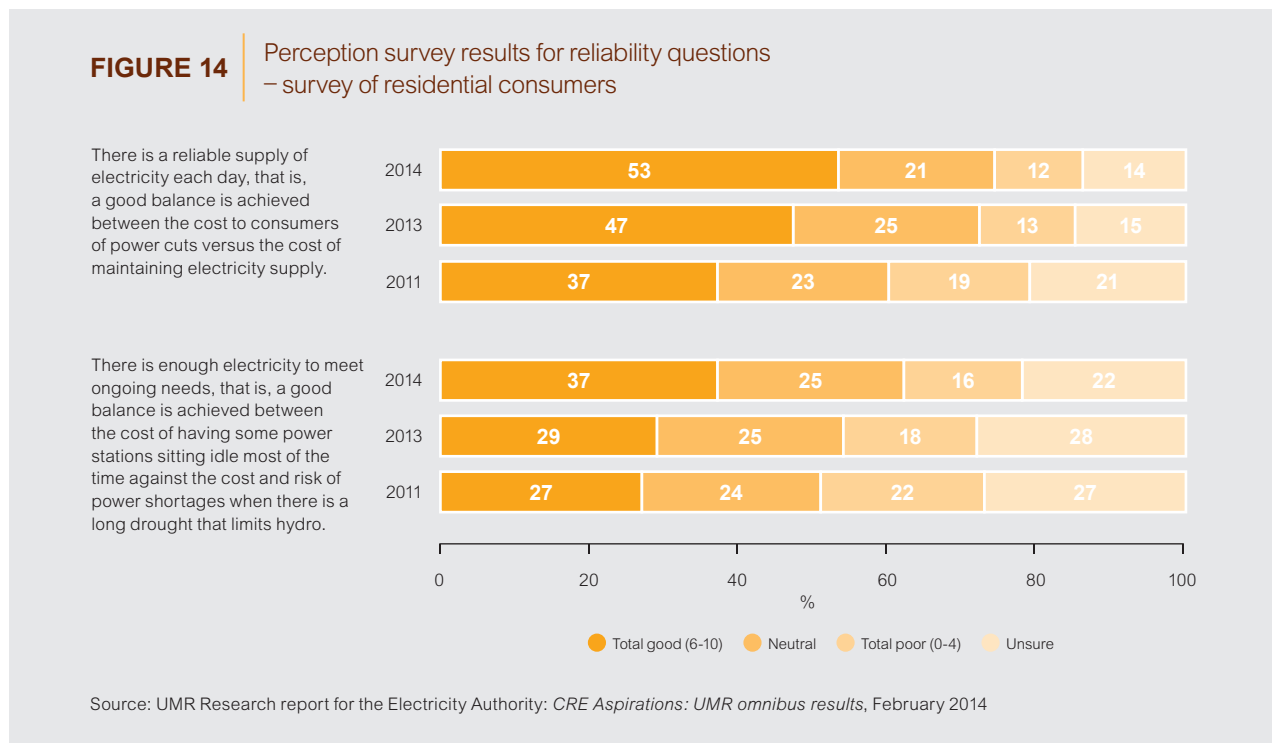
HIGH-LEVEL RESULTS SOUGHT	HOW WE TRACK RESULTS	TARGET	RESULT
Widespread acceptance among consumers of efficient levels of supply reliability.	<p>Perception surveys: Percentage of survey respondents with an opinion on the matter who rate the electricity industry as neutral or better against the statements:</p> <p>“There is a reliable supply of electricity each day, that is, a good balance is achieved between the cost of power cuts versus the cost of maintaining power lines.”</p> <p>“There is enough electricity to meet ongoing needs, that is, a good balance is achieved between the cost of having some power stations sitting idle most of the time against the cost and risk of power shortages when there is a long drought that limits hydro-generation.”</p>	Overall improvement in survey results.	There is an improvement demonstrated in the survey results. See Figure 14.
Overall improvement across a suite of statistics on efficient levels of reliable electricity supply.*	<p>Electricity market performance review: Measures of security and reliability, covering short-term service interruptions on the distribution network, transmission system reliability, resilience to emergency events (including dry years) and assessment of efficient investment in reliability.</p>	Overall improvement in suite of statistics on the efficiency of security and reliability levels.	Analysis of the event in May 2014 indicated the market behaved as expected. During the summer drought, prices reflected the scarce hydro resource. See figures 15 to 16.

* The suite of statistics is:

- pricing in scarcity events reflects opportunity cost, as measured by case-by-case analysis
- effective management of dry years or emergency events, as measured by case-by-case analysis
- capacity and energy margins are within efficient bounds, as measured by the annual security assessment
- investigation of reliability events does not identify systemic issues, as measured by case-by-case analysis.

Results of public perception surveys

Figure 14 shows the results for reliability-related questions in public perception surveys carried out over the last three years.



Pricing in scarcity events

We experienced a scarcity event on 27 May 2014 when demand was 500MW higher than the previous day due to very cold weather. The situation was made worse by two small North Island generators tripping off and one South Island generator having to reduce output due to a trip earlier in the morning.

The system operator issued a grid emergency notice indicating there was insufficient generation. Prices rose to around \$1,000/MWh signalling the high value of energy under these circumstances. Generators responded by increasing the amount of energy offered and the high prices lasted for only one trading period (each trading period is 30 minutes). This episode is exactly what we expect from the spot market: the price signalled to generators that energy was scarce and they responded and were rewarded accordingly. Most importantly, no consumers lost supply.

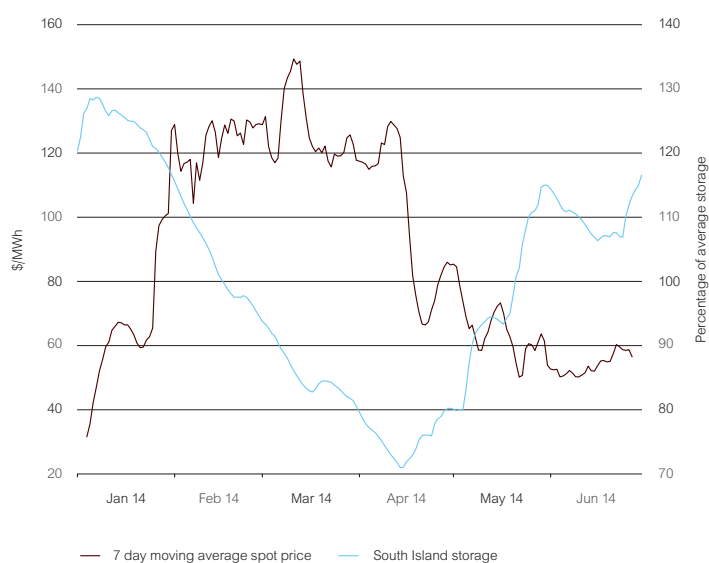
Effective management of dry years

In January to April 2014 New Zealand experienced a drought. This was made worse by the Maui platform and its onshore processing facility at Oanui being out for maintenance. Figure 15 shows hydro storage and the spot price for the first six months of 2014. It shows that a drought early in the year caused storage to fall and prices to rise in response to scarce hydro fuel, the expected market behaviour.

Similar patterns were observed in market behaviour in response to dry periods in the previous two years. This is considered a positive indicator that the market continues to function as expected for effective management of dry years.



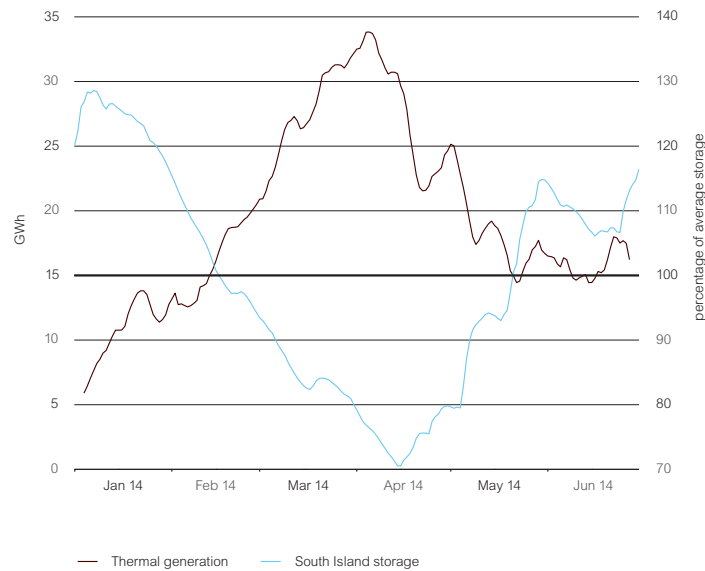
FIGURE 15 Hydro storage and spot prices



Source: Electricity Authority

Figure 16 shows thermal generation and storage. The high prices that accompanied falling storage caused thermal generation to become economic and start to produce. This is exactly what we expect from the spot market. Scarcity was signalled through the prices, and more costly generation then started generating and maintained supply.

FIGURE 16 Thermal generation and storage



Source: Electricity Authority – data from NIWA

Investigation of reliability event

On 12 November 2013 the first stage of North Island Automatic Under Frequency Load Shedding (AUFLS) was activated resulting in the loss of electricity supply to consumers. The total loss of load due to the AUFLS activation was 401MW – this was in addition to the fast instantaneous reserves that were also activated.

Transpower identified that the AUFLS activation was caused by a secondary contingent event that occurred following a high power test conducted during commissioning of Pole 3 of the High Voltage Direct Current (HVDC) interconnector.

We are investigating this event and a report will be published later in the 2014 calendar year.

Outcome measures for efficiency

We are seeking wholesale and retail electricity markets, and transmission and distribution arrangements, that are efficient mechanisms for coordinating electricity production and consumption. We also want these to facilitate timely and innovative investment in the electricity system.

Efficiency measures apply in particular to parts of the market without workable competition as where there is workable competition a good level of efficiency should follow.

We take into account the transaction costs of market arrangements, the administration and compliance costs of regulation and Commerce Act implications for the non-competitive parts of the electricity industry.



TABLE 4 Efficiency measures

HIGH-LEVEL RESULTS SOUGHT	HOW WE TRACK RESULTS	TARGET	RESULT
Widespread recognition that electricity markets and transmission and distribution arrangements are efficient.	<p>Perception surveys: Percentage of survey respondents with an opinion on the matter who rate the electricity industry as neutral or better against the statements:</p> <p>“The New Zealand electricity market ensures that the right mix of power stations is built in time to meet growing demand for power.”</p> <p>“The New Zealand electricity market ensures electricity is generated and supplied efficiently.”</p>	Overall improvement in survey results.	There is an improvement demonstrated in the survey results. See Figure 17.
Overall improvement across a suite of statistics on electricity system and market efficiency.*	<p>Electricity market performance review: Key measures relate to monitoring whether prices relate to costs at all times.</p> <p>Measures will include the costs and benefits of operating the electricity system and markets.</p>	Overall improvement in suite of statistics on operational efficiency.	Futures and spot prices reflected the physical market eg scarce hydro resource in early 2014. Constrained-on compensation fell mostly due to reduced frequency keeping costs. See Figures 18 to 20.

* The suite of statistics is:

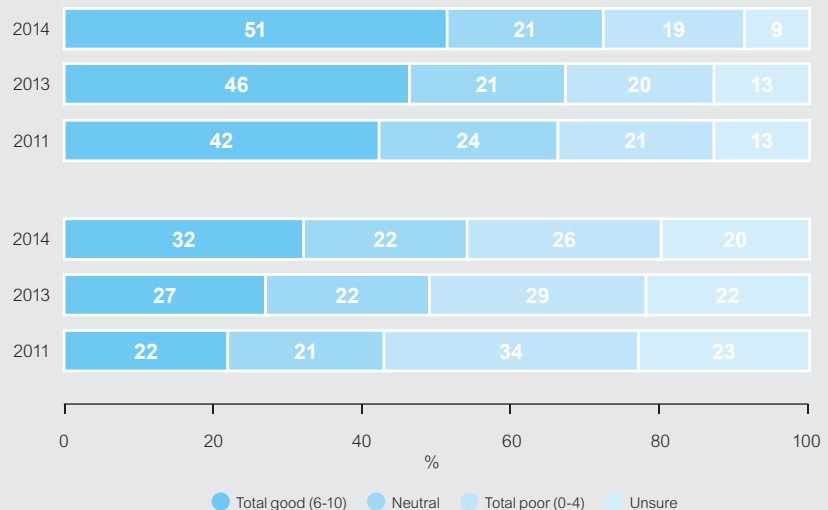
- robust futures prices
- dry year prices reflect storage, as assessed by case-by-case analysis
- exceptional prices are justified by underlying fundamentals, as assessed by case-by-case analysis
- reducing constrained-on compensation
- increased occurrence of demand bids setting spot prices.

Results of public perception surveys

Figure 17 shows the results for efficiency-related questions in public perception surveys carried out over the last three years.

FIGURE 17 Perception survey results for efficiency questions – survey of residential consumers

The New Zealand electricity market ensures electricity is generated and supplied efficiently.

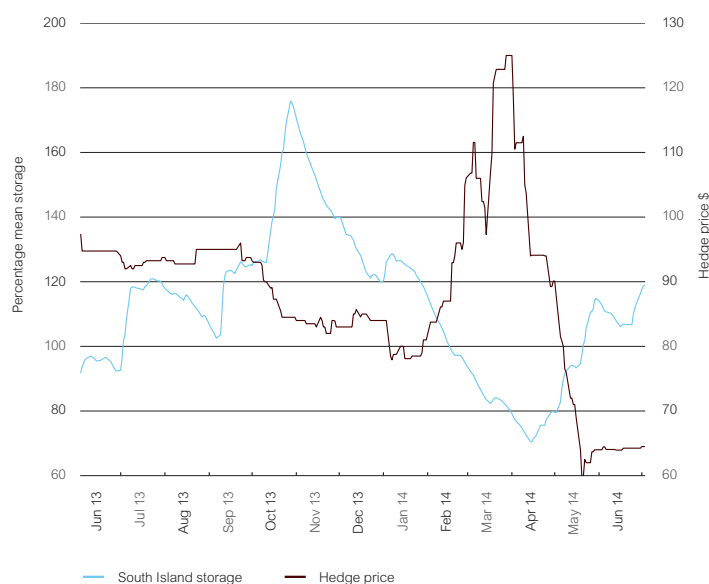


Source: UMR Research report for the Electricity Authority: *CRE Aspirations: UMR omnibus results*, February 2014

Futures prices

Figure 18 shows hedge price against South Island storage for the April to June 2014 quarter as a percentage of mean storage. The chart demonstrates how the hedge price reflects market fundamentals. In November 2013 when storage reached over 170% of mean, the hedge price fell to under \$90. Then, as storage fell relative to mean storage, the hedge price climbed to peak at about \$125. This is an example of market prices changing as market fundamentals change. This is important because the hedge market summarises the market's view of future prices, which in turn are an important input into investment decisions. So prices that reflect fundamentals are important for the industry.

FIGURE 18 Hedge prices (April – June 2014 quarter) and hydro storage

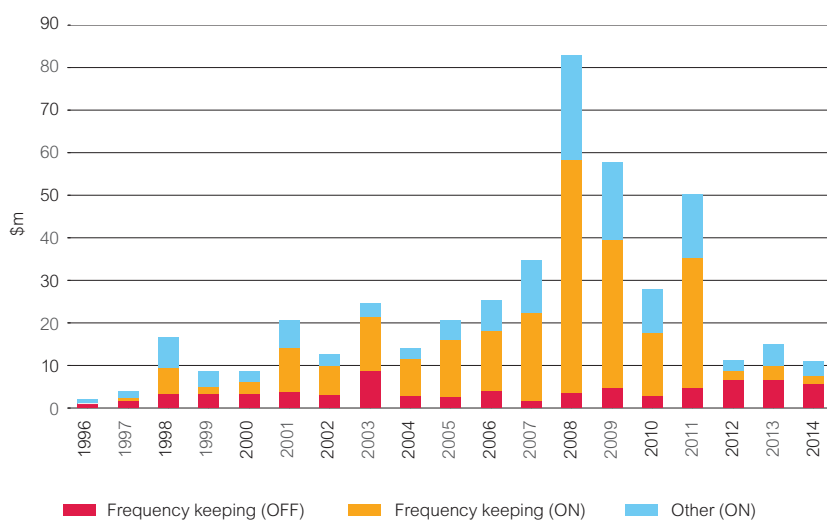


Source: Hydro data: COMMIT hydro; hedge price data: ASX

Constrained-on and constrained-off compensation

Figure 19 shows that the total constrained-on and constrained-off costs are falling. These costs arise partly from frequency keeping and partly from discretionary actions by the system operator. These costs have fallen sharply since 2011. There are two reasons for this. Firstly the frequency keeping selection algorithm changed at the end of 2011 removing the ability of generators to profit unduly. Secondly the system operator introduced the simultaneous feasibility test (SFT) in March 2011, which allows constraints to be factored into the dispatch system in real time, reducing the need for the system operator to use its discretion to constrain a generator on and off.

FIGURE 19 Constrained-on and constrained-off costs



Source: Electricity Authority

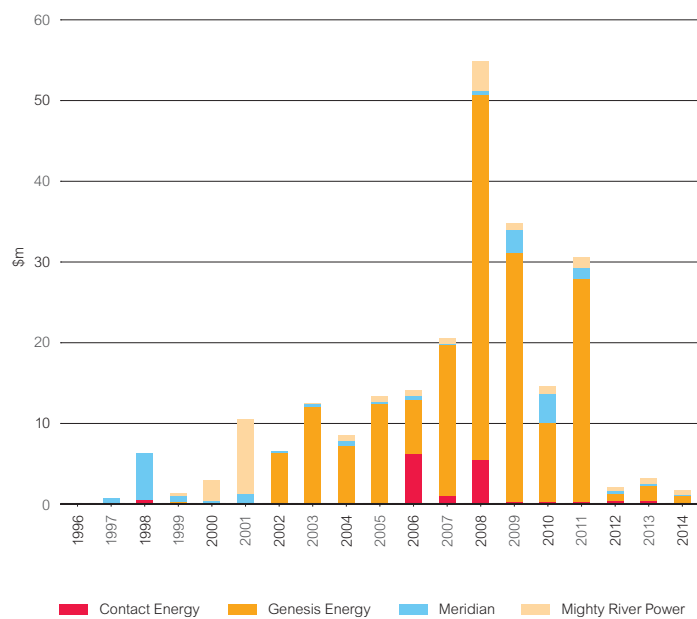
Ancillary service costs

Figure 20 shows frequency keeping constrained-on and off costs. Constrained-on costs are far larger than constrained-off, and have fallen significantly since 2011.

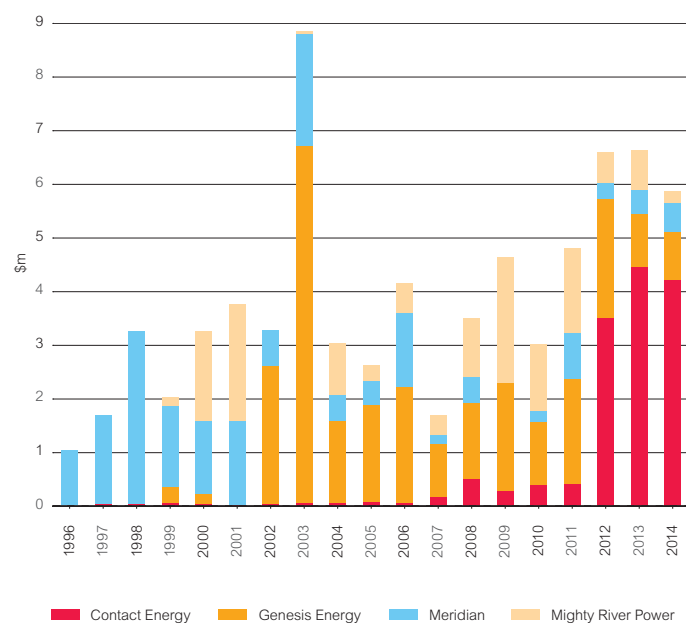
Cost reductions are largely attributable to the modifications the Authority requested to the system operator's frequency keeping selection algorithm made in November 2011.

FIGURE 20 Frequency keeping costs

Annual frequency keeping constrained-ON costs



Annual frequency keeping constrained-OFF costs



Source: Electricity Authority

Impacts report

Our strategies were set out in our *Statement of Intent for 1 July 2013 to 30 June 2016* (SOI). For each strategy (referred to as key impacts in the SOI), we have identified impact measures where our work is expected to make a material difference. Sections that follow outline each strategy and provide an update on results to date on the impacts we are seeking.

Our strategic framework and impact measures were reviewed during 2013/14 and have been updated in the

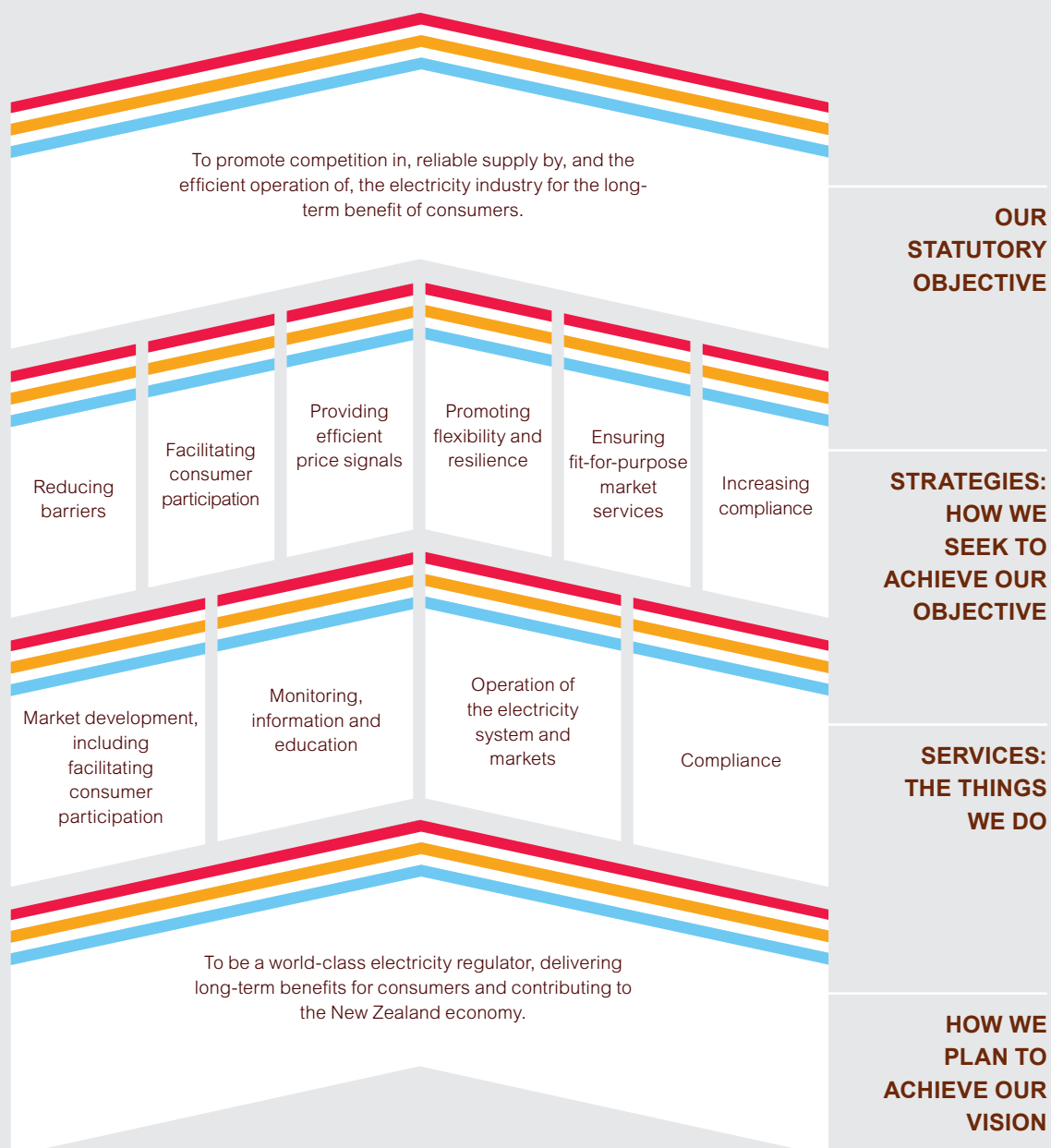
Statement of Intent for 1 July 2014 to 30 June 2018. Figure 21 shows the updated strategic framework.

Impacts are measured by post-implementation reviews

Our impacts will mainly be measured using post-implementation reviews. These reviews will evaluate the medium- to long-term impacts of our work. Our focus is to complete post-implementation reviews for key market development initiatives once they have been in place for long enough to have had a measurable impact.



FIGURE 21 Strategic framework



STRATEGY 1 || Reducing barriers

Reducing barriers involves facilitating the entry, expansion and exit of parties in electricity markets.

To reduce barriers we focus on ensuring regulatory frameworks support: market entry, exit and innovation; the uptake of technology; investment; making data and information available to assist informed investment and consumption decisions.

IMPACT MEASURE || Improving access to information.

RESULTS

Improved access to information has the potential to improve investment and operational decision-making.

We have undertaken multiple initiatives to improve quality and scope of publicly accessible wholesale market information with the aim to assist current and potential market participants to understand the forward price curve for the wholesale market. Anecdotal feedback to date is positive.

Corporate website with enhanced consumer information launched: Our refreshed corporate website was launched in March 2014. The updated website focuses on engaging consumers through a dedicated consumer section that provides information on the electricity market, bills, common issues and concerns. Impact monitoring will commence in 2014/15 using user feedback and website statistics. See www.ea.govt.nz/consumers.

Electricity data website launched: We also launched a new electricity market information (EMI) website in March 2014, which is linked to our corporate website. EMI provides online access and

modelling tools for a wide range of electricity data to assist with decision-making and analysis. See www.emi.ea.govt.nz.

Outages website in development: We are currently testing a new web-based platform that provides information on planned generation and transmission outages. The site is expected to be operational by September 2014.

Participant education being undertaken: We have completed a stock-take of all published participant guidelines. These will be prioritised and progressively reviewed.

We hosted registry training and workshops for metering equipment providers (MEPs), retailers and distributors during 2013/14. The events attracted a wide range of attendees, including new entrant retailers.

We also respond to enquiries from existing participants and potential new entrants on an ongoing basis.

IMPACT MEASURE || Retailers can increase customer numbers with the same level of prudential capital.

RESULTS

Retailers must provide prudential security to cover the costs of electricity purchased but not yet paid for. This can tie up considerable business capital.

We gazetted a new settlement and prudential security Code in December 2013, which comes into effect on 24 March 2015. The amended Code is expected to materially increase retailers' ability to support customers with the same level of prudential securities.

We will assess the impact as part of a post-implementation review after at least one year of operation, but no sooner than the 2015/16 financial year.

IMPACT MEASURE || A more active hedge market, including increased volumes and wider participation.

RESULTS

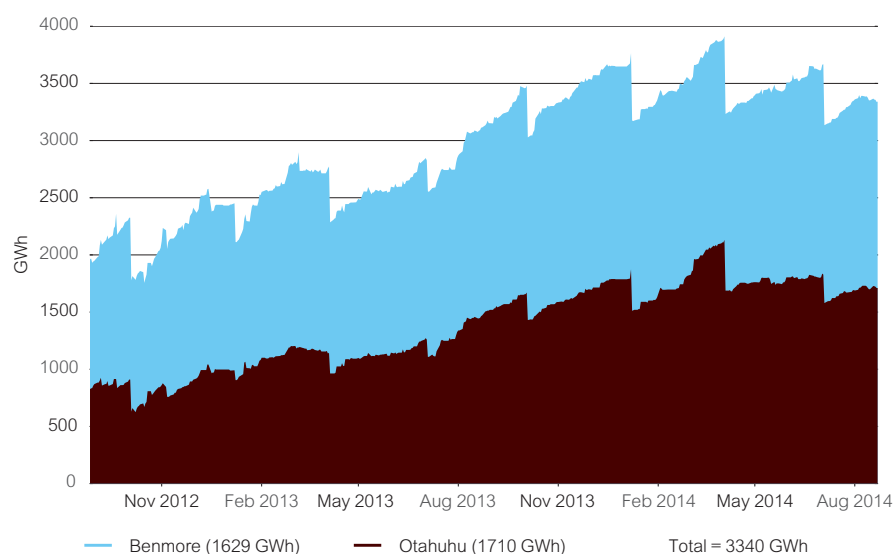
A more active hedge market provides foundations for increased competition in the spot electricity market, and supports increased retail market competition.

Our achievements over the last year include further development of the hedge market through work with the ASX and efforts to improve the over the counter (OTC) market.

In December 2013 the ASX introduced three new products, including a monthly baseload product to begin market-making. We are now working to encourage wider participation across a range of these products.

The volume of futures trades has grown from an unmatched open interest of 2,805GWh at 30 June 2013 to 3,741GWh at 30 June 2014 (a 33% increase). See Figure 22.

Results to date are very positive and we expect substantial further gains.

FIGURE 22 Hedge market – ASX daily open interest**IMPACT MEASURE** Increasing the number of frequency keepers.**RESULTS**

Frequency keeping is the process used to keep the frequency of the grid within its normal band. Frequency keeping power stations increase or decrease generation within a set band to ensure supply equals demand on a second-by-second basis. There are currently few frequency keeping providers and the cost to frequency-keep is significant. Increased competition will lead to efficiency savings, and has the potential to enhance security. Two key projects are underway:

National frequency keeping: This project would enable the system operator to select frequency keepers on a national basis, enabling more parties to be involved and therefore improving efficiency. Investigations have been completed. The system operator has determined high-level options for implementation. We expect to draft Code amendments in 2014/15.

Multiple frequency keepers: Changes to enable multiple frequency keepers (MFK) went live in the North Island on 1 July 2013. Since then the system operator has selected multiple frequency keepers for 50% of trading periods. Since MFK was introduced, Contact Energy Limited has been able to offer its plant at Stratford more often. We expect an additional MFK provider to join the North Island market shortly. A load-aggregator is working on a proposal to use load for frequency keeping.

MFK is due to go live in the South Island in August 2014.

A post-implementation review is expected to take place after the regime has been in place at least a year, but no sooner than 2015/16.

STRATEGY 2 || Facilitating consumer participation

Facilitating consumer participation involves providing consumers with the ability to exercise choice of supplier and product. It's important because engaged consumers are likely to have an increasing ability and desire to seek the price and service bundle that meets their requirements.

We focus on providing consumers with access to information and the opportunity to exercise control over their electricity supply. We empower consumers to decide on the best price and service offering for their circumstances, and by facilitating demand-side participation in electricity markets.

IMPACT MEASURE

Consumer take-up of dispatchable demand, as measured by volume offered.

RESULTS

Dispatchable demand: This is an optional regime that allows wholesale electricity purchasers to participate in the spot market in a similar way as generators. This means they can respond more efficiently to wholesale market conditions. Dispatchable demand will help promote competition by enabling purchasers to compete with generators to set the price.

Dispatchable demand went live on 15 May 2014. Three participants were involved in user testing, and they are likely candidates for first use of the system. By 30 June 2014 one had applied to become a dispatch-capable load station. Growth will take time.

IMPACT MEASURE

Increased consumer perception of ease of switching retailers.

RESULTS

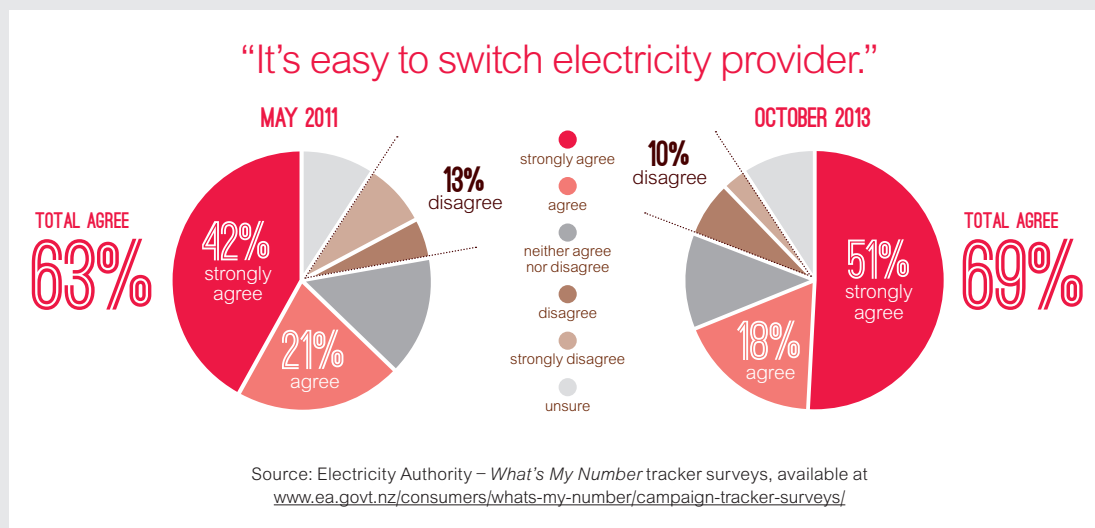
What's My Number project – residential and business campaigns: Our *What's My Number* campaign raises awareness among consumers that they can shop around for electricity. Retailers have responded to the campaign with better offers and deals for consumers.

Consumers' perceptions of ease of switching have risen as demonstrated by the consumer tracker surveys. See Figure 23.

We publish annual evaluation reports of the campaign at www.ea.govt.nz/consumers/whats-my-number/annual-review/

The 2013 VaasaETT World Energy Retail Market Rankings Report ranks New Zealand as number one in the world when it comes to customer switching in the electricity market. The report is available at www.vaasaett.com/2013/12/the-most-active-energy-markets-in-2013-revealed.

FIGURE 23 || Consumer perceptions of ease of switching



STRATEGY 3 || Providing efficient price signals

Efficient price signals help inform the investment and consumption decisions of participants and consumers.

We focus on establishing efficient prices for electricity services by developing markets, where efficient and practicable; and on disseminating price data and information.

IMPACT MEASURE

Increasing accuracy of price forecasts (five-minute prices are increasingly correlated with final prices).

RESULTS

Forecast and settlement prices project: We are currently working on a project to increase the accuracy of price forecasts.

In December 2013 the Wholesale Advisory Group (WAG), recommended we continue to develop and implement incremental

improvements to the existing spot market pricing process.

In addition, the WAG suggested we investigate whether more fundamental changes to the spot market pricing process should be introduced. We will start this review in 2014/15.

IMPACT MEASURE

Post-event analysis shows no instances of inefficient prices.

RESULTS

We completed three enquiries into pricing events in the 2013/14 year.

Two enquiries resulted in reports and found that prices reflected market fundamentals.

The third enquiry did not require a report as there were no significant issues to investigate.

The reviews are available at www.ea.govt.nz/monitoring/enquiries-reviews-and-investigations/

IMPACT MEASURE

No price suppression during scarcity events, as measured by case-by-case analysis.

RESULTS

There were no scarcity events in 2013/14 that required review.

Two key projects have been developed:

Scarcity pricing: This work looks at how we would assess the impacts of a scarcity pricing event. For example, whether efficient prices signalling scarcity were maintained during the event. Arrangements would only apply in rare events. These arrangements were successfully implemented into the pricing manager and system operator market systems by the 1 June 2013 effective date.

Pricing when a generator is pivotal: This project will encourage more efficient pricing during pivotal generation situations to ensure prices are consistent. The WAG carried out the initial work and made recommendations to us in October 2013. We gazetted the Code amendment on 17 June 2014 requiring generators to meet a high standard of trading conduct.

STRATEGY 4 || Promoting flexibility and resilience

Flexibility and resilience means being able to respond efficiently to changing market circumstances and to efficiently respond to unexpected events affecting the market.

We focus on enabling the capture and dissemination of price and non-price data and information to encourage broad participation in electricity markets. We also endeavour to facilitate efficient responses to changing market circumstances.

IMPACT MEASURE

Effective management of infrequent events on the grid affecting security of supply (absence of urgent Code amendments).

RESULTS

There was one event during the year that required review. An automatic under-frequency load shedding (AUFLS) event was investigated. The review was completed in 2013/14 and the report will be published in the first quarter of 2014/15.

Grid configuration project: Amendments to the Code came into force on 16 December 2013 allowing Transpower to make temporary changes to the grid configuration to ensure security of supply. As a result, to date, no urgent Code requests have been made, which is the intended outcome.

IMPACT MEASURE

Zero instances of customers left without electricity as a result of retailer default.

RESULTS

Retailer default project: Amendments to the Code came into force on 16 December 2013 which established arrangements to manage a retailer default situation.

We consider the arrangements are adequate and appropriate. However, this will not be fully tested unless there is a retailer default, in which case a full post-event assessment will take place.

STRATEGY 5

Fit for purpose market services

We work with the market operations service providers and the system operator to provide services and systems that:

- increase market efficiency through enabling interoperability to participant systems, adapting to changes in information technology and automating transaction processes
- ensure effective market operation through appropriate system reliability and resilience
- facilitate market development through the use of flexible, scalable systems.

IMPACT MEASURE

Participants consider systems⁶ meet their needs (measured by user survey).

RESULTS

Surveys have been carried out of users of the clearing manager, FTR manager, reconciliation manager, registry, WITS and system operator services (ie the services that are directly used by participants). Results are positive across all services. The survey results for the new FTR system reflected that some participants are still working through some system interface issues, and the results are expected to improve as more experience is developed.

The Authority is carrying out strategic reviews of all service providers:

System operator: We are progressing towards the renegotiation of the system operator service provider agreement (SOSPA) with Transpower New Zealand Limited (the monopoly provider of these services). The review is on track for the new SOSPA to be in operation from 1 July 2015.

Other service providers: We have completed a strategic review of service provider roles and whether their market systems and services remain fit for purpose (except for the FTR manager role, which only commenced operation in 2013). Recommendations were made to the Board in June 2014.

IMPACT MEASURE

Market services are resilient to adverse events, as measured by case-by-case analysis.

RESULTS

No significant events in the year.

IMPACT MEASURE

Timely and cost effective implementation of market development initiatives.

RESULTS

In February 2012 we established the Part 10 implementation project to coordinate the implementation of the new metering arrangements with industry participants. The new metering arrangements required a significant upgrade to the registry, which affected the operations of most participants in the retail market. The new arrangements successfully came into effect on 29 August 2013.

To assist us to improve our management of future implementation projects, we engaged Independent Quality Assurance NZ to independently review the delivery of the Part 10 implementation project.

No fundamental flaws or deficiencies were identified in the review. A number of potential improvements were identified – not just for us but for the industry more generally – and these are being taken on board for future projects. See www.ea.govt.nz/development/work-programme/retail/part-10/post-implementation/part-10-implementation-post-project-review.

6 The focus in the surveys is on the services meeting user needs. Systems are primarily used by the service providers, with user interfaces in some cases.

STRATEGY 6 || Increasing compliance

Compliance plays an integral role to ensure the integrity of the electricity markets.

We focus on achieving a downward trend in the frequency (same type of event, same participant) and cost of non-compliance (based on assessed cost of major breaches).

We place an emphasis on proactive compliance monitoring, rather than just resolving ex-post breaches.

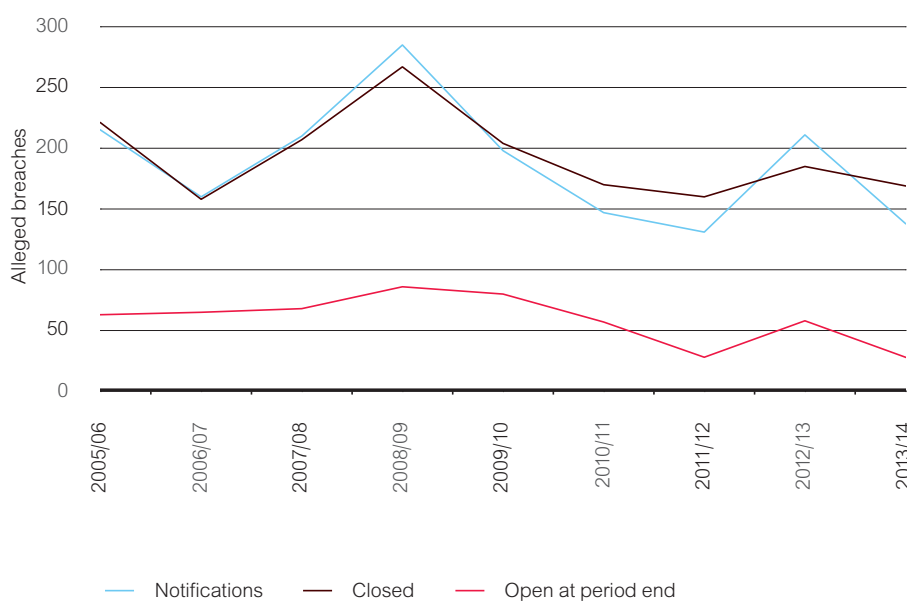
IMPACT MEASURE || Downward trend in frequency of non-compliance (same type of event, same participant).

RESULTS

There has been an overall decline in total breach notifications (138 for 2013/14, compared with 211 for the previous financial year). Compliance with dispatch instructions improved considerably with 14 breaches in 2014 compared with 49 breaches in 2013. The high

number of such breaches in 2013 and the subsequent reduction in 2014 are attributable to proactive compliance monitoring. See Figure 24.

FIGURE 24 || Trends in compliance – breach notifications, closed and open at period end



Source: Electricity Authority

IMPACT MEASURE || Downward trend in cost of non-compliance (based on assessed cost of major breaches).

RESULTS

We commenced nine formal investigations of serious breaches in the 2013/14 year. This compares to an average of ten per year for the previous seven years.

During the year we commenced our first prosecution under the Electricity Industry Act 2010 (the Act). The prosecution concerns an alleged breach of distributor continuance of supply obligations by OtagoNet Joint Venture.

INDEPENDENT AUDITOR'S REPORT

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

To the readers of the Electricity Authority's financial statements and non-financial performance information for the year ended 30 June 2014

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

We have audited:

- the financial statements of the Authority on pages 70 to 89, that comprise the statement of financial position as at 30 June 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and notes to the financial statements that include accounting policies and other explanatory information; and
- the non-financial performance information of the Authority that comprises the statement of service performance on pages 44 to 58 and the report about outcomes on pages 18 to 40.

Opinion

In our opinion:

- the financial statements of the Authority on pages 70 to 89:
 - comply with generally accepted accounting practice in New Zealand; and
 - fairly reflect the Authority's:
 - financial position as at 30 June 2014; and
 - financial performance and cash flows for the year ended on that date.
- the non-financial performance information of the Authority on pages 44 to 58 and 18 to 40:
 - complies with generally accepted accounting practice in New Zealand; and
 - fairly reflects the Authority's service performance and outcomes for the year ended 30 June 2014, including for each class of outputs:
 - its service performance compared with forecasts in the statement of forecast service performance at the start of the financial year; and
 - its actual revenue and output expenses compared with the forecasts in the statement of forecast service performance at the start of the financial year.

Our audit was completed on 2 September 2014. This is the date at which our opinion is expressed.

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

Basis of opinion

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

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and non-financial performance information. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

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

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board;
- the appropriateness of the reported non financial performance information within the Authority's framework for reporting performance;
- the adequacy of all disclosures in the financial statements and non financial performance information; and
- the overall presentation of the financial statements and non financial performance information.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and non-financial performance information. Also we did not evaluate the security and controls over the electronic publication of the financial statements and non-financial performance information.

We have obtained all the information and explanations we have required and we believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board

The Board is responsible for preparing financial statements and non-financial performance information that:

- comply with generally accepted accounting practice in New Zealand;
- fairly reflect the Authority's financial position, financial performance and cash flows; and
- fairly reflect its service performance and outcomes.

The Board is also responsible for such internal control as is determined necessary to enable the preparation of financial statements and non-financial performance information that are free from material misstatement, whether due to fraud or error. The Board is also responsible for the publication of the financial statements and non-financial performance information, whether in printed or electronic form.

The Board's responsibilities arise from the Crown Entities Act 2004 and the Public Finance Act 1989.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and non-financial performance information and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and the Crown Entities Act 2004.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

Other than the audit, we have no relationship with or interests in the Authority.



Phil Kennerley

**AUDIT NEW ZEALAND
ON BEHALF OF THE AUDITOR-GENERAL**

Wellington, New Zealand



PART THREE

STATEMENT OF
PERFORMANCE

This part is a report against the forecast statement of performance in the SOI.

Summary of appropriations and output classes

Table 5 provides a summary of our output classes, budget and expenditure information. The table also indicates the contribution made by each output class to the competition, reliability and efficiency limbs of our statutory objective.

TABLE 5 Summary of appropriations and output classes

Appropriations and output classes	\$000			Contribution to outcomes		
	Actual 2012/13	Actual 2013/14	Appropriation 2013/14	Competition	Reliability	Efficiency
Electricity industry governance and market operations	62,016	65,799	68,145	✓	✓	✓
Promoting and facilitating customer switching*	3,362	2,111	2,230	✓	—	✓
Security management**	—	—	1,200	—	✓	—
Electricity litigation fund***	36	48	444	—	—	—
Total	65,414	67,958	72,019			

* This is a multi-year appropriation of \$10.500 million over 3.5 years (commencing on 1 November 2010 and expiring on 30 April 2014). The appropriation ended on 30 April 2014, with expenditure of \$2.111 million incurred during 2013/14, against the SOI budget of \$2.000 million and an available unspent appropriation of \$0.230 million carried forward from the previous year. The total expenditure incurred against this appropriation from 1 November 2010 to 30 April 2014 was \$10.381 million.

** The security management appropriation is a multi-year appropriation of \$6.000 million over the five-year period 1 July 2012 to 30 June 2017, and is drawn on only if an emergency event arises.

*** The electricity litigation fund provides funding to ensure that the Authority 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.

Output class 1: Electricity industry governance and market operations

The electricity industry governance and market operations output class includes our general operations, including Board members' costs, the Security and Reliability Council, Rulings Panel, advisory groups, and the operation of the electricity system and market operations.

This output class covers our four main services:

- market development
- monitoring, information and education
- operation of the electricity system and markets
- compliance.

We have quality standards that apply to all outputs, where relevant. These are on pages 57 and 58.

Market development

Our market development work focuses on further improving arrangements for the competitive, reliable and efficient operation of the electricity system and markets. It also includes ensuring appropriate security of supply policies are in place, and that market settings encourage efficient long-term investment in generation and metering infrastructure.⁷

The key tools we use to develop the market are amendments to the Electricity Industry Participation Code 2010 (Code) or market facilitation measures.⁸ These market settings need to be appropriate for today's needs as well as flexible enough to enable tomorrow's innovations.

Advisory groups, which comprise consumer representatives and industry participants, make a significant contribution to our market development work. Stakeholders also make contributions through our consultation process. Input may also be required from our contracted service providers, who can have a major role to play in implementing Code amendments.












Our market development output includes implementing Code amendments where action is required by us or our service providers, and post-implementation reviews to assess whether initiatives deliver the expected benefits.

Promoting and facilitating customer switching also contributed to market development. See page 54.




⁷ The Commerce Commission provides oversight of investment in the electricity transmission and distribution networks.

⁸ Market facilitation measures (MFM) include non-Code initiatives such as guidelines or model arrangements, or working directly with participants to develop desired results.

Key market development projects

PROJECT	2013–2016 SOI TARGET	RESULT	COMMENT
Review of undesirable trading situation (UTS) provisions	Complete Code amendment. Implement any changes in procedure.		Achieved: Completed in June 2013.
Settlement and prudential security review	Complete Code amendment. Commence implementation.		Achieved: Code amendment approved and gazetted in December 2013. Implementation commenced. Commissioning date 24 March 2015.
Pivotal Pricing Project	Complete Code amendment. Commence implementation.		Achieved: Code amendment approved and gazetted in June 2014.
National market for frequency keeping	Consult on issues and options.		Achieved: The Wholesale Advisory Group (WAG) investigated alternatives/options and provided a recommendations paper to the June 2014 Board meeting. The Board accepted the report without requiring WAG to consult.
National market for instantaneous reserve	The WAG recommendations to the Board.		Achieved: The WAG recommendations were received at the August 2013 Board meeting.
Within-island basis risk (WIBR)	Complete Code amendments. Commence implementation.		Achieved: The Board approved the recommendations at its October 2013 meeting. Implementation commenced and a letter of expectation was sent to the FTR manager regarding introduction of a multipoint FTR.
Review of half hour switching process	Complete update of the switching processes and any necessary Code amendments. Commence the use of the new process.		Largely completed. Code amendment covering all but one issue was approved at the 27 June 2014 Board meeting. The Board has requested consideration of a further consultation to address the remaining issue.
Alignment of forecast and settlement prices	The WAG recommendations to the Board.		Achieved: The WAG recommendations were received at the December 2013 Board meeting.
Efficient procurement of extended reserves	Complete Code amendment. Commence implementation.		Achieved: Code amendment approved in June 2014. Implementation was commenced.
Consumer switching fund	Continue to promote to consumers that they can shop around for electricity.		Achieved: 2013 residential campaign launched in April 2013. The Government approved funding in the 2014 Budget for a new programme for facilitating consumer participation for the 2014/15 to 2016/17 financial years.
Transmission pricing investigation	NA. Added as a key project in the work programme that was published in June 2013.		On track: Steady progress is being made on the review of the transmission pricing methodology (TPM) in accordance with the revised approach and timetable published in May 2014.

Performance measures for market development

DESIRED RESULT	2013–2016 SOI TARGET	STATUS	COMMENT
Key Code and market facilitation measures work programme projects progressed as planned.	<p>At least 90% of key market development projects, as listed above, meet their timetable and deliverables for the year.⁹</p> <p>All Code amendments provide a net benefit for consumers, as measured by cost benefit analyses for each amendment decision.</p>		Achieved: See the table above on key market development projects.
Successful implementation of Code amendments.	<p>Implementation completed for dispatchable demand.</p> <p>Implementation of section 42 matters completed within overall budget.</p>		Achieved: Dispatchable demand went live on 15 May 2014. Implementation of section 42 matters completed within overall budget.
Code amendments deliver intended benefits and impacts on market behaviour.	Suite of post-implementation reviews show that market behaviour altered in intended direction.		<p>On track: Reviews are scheduled to take place after initiatives have been in operation for a suitable length of time.</p> <p>A model use of system agreement (MUoSA) post-implementation review was completed in 2013/14. Impact assessment indicated mixed results and we are carrying out further work on improving standardisation of these agreements.</p>

9 Subject to any appropriately justified re-prioritisation to accommodate emerging market issues and ensuring quality of our outputs.

Monitoring, information and education

Our market monitoring, information and education work focuses on improving the availability of data, information and tools, and improving awareness and understanding of how electricity markets function. Transparency and understanding are key ingredients to ensuring competitive, reliable and efficient operation of the electricity market.

Our market analysis function improves understanding by identifying undesirable behaviours and unintended consequences of the market, and providing appropriate feedback into the market development work.

The Energy and Resources Minister may also ask us to undertake reviews under section 18 of the Electricity Industry Act 2010 (the Act). No reviews have been requested to date.




We have a three-step analysis process designed to understand causes of market events or behaviours, and to determine if they reflect actions that are outside market rules or potentially require Code amendments or some form of market facilitation measure. The steps are as follows:

- **Stage I: Market performance enquiry:** routine monitoring results in identifying circumstances that require follow-up. In this case we publish our enquiry only if the matter is likely to be of interest to industry participants.






- **Stage II: Market performance review:** a second stage of investigation occurs if there is insufficient information available to understand the issue and it could be significant for the competitive, reliable or efficient operation of the electricity industry. Information is sought from relevant service providers and industry participants. We would usually publish the results of these reviews.
- **Stage III: Market performance investigation:** we may exercise statutory information-gathering powers under section 46 of the Act to acquire the information we need to fully investigate an issue. We would generally announce early in the process that we are undertaking the investigation and indicate when we expect to complete the work. Our Board approves reports for publication.

Considerable effort has gone into developing our capability and capacity in this area. New datasets and tools have been made available to the public and the sector and a range of publications explaining facets of the industry have been developed and published. We are seeking efficiency gains while continuing to improve performance in this area.

Key monitoring, information and education projects

PROJECT	2013–2016 SOI TARGET	RESULT	COMMENT
Electricity market performance review	Electricity market performance review completed.		Achieved: Report published in March 2014.
Post-implementation reviews	Reviews generally commence after an initiative has been in operation for two years.		On track: Post-implementation review of MUoSA completed in 2013/14.
Data warehouse	Expanding and improving the data warehouse; continuous improvement of the data warehouse and website portal.		Achieved: A new Electricity Market Information (EMI) website went live in March 2014 (www.emi.ea.govt.nz). All data from EMI/FTP and the previous centralised data set (CDS) is now on EMI.

Performance measures for monitoring, information and education

DESIRED RESULT	2013–2016 SOI TARGET	STATUS	COMMENT
Robust and timely investigation, analysis and reporting on anomalous events, and reviews requested by the Minister under section 18 of the Act.	Two to four reports completed per annum. Reports under section 18 of the Act meet the time frame, scope and quality standards agreed with the Minister.*	 NA	Achieved: Five reports published in 2013/14. Three further enquiries are underway. No section 18 reports requested to date.
Making available data, information, analysis tools and guidance publications.	Electricity market performance review of 2013 completed by 30 June 2014.		Achieved: Report published in March 2014.
	One or more fact sheets published or updated each year.		Achieved: Two fact sheets published in 2013/14. Two further fact sheets are under development. ¹⁰
	One or more consumer guides published or updated each year.		Achieved: Guidelines published for Retailer Default arrangements. ¹¹
	99% availability of the Authority market data web portal during business hours. 20–30 data sets available on the portal.**		Achieved: Availability and data sets targets being met. EMI website launched in March 2014. ¹²

* Aggregate response to survey for each report.

** The market data portal became the EMI website in March 2014.

¹⁰ Fact sheets are available at www.ea.govt.nz/consumers/student-resources/

¹¹ Guidelines are available at www.ea.govt.nz/operations/retail/retailers/managing-retailer-default-situations/

¹² See www.emi.ea.govt.nz/

Operation of the electricity system and markets – market services

We are responsible for the day-to-day (real-time) operation of the electricity system and markets. To achieve this we contract out all of the required functions, as described below, with the exception of the market administrator role. We seek to make these efficient and reliable. Efficient and reliable day-to-day operations are fundamental to ensuring effective competition.

Supporting the operation of the markets also includes a range of ongoing functions including:

- maintaining the register of industry participants
- granting individual exemptions to the Code, where justified
- investigating and resolving alleged undesirable trading situations
- performance oversight of security policy and operation, including support to the Security and Reliability Council and approving or declining security of supply policies and plans proposed by the system operator (also see the security management appropriation on page 55)
- carrying out responsibilities for supply shortage declarations, for example, official conservation campaigns, if needed.

The security management output class also supports effective operation of the electricity system and markets. See page 55.

Service providers

Market operations service providers are required to meet specified performance standards. General maintenance and upgrades are planned and implemented and have achieved these standards.

System changes, including the implementation of new Code arrangements, are required to be independently audited before being put into production. Annual software audits are also required under the Code, with any identified issues prioritised for action.

Audits and change audits for 2013/14 have been completed.

The **system operator** is responsible for the real-time operation of the power system, including scheduling and dispatching electricity, in a manner that avoids undue fluctuations in frequency and voltage on the transmission grid. The contract is called the system operator service provider agreement (SOSPA).¹³

The **wholesale information and trading system (WITS)** is used to transfer information among participants especially the uploading of bids and offers.

The **reconciliation manager** allocates volumes of electricity to generators and purchasers. It uses metering information supplied by participants and calculates unaccounted-for electricity.

The **pricing manager** calculates and publishes final prices, which are used by the clearing manager to calculate invoices.

The **clearing manager** invoices and settles physical electricity sales and purchases identified by the reconciliation manager, ancillary service payments, and any financial hedges required to be taken into account in the prudential calculation. It also maintains prudential security requirements.

The **registry** is a database that identifies every customer point of electricity connection to a local or embedded network. It enables customer switching between traders, and contains key information for the reconciliation process.



The **FTR manager** is a newly established market operation service provider, charged with running regular auctions of financial transmission rights (FTRs), which are a new locational hedge product.¹⁴

We carry out the role of **market administrator**, providing a number of operational and administrative services to the market under the Code.




¹³ System operator responsibilities include giving instructions as to when and how much electricity to generate (ie it dispatches generation) so that injections of electricity into the system match uptake by electricity consumers at each moment in time. The system operator also publishes the generator dispatch schedules, and is responsible for the operation of security of supply forecasting, monitoring and emergency management functions.

¹⁴ For more information on service provider contracts, which include detailed performance specifications, and reports, see <http://www.ea.govt.nz/industry/mo-service-providers/>

Key market services projects

PROJECT	2013–2016 SOI TARGET	RESULT	COMMENT
SOSPA review	No specific target set.		On target: Discussions with the system operator resulted in a target date being set for new SOSPA to be effective on 1 July 2015. The review is on track for this target date.
Service provider fit for purpose review	No specific target set.		Achieved: The review, covering all service providers except the system operator and FTR manager, was completed in June 2014. An update to the review was also completed in June to include the market administrator role.

Performance measures for market services

DESIRED RESULT	2013–2016 SOI TARGET	RESULT	COMMENT
Maintain delivery standards for electricity system services in accordance with the Act, regulations and the Code.	System operator meets the requirements of the principal performance obligations.* Annual assessment of system operator performance does not reveal any significant issues. User satisfaction with overall performance of system operator service (measured by user survey-baseline and target to be established in 2013/14).		Achieved.
Market operation service providers meet the requirements of the Act, regulations and the Code.	Market operation service providers' Code and contract performance standards met.** Annual audits do not reveal any significant issues. User satisfaction with overall performance of market service that are directly used by participants (measured by user survey-baseline and targets to be established in 2013/14).		Achieved.
Market administrator services delivered in accordance with the Code.	No significant breaches as a result of the Authority carrying out its market administration function.***		Achieved.

* Principal performance obligations are contained in Part 8 of the Code, available at www.ea.govt.nz/code-and-compliance/the-code/

** Market operation service provider Code and contract performance standards, including availability standards, vary between the various providers. Details are available on our website at www.ea.govt.nz/operations/

*** Breaches are events when reliability standards are not met. The absence of breaches therefore is an indicator that reliability standards are met. A significant breach is one that results in either a warning letter to the CEO or an adverse finding by the Rulings Panel.

Compliance

We are responsible for monitoring, investigating and enforcing compliance with the Act, regulations made under the Act, and the Code.

Our compliance activities support competition, reliability and efficiency in the electricity system and market by working to ensure that the Act, regulations and Code are accurately and consistently applied. What we learn from our compliance and enforcement activities also feeds into identification and resolution of ongoing or systemic issues.


The compliance activity provides incentives to participants to ensure they have effective compliance arrangements. We also provide participants with feedback, education and

information with the aim of improving compliance. Such examples include compliance workshops, newsletters, site visits and reports from each Compliance Committee meeting.






Breach notifications are investigated by a team of our staff, which reports to the Board's Compliance Committee. Most compliance decision-making is currently delegated to the Committee, with the exception that the Board makes the decision to refer cases to the independent Rulings Panel (see page 61 for information about the Rulings Panel).

We have refined our compliance strategy and processes to the point where performance standards are consistently high and operational savings are now sought.

Key compliance project

PROJECT	2013–2016 SOI TARGET	RESULT	COMMENT
Review of Enforcement Regulations	Complete the review.		Achieved: The review was completed and provided to the Ministry of Business, Innovation and Employment (MBIE) in May 2014.

Performance measures for compliance

DESIRED RESULT	2013–2016 SOI TARGET	RESULT	COMMENT
The percentage of notifications of alleged breaches completed or referred to the Rulings Panel within three months of notification.	77.5%		Achieved: 93.9%
The percentage of notifications of alleged breaches completed or referred to the Rulings Panel within six months of notification.	87.5%		Achieved: 97.6%
The percentage of notifications of alleged breaches completed or referred to the Rulings Panel within 12 months of notification.	98%		Achieved: 100%
DESIRED RESULT	2013–2016 SOI TARGET	RESULT	COMMENT
Sound compliance processes followed.	All reports to the Compliance Committee include a statement of compliance with the Authority's quality standards and compliance case management procedures have been met.		Achieved.
Increased awareness of the Act, regulations and Code among those responsible for complying with them.	Increased awareness of the Act, regulations and Code as measured by participant survey.		The 2014 survey shows overall awareness levels similar to the previous survey in 2012. Long-term monitoring is required to establish clear trends.

Output class 1 appropriation

Appropriation – electricity industry governance and market operations	Actual 2012/13 \$000	Actual 2013/14 \$000	Budget 2013/14 \$000
Income	62,016	65,799	68,145
Expenditure*	62,016	65,799	68,145

* A breakdown of this appropriation is provided below.

Expense type	Actual 2012/13 \$000	Actual 2013/14 \$000	Budget 2013/14 \$000
System operator – operating expenses	23,404	23,565	24,089
System operator – capital-related expenses	11,734	12,980	14,048
System operator expenses	35,138	36,545	38,137
Service provider – clearing manager	1,428	1,970	2,010
Service provider – wholesale information and trading system (WITS)	1,435	1,378	1,407
Service provider – pricing manager	1,578	1,592	1,592
Service provider – reconciliation manager	1,320	1,102	1,139
Service provider – registry	436	503	449
Service provider – FTR manager	82	860	852
Service provider – depreciation and amortisation	2,168	3,157	3,605
Service provider – IT costs	118	85	115
Other service provider expenses	8,565	10,647	11,169
Authority operations – work programme	6,675	6,517	6,108
Authority operations – personnel	8,258	9,109	9,149
Authority operations – other operating costs	3,380	2,981	3,582
Authority operating expenses	18,313	18,607	18,839
Total expenditure	62,016	65,799	68,145

See page 50 for a brief description of the roles of the system operator and other service providers.

Output class 2: Promoting and facilitating customer switching



This appropriation and output class is for promoting the potential benefits of switching and facilitating the ease of the switching process for consumers. Well informed consumers, provided with the tools to switch readily if they so desire, provide real competitive pressure on electricity retailers to ensure they offer the best possible price and service options to consumers.

The appropriation of \$10.5 million over three and a half years enabled us to meet this requirement. This was a multi-year appropriation, commencing on 1 November 2010 and ending on 30 April 2014. Our key programme under this appropriation was the *What's My Number* campaign.¹⁵

We coordinated our work, as appropriate, with the Ministry of Consumer Affairs, which was responsible for upgrading the capability of Consumer New Zealand's Powerswitch website and promoting and facilitating the use of that website to consumers.

In the 2014 Budget, the Government approved new funding for facilitating consumer participation. The new funding is under the electricity industry governance and market operations appropriation for the 2014/15, 2015/16 and 2016/17 financial years. The new funding includes a more targeted *What's My Number* campaign focusing on key groups identified as being more resistant to comparing and switching retailers.

Performance measures promoting and facilitating customer switching

DESIRED RESULT	2013–2016 SOI TARGET	RESULT	COMMENT
Successful programme delivery takes place.	Final campaign delivered. Authority monitors monthly provider reports and takes follow up action, if required.		Achieved: The campaign completed and wound up on 30 April 2014 when the appropriation ended.
Programme is successfully wound up.	Programme delivery contracts wound up by 30 April 2014. Final programme evaluation commenced in 2013/14 and completed in 2014/15. Final programme evaluation demonstrates that the programme has met its objectives.*		Achieved: Campaign successfully wrapped up on 30 April 2014. A final evaluation was completed as part of review and decision-making. Demonstrated success of the programme has resulted in Government approval of funding for a new three-year campaign.

* The annual assessment and final assessment reports are provided to the Board. The reports include assessment of programme delivery and contract management, including covering effectiveness and value for money. The report is required to meet our writing quality standards outlined on page 57 of this report.

15 See www.ea.govt.nz/consumers/whats-my-number/

Output class 2 appropriation

Appropriation – promoting and facilitating customer switching	Actual 2012/13 \$000	Actual 2013/14 \$000	Budget 2013/14 \$000
Income	3,362	2,111	2,000
Expenditure*	3,362	2,111	2,000

* This is a multi-year appropriation of \$10.500 million over 3.5 years (commencing on 1 November 2010 and expiring on 30 April 2014). The appropriation ended on 30 April 2014, with expenditure of \$2.111 million incurred during 2013/14, against the SOI budget of \$2.000 million and an available unspent appropriation of \$0.230 million carried forward from the previous year. The total expenditure incurred against this appropriation from 1 November 2010 to 30 April 2014 was \$10.381 million.

Output class 3: Security management

The security management appropriation and output class is limited to the management of emergency events by the system operator, if required. This includes increased monitoring and management responsibilities in the event of an emerging security situation, and planning and running an official conservation campaign.

- The system operator is responsible for day-to-day security monitoring, which is funded from the electricity industry

governance and market operations appropriation. The system operator must seek approval from the Authority for additional funding from this appropriation on a case-by-case basis when it considers increased monitoring or security management actions are justified.

- The appropriation began on 1 July 2012. This is a multi-year appropriation for the period 2012/13 to 2016/17.

Performance measures for security management

DESIRED RESULT	2013–2016 SOI TARGET	RESULT	COMMENT
Timely and effective decision for system operator requests for funding under the security management appropriation.	Authority decisions in relation to the security management appropriation made in accordance with the agreed process and criteria for use of the fund. Decisions made on requests from the system operator for funding under this appropriation within 15 working days.	NA	No requests to date.

Output class 3 appropriation

Appropriation – security management	Actual 2012/13 \$000	Actual 2013/14 \$000	Budget 2013/14 \$000
Income	–	–	1,200
Expenditure*	–	–	1,200

* This is a multi-year appropriation of \$6.0 million over five years (commencing on 1 July 2012 and expiring on 30 June 2017).

Electricity litigation fund

There is no output class for this appropriation as it is a non-departmental other expenses appropriation.

The fund does not directly contribute to progressing outcomes as its purpose is limited to ensuring that we are able to participate in litigation effectively and without delay, if required.


Current litigation

We are prosecuting the OtagoNet Joint Venture for an alleged breach of section 105(4)(a) of the Act.

We are the second defendant in declaratory judgment proceedings instigated by Vector Limited against Transpower New Zealand Limited (the first defendant) regarding whether certain components of the North Auckland and Northland (NAaN) grid upgrade project are 'connection assets' and 'interconnection assets' under the transmission pricing methodology.

Time frames for hearings in the above cases have yet to be determined.

Performance measures for the electricity litigation fund

DESIRED RESULT	2013–2016 SOI TARGET	RESULT	COMMENT
The Authority uses the litigation fund in accordance with the criteria for its use.	Litigation fund used in accordance with the criteria.		Achieved: The litigation fund is being used in accordance with the criteria.

Electricity litigation fund appropriation

Appropriation – electricity litigation fund	Actual 2012/13 \$000	Actual 2013/14 \$000	Budget 2013/14 \$000
Income	36	48	444
Expenditure	36	48	444


Quality standards

New quality measures were introduced in the SOI. During the past year the measurement systems were developed and trialled. The targets set were challenging, in keeping with our vision of being a world-class electricity regulator. Lessons learned from the reviews completed in 2013/14 have been documented and are used for ongoing quality improvement work. The following quality standards apply to all outputs, where relevant.

Writing quality

We have a writing quality standard that includes the following requirements for reports and publications:

- The problem or issue is clearly stated.
- Relevant information is provided, including the results of investigation, analysis, options and consultation, and regulatory assessment, where relevant.
- Recommendations are unambiguous and based on the evidence.
- Appropriate language is used for the intended audience.

DESIRED RESULT	2013–2016 SOI TARGET	RESULT	COMMENT
A sample of major reports will be subjected to external review for compliance with the writing quality standard.	<p>At least eight reports externally reviewed.</p> <p>All of reviewed reports achieve rating of good or better.*</p> <p>At least six of the eight receive a very good rating.*</p>		<p>Not achieved: The measurement process was established and external reviews completed for seven reports.</p> <p>Three reports were assessed as very good.</p> <p>Three reports were assessed as good.</p> <p>One report was assessed as average.</p>

* On a five point scale of: very poor, poor, average, good, very good.

Quality of regulation

We undertake robust investigations, analysis, consultation, communication and decision-making processes to ensure that our decisions are best practice regulation. Key principles and processes are set out in our foundation documents.¹⁶ Considerable effort is put into robust, thorough processes but it is still possible that from time-to-time our decisions are challenged in court. The target is for no such challenge to succeed in overturning one of our decisions.


DESIRED RESULT	2013–2016 SOI TARGET	RESULT	COMMENT
A sample of draft consultation and decision papers will be subject to external review for compliance with the process requirements of the foundation documents.	<p>At least eight draft consultation and decision papers externally reviewed.</p> <p>All of reviewed reports achieve rating of good or better.*</p> <p>At least six of the eight receive a very good rating.*</p>		<p>Not achieved: The measurement process was established and external reviews completed for six reports.</p> <p>Three reports were assessed as very good.</p> <p>Two reports were assessed as good.</p> <p>One report was assessed as average.</p>
No legal challenges resulting in an Authority decision being overturned.	Zero (0) successful challenges.		Achieved.

* On a five point scale of: very poor, poor, average, good, very good.

¹⁶ The foundation documents are the *Interpretation of the Authority's statutory objective*, *Charter about Advisory Groups*, and *Consultation Charter (including the Code amendment principles)*. These are available on the Authority's website at: www.ea.govt.nz/about-us/strategic-planning-and-reporting/foundation-documents/



PART FOUR

ORGANISATIONAL
CAPABILITY


This part provides key information about how we work.

The Electricity Authority

The Electricity Industry Act 2010 established the Electricity Authority from 1 November 2010 as an independent Crown entity. The Act dissolved the Electricity Commission, transferring its functions to the Authority and other agencies.

The Authority is headed by a Board, which is supported by the Chief Executive and other staff. Advice is provided by the Security and Reliability Council (SRC), advisory groups and ad hoc advisory and technical groups.

Further information is provided below, and more detail is available on our website: www.ea.govt.nz

Our statutory objective

Section 15 of the Act provides us with a clear objective:

The objective of the Authority is to promote competition in, reliable supply by, and the efficient operation of, the electricity industry for the long-term benefit of consumers.

Our functions

Section 16 of the Act sets out our main functions:

16 Functions of the Authority

(1) The Authority's functions are as follows:

- (a) to maintain a register of industry participants in accordance with subpart 2, and to exempt individual industry participants from the obligation to be registered;
- (b) to make and administer the Electricity Industry Participation Code in accordance with subpart 3;

- (c) to monitor compliance with the Act, the regulations, and the Code, and to exempt individual industry participants from the obligation to comply with the Code or specific provisions of the Code;
- (d) to investigate, and enforce compliance with this Part, Part 4, the regulations, and the Code;
- (e) to investigate and enforce compliance with Part 3;
- (f) to undertake market-facilitation measures (such as providing education, guidelines, information, and model arrangements), and to monitor the operation and effectiveness of market facilitation measures;
- (g) to undertake industry and market monitoring, and carry out and make publicly available reviews, studies, and inquiries into any matter relating to the electricity industry;
- (h) to contract for market operation services and system operator services;
- (i) to promote to consumers the benefits of comparing and switching retailers;
- (j) to perform any other specific functions imposed on it under this or any other Act.

(2) Instead of, or as well as, contracting for market operation services, the Authority may itself perform –

- (a) the functions of the market administrator, if the Authority considers it desirable to do so; and
- (b) any other market operation service, but only on a temporary basis (such as when there is no current contract, or the contractor is unable or unwilling to perform the service).

Section 18 of the Act requires us to carry out reviews at the written request of the Minister on any matter relating to the electricity industry.

Authority members, Rulings Panel, Security and Reliability Council and advisory groups

Authority members

The Authority is made up of between five and seven members appointed by the Governor-General. Members hold office for a term of up to five years and may be reappointed.

Authority members are Dr Brent Layton (Chair), Susan Paterson and Elena Trout (appointed for terms of five years, expiring 1 November 2015) and David Bull and Hon. Roger Sowry (reappointed for terms of five years, expiring 1 June 2017).

Board committees

The Board has three committees: the Audit and Finance Committee, the Compliance Committee, and the System Operations Committee.

The Audit and Finance Committee advises on the quality and integrity of the Authority's financial reporting, including managing the relationship with the external auditor. It also considers whether appropriate governance, policies and operating processes are in place to identify and manage risk, and oversees and assesses the internal audit process. The members were Susan Paterson (Chair), Dr Brent Layton and Elena Trout from 1 July 2013 to 20 December 2013 and Susan Paterson (Chair), Elena Trout and Hon. Roger Sowry from 21 December 2013.

The Compliance Committee makes decisions on alleged breaches of the Act, various regulations and the Code. It determines appropriate enforcement responses, whether settlements should be approved or further investigation undertaken and makes recommendations to the Board regarding the laying of formal complaints with the Rulings Panel and instigating prosecutions. The members were Hon. Roger Sowry (Chair), David Bull and Elena Trout from 1 July 2013 to 20 December 2013 and Hon. Roger Sowry (Chair), David Bull and Susan Paterson from 21 December 2013.

The System Operations Committee oversees the performance monitoring of the system operator, identifies any emerging system security risks and addresses any other matters relating to the system operator's obligations under the Code. The members were David Bull (Chair), Hon. Roger Sowry and Susan Paterson from 1 July 2013 to 20 December 2013 and David Bull (Chair), Dr Brent Layton and Elena Trout from 21 December 2013.

Rulings Panel

The Act continues the Rulings Panel (the industry dispute resolution and disciplinary body established under the Electricity Governance Regulations 2003) and sets out its membership, functions and funding arrangements.

The Governor-General appoints panel members.

The Rulings Panel is Peter Dengate Thrush (Chair), Geraldine Baumann (Deputy Chair), Sue Roberts, Nicola Wills, and John O'Sullivan.

Security and Reliability Council

The Act sets requirements to establish the Security and Reliability Council and other advisory groups.

The Act requires the Authority to publish a *Charter on advisory groups*. The charter was published on 14 February 2011.

The Security and Reliability Council provides independent advice to the Authority on the performance of the electricity system and the system operator and reliability of supply issues. Membership as at 30 June 2014 is Mike Underhill (Chair), Dennis Barnes, Albert Brantley, Barbara Elliston, Vince Hawksworth, Judi Jones, Bruce Turner, Guy Waipara and Erik Westergaard.

Advisory groups

The Authority has established two standing advisory groups: the Wholesale Advisory Group and Retail Advisory Group.

Members of the Wholesale Advisory Group (WAG) are John Hancock (Chair), Neal Barclay, John Carnegie, Stephen Peterson, Bruce Rogers, Richard Spearman, John Woods, Graeme Everett, Alan Eyes and Chris Jewell. Phillip Anderson was appointed to the group from 1 August 2014.

Members of the Retail Advisory Group (RAG) include Peter Allport (Chair), Sue Chetwin, James Munro, Nathan Strong, Ewan Gebbie and Alan McCauley. Three new members were appointed to the group from 1 August 2014: Allen Davies (GreyPower); James Tipping (Trustpower); and Nicholas Robinson (Contact Energy). Sarah Free, Dene Biddlecombe and Andrew McLeod attended their final meeting of the RAG on 11 June 2014 before their terms expired on 31 July 2014. Their valuable contributions to the RAG are appreciated.

Additional advisory and technical groups

The Authority has established a number of other advisory and technical groups.

The Locational Price Risk Technical Group provided specialist and technical advice to the Authority on the detailed design and operation of selected hedge mechanisms for managing locational price risk. The group was chaired by Bill Heaps. The group's last meeting was on 25 September 2013.

The Multiple Frequency Keepers Project: AGC Technical Stakeholders Group provides specialist and technical advice to the Authority, from a user perspective, on the functionality and specification of a centralised system to control system frequency. The group is chaired by Mike Collis from the Authority.

The Settlement and Prudential Security Technical Group assisted the Authority by providing advice on development of Code amendments and market facilitation measures to address the recommendations made by the Wholesale Advisory Group in the issues covered by the settlement and prudential security review. The group was chaired by Stuart Innes. The group's last meeting was on 9 May 2013.

The Standing Data Formats Group considers suggestions by affected parties for additions or changes to the file formats exchanged between participants and the registry and reconciliation service providers, and makes recommendations to the Authority for implementation. The group is chaired by Nick Bennetts.

The Data Clean-up Technical Group was established in October 2012 to plan and coordinate the work involved in ensuring that metering records are of sufficient quality to be added to the registry before the new Part 10 came into force. The group's independent Chair was Clive Bull (Strata Energy Consulting Limited). Membership was drawn from representatives from relevant participants, to plan and coordinate data clean-up by participants. The group had its final meeting on 6 August 2013.

The Code of Practice 10.5 Review Panel reviews each application for variation from any requirement of the codes of practice for metering installations in Part 10 of the Code. The metering installation variation database is published on the Authority's website and contains a list of all current variations. The panel is chaired by John Campbell.

The Loss Factor Review Panel was established to advise and assist the Authority to standardise the approach to the calculation and maintenance of technical and non-technical loss factors in distribution networks. The panel is chaired by Andrew Smaill.

More information about the Security Reliability Council, advisory groups and additional technical groups is available on the Authority website at www.ea.govt.nz/development/advisory-technical-groups

Organisational development: our path to world class

We have an ongoing development programme to achieve our vision – the path to world class as shown in Figure 25. This programme involves staff and managers identifying areas for improvement, and developing and implementing action plans measured against identified world-class standards. This pursuit of excellence is a focus for the whole organisation.

This programme also addresses central agency expectations for ensuring value for money, performance improvement actions, and the Government's Better Public Services programme.

Our path to world-class organisational capability work covers:

1. our stakeholders
2. our people
3. our processes.



FIGURE 25 | Organisational development framework and 2013/14 projects

1. Our stakeholders

Effective engagement with stakeholders is an essential ingredient to being a world-class electricity regulator. Sound, professional, ongoing relationships with consumers and industry participants assist us to develop effective improvements to operating the New Zealand electricity market.






We are actively engaged in the Government Online Engagement Service project under *Better Public Services Result 10: New Zealanders can complete their transactions with government easily in a digital environment*. This supports our focus on exploring new ways of engaging with stakeholders presented by potential for more sophisticated online engagement. Alongside this we are also exploring more opportunities for face-to-face interactions.

Publication of our foundation documents provided stakeholders with information on how we interpret the statutory objective, consult, develop Code and market facilitation measures and how we work with advisory groups.¹⁷

We place ongoing focus on stakeholder engagement, with the end result of both better regulation and better understanding of the electricity sector.

¹⁷ The foundation documents are available at www.ea.govt.nz/about-us/strategic-planning-and-reporting/foundation-documents/

Key projects for our stakeholders in 2013/14

PROJECT	2013–2016 SOI TARGET	RESULT	COMMENT
Improving engagement	Develop opportunities for improving understanding of our work and engaging in providing input, for example stakeholder workshops to explain the Authority's analysis and decision-making, making sure all publications are written appropriately for the audience.		<p>Achieved: We continue to run stakeholder workshops and forums on specific topics, in particular in relation to consultation papers.</p> <p>Decision papers are published in relation to significant Code amendments.</p> <p>Writing quality is assessed for all publications, including ensuring that they are written appropriately for the audience, and in plain English as much as possible given the technical nature of much of our work.</p>
Website redevelopment	Redevelop our website to improve accessibility and usability of content for stakeholders.		<p>Achieved: The website redevelopment project was completed and our new website went live in March 2014.</p>
Online engagement	Develop an online engagement approach using sophisticated engagement tools and processes (drawing from the all-of-government work in this area).		<p>On track: We are involved in concept testing of the Government Online Engagement Service. We are expecting to pilot the government service when it is ready in 2014/15 (it was originally expected to be ready in 2013/14).</p>
Consumer focus	Developing opportunities for delivering information to consumers.		<p>Achieved: Consumers are a key focus for our revised communications strategy.</p> <p>The redevelopment of the website, completed in March 2014, included a focus on consumers. The new website has a dedicated consumer section. All content has been revamped and updated. Further consumer information is being developed for the website.</p> <p>We have a programme of work planned for 2014/15 for facilitating consumer participation in the electricity markets.</p>
International engagement	Implement the strategy.*		<p>Achieved: The 2013/14 focus was on planning for hosting of Asia Pacific Energy Regulatory Forum (APERF) in August 2014. This is a major international conference for information and best practice sharing, which will contribute to all of the objectives of the international engagement strategy.</p> <p>We investigated international benchmarking for regulation performance measures. Unfortunately, the feasibility study found that such benchmarking is not currently practical and would be very expensive. Benchmarking opportunities will be sought through the APERF conference.</p>

* The strategy objectives are:

- learning about market performance and market design challenges in other jurisdictions so as to achieve better and more prescient regulation of the New Zealand electricity industry
- exploring the establishment of international benchmarking of the performance of electricity markets and regulators to identify strong and weak areas of market and regulator performance in New Zealand
- increasing our international reputation which strengthens our ability to influence and shape the debate within New Zealand.

2. Our people

We value all the people who work for us and strive to provide an environment that is open, supportive and enables a high level of contribution.

Good employer

Our staff have contributed to a comprehensive range of policies and processes to ensure that the Authority is a good employer. This includes an equal employment opportunity policy. Staff have been involved in commenting on draft documents, formal working groups, regular staff meetings and forums. We value staff participation and comment on cross organisational issues.

There is a comprehensive process in place for review and renewal of policies at Board level.

Leadership, accountability and culture

The Senior Leadership Team has the role of providing leadership across all aspects of organisation development. This includes using equal employment opportunity principles in recruitment; development and recognition of cultural, ethnic and minority interests; and guiding staff in the application of policies, guidelines and values.

Our culture is open and the exchange of views is encouraged in an informal and open environment. We aim for extremely high standards for our work, in keeping with the importance of the issues that we consider.

We require staff to meet high professional standards in both work ethic and workplace behaviour. These reflect our organisational values of integrity, openness, excellence, our people and boldness.

Recruitment, selection and induction

We want to perform at the highest level possible, which means we need to recruit and retain the best person for each role. Our recruitment process ensures roles are open to both internal and external applicants. The process is transparent, fair and mindful of equal employment opportunity principles and processes. These principles are supported and demonstrated by the human resources team and senior staff.

We offer a comprehensive induction programme for all new staff, which includes industry briefing sessions, meetings with senior managers, site visits and introductory information. The aim of our induction programme is to enable new staff to become positive contributors as soon as possible.

Flexibility and work design

We are open to considering non-standard work arrangements where these are reasonable and practical. We also support staff dealing with exceptional circumstances, including those returning from maternity

leave, injury, or serious illness in their integration back into the workforce.

We offer an informal regime of flexible work hours for staff. This includes both start and finish times but also includes some give and take when it comes to personal appointments and an informal time in lieu process. This flexibility is highly valued by staff.

Our roles are designed to include challenging opportunities with goals that can be achieved within normal work hours. The Authority operates a highly interactive environment where rigorous debate is encouraged and valued, and cross group interaction is the norm.

Remuneration, recognition and conditions

We take time to recognise achievements and celebrate our successes. In 2014 we launched staff values awards which are celebrated bi-monthly. These are a chance to celebrate staff who have made an exceptional contribution and are living the values.

We run annual salary reviews for all staff, which are moderated to make sure the process is fair, consistent, objective and mindful of the wider climate. We also use independent job evaluation and market information.

All staff have agreed development plans which can include training courses, development opportunities in cross project teams, and opportunities to act in more senior roles. We run a range of in-house training courses that are available to all staff.

We are mindful of our position as an independent Crown entity and seek a balance between providing conditions of employment that are sufficient to attract and retain staff without excessive spending.

Prevention of harassment and bullying

All staff receive Code of Conduct and harassment policy information during their induction. This information includes acceptable standards of behaviour, the process to address issues, and the consequences of unacceptable behaviour. We have processes in place to ensure any potential harassment or bullying is dealt with swiftly.

A safe and healthy environment

A health and safety committee made up of both staff and managers review, develop and implement emergency plans, training, and staff support programmes. Committee members are also responsible for identifying, recording and ensuring the elimination of hazards. The Senior Leadership Team and Board both receive regular risk reports.





We encourage and support an active and healthy lifestyle through an employee assistance scheme, access to occupational health professionals for workstation set-up and support information on the intranet.

Workplace profile

We have a talented team with diverse backgrounds, skill sets and knowledge. This is invaluable to our success in completing our challenging work programme. As at 30 June 2014 the Authority has a permanent staff of 64, comprising 24 female and 40 male staff.

Our multicultural staff have origins in New Zealand, Europe, North America, Asia and the Pacific Islands. The Authority does not currently employ any staff who would be considered disabled. The average age of employees is 44 years.

Key projects for our people

PROJECT	2013–2016 SOI TARGET	RESULT	COMMENT
Staff capability development	Complete the Senior Leadership Team's development programme and commence the third-tier manager development programme.		Achieved: The Senior Leadership Team's development programme has been completed and the ongoing coaching programme implemented. The third-tier manager development programme has commenced and is well progressed.
Living our vision and values	Continuing engagement with staff on our vision and values, how the vision can be achieved, and behaviours that support the values.		Achieved: Continuing engagement is taking place with staff. We participate in the Kenexa best workplaces survey. Results have been used to develop an action plan, which is being implemented and is reported on quarterly to the Senior Leadership Team. The survey places the Authority well in the public sector cohort.
Good employer	Review policies, procedures and practice to ensure good employer requirements are met or exceeded.		Achieved: All relevant policies have been reviewed.
Knowledge management	Develop a knowledge management framework and commence implementation of initiatives.		Achieved: A draft knowledge management framework was developed in consultation with staff. The framework is being discussed internally and will be finalised in 2014/15. Some initiatives have commenced such as improvements to, and additional training on, the document management system, and the establishment of an Information, Communications, and Technology Oversight Group within the Authority.

3. Our processes

We strive to ensure that our systems, tools, and processes support international best practice. This will lead to improved efficiency, productivity and quality.

Regulatory framework

The Act provides our overarching regulatory framework.

We have published our foundation documents that elaborate on the framework provided by the Act. These are the *Interpretation of the statutory objective*, the *Charter for advisory groups* and the *Consultation charter*.

A key function is setting the rules for the market through voluntary arrangements or the Electricity Industry Participation Code 2010 (the Code). The *Consultation charter* describes the process for amending the Code, including our *Code amendment principles*. These principles emphasise clear problem identification and quantified cost-benefit assessments, plus tie-breaker principles that apply when cost-benefit assessments are inconclusive.

Performance improvement framework

The State Services Commission has developed a performance improvement framework for the public sector.¹⁸ While not a requirement for the Authority, in 2013/14 we have completed a self-assessment against the framework and are developing an improvement plan.

Value for money

The Authority manages its funding prudently. We carefully balance efforts to restrain our spending with the need to progress important work in a timely and robust fashion. We also continue to work hard with our service providers to ensure value for money for the services provided.

Improving effectiveness and efficiency crosses all functional areas.

The cost-effectiveness of our work is assured through the following:

- Appropriation consultation: planned work priorities and appropriations are scrutinised through public consultation in accordance with section 129 of the Act.
- Use of sound planning, project management and procurement disciplines.

- Review of cost drivers: work priorities, costs and benefits for major projects and business-as-usual activities are closely scrutinised as part of the development of a detailed internal work programme. Costs and benefits are further addressed as part of project planning for significant projects. Value for money and performance improvement initiatives are included in the internal work programme and key projects identified in the *Statement of Performance Expectations*.
- Assessment of proposed Code amendments and market facilitation measures: benefits and costs of proposed Code amendments are scrutinised through public consultation in accordance with our *Consultation charter*.
- Joint procurement: where practical and cost effective, we work with other agencies on joint procurement and shared services.
- Taking up all-of-government procurement offerings, where applicable.

Authority planning and reporting

The Crown Entities Act 2004 sets out our major planning and reporting requirements, including preparing and publishing the Statement of Intent, Statement of Performance Expectations and annual report.

Each year we seek input from our stakeholders to assist with developing our statutory plans and our more detailed internal work programme. Section 129 of the Electricity Industry Act 2010 requires the Authority to consult levy payers on proposed appropriations. This generally takes place over the September to November period. Feedback received is used to develop appropriations recommendations to the Minister, our statutory plans and our work programme.

In addition to the statutory plans, we also publish our work programme, which includes key projects. Quarterly reports are published showing progress against the work programme.

Information systems

We are pursuing a programme of continuous development to increase effectiveness of our information and communication systems. This, combined with the release of information and data, supports the Authority and its stakeholders to use and reuse information and data in decision-making. The ongoing release of data and information to stakeholders both supports the Open Government Data and Information Programme and our market development strategy.

¹⁸ See: www.ssc.govt.nz/pif

Shared services with the Commerce Commission

In February 2013, the Authority and the Commerce Commission (Commission) signed a memorandum of understanding that provides for the Commission hosting and supporting the Authority's IT systems and infrastructure.

Contributing to wider government initiatives

We have adopted the New Zealand Government Open Access Licensing Framework in the interests of supporting the legal reuse of high-value public data by third parties.

We have participated in the Government Online Engagement Service, a Better Public Services initiative. We also supported the Government Information Strategic Leadership Group, and participated in the Review of the Mandatory Record-keeping Standards Advisory Group.

Key projects for our processes

PROJECT	2013–2016 SOI TARGET	RESULT	COMMENT
Performance improvement framework	Complete a performance improvement framework self-assessment, develop a plan of action, and commence implementation.		Achieved: The performance improvement framework self-review has been completed. The performance improvement plan has been prepared and will be subject to internal review prior to finalisation. Some actions arising from the self-review are already underway.
Planning and reporting	Implement changes resulting from the review of the accountability requirements, including changes to the Crown Entities Act 2004, arising from the Government's Better Public Services programme.		Achieved: We have implemented the changes to accountability legislation enacted on 18 July 2013. Treasury and State Service Commission guidance has been followed. In addition to following central agency guidance, we conducted peer reviews of our draft plans with several other Crown entities. The Ministry of Business, Innovation and Employment and Audit New Zealand were consulted on the draft plans prior to providing the draft plans to the Minister for comment.
Project management	Complete development of tools and processes, and complete training programme.		Achieved: The Authority has implemented a new project management policy, followed by training and implementation of new tools and templates. The Authority is monitoring uptake of the new approach and refinements are being identified and implemented on an ongoing basis.

Directions issued by ministers

On 22 April 2014 the Minister of State Services and Minister of Finance issued a direction under section 107 of the Crown Entities Act 2004 to apply the Government Rules of Sourcing with effect from 1 February 2015 and under the guidance of MBIE as procurement functional leader. We are working with MBIE to ensure full compliance with expectations by 1 February 2015.

Risk and audit

Audit issues

The Authority has no audit issues to report.

Risk management

We have a proactive risk management policy and framework. The Board maintains an overview of the policy and regularly reviews the risk register.

The Board's Audit and Finance Committee advises on the quality and integrity of the Authority's financial control environment, including managing the relationship with the external auditor. It also considers whether appropriate governance, policies and operating processes are in place to identify and manage risk, and oversees and assesses the internal audit process.

The Authority has no significant risk management matters to report.

PART FIVE

The financial statements report actual results against budget information in the Authority's 2013–2016 Statement of Intent.

These statements are provided in accordance with section 151 of the Crown Entities Act 2004.

FINANCIAL STATEMENTS

Statement of comprehensive income

for the period 1 July 2013 to 30 June 2014

Actual 2012/13 \$000		Note	Actual 2013/14 \$000	Budget 2013/14 \$000
65,414	Crown appropriations	2	67,958	71,789
378	Interest income		373	350
4	Other income		–	–
65,796	Total income		68,331	72,139
8,258	Personnel costs	3	9,109	9,149
2,608	Depreciation and amortisation	8,9	3,568	4,153
41,417	Service provider contracts		44,034	45,586
13,131	Other expenses	4	11,247	12,901
65,414	Total expenditure		67,958	71,789
	(4) Distribution of Whirinaki net spot revenue to levy payers		–	–
378	Total comprehensive income		373	350

Explanations for major variances to budget are provided in note 24.

Statement of changes in equity

for the period 1 July 2013 to 30 June 2014

Actual 2012/13 \$000		Note	Actual 2013/14 \$000	Budget 2013/14 \$000
9,571	Opening balance at 1 July 2013		10,129	9,750
378	Total comprehensive income	6	373	350
10,129	Closing balance at 30 June 2014		10,502	10,100

Explanations for major variances to budget are provided in note 24.

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

Statement of financial position

as at 30 June 2014

Actual 2012/13 \$000		Note	Actual 2013/14 \$000	Budget 2013/14 \$000
10,129	Taxpayers' funds		10,502	10,100
Assets				
Current assets				
11,175	Cash and cash equivalents	7	10,424	3,361
577	Receivables and prepayments		186	–
463	GST receivable		22	–
12,215	Total current assets		10,632	3,361
Non-current assets				
688	Property, plant and equipment	8	766	534
10,159	Intangible assets	9	9,054	11,623
10,847	Total non-current assets		9,820	12,157
23,062	Total assets		20,452	15,518
Liabilities				
Current liabilities				
9,946	Payables and accruals	10	6,728	5,000
853	Employee entitlements	11	1,011	418
2,090	Appropriation repayable to the Crown	12	2,187	–
4	Distribution of net spot revenue to levy payers	5	–	–
14	Other provisions	13	–	–
12,907	Total current liabilities		9,926	5,418
Non-current liabilities				
26	Employee entitlements	11	24	–
26	Total non-current liabilities		24	–
12,933	Total liabilities		9,950	5,418
10,129	Net assets		10,502	10,100

Explanations for major variances to budget are provided in note 24.

Statement of cash flows

for the period 1 July 2013 to 30 June 2014

Actual 2012/13 \$000		Note	Actual 2013/14 \$000	Budget 2013/14 \$000
Cash flows from operating activities				
67,504	Receipts from the Crown		70,148	71,789
30	Receipts from Whirinaki spot revenue		–	–
378	Interest from investments		372	350
(3,015)	Repayment of appropriation to the Crown		(2,093)	(2,000)
(27)	Distribution of net spot revenue to levy payers		(4)	–
(52,133)	Payments to suppliers		(58,125)	(58,571)
(8,252)	Payments to personnel		(8,953)	(9,129)
(451)	Goods and services tax (net)		442	–
4,034	Net cash flows from operating activities	14	1,787	2,439
Cash flows from investing activities				
–	Receipts from the sale of fixed assets		3	–
(471)	Purchase of property, plant and equipment		(364)	(275)
(5,286)	Purchase of intangibles		(2,177)	(10,383)
(5,757)	Net cash flows from investing activities		(2,538)	(10,658)
(1,723)	Net increase/(decrease) in cash and cash equivalents		(751)	(8,219)
12,898	Cash and cash equivalents at beginning of year		11,175	11,580
11,175	Cash and cash equivalents at end of period		10,424	3,361

Explanations for major variances to budget are provided in note 24.

Statement of commitments

as at 30 June 2014

Service provider agreements exist for the clearing manager, pricing manager, reconciliation manager, registry manager, wholesale and information trading system, FTR manager and system operator.

The FTR manager service provider agreement commenced in June 2013 with an initial contract term of five years. Other service provider agreements have been renegotiated for a further three-year term expiring 30 April 2016.

The system operator service provider agreement commenced on 1 July 2009. The agreement has no fixed expiry date, but the Authority and the system operator are in the early stages of renegotiating the agreement. The commitments included below represent the minimum three-year notice period of the current agreement.

	Actual 2013/14 \$000	Actual 2012/13 \$000
Operating commitments		
Service providers		
Not later than one year	47,550	44,955
Later than one year but not later than five years	96,125	91,901
Later than five years	–	–
	143,675	136,856
Building lease		
Not later than one year	512	148
Later than one year but not later than five years	2,049	2,049
Later than five years	1,664	2,177
	4,225	4,374
Other operating commitments		
Not later than one year	1,031	1,782
Later than one year but not later than five years	–	28
Later than five years	–	–
	1,031	1,810
Total operating commitments	148,931	143,040
Capital commitments		
Intangible assets		
Not later than one year	1,788	1,001
Later than one year but not later than five years	351	774
Later than five years	–	–
Total capital commitments	2,139	1,775

Explanations for major variances to budget are provided in note 24.

Statement of contingent liabilities and contingent assets

at 30 June 2014

There are no known contingent liabilities (2013: Nil) or contingent assets (2013: Nil) and no guarantees under the Crown Entities Act 2004 (2013: Nil).

Notes to the financial statements

1. Accounting policies

Reporting entity

The Electricity Authority (the Authority) is an independent Crown entity in terms of the Crown Entities Act 2004 and the Public Finance Act 1989. The Authority was established under the Electricity Industry Act 2010.

The Authority's primary objective is to provide public services to the New Zealand public, as opposed to that of making a financial return. Accordingly, it has designated itself a public benefit entity for the purposes of New Zealand Equivalents to International Reporting Standards (NZ IFRS).

The financial statements for the Authority are for the period 1 July 2013 to 30 June 2014 and were approved by the Board on 2 September 2014.

Basis of preparation

Statement of compliance

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

The financial statements comply with NZ IFRS and other applicable financial reporting standards, as appropriate for public benefit entities.

Measurement base

The financial statements have been prepared on a historical cost basis. The accounting policies that materially affect the measurement of financial performance, financial position and cash flows are set out below and have been applied consistently to all periods presented in these financial statements.

Functional and presentation currency

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

Budget figures

The budget figures are derived from the 2013–2016 Statement of Intent as approved by the Authority's Board. The budget figures have been prepared in accordance with NZ IFRS using accounting policies that are consistent with those adopted by the Authority for the preparation of the financial statements.

Accounting estimates and assumptions

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

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

The Minister of Commerce has approved a new accounting standards framework (incorporating a tier strategy) developed by the External Reporting Board (XRB). Under this accounting standards framework, the Authority is classified as a tier one reporting entity, and it will be required to apply full public sector public benefit entity accounting standards (PAS). The new requirements will be applied for the first time in the 2014/15 financial year ending on 30 June 2015.

Significant accounting policies

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

Revenue

Crown revenue

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

Appropriations from the Crown are recognised as revenue to the extent that they are spent in any particular month. Appropriations received but not spent are treated as a Crown creditor and shown in the statement of financial position as a provision for refund of appropriations to the Crown.

Levies

The Authority administers a levy on industry participants under the Electricity Industry (Levy of Industry Participants) Regulations 2010. Levies are paid directly to the Crown for reimbursement of funding provided to the Authority. Levies are not recognised as revenue in the Authority's accounts.

Interest

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

Leases

Operating leases

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

Cash and cash equivalents

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

Receivables and prepayments

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

Property, plant and equipment

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

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

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

Additions

The cost of an item of property, plant and equipment is recognised as an asset only when it is probable that future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably.

Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are reported net in the surplus or deficit.

Depreciation

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

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

Intangible assets

Software acquisition and development

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

Costs that are directly associated with the development of software are recognised as an intangible asset when the software becomes operational. Work in progress is recognised at cost less impairment.

Costs associated with maintaining software are recognised as an expense when incurred.

Amortisation

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

Computer software	3–8 years
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Impairment of capital assets

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

Payables and accruals

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

Employee entitlements

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

Annual leave

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

Sick leave

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

Long-service leave

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

Superannuation

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

Goods and services tax (GST)

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

The amount of GST owing to or from the Inland Revenue Department at balance date, being the difference between output GST and input GST, is included in payables or receivables in the statement of financial position. Commitments and contingencies are disclosed exclusive of GST.

Provisions

A provision is recognised for future expenditure of uncertain timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that expenditure will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived from a contract are lower than the unavoidable cost of meeting the obligations under the contract.

Income tax

The Authority is a public authority in terms of the Income Tax Act 2007 and is therefore exempt from income tax.

2. Crown appropriations

The Authority has been provided with funding from the Crown for specific purposes as set out in the Electricity Industry Act 2010 and in the scope of the appropriations as set out in Vote: Energy (see page 44 for a summary of appropriations). Appropriations are recognised as revenue to the extent that they are spent.

	Actual 2013/14 \$000	Actual 2012/13 \$000
Electricity industry governance and market operations	65,799	62,016
Promoting and facilitating customer switching	2,111	3,362
Electricity litigation fund	48	36
	67,958	65,414

3. Personnel costs

	Actual 2013/14 \$000	Actual 2012/13 \$000
Salaries and contractors	8,722	7,949
Contributions to defined contribution plans	342	295
Increase/(decrease) in annual and long-service leave provision	45	14
	9,109	8,258

As at 30 June 2014 there were 64 permanent staff (2013: 57); the increase in staff is part of a longer term strategy to build internal capability and reduce reliance on external resources.

4. Other expenses

	Actual 2013/14 \$000	Actual 2012/13 \$000
Work programme	6,517	6,675
Litigation fund	48	36
Customer switching	2,111	3,362
Auditor fees	45	44
Auditor fees for other services	–	–
Advisory and working group fees	44	56
Board members' fees	485	515
Rulings Panel fees	90	79
Operating lease expenses	197	591
Travel expenses	138	181
Other operating expenses	1,572	1,592
	11,247	13,131

5. Levy payer position

Levies collected from industry participants during the financial year are deposited into a Crown bank account administered by MBIE. After the end of the financial year a reconciliation is carried out between levies collected and expenditure to be recovered by the levy. Based on this reconciliation, the Crown will either provide a refund to or request additional payment from individual industry levy payers.

From 1 July 2013 to 30 June 2014 the levies collected were greater than the expenditure to be recovered. The difference is expected to be \$1.347 million and will be refunded to levy payers.

The final figure may vary from this amount, and some levy payers may still be required to pay additional levies while others receive a refund, depending on whether they are generators, retailers or distributors, and based on variations from estimated volumes of dispatches, sales and customer connections.

	Actual 2013/14 \$000	Actual 2012/13 \$000
Total levies collected	82,805	82,618
Electricity Authority expenditure	67,958	65,414
Energy Efficiency and Conservation Authority (electricity efficiency)	13,000	13,000
Ministry of Consumer Affairs (Consumer Powerswitch website)	500	1,236
Total expenditure to be recovered by levy	81,458	79,650
Over collection of levies to be refunded to levy payers	1,347	2,968
Whirinaki spot revenue	–	4
Total owed to levy payers	1,347	2,972

6. Total comprehensive income

The Authority may elect to retain interest income and other revenue (excluding spot revenue from Whirinaki) in order to maintain an appropriate level of working capital. The Authority has exercised this option in the period 1 July 2013 to 30 June 2014, and the operating surplus of \$0.373 million has been used to increase equity. Net operating surplus is made up as follows:

	Actual 2013/14 \$000	Actual 2012/13 \$000
Interest income	373	378
	373	378

7. Cash and cash equivalents

The carrying value of cash at bank and short-term deposits with maturities of three months or less approximates their fair value.

	Actual 2013/14 \$000	Actual 2012/13 \$000
Cash in current account	184	75
Cash on call in interest-bearing money market account	240	100
Cash on three-month term deposit	10,000	11,000
	10,424	11,175

8. Property, plant and equipment

There are no restrictions over the title of the Authority's fixed assets nor any fixed assets pledged as security for liabilities.

	Computer hardware \$000	Office equipment \$000	Furniture and fittings \$000	Leasehold improvement \$000	Total \$000
Cost or valuation					
Balance at 1 July 2012	1,796	207	273	637	2,913
Additions	444	–	27	–	471
Disposals	(70)	–	–	–	(70)
Balance at 30 June 2013	2,170	207	300	637	3,314
Balance at 1 July 2013	2,170	207	300	637	3,314
Additions	71	3	126	163	363
Disposals	(36)	(20)	(117)	(54)	(227)
Balance at 30 June 2014	2,205	190	309	746	3,450
Accumulated depreciation					
Balance at 1 July 2012	1,347	169	243	534	2,293
Depreciation expense	289	18	14	82	403
Eliminate on disposal	(70)	–	–	–	(70)
Impairment losses	–	–	–	–	–
Balance at 30 June 2013	1,566	187	257	616	2,626
Balance at 1 July 2013	1,566	187	257	616	2,626
Depreciation expense	201	16	34	34	285
Eliminate on disposal	(36)	(20)	(117)	(54)	(227)
Impairment losses	–	–	–	–	–
Balance at 30 June 2014	1,731	183	174	596	2,684
Carrying amounts					
At 1 July 2012	449	38	30	103	620
At 30 June 2013 and 1 July 2013	604	20	43	21	688
At 30 June 2014	474	7	135	150	766

9. Intangible assets

There are no restrictions over the title of the Authority's intangible assets, nor any intangible assets pledged as security for liabilities.

	Acquired \$000
Cost or valuation	
Balance at 1 July 2012	14,567
Additions	5,286
Disposals	–
Balance at 30 June 2013	19,853
Balance at 1 July 2013	19,853
Additions	2,178
Disposals	(1)
Balance at 30 June 2014	22,030
Accumulated amortisation	
Balance at 1 July 2012	7,489
Amortisation expense	2,205
Eliminate on disposal	–
Impairment losses	–
Balance at 30 June 2013	9,694
Balance at 1 July 2013	9,694
Amortisation expense	3,283
Eliminate on disposal	(1)
Impairment losses	–
Balance at 30 June 2014	12,976
Carrying amounts	
At 1 July 2012	7,078
At 30 June 2013 and 1 July 2013	10,159
At 30 June 2014	9,054

10. Creditors and other payables

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

	Actual 2013/14 \$000	Actual 2012/13 \$000
Creditors	6,179	9,541
Accrued expenses	549	405
	6,728	9,946

11. Employee entitlements

A provision for sick leave was calculated and assessed as immaterial.

	Actual 2013/14 \$000	Actual 2012/13 \$000
Current portion		
Annual leave	547	503
Accrued salary	455	344
Long-service leave	9	6
Total current portion	1,011	853
Non-current portion		
Long-service leave	24	26
Total non-current portion	24	26
	1,035	879

12. Appropriation repayable to the Crown

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

The Authority receives its appropriations monthly according to a funding profile agreed at the start of the financial year. At the end of the year, the difference between funding drawn down and total Authority expenditure is recorded as a payable or receivable with the Crown. If all appropriations are fully drawn down, the amount will be a payable representing unspent funding to be returned to the Crown.

	Actual 2013/14 \$000	Actual 2012/13 \$000
Net Crown appropriations drawn down	70,145	67,504
Less total Authority expenditure	67,958	65,414
Appropriation repayable to the Crown	2,187	2,090

13. Other provisions

	Actual 2013/14 \$000	Actual 2012/13 \$000
Current portion		
Onerous contracts	–	14
Lease make-good	–	–
Total current portion	–	14
Non-current portion		
Onerous contracts	–	–
Lease make-good	–	–
Total non-current portion	–	–
	–	14

Movements by class of provision	Onerous contracts \$000	Lease make-good \$000	Total \$000
Balance at 1 July 2012	69	70	139
Additional provisions made	–	(70)	(70)
Amounts used	(55)	–	(55)
Unused amounts reversed	–	–	–
Balance at 30 June 2013	14	–	14
Balance at 1 July 2013	14	–	14
Additional provisions made	–	–	–
Amounts used	(14)	–	(14)
Unused amounts reversed	–	–	–
Balance at 30 June 2014	–	–	–

Lease make-good provision

Under the terms of the renegotiated lease agreement for ASB Bank Tower, the landlord waived all reinstatement obligations. The make-good provision was therefore reversed in the prior financial year, and no such obligation exists at 30 June 2014.

Onerous contracts provision

On 1 November 2010, the Authority took over a non-cancellable lease for office space from the Electricity Commission. At that time, the space on Level 8, ASB Bank Tower was not required by the Authority and it was considered unlikely to be sublet prior to the expiry of the lease on 30 September 2013. A provision was recognised for the future rental payments up to the lease expiry date. This provision was utilised during the financial year ending 30 June 2014.

14. Reconciliation of net operating surplus to net cash flows

	Actual 2013/14 \$000	Actual 2012/13 \$000
Net operating surplus	373	378
Add non-cash items		
Depreciation and amortisation	3,568	2,608
Increase/(decrease) in non-current employee entitlements	(2)	–
Total non-cash items	3,566	2,608
Add movements in working capital items		
(Increase) decrease in receivables and prepayments	391	(365)
Increase (decrease) in payables and accruals	(3,218)	2,930
Increase (decrease) in GST on operations	438	(451)
Increase (decrease) in employee entitlements	158	7
Increase (decrease) in provisions	(14)	(125)
Increase (decrease) in provision for refund of appropriation	97	(925)
Increase (decrease) in provision for distribution of net spot revenue	(4)	(23)
Net working capital movements	(2,152)	1,048
Net cash flow from operating activities	1,787	4,034

15. Employee remuneration

During the period 1 July 2013 to 30 June 2014 three employees (2013: four) received compensation in relation to cessation totalling \$43,750 (2013: \$124,281).

Remuneration band	Actual 2013/14 \$000	Actual 2012/13 \$000
\$100,000–\$109,999	2	2
\$110,000–\$119,999	3	5
\$120,000–\$129,999	3	1
\$130,000–\$139,999	7	9
\$140,000–\$149,999	5	5
\$150,000–\$159,999	6	3
\$160,000–\$169,999	3	3
\$170,000–\$179,999	–	3
\$180,000–\$189,999	3	3
\$190,000–\$199,999	1	2
\$200,000–\$209,999	3	1
\$220,000–\$229,999	1	1
\$230,000–\$239,999	1	1
\$240,000–\$249,999	1	–
\$300,000–\$309,999	–	1
\$310,000–\$319,999	1	–
\$320,000–\$329,999	1	–
\$330,000–\$339,999	–	1
	41	41

16. Key management remuneration

Key management personnel include Board members, the Chief Executive and general managers who report directly to the Chief Executive.

	Actual 2013/14 \$000	Actual 2012/13 \$000
Salaries and other short-term employee benefits	1,982	1,930
Post-employment benefits	64	51
Other long-term benefits	–	–
Termination benefits	–	–
	2,046	1,981

17. Board member remuneration

During the period 1 July 2013 to 30 June 2014, no Board members received compensation or other benefits in relation to cessation (2013: none).

The Authority has directors' and officers' liability and professional indemnity insurance cover in respect of the liability or costs of Board members and employees.

	Actual 2013/14 \$000	Actual 2012/13 \$000
Dr Brent Layton	207	230
David Bull	74	68
Susan Paterson	75	85
Hon Roger Sowry	46	46
Elena Trout	83	86
	485	515

18. Rulings Panel remuneration

The membership of the Rulings Panel remained unchanged during the year. Peter Dengate Thrush was reappointed to the position of chair until 5 April 2016.

The total value of remuneration paid or payable to each Rulings Panel member for the period 1 July 2013 to 30 June 2014:

	Actual 2013/14 \$000	Actual 2012/13 \$000
Peter Dengate Thrush	36	28
Geraldine Baumann	16	18
John O'Sullivan	19	14
Susan Roberts	11	6
Nicola Wills	8	13
	90	79

19. Advisory group and working group fees

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

		Actual 2013/14 \$000	Actual 2012/13 \$000
Locational Price Risk Technical Group	Bill Heaps (chair)	4	8
	Ralph Matthes	–	1
Security and Reliability Council	Kevin Thompson (chair)	1	4
	David Russell	1	1
	Terrence Currie	1	1
Settlement and Prudential Security Technical Group	Stuart Innes	–	4
Standing Data Formats Group	Nick Bennetts (chair)	4	6
Retail Advisory Group	Peter Allport (chair)	8	3
	Dean Biddlecombe	4	2
	Sue Chetwin	2	1
	Sarah Free	2	2
	Ewan Gebbie	3	–
	Anne Herrington	–	3
Loss Factor Review Panel	Andrew Smaill (chair)	–	2
	Lindsay McLennan	–	3
Wholesale Advisory Group	James Moulder (chair)	–	7
	John Hancock (chair)	13	5
	Scott Harnett	–	3
Data Clean-Up Technical Group	Clive Bull (chair)	1	–
		44	56

20. Related-party transactions

All related-party transactions have been entered into on an arm's length basis.

The Authority is a wholly owned entity of the Crown and receives funding by way of appropriations from the Crown.

Significant transactions with government-related entities

The Authority received funding from the Crown of \$67.958 million (2013: \$65.414 million) for specific purposes as set out in its founding legislation and the scope of the relevant government appropriations.

The Authority purchased system operator services of \$36.545 million (2013: \$35.138 million) and technical advisory services of \$0.897 million (2013: \$0.825 million) from Transpower New Zealand Limited.

The Authority purchased from Energy Market Services, a division of Transpower New Zealand Limited, the provision of FTR manager services of \$0.860 million (2013: FTR manager services of \$0.082 million and implementation costs of \$1.986 million) and market administration support services of \$0.122 million (2013: \$0.075 million).

Collectively, but not individually, significant transactions with government-related entities

In conducting its activities, the Authority is required to pay various taxes and levies (such as GST, PAYE and ACC levies) to the Crown and entities related to the Crown. The payment of these taxes and levies, other than income tax, is based on the standard terms and conditions that apply to all tax and levy payers. The Authority is exempt from paying income tax.

The Authority also purchases goods and services from entities controlled, significantly influenced or jointly controlled by the Crown. Purchases from these government-related entities for the year ended 30 June 2014 totalled \$0.217 million (2013: \$0.161 million). These transactions include the purchase of air travel from Air New Zealand; postal services from New Zealand Post; gazette, secure email and one.govt services from the Department of Internal Affairs; and IT hosting and support from the Commerce Commission.

Key management personnel

The following transactions were entered into during the year with key management personnel:

- The Authority purchased broadband services of \$19,080 (2013: \$18,529) from CityLink Limited, a company of which Board member Hon. Roger Sowry is a director.

- The Authority paid membership subscriptions of \$1,005 (2013: \$963) for two employees to the Institution of Professional Engineers New Zealand (IPENZ), of which Authority Board member Elena Trout is vice president of the governing board.
- The Authority purchased communications services of \$64,955 (2013: \$41,715) from the wife of the General Manager Legal and Compliance. This contract is managed by the General Manager Corporate Services, and the terms and conditions are no more favourable than the Authority would have adopted if there were no relationship with key management personnel.
- The Authority's chief executive, Carl Hansen, was appointed in his personal capacity to the National Infrastructure Advisory Board (NIAB) in April 2014, for a term commencing 1 May 2014 and ending 30 April 2017. The NIAB meets approximately five times per year and is administered by The Treasury. If required, the Chief Executive attends NIAB meetings during the Authority's paid work time, and in return remits all fees received for his attendance at the NIAB back to the Authority. The Chief Executive remitted NIAB fees of \$1,500 to the Authority in relation to the year ended 30 June 2014.

21. Financial instrument risks

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

Interest rate risk

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

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

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

Credit risk

Credit risk is the risk that a third party defaults on its obligations to the Authority, causing the Authority to incur a loss. The Authority only invests in financial institutions that have high credit ratings.

Liquidity risk

Liquidity risk is the risk that the Authority encounters difficulties raising liquid funds to meet commitments as they fall due.

The Authority has a low exposure to liquidity risk as it does not enter into credit arrangements, except those available from suppliers as part of normal operating agreements, and aims to maintain sufficient funds available on call to meet its liquidity requirements.

Currency risk

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

22. Capital management

The Authority's capital is its equity, comprised of accumulated funds and represented by net assets.

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

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

23. Post-balance date events

No significant events that would materially affect the financial statements have occurred between 30 June 2014 and the date of signing the financial statements.

24. Explanation of major variances against budget

Expenditure against appropriations

Appropriations and output classes	Actual 2013/14 \$000	Budget 2013/14 \$000	Variance \$000
Electricity industry governance and market operations	65,799	68,145	2,346
Promoting and facilitating customer switching	2,111	2,000	(111)
Security management	–	1,200	1,200
Electricity litigation fund	48	444	396
Total	67,958	71,789	3,831

Electricity industry governance and market operations

Actual expenditure was \$2.346 million less than the Authority's SOI budget, driven primarily by charges from the system operator that were \$1.542 million lower. These costs were lower due to a smaller actual consumer price index based increase of operating costs than was budgeted for, and lower capital related costs as commissioning dates for assets underpinning the charges were later than expected. In addition, costs associated with other market operations were \$0.522 million less than budgeted, due to lower depreciation costs of associated assets.

Security management

This appropriation is limited to the management of emergency events by the system operator, if required, including increased monitoring and management responsibilities in the event of an emerging security situation and planning and running an emergency conservation campaign. No such events occurred in 2013/14 and therefore no expenditure was required under this appropriation.

Electricity litigation fund

This appropriation is limited to ensuring that the regulatory body for the electricity industry is able to participate in litigation effectively and without delay. There was a small amount of expenditure in relation to two matters. The first involves the Authority taking prosecution action against the OtagoNet joint venture for an alleged failure to meet Electricity Industry Act 2010 requirements. The second involves the Authority being the second defendant in declaratory judgment proceedings instigated by Vector Limited.

Promoting and facilitating customer switching

This appropriation was almost fully utilised in the promotion of customer switching through the *What's My Number* campaign. The appropriation ended on 30 April 2014, with expenditure of \$2.111 million incurred during 2013/14, against the SOI budget of \$2.000 million and an available unspent appropriation of \$0.230 million carried forward from the previous year. Across the three and a half year span of the multi-year appropriation, a total of \$10.381 million of expenditure was incurred against the \$10.500 million appropriation available, with the remaining balance returned to the Crown.

Statement of comprehensive income

Crown appropriations

Crown appropriations are equal to Authority expenditure since unspent appropriations are returned to the Crown. Appropriation revenue will therefore be under budget when expenditure is under budget. Crown appropriations were \$3.831 million below budget in 2013/14.

Depreciation and amortisation

The majority of depreciation and amortisation is incurred on hardware and software used by service providers in the operation of the electricity market. Actual costs were \$0.585 million lower than budgeted for, due to later than anticipated commissioning dates of asset additions.

Service provider contracts

Costs associated with system and market service providers are \$1.552 million lower than budget, due to lower charges from the system operator, as outlined in the section explaining the variances in the electricity industry governance and market operations appropriation at the start of this note.

Other expenses

Other expenses were \$1.654 million lower than budget. This is primarily due to variances in expenditure in the security management appropriation (\$1.200 million), and the litigation fund appropriation (\$0.396 million), as outlined at the start of this section.

Statement of financial position

Cash and cash equivalents

Cash and cash equivalents were \$7.271 million higher than the SOI budget at 30 June 2014, with explanations for this variance outlined in the statement of cash flows section later in this note.

Intangible assets

Intangible assets were \$2.569 million lower than budget. This was driven by expenditure on capital projects planned for 2013/14 occurring later than was anticipated, with some expenditure now falling in the subsequent financial year.

Payables and accruals

Payables and accruals were \$1.728 million higher than budget, which is caused by the timing of work undertaken by service providers in the final months of the financial year, and whether their invoices were submitted and approved for payment prior to the final payment run on 21 June 2014.

Refund of appropriation to the Crown

The Authority spent \$2.187 million less than the amount of appropriations drawn down in 2013/14. To provide clarity on the funding available to the Authority and for consistency with the Estimates of Appropriations documents published by The Treasury, the budget was set at a level equal to appropriations, meaning appropriations are budgeted for as being fully spent. Note that the Authority did not draw down all appropriations in full during the year, which is why the refund to the Crown is less than the difference between actual and budgeted expenditure.

Statement of cash flows

Receipts from the Crown

Actual cash received from the Crown did not include the security management appropriation or the litigation fund as these appropriations are only drawn down if required. The budget includes both of these appropriations.

Purchase of intangibles

Cash outflows on the purchase of intangible assets were \$8.206 million lower than budgeted. This was driven by expenditure on two large capital projects that were budgeted to occur in the 2013/14 year incurring the majority of the required capital spend in the prior financial year, and expenditure on other capital projects planned for 2013/14 occurring later than was anticipated.

GLOSSARY AND ABBREVIATIONS

Act	Electricity Industry Act 2010.
AUFLS	Automatic under-frequency load shedding.
Authority	Electricity Authority.
Capability	Organisation needs in terms of access to leadership, people, culture, relationships, processes and technology, physical assets and structures to efficiently deliver the goods and services required to achieve the results sought – whether those results are set by reference to government policy or by statute.
Code	Electricity Industry Participation Code 2010.
Constrained-on prices	Constrained-on compensation is an amount paid to generators, if they are required by the system operator to generate during a trading period when the final price is less than the generator's offer price. The payment is calculated by the clearing manager and is payable by purchasers and the system operator.
Consumer	Any person who is supplied with electricity other than for resupply.
CR X	<p>Concentration Ratio (CR) of the top X number of generation/retailer companies (gentailers).</p> <p>The CR measures the sum of the market shares for the largest retailers – a higher number indicates a more concentrated market.</p> <p>For example CR4 is the sum of the market shares for the top four parent retail companies.</p>
CRE	Competition, reliability and efficiency (limbs of our statutory objective set in section 15 of the Electricity Industry Act 2010).
Frequency keeping	<p>The frequency of the New Zealand grid is normally maintained at 50 Hertz frequency and is the number of cycles per second.</p> <p>Frequency keeping refers to the process used to keep the frequency of the grid within its normal band. Frequency keeping power stations are used to increase or decrease generation within a set band to ensure that supply equals demand on a second-by-second basis.</p>
FTR	Financial transmission right.
HHI	<p>Herfindahl-Hirschman Index (HHI).</p> <p>HHI is a measure of market concentration and the relationship with competition occurs because less concentrated markets are likely to be more competitive. It is calculated as the sum of the squares of the market share of all participants.</p>
Impacts	The contribution made to an outcome by a specified set of outputs, or actions, or both. (Definition from section 2(1) of the Public Finance Act 1989.)
Instantaneous reserves	Generation capacity and interruptible load that is made available to be used in the event of a sudden failure of a generating or transmission facility in order to maintain system frequency at 50 Hertz. Fast instantaneous reserve is available within six seconds and must be able to operate for one minute. Sustained instantaneous reserve is available within 60 seconds and must be available for 15 minutes.
MBIE	<p>The Ministry of Business, Innovation and Employment.</p> <p>MBIE is the policy adviser to ministers on energy matters. MBIE also act as the monitoring agency of the Electricity Authority on behalf of the Minister of Energy and Resources.</p>

MFK	Multiple frequency keepers.
MFM	Market facilitation measures. Actions that we can take short of amending the Code or recommending changes to regulations. This can include discussion with participants, education programmes, publication of guidelines and publication of model agreements.
MUoSA	Model use-of-system agreement.
OTC hedges	Over-the-counter hedges. These are hedges traded off an organised exchange.
Outcome	Means a state or condition of society, the economy or the environment and includes a change in that state or condition. (Definition from section 2(1) of the Public Finance Act 1989.)
Outputs	Means the goods or services that are supplied by a Crown entity, but does not include goods and services that are produced for purchase or consumption solely within the Crown entity group. (Definition from section 136(1) of the Crown Entities Act 2004.)
Participant	A person, or a person belonging to a class of persons, identified in section 7 of the Electricity Industry Act 2010 as being a participant in the electricity industry. These include generators, Transpower New Zealand Limited, distributors, retailers, other lines owners, consumers directly connected to the national grid, buyers of electricity from the clearing manager and service providers.
Prudential security	Electricity can be consumed up to 57 days before payment for it is due. As a result, each purchaser is required to provide prudential security sufficient to cover this period, most commonly in the form of cash or a letter of credit, to cover the risk of not paying for this electricity on the due date. This ensures that generators are paid, even if a purchaser defaults. To ensure that sufficient security is held, the clearing manager monitors current and projected exposure on a daily basis using bids, cleared offers and final prices.
RAG	Retail Advisory Group.
RS analysis	Residual supply analysis. This type of analysis is used to assess how much ability generators have to reduce supply and raise price to increase their profits.
Service providers	Parties contracted by the Authority to manage the electricity system (system operator) and market services, as described in Part 3 of the Code.
SOI	Statement of Intent.
SOSPA	The system operator service provider agreement is the contract the Authority has with Transpower New Zealand Limited to operate the electricity system to schedule and dispatch electricity in real-time.
SPE	Statement of Performance Expectations.
SRC	Security and Reliability Council.
Structure, conduct and performance framework (SCP)	<p>Structure, conduct and performance is an organising framework for thinking about influence on market performance. It starts from the idea that the structure of the market determines the conduct of participants. This conduct drives outcomes. In the context of competition, it follows that the more competitive the structure, the more competitive the conduct of participants and the more efficient their performance.</p> <p>This is a useful framework for considering reliability and efficiency because it underscores the need to take account of the context in which industry participants conduct themselves as well as the outcomes that their conduct produces. The SCP framework has the benefit of emphasising that outcomes are a function of a range of related influences and actions and thus no single measure provides definitive information on market performance.</p>

UOI	<p>Unmatched open interest.</p> <p>UOI is an important measure of liquidity in the hedge market because it directly measures the volume of 'live' contracts on the exchange and indicates how useful the mechanism is to market participants. Higher UOI figures demonstrate more 'skin in the game' and provide more confidence about forward electricity prices.</p>
UTS	<p>Undesirable trading situation.</p> <p>An undesirable trading situation arises when there is a threat to orderly trading on the wholesale market or settlement that cannot otherwise be resolved satisfactorily under the Code.</p>
Voltage support	<p>The ancillary service that injects reactive power into the system to boost voltage at the point of injection. Specific generation plant is contracted by the system operator to provide this service, when needed.</p>
WAG	<p>Wholesale Advisory Group.</p>
WITS	<p>Wholesale information and trading system.</p>



