

# 2017/18 Levy-funded appropriations and strategic priorities

---

## Consultation paper

Submissions close: 5 pm 6 December 2016

Published 25 October 2016



## Executive summary

### Scope of consultation

This consultation paper sets out and seeks feedback on the Electricity Authority's (Authority) proposed appropriations, strategic priorities and programmes.

In previous years the Authority and the Energy Efficiency and Conservation Authority (EECA) have combined consultation on each entity's appropriations into a single paper. For 2017/18 each entity is consulting separately.<sup>1</sup>

### Authority strategic priorities and programmes

This paper describes and seeks feedback on our strategic priorities and programmes. These build on the strategy in our *2016/17 Statement of Performance Expectations* and the programmes in our *2016/17 Work Programme*.

Fine-tuning of the strategy for 2017/18 includes:

- new advisory groups to assist us to understand, and take appropriate actions, regarding new technologies and business practices
- pressing on with existing high-value projects to enable innovation and participation
- continuing to address ongoing issues with third-party access to data, and issues around data quality and standards for data exchange
- monitoring market behaviour and performance in respect to innovation, including new technologies and business models.

We also welcome suggestions on initiatives stakeholders consider to have the highest priority and highest long-term benefits for consumers.

### Proposed Authority appropriations

We are funded by the Crown through appropriations of public money. The Crown recovers the cost of this funding, up to the level of actual expenditure incurred, through a levy on electricity industry participants.

For the Authority's Electricity industry governance and market operations appropriation, we are proposing an appropriation of \$73.937 million for 2017/18; a decrease of \$2.1 million from 2016/17.

For the Electricity litigation fund we are proposing an appropriation of \$1.000 million for 2017/18; an increase of \$0.556 million.

The current Security management appropriation expires on 30 June 2017. We are proposing a new Security management multi-year appropriation of \$6 million over five years, to be available from 1 July 2017.

Transpower, as system operator, has proposed a new service enhancement project. If it proceeds, the project would give rise to an appropriation increase of \$0.333 million in 2018/19 and \$0.999 million in 2019/20 and out-years. Details are provided in Appendix B.

<sup>1</sup> The EECA consultation paper will be available from 9 November at <https://www.eeca.govt.nz/about-eeca/consultations-and-proposals/>

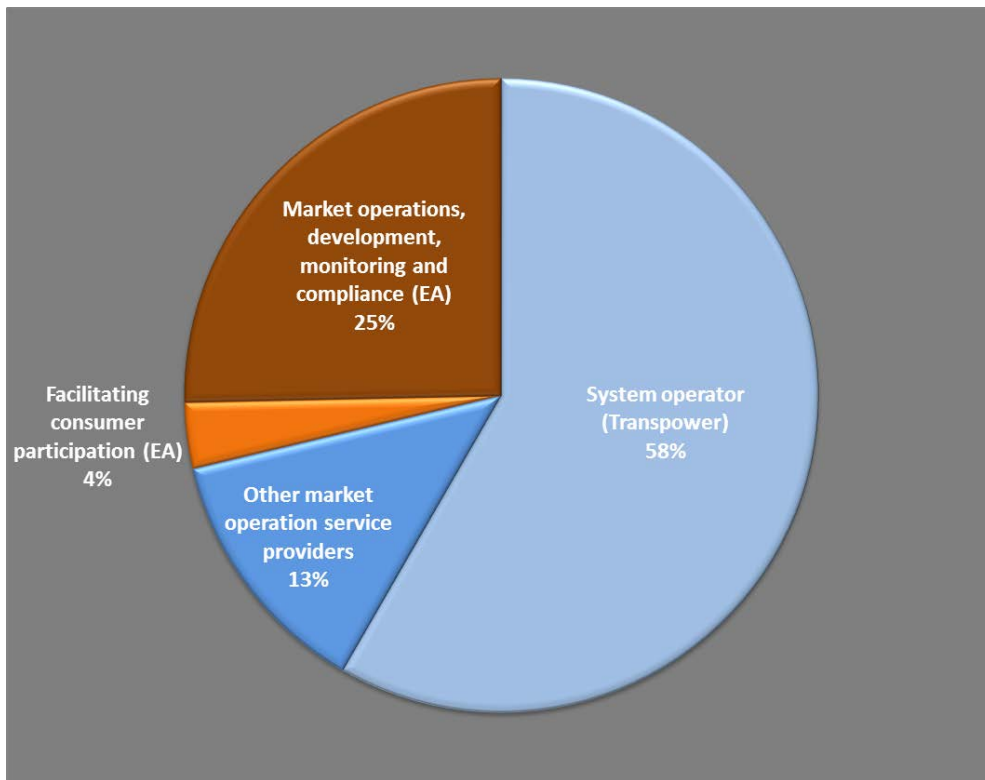
Our proposed appropriations are shown in Table 1.

**Table 1: Summary of proposed appropriations**

Electricity Authority	\$ million	
	Appropriation 2016/17	Proposed appropriation 2017/18
<b>Operational appropriation</b>		
Electricity industry governance and market operations	76.037	73.937
<b>Contingent appropriations</b>		
Security management (1 July 2012 to 30 June 2017) - <i>expiring</i>	6.000 over five years	
Security management (1 July 2017 to 30 June 2022) - <i>proposed new</i>	6.000 over five years	
Electricity litigation fund	0.444	1.000

Figure 1 shows how the Electricity industry governance and market operations appropriation is used. This appropriation covers all of our main functions.

**Figure 1: Use of the Electricity industry governance and market operations appropriation in 2017/18 (\$73.937 million)**



## Contents

Executive summary	ii
Scope of consultation	ii
Authority strategic priorities and programmes	ii
Proposed Authority appropriations	ii
1 What you need to know to make a submission	1
What this consultation paper is about	1
How to make a submission	1
When to make a submission	2
Next steps	2
2 Our strategic priorities and programmes	3
Our strategic journey so far	4
Our strategic focus for 2017/18	4
Promote market development	4
Monitor, inform and educate	5
Operate the electricity system and markets	5
Enforce compliance	6
Our programmes	6
Programme A: Evolving technologies and business models	6
Programme B: Consumer choice and competition	7
Programme C: Pricing and cost allocation	7
Programme D: Risk and risk management	8
Programme E: Operational efficiencies	8
Programme F: Compliance	9
Business-as-usual function: Monitor, inform and educate	9
Related documents	10
3 Our proposed appropriations	11
Electricity industry governance and market operations	11
Forecasts are based on assumptions and may change	11
Key components of this appropriation are described below.	12
Contingent appropriations	13
Security management appropriation	13
Electricity litigation fund	14
4 System operator proposed service enhancement projects—with appropriation impacts in 2018/19 and out-years	15
5 Indicative levy rates	17
Appendix A Legal context for this consultation	19
Appendix B System operator proposed service enhancement projects	20
Glossary of abbreviations and terms	21

**Tables**

Table 1: Summary of proposed appropriations .....iii

Table 2: Breakdown of the proposed electricity governance and market operations appropriation..... 11

Table 3: Electricity Authority contingent appropriations..... 13

Table 4: Service enhancement project—impact on appropriations ..... 15

Table 5: Service enhancement project—approximate impact on levy ..... 15

Table 6: Levy rates ..... 18

**Figures**

Figure 1: Use of the Electricity industry governance and market operations appropriation in 2017/18 (\$73.937 million).....iii

Figure 2: Our strategic framework..... 3

Figure 3: Our market development cycle..... 5

# 1 What you need to know to make a submission

## What this consultation paper is about

- 1.1 Submissions are sought on our strategic priorities and programmes. These are explained in part 2. There is no legal requirement for us to consult on the strategy and priorities. We value the input provided by stakeholders to assist in setting the direction for our work.
- 1.2 Submissions are also sought on our proposed 2017/18 appropriations and identified changes to appropriations in out-years. The appropriations cover the period 1 July 2017 to 30 June 2018. Our proposed appropriations are explained in part 3. Consultation on our proposed appropriations is required by section 129 of the Electricity Industry Act 2010 (the Act). Appendix A outlines the legal context for this consultation.
- 1.3 Appendix B provides information from the system operator on a proposed service-enhancement project relating to market systems. If approved, this project will have a financial impact in 2018/19 and following years.
- 1.4 The consultation period commences on 25 October 2016 and submissions are due by 5 pm on 6 December 2016.

## How to make a submission

- 1.5 Your submission is likely to be made available to the general public on the Authority’s website. If necessary, please indicate any documents attached in support of your submission and any information that is provided to the Authority on a confidential basis. However, you should be aware that all information provided to the Authority is subject to the Official Information Act 1982.
- 1.6 We can receive submissions in electronic format (preferably in Microsoft Word) An optional format for submissions is provided in Appendix B. Submissions in electronic form should be emailed to [submissions@ea.govt.nz](mailto:submissions@ea.govt.nz) with “**Consultation Paper— 2017/18 Appropriations**” in the subject line.
- 1.7 You can also make a submission via an online survey available at: <https://www.surveymonkey.com/r/HBS3MMK>
- 1.8 We have also provided on our website an optional format for making a submission.
- 1.9 If you cannot send your submission electronically or complete the online survey, post one hard copy to either of the addresses below, or fax it to 04 460 8879.

Postal address

Submissions  
Electricity Authority  
PO Box 10041  
Wellington 6143

Physical address

Submissions  
Electricity Authority  
Level 7, ASB Bank Tower  
2 Hunter Street  
Wellington

- 1.10 Please note the Authority wants to publish all submissions it receives. If you consider that we should not publish any part of your submission, please
  - (a) indicate which part should not be published
  - (b) explain why you consider we should not publish that part

- (c) provide a version of your submission that we can publish (if we agree not to publish your full submission).
- 1.11 If you indicate there is part of your submission that should not be published, we will discuss with you before deciding whether to not publish that part of your submission.
- 1.12 However, please note that all submissions we receive, including any parts that we do not publish, can be requested under the Official Information Act 1982. This means we would be required to release material that we did not publish unless good reason existed under the Official Information Act to withhold it. We would normally consult with you before releasing any material that you said should not be published.

### **When to make a submission**

- 1.13 Please deliver your submissions by **5pm on 6 December 2016**.
- 1.14 We will acknowledge receipt of all submissions electronically, with the exception of survey responses. Please contact the Submissions' Administrator if you do not receive electronic acknowledgement of your written submission within two business days.

### **Next steps**

- 1.15 Submissions will be considered prior to developing our request for appropriations to the Minister of Energy and Resources (Minister), in early 2017.
- 1.16 The approved appropriations will be announced by the Government on Budget day, which is usually in mid-May. They will also be included in our *2017–2021 Statement of Intent* (SOI) and *2017/18 Statement of Performance Expectation* (SPE) to be published in June.
- 1.17 Submissions will also inform development of our work programme. We expect to publish our *2017/18 Work Programme* in July 2017.

## 2 Our strategic priorities and programmes

2.1 This part describes our proposed strategic priorities and the programmes that support them. This builds on our previously published strategy in our 2014–2018 SOI and 2016/17 SPE.<sup>2</sup> This is summarised in our strategic framework, see Figure 2.

**Figure 2: Our strategic framework**



<sup>2</sup> The SOI and SPE are available at [www.ea.govt.nz/about-us/strategic-planning-and-reporting/](http://www.ea.govt.nz/about-us/strategic-planning-and-reporting/)



## **Our strategic journey so far**

- 2.2 We were established in November 2010. Our initial focus was on completing and implementing the changes required by section 42 of the Electricity Industry Act 2010 (the Act). This included a strong focus on improving reliability of supply and on initiatives to enhance retail market competition. A notable success was the creation of the What’s My Number campaign, which had an immediate and ongoing impact.
- 2.3 We then moved our focus to ways we could further enhance retail and wholesale market competition, including through an enhanced hedge market. Other work to enhance retail competition included projects to improve the transparency of electricity charges and to make it easier for consumers to confidently find the best deal in the market.
- 2.4 In 2015/16 we placed an increased focus on the efficiency limb of our statutory objective, including looking at the efficient operation of the electricity industry and the efficient pricing of transmission and distribution services.
- 2.5 The key focus in 2016/17 is on completing the review of the guidelines for transmission pricing, completing our review of security of supply, and addressing the implications of new technology.
- 2.6 We are pursuing enhancements to the hedge market, in particular, introduction of standardised cap products and demand response capability suitable for covering dry-year risks. We are also reviewing the customer compensation and stress testing regimes to ensure they are consistent with delivering ongoing security of supply. We will also continue to actively monitor all market developments, and advance several other projects that will promote an efficient level of security of supply.
- 2.7 Our strategy will continue to evolve and be fine-tuned to respond to developments in the environment, in particular developments in technology, business practice, and the changing landscape we operate in.

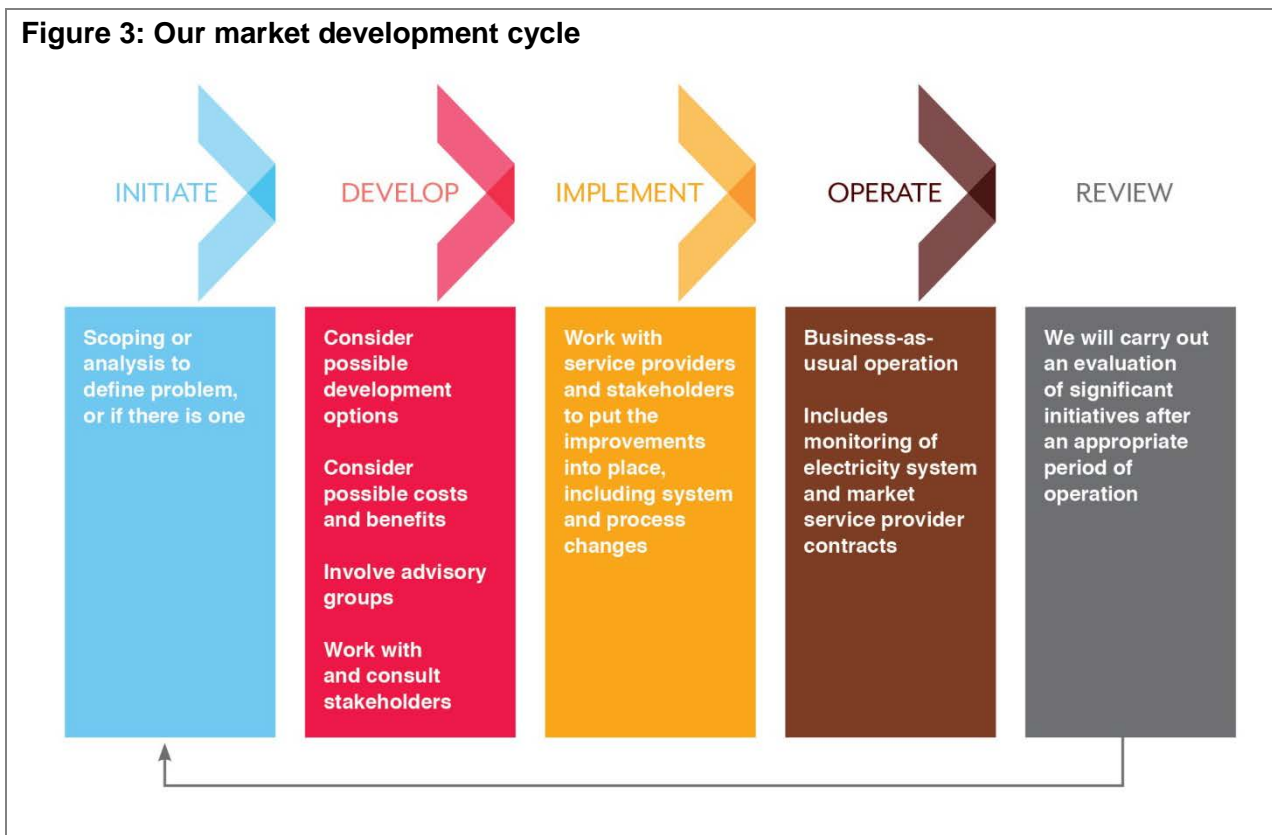
## **Our strategic focus for 2017/18**

### **Promote market development**

- 2.8 Our promoting market development function supports the *reduce barriers, improve consumer participation, improve price signals and increase flexibility and resilience strategies*
- 2.9 For example, we expect that technological advances will continue to proceed rapidly. These have the potential to be disruptive, creating new opportunities and potentially significant change. We will need to move quickly to address potential barriers to evolving technology. We expect establishing new advisory groups during 2016/17 will greatly assist us to understand, and take appropriate actions, new technologies and business practices.
- 2.10 This strategy requires a significant commitment to market development, particularly in the retail market, and a continued emphasis on the ongoing efficient pricing and operation of the electricity system and markets.
- 2.11 Our experience to date indicates that we will also need to continue to address ongoing issues with third party access to data, and issues around data quality and standards for data exchange.
- 2.12 In 2017/18 we will continue to focus on hedge market development and demand response.

2.13 Efficient pricing will continue to be a major focus for 2017/18 and beyond. While transmission and distribution pricing are a focus in 2016/17, we expect to turn more attention to market pricing initiatives, particularly in the spot market.

**Figure 3: Our market development cycle**



**Monitor, inform and educate**

- 2.14 Effective delivery of our strategy also requires us to continue to develop and refine our monitoring efforts. Our monitor, inform and educate function supports all of our six strategies.
- 2.15 Our business-as-usual and market monitoring functions assist to identify issues requiring further market development attention.
- 2.16 We also monitor market behaviour and performance in respect to innovation, including new technologies and business models. There will also be ongoing monitoring of market behaviour and performance for security and reliability.
- 2.17 We will continue to place emphasis on monitoring the result of our initiatives, investigating market events, and on assessing market performance. Monitoring work will continue to be used to inform further Electricity Industry Participation Code 2010 (Code) or market facilitation initiatives, where warranted. Post implementation reviews of our initiatives are conducted after initiatives have had time to bed-in.

**Operate the electricity system and markets**

- 2.18 Effective operation of the electricity system and markets directly supports the ensure fit-for-purpose market services strategy. It also indirectly supports all of our other strategies.
- 2.19 The last few years have seen some significant changes to market services activities:

- (a) commencement of the financial transmission rights (FTR) manager market operations service provider (MOSP) role in 2013
  - (b) significant enhancements to the clearing, pricing, registry and wholesale information and trading system (WITS) systems to implement market design initiatives
  - (c) implementation of the extended reserve manager MOSP role, which is expected to commence operation in late 2016/17
  - (d) renegotiation of the system operator service provider agreement (SOSPA) with Transpower, including aligning the system operator’s activities with the achievement of the Authority’s statutory objective, with the new SOSPA effective from 1 July 2016
  - (e) tendering of the pricing, reconciliation, clearing and WITS manager roles, with resulting service enhancements and changes to the Authority’s contract governance, with the new contracts effective from 1 May 2016.
- 2.20 A new registry services agreement is expected to be in place from 1 May 2017.
- 2.21 Given the extent of these changes to the MOSP services, systems and contract arrangements, the main focus for the operation of the electricity system and markets for 2017/18 will continue to be on ensuring that the services are delivered to the high standard expected by the Authority and the users of the services. This will include continuing to work closely with industry stakeholders, the extended reserve manager and the system operator to progress the implementation of the extended reserve manager, and with Transpower and NZX to operationalise the new service provider agreements.
- 2.22 We will also continue our regular programme of minor Code amendments.

**Enforce compliance**

- 2.23 Our enforce compliance function directly supports the improve compliance strategy. It also indirectly supports all of our other strategies. We will continue our proactive approach to ensuring compliance with the Act, regulations and Code, as well as responding to alleged breaches.

**Our programmes**

- 2.24 This section sets out our proposed 2017/18 programmes. These programmes describe the areas of work we will focus on to deliver our strategic priorities. These programmes are not mutually exclusive and contain areas of linkage and overlap.
- 2.25 This year we are seeking your input on the priority, timing and scope for work we should undertake to deliver our strategic priorities. This input will help us develop the detailed work programme for publication in June 2017.
- 2.26 The current work programme shows what we are working on in 2016/17. Most of these projects will continue in 2017/18, assuming they still have a strong strategic fit and value proposition.

**Programme A: Evolving technologies and business models**

- 2.27 The electricity industry faces potentially far-reaching changes in the near future as evolving technology expands how electricity is generated and used, and provides consumers with greater choice and control over their energy needs. Most simplistically, the electricity industry is moving away from the ‘bulk supply’ model that has

characterised its operation over the last one hundred years or so. It is moving to a more dispersed and atomistic model where technology and new business models enable consumers to become more active participants in the market.

- 2.28 This programme focuses on initiatives to increase competition and efficiency by removing barriers to innovation and participation. Efficient and open market processes are key to enabling innovation and participation. Evolving technology will lead to the entry of new and innovative participants in the electricity market. We seek to ensure that our Code, systems and processes allow these participants to meaningfully engage the market. We also want to ensure market platforms can support greater participation.
- 2.29 This programme is aligned with our reducing barriers strategy. It includes reducing inefficient barriers to:
- (a) any consumers purchasing directly from the wholesale electricity market or directly from local generators
  - (b) mass-market demand response (DR) and aggregators of mass-market DR
  - (c) mass-market distributed energy resources (DERs) and aggregators of mass-market DERs. DERs include traditional distributed generation, batteries, micro-grids and ‘prosumer’ situations.
- 2.30 Work streams under this programme include:
- (a) reducing barriers to new technologies and business models arising from market trading arrangements, for example, looking at the data and data exchange
  - (b) reducing barriers to new technologies and business models arising from industry contractual arrangements, such as with distributors.

**Programme B: Consumer choice and competition**

- 2.31 This programme focuses on initiatives to promote competition and empower consumer choice through the retail market. It also links closely with Programme A and aligns with our improve consumer participation strategy. Enabling consumers to actively engage in the retail market, and the effect this has on retail company services, delivers on the competition and efficiency limbs of our statutory objective.
- 2.32 We will continue to focus on working to help consumers to obtain the necessary information and incentives to make informed choices about their electricity supply and wider energy decisions.
- 2.33 We need to focus on the relationships between parties in the electricity market in order to increase consumer choice and competition. Some contractual relationships between parties may restrict consumer choice and be a barrier to competition. The retail data project is an example of our work to facilitate increased choice and competition.

**Programme C: Pricing and cost allocation**

- 2.34 This programme covers initiatives to promote efficient pricing in markets and for monopoly services. This programme aligns with our improve price signals strategy. We want to ensure prices for energy, transmission and distribution services are cost-reflective and service based. Achieving this will assist consumers to base their decisions on correct information/signals. Work streams within this programme include:

- (a) improving market pricing mechanisms. Examples include settlement on real-time prices and improved forecast pricing (through improved inputs such as wind offers and demand forecasting)
- (b) improving the integration of demand response market mechanisms. Examples include Transpower’s demand response protocol, dispatchable demand improvements (including constrained on/off payments and bidding at conforming nodes), and the overarching work to further develop the guiding regulatory principles for demand response
- (c) improving administered prices and cost-allocation methods. This includes the transmission pricing methodology (TPM), general distribution pricing, distributed generation pricing principles and cost-allocation of ancillary services (in particular, instantaneous reserve and frequency keeping).

**Programme D: Risk and risk management**

- 2.35 This programme covers initiatives to promote efficient management of capacity and energy risks, and making ongoing enhancements to the hedge market to ensure that it continues its upward momentum. This programme aligns with our increase flexibility and resilience strategy.
- 2.36 It is becoming increasingly important that participants and consumers alike have tools and products to manage their risks. This is particularly valuable as evolving business models and changing technologies lead to more diverse services and business models.
- 2.37 Work streams within this programme include:
  - (a) improving management of capacity and real-time operational risks. This includes the provision of ancillary services and markets.
  - (b) improving management of energy risks. This includes dry year security of supply risks. Our focus will include ensuring robust outcomes from the stress testing regime and the customer compensation scheme reviews.
  - (c) further evolution of the hedge market. The hedge market supports the management of capacity and energy risks (described above). Our focus includes the introduction of a cap product to encourage the provision of infrequently dispatched generation plant and use of demand response, providing advantages to retail competition and improved security of supply.

**Programme E: Operational efficiencies**

- 2.38 This programme covers initiatives to increase the efficiency of electricity market operations. In particular, we look at refining processes set out in the Code and initiatives to improve market systems. This programme primarily aligns with our ensure fit-for-purpose market services strategy and also contributes to other strategies.
- 2.39 Code improvements typically include simplifying processes to enable more efficient operation and interaction, including via data exchange. Other initiatives provide information to assist industry participants to effectively apply specific Code requirements.
- 2.40 Market systems are provided by MOSPs and the system operator. We want these services to deliver effective market operation, increase market efficiency, and facilitate market development. Our work in this area includes the evaluation of the system operator’s proposal to update the electronic dispatch facility (EDF) that is used by the

system operator to dispatch generation<sup>3</sup>, dispatchable demand and instantaneous reserve.

**Programme F: Compliance**

- 2.41 This programme includes initiatives to improve participant compliance with the Act, regulations and Code. It aligns with our improve compliance strategy.
- 2.42 Our compliance function plays an integral role in ensuring the integrity of the electricity market by enabling compliance by the industry with the Act, regulations and Code. We take a risk-based and proportionate approach to compliance.
- 2.43 We recognise that most industry participants want to meet their obligations voluntarily, or can be encouraged or induced to do so. We provide information, education and assistance. However, serious compliance matters are formally investigated and may be subject to enforcement action.

**Business-as-usual function: Monitor, inform and educate**

- 2.44 We have an ongoing commitment to consumer and participant education.
- 2.45 Provision of information and a consumer education programme is expected to result in stronger competition through increased consumer understanding, awareness and motivation to participate in markets.
- 2.46 We also have an ongoing commitment to participant education, including providing information through workshops, training, publications and the web about the operation of the Code, the market, and market systems and processes. Education is a feature of our business-as-usual market services and compliance outputs, as well as our project work. This work is expected to contribute to improved efficiency, particularly through better compliance and more accurate and consistent application of the Code. This will in turn contribute to reliability and competition.
- 2.47 In addition to the business-as-usual monitoring, investigations and reports, we are improving the transparency of industry processes. This includes providing data and models that enable replication of price calculations, counterfactual analysis, and rapid assessment of structure, conduct, and performance of the various markets in the electricity industry.
- 2.48 Provision of information and models will build confidence and reduce concentration of technical expertise and intellectual property that works against competition in the electricity markets, including markets for technical services.
- 2.49 We also carry out post-implementation reviews (against impacts sought) of completed major projects. We expect to carry out one or two reviews during the 2017/18 year and these will be published on the Monitoring section of our website<sup>4</sup>.

<sup>3</sup> See part 4 and appendix B of this paper.

<sup>4</sup> See [www.ea.govt.nz/monitoring/enquiries-reviews-and-investigations/](http://www.ea.govt.nz/monitoring/enquiries-reviews-and-investigations/)



## Related documents

2.50 The following are related documents that may be of use in preparing your submission:

- (a) Our *2016/17 Work Programme* provides information about our current programmes and projects. Our work programme reports provide information about results to-date with specific projects. These are available at [www.ea.govt.nz/about-us/strategic-planning-and-reporting/our-work-programme/](http://www.ea.govt.nz/about-us/strategic-planning-and-reporting/our-work-programme/)
- (b) Our *2016/17 Statement of Performance Expectations (SPE)* is our plan for the 2016/17 year. It includes information about our strategy, functions and key projects. It is available at [www.ea.govt.nz/about-us/strategic-planning-and-reporting/statement-of-performance-expectations/](http://www.ea.govt.nz/about-us/strategic-planning-and-reporting/statement-of-performance-expectations/)
- (c) Our *2015/16 Annual Report* provides information about results to date. It is a report against the SOI and SPE for the relevant period. It is available at [www.ea.govt.nz/about-us/strategic-planning-and-reporting/annual-report/](http://www.ea.govt.nz/about-us/strategic-planning-and-reporting/annual-report/)

### 3 Our proposed appropriations

#### Electricity industry governance and market operations

- 3.1 The Electricity industry governance and market operations appropriation is our main operational appropriation. It funds the costs for the oversight, operation and governance of New Zealand’s electricity market under the Act, Code, and regulations.
- 3.2 To deliver our statutory functions and progress our statutory objective, we propose funding of \$73.937 million for this appropriation in 2017/18. This is in line with existing Government approved appropriations, and is \$2.1 million lower than 2016/17.
- 3.3 Table 2 sets out the main items of expenditure within the electricity industry governance and market operations appropriation.

**Table 2: Breakdown of the proposed electricity governance and market operations appropriation**

Operational appropriation - Electricity Authority	\$ million	
	Appropriation 2016/17	Proposed appropriation 2017/18
System operator - operating expenses	25.760	26.396
System operator - capital-related expenses	20.130	16.731
<b>System operator expenses</b>	<b>45.890</b>	<b>43.127</b>
Service provider - clearing manager	2.245	2.312
Service provider - wholesale information and trading system (WITS)	1.604	1.797
Service provider - pricing manager	0.736	0.750
Service provider - reconciliation manager	0.882	0.909
Service provider - registry*	0.562	0.571
Service provider - FTR manager	0.914	0.935
Service provider - depreciation and amortisation	1.799	1.862
Service provider - IT costs	0.151	0.095
Service provider - Extended reserves manager*	0.025	0.350
<b>Other service provider expenses</b>	<b>8.918</b>	<b>9.581</b>
<b>Facilitating consumer participation expenses</b>	<b>2.500</b>	<b>2.500</b>
<b>Authority operating expenses</b>	<b>18.729</b>	<b>18.729</b>
<b>Total appropriation</b>	<b>76.037</b>	<b>73.937</b>

\* The contractual arrangements for these roles have not yet been finalised.

#### Forecasts are based on assumptions and may change

- 3.4 The forecasts for individual expense items within the electricity industry governance and market operations appropriation are subject to variable factors that will influence the actual costs incurred. For example, the impact of future consumer price index (CPI) increases, the timing and cost of investments in both the Authority’s and the system operator’s assets, and the outcome of final contractual negotiations in relation to the registry manager and extended reserve manager.



**Key components of this appropriation are described below.**

**System operator services**

- 3.5 The system operator is responsible for co-ordinating electricity supply and demand in real time in a manner that avoids undue fluctuations in frequency and voltage or disruption of supply. Performing this role effectively and reliably requires ongoing investment to maintain and enhance the extensive infrastructure supporting the delivery of the services.
- 3.6 In February 2016 the Authority and Transpower agreed a new system operator service provider agreement (SOSPA). The new SOSPA includes increased transparency over service and performance, greater commercial discipline on costs and project management, and requirements for more engagement with stakeholders. The system operator’s focus is now aligned with the Authority’s statutory objective to promote competition, reliability and efficiency for the long-term benefit of consumers.
- 3.7 System operator expenses of \$43.127 million are included in the 2017/18 appropriation. This covers the system operator’s operating costs and a recovery on the investments made in the assets that underpin the services delivered. The system operator costs are \$2.763 million less than in 2016/17. The decrease is predominantly due to the system operator completing full recovery on several historical asset investments during 2016/17.

**Market operation services**

- 3.8 We contract for a range of market operations service provider roles. Our focus is on creating fit-for-purpose market services that increase market efficiency, ensure effective market operation and facilitate market development.
- 3.9 In 2015/16, following a competitive procurement process, new contracts were entered into for the clearing manager, wholesale information and trading system (WITS) provider, pricing manager, and reconciliation manager roles. This enabled the existing systems underpinning those roles to continue to be maintained and utilised for a further eight years, resulting in lower annual amortisation costs. This was the key driver of the decrease in the total cost of market operation services from \$12.168 million in 2014/15 to \$9.896 million in 2015/16, and \$8.918 million (budgeted) in 2016/17.
- 3.10 Market operation service provider costs of \$9.581 million are included in the 2017/18 appropriation. This is an increase of \$0.663 million from 2016/17, and is due to an allowance for CPI-linked increases under the service provider contracts, and the additional fees for the new extended reserves manager service provider role.

**Facilitating consumer participation**

- 3.11 Facilitating consumer participation expenditure delivers initiatives that increase consumer awareness, understanding, and motivation to participate in the electricity market. These include the What’s My Number campaign and the retail data project, both of which focus on making it easier for consumers to make more informed, and therefore better, decisions about their retailer and retail offers. These initiatives promote competition and deliver on the Authority’s statutory objective.
- 3.12 We propose a \$2.5 million budget for 2017/18, the same as the prior year. In Budget 2014 the Government approved funding specifically targeted at facilitating consumer participation initiatives over a three year period, of which 2016/17 is the final year. Through the step-down in system operator fees, we have capacity within the existing Government approved 2017/18 appropriation level, to continue this programme of work

without seeking additional funding for this year. This will support achievement of our improve consumer participation strategy, as outlined above.

- 3.13 The Authority Board will consider feedback from this consultation before making any final decisions on the continuation of the facilitating consumer participation activities beyond 2016/17.

**Authority operating expenses**

- 3.14 Authority operating expenses for 2017/18 will continue to be held at \$18.729 million. This covers delivery of all of our main functions:

- (a) Promote market development: we promote development of the electricity markets by making amendments to the Code and through market facilitation measures.
- (b) Monitor, inform and educate: we monitor market behaviour, make data, information and tools available, and educate consumers and participants.
- (c) Operate the electricity system and markets: we are responsible for the day-to-day operation of the electricity system and markets, delivered through contracts with service providers.
- (d) Enforce compliance: we monitor, investigate and enforce compliance with the Act, relevant regulations and the Code.

- 3.15 We will continue to pursue efficiencies in our operations through initiatives including shared service arrangements, leveraging all-of-government procurement opportunities, and reducing reliance on external consultants. Our focus on efficiency allows us to maximise investment in the work that delivers the greatest long-term benefits to consumers.

**Contingent appropriations**

- 3.16 We have two appropriations that are contingent in nature, as summarised in Table 3. We will not incur expenditure against these as part of our normal operations, rather, these appropriations are in place to allow us to respond quickly and effectively should certain events or situations arise. As with the other appropriations set out in this paper, levy payers only fund costs to the extent they are actually incurred—if no expenditure is incurred, there is no resulting cost to levy payers.

**Table 3: Electricity Authority contingent appropriations**

Contingent appropriations - Electricity Authority	Proposed appropriation	
	Appropriation 2016/17	2017/18
Security management (1 July 2012 to 30 June 2017) - <i>expiring</i>	6.000 over five years	
Security management (1 July 2017 to 30 June 2022) - <i>proposed new</i>	6.000 over five years	
Electricity litigation fund	0.444	1.000

**Security management appropriation**

- 3.17 The existing Security management appropriation is a multi-year appropriation for the period 2012/13 to 2016/17. The appropriation is limited to the management of emergency events by the system operator, if required. It includes increased system operator monitoring and management responsibilities in the event of an emerging

security situation, and planning and running an official conservation campaign, if needed.

- 3.18 No expenditure has been incurred against this appropriation to date. It is not expected that this appropriation would incur costs in the normal course of events.
- 3.19 The existing Security management appropriation expires on 30 June 2017. We propose that a new Security management appropriation be established, with the same terms and value (\$6 million over five years), to be available from 1 July 2017. Continuing to have a Security management appropriation available will enable the system operator, should the need emerge, to be able access funding to respond quickly in the event of an emerging security situation.

**Electricity litigation fund**

- 3.20 The Electricity litigation fund appropriation provides funding to ensure that we are able to participate in litigation effectively and without delay.
- 3.21 We are proposing an appropriation of \$1.000 million for 2017/18, which is an increase of \$0.556 million from 2016/17. The Authority has seen an increase in litigation activity in the first quarter of 2016/17, and we consider it prudent to seek additional funding for this appropriation.

## 4 System operator proposed service enhancement projects—with appropriation impacts in 2018/19 and out-years

- 4.1 A key aspect of the new SOSPA is for greater consultation before the system operator invests in assets to enhance the services they provide. The system operator has proposed a service enhancement project in relation to the electronic dispatch facility (EDF). This is a component of the market system that sends dispatch instructions to, and receives acknowledgements from, electricity generators and reserve providers. Information on this project has been provided by the system operator in Appendix B.
- 4.2 Based on the EDF Phase III project’s high-end cost estimate, which reflects the system operator’s additional investment in system assets, the system operator would recover up to a maximum of \$4.995 million from the Authority over the asset’s assumed useful life.
- 4.3 The required change to our annual appropriations, to enable the project to proceed, is an increase of \$0.333 million in 2018/19 and \$0.999 million in 2019/20 and out-years.
- 4.4 The project to deliver the system changes would start in 2017/18, but the system operator would not begin recovery on the asset until 2018/19. Therefore, the project has been included in this paper to enable consultation prior to the potential project start.

**Table 4: Service enhancement project—impact on appropriations**

Electricity industry governance and market operations appropriation	\$ million		
	2017/18	2018/19	2019/20 & out-years
Government approved baseline appropriation	73.937	73.937	73.937
Funding required for service enhancements - EDF Improvements	-	0.333	0.999
<b>Revised appropriation</b>	<b>73.937</b>	<b>74.270</b>	<b>74.936</b>

- 4.5 The impact on the amount levied to industry participants depends on the final agreed cost of the project and the actual MWh used to apportion the costs. However, to give an indication of the potential impact on participants’ levies, the following table provides an approximation of the levy increase that would result from the EDF Phase III project.

**Table 5: Service enhancement project—approximate impact on levy**

Approximate increase to levy - by participant class	\$ per MWh		
	2017/18	2018/19	2019/20 & out-years
Generators	-	0.0041	0.0123
Purchasers	-	0.0040	0.0121

- 4.6 Feedback is sought on the proposed EDF Phase III project and the resulting increase in our annual appropriations.
- 4.7 In addition to the EDF service enhancement project, the system operator has identified two other potential service enhancement projects relating to medium term load forecasting (MTLF) and sensitivity analysis information.

- 4.8 The system operator's current high-level cost estimates are \$3.906 million for the MTLF project, and \$1.969 million for the sensitivity analysis project. As these projects would not commence until 2018/19, feedback will be sought in next year's 2018/19 appropriation consultation. However, as an indication, we may require increases to appropriations in the order of \$1.500 million per annum to enable both projects to proceed.

## 5 Indicative levy rates

- 5.1 All Electricity Authority functions are funded by specific Crown appropriations. This consultation seeks feedback on the proposed level of these appropriations for 2017/18, and changes impacting those appropriations in out-years.
- 5.2 The Crown funds the appropriations by a levy on electricity industry participants, in accordance with the Electricity Industry (Levy of Industry Participants) Regulations 2010 (the Levy Regulations). We collect the levy on behalf of the Crown.
- 5.3 The actual invoiced rates for recovering the levy in the year beginning 1 July 2017 will be calculated after the Government has confirmed appropriations through the release of Budget 2017, and following finalisation of our internal budget. It is anticipated that the finalised rates will be available in June 2017.
- 5.4 Where the actual expenditure incurred against the appropriations in a particular year is less than the levy collected, the over-recovery is refunded to industry participants. This is done as part of the annual reconciliation process following the end of each financial year.
- 5.5 The indicative levy rates based on the appropriations proposed in this paper are shown in Table 6. We have provided these indicative levy rates solely for the purposes of this consultation—they are intended to help participants understand how the proposed appropriations could relate to the levies they may be asked to pay. The indicative levy rates should not be relied on for any other purpose and we will not be liable to any party who uses this information for any other purpose.
- 5.6 The indicative levy rates provided in Table 6 do not include the impact of the system operator's service enhancement project.
- 5.7 The indicative levy rates for EECA's electricity efficiency activities are also provided in Table 6. The consultation paper on the appropriation and activities funded through this levy will be available from 9 November on EECA's website:  
<https://www.eeca.govt.nz/about-eeca/consultations-and-proposals/>

**Table 6: Levy rates**

**2017/18 Indicative levy rates**

Participant Class	Generators	Purchasers	Retailers	Distributors excluding Transpower	Transpower
Common quality operations	\$0.1979/MWh	\$0.1950/MWh		\$0.1087/MWh	\$0.1087/MWh
Market operations	\$0.4341/MWh	\$0.4278/MWh			
Registry & consumer operations			\$0.6100/ICP	\$0.6115/ICP	
Supply reliability operations		\$0.0084/MWh			
Transmission operations					\$0.0369/MWh
Electricity efficiency operations		\$0.1260/MWh			
Consumer participation operations			\$1.2124/ICP		
Other activities	\$0.0630/MWh	\$0.0621/MWh		\$0.0346/MWh	\$0.0346/MWh

**2016/17 Invoiced levy rates**

Participant Class	Generators	Purchasers	Retailers	Distributors excluding Transpower	Transpower
Common quality operations	\$0.2039/MWh	\$0.2009/MWh		\$0.112/MWh	\$0.112/MWh
Market operations	\$0.4475/MWh	\$0.441/MWh			
Registry & consumer operations			\$0.6909/ICP	\$0.6925/ICP	
Supply reliability operations		\$0.0084/MWh			
Transmission operations					\$0.0367/MWh
Electricity efficiency operations		\$0.3150/MWh			
Consumer participation operations			\$1.2124/ICP		
Other activities	\$0.0626/MWh	\$0.0617/MWh		\$0.0344/MWh	\$0.0344/MWh

**Movement**

Participant Class	Generators	Purchasers	Retailers	Distributors excluding Transpower	Transpower
Common quality operations	(\$0.0060)/MWh	(\$0.0059)/MWh		(\$0.0033)/MWh	(\$0.0033)/MWh
Market operations	(\$0.0134)/MWh	(\$0.0132)/MWh			
Registry & consumer operations			(\$0.0809)/ICP	(\$0.0810)/ICP	
Supply reliability operations		\$0/MWh			
Transmission operations					\$0.0002/MWh
Electricity efficiency operations		(\$0.1890)/MWh			
Consumer participation operations			\$0/ICP		
Other activities	\$0.00040/MWh	\$0.0004/MWh		\$0.0002/MWh	\$0.0002/MWh

\*Information on the appropriation funded by the Electricity efficiency levy activity is contained in the EECA consultation paper, which will be available from 9 November at: <https://www.eeca.govt.nz/about-eeeca/consultations-and-proposals/>

## Appendix A Legal context for this consultation

A.1 Section 129 of the Electricity Industry Act 2010 (Act) requires the Authority to consult on proposed appropriations for the coming year:

### **129 Consultation about request for appropriation**

- (1) The Authority and the Energy Efficiency and Conservation Authority must, before submitting a request to the Minister seeking an appropriation of public money for the following year, or any change to an appropriation for the current year, that relates to costs that are intended to be recovered by way of levies under, consult about that request with—
  - (a) those industry participants who are liable to pay a levy under that section; and
  - (b) any other representatives of persons whom the Authority believes to be significantly affected by a levy.
- (2) Each Authority must, at the time when the request is submitted, report to the Minister on the outcome of that consultation.
- (3) The Ministry must consult in a like manner in respect of a levy to recover costs referred to in section 128(3)(g).
- (4) This section applies to requests in respect of the financial year beginning 1 July 2011 and later financial years.

A.2 This consultation paper sets out our proposed appropriations, our priorities (strategy and programmes) for the 2017/18 financial year (from 1 July 2017 to 30 June 2018).



## Appendix B System operator proposed service enhancement projects

Available on the website as a separate document at <http://www.ea.govt.nz/about-us/corporate-projects/201718-planning-and-reporting>

## Glossary of abbreviations and terms

<b>Act</b>	Electricity Industry Act 2010
<b>ASX</b>	Australian Securities Exchange
<b>Authority</b>	Electricity Authority
<b>Code</b>	Electricity Industry Participation Code 2010
<b>CPI</b>	Consumer price index
<b>CRE</b>	Competition, reliability and efficiency (components of the Authority’s statutory objective)
<b>DER</b>	Distributed energy resources
<b>DR</b>	Demand response
<b>EDF</b>	Electronic dispatch facility
<b>EECA</b>	Energy Efficiency and Conservation Authority
<b>Levy Regulations</b>	Electricity Industry (Levy of Industry Participants) Regulations 2010
<b>MBIE</b>	Ministry of Business, Innovation and Employment
<b>MTLF</b>	Medium term load forecasting
<b>Minister</b>	Minister of Energy and Resources
<b>MOSP</b>	Market operations service provider
<b>SO</b>	System operator
<b>SOI</b>	Statement of intent
<b>SOSPA</b>	System operator service provider agreement
<b>SPE</b>	Statement of performance expectations
<b>TPM</b>	Transmission pricing methodology
<b>WITS</b>	Wholesale information and trading system