

Ministerial Briefing Electricity Authority appropriations for 2017/18

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|------------------------|-------------------------------------|---------------------|---------|
| Date: | 10/02/2017 | Priority: | High |
| Security Level: | In confidence – budget sensitive | File Number: | 1034430 |

Key Action Sought

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|----------------------------------|--|
| Minister of Energy and Resources | <p>Note the Electricity Authority has completed consultation on its proposed appropriations for 2017/18 in accordance with s129 of the Electricity Industry Act 2010 (the Act).</p> <p>Note no changes have been made to the proposed 2017/18 appropriations as a result of consultation.</p> <p>Agree to submit the proposed Electricity Authority appropriations and new initiative bids for Budget 2017.</p> <p>Agree to the publication of this report after Budget day.</p> <p>Note that the Authority will publish the summary of submissions along with this report.</p> |
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Contact for Telephone Discussions

1st Contact

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Executive summary

The Electricity Authority has consulted on its appropriations proposal for 2017/18. This process is required by section 129 of the Act.

After consideration of submissions and further analysis of the Authority's draft budget, no changes have been made to the level of the proposed appropriations from those consulted on. The Authority's main operational appropriation decreases by \$2.100 million in 2017/18.

The proposed appropriations are in line with the baselines previously approved by Cabinet in Budget 2014; with the addition of three new initiative bids:

1. an increase in the 2017/18 Electricity litigation fund—during 2017/18 the Authority intends to advance market development initiatives that have the potential to have net benefits of hundreds of millions of dollars for consumers over the next decade. The projects are contentious as they may have adverse financial impacts on some parties; these parties are generally large and well-funded and the Authority has noted a recent rise in litigation activity. The increase in funding will ensure the Authority is well placed to deal with any litigation that may arise, and thereby continue to act effectively for the interests of consumers.
2. a new security management multi-year appropriation to replace the appropriation that expires on 30 June 2017—to ensure contingency funding is in place to allow a quick response in the event of an emerging security situation.
3. funding to enable the Authority to make a decision on the system operator's proposal for the electronic dispatch facility (EDF) enhancement project; with funding implications for 2018/19 and out-years.

The table below sets out the Authority's recommended appropriations for 2017/18.

Appropriations proposed after consultation

| Electricity Authority | \$ million | |
|---|-----------------------|--------------------------------|
| | Appropriation 2016/17 | Proposed appropriation 2017/18 |
| Operational appropriation | | |
| Electricity industry governance and market operations | 76.037 | 73.937 |
| Contingent appropriations | | |
| 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 |

1 Introduction

1.1 Section 129 of the Act requires the Authority to consult on proposed appropriations for the coming year before seeking appropriations from the Minister.

1.2 This paper sets out the results of the consultation on our proposed appropriations and strategic priorities for 2017/18. It includes the recommended appropriations for submission into the Budget process.

2 Media interest

2.1 No significant media interest is expected.

3 Communications plan

3.1 In the interests of transparency, the Authority recommends that you agree to this briefing paper being published after Budget day.

3.2 The Authority will publish the attached summary of submissions along with this report.

4 Consultation

4.1 Consultation on the proposed appropriations and strategic priorities took place from 25 October 2016 to 6 December 2016. The submissions were published on the Authority's website on 20 December 2016.¹

4.2 The consultation paper also sought feedback on the Authority's strategic priorities and programmes. This feedback will inform the development of our 2017/2021 Statement of Intent (SOI), 2017/18 Statement of Performance Expectations (SPE) and 2017/18 work programme.

4.3 The draft SOI and SPE will be provided to you by 1 May and published in June 2017. The work programme is expected to be published in July 2017.

5 Appropriations proposal after consultation

5.1 No changes have been made to the level of the proposed appropriations from those consulted on.

5.2 The recommended appropriations are set out in table 1.

Table 1: appropriations proposal after consultation

| Electricity Authority | \$ million | |
|---|-----------------------|--------------------------------|
| | Appropriation 2016/17 | Proposed appropriation 2017/18 |
| Operational appropriation | | |
| Electricity industry governance and market operations | 76.037 | 73.937 |
| Contingent appropriations | | |
| 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 |

¹ The consultation paper and submissions are available at <http://www.ea.govt.nz/about-us/corporate-projects/201718-planning-and-reporting/consultations/#c16218>

6 New initiative bids for Budget 2017

- 6.1 The recommended appropriations include three new initiative Budget bids, which were outlined in the consultation paper. We have been working with MBIE to complete the required documentation for the Budget 2017 process. In summary the bids are:

Litigation fund

- 6.2 An increase in the Electricity litigation fund of \$0.556 million to take the 2017/18 appropriation to \$1.0 million. The litigation funding is contingent in nature and will only result in a charge to levy payers to the extent that litigation costs are actually incurred.
- 6.3 During 2017/18 the Authority intends to advance market development initiatives that have the potential to have net benefits of hundreds of millions of dollars for consumers over the next decade. The projects are contentious as they may have adverse financial impacts on some parties; these parties are generally large and well-funded and the Authority has noted a recent rise in litigation activity. The increase in funding will ensure the Authority is well placed to deal with any additional litigation that may arise, and thereby continue to act effectively for the interests of consumers.

Security management

- 6.4 A new security management multi-year appropriation to replace the appropriation that expires on 30 June 2017, with the same scope and budget (\$6 million over five years) as the current appropriation. This will enable the system operator (Transpower), should the need emerge, to be able access funding to respond quickly in the event of an emerging security situation. The security management funding is contingent in nature and will only result in a charge to levy payers to the extent that actual costs are incurred.
- 6.5 The negative economic impacts of even an adequately funded and well-run security event could run to hundreds of millions of dollars. A poorly-funded security event could lead to negative economic impacts of a similar or higher magnitude. In such cases the impacts of not incurring security management expenditure could be steadily worsening security of electricity supply; resulting in extended calls for voluntary savings and a forced series of rolling outages across New Zealand.
- 6.6 The proposed funding would provide a working contingency to initiate emergency management actions such as planning and initiating a public savings campaign. This funding is unlikely to be sufficient to cover a sustained emergency management action, in which case additional funding would be sought based on an assessment of the particular emergency.

System operator enhancement proposal

- 6.7 Within the Electricity industry governance and market operations appropriation, funding of \$0.333 million in 2018/19 and \$0.999 million in 2019/20 and out-years, is being sought to enable the Authority to make a decision on the system operator's proposal for the electronic dispatch facility (EDF) enhancement project.
- 6.8 This is the first enhancement project being proposed under the new system operator service provider agreement (SOSPA). Prior to this, there has been no requirement for the system operator to engage with the appropriations consultation process, and levy payers had little influence on the system operator's investment in assets that they were ultimately required to pay for, through the levy. A key aspect of the new SOSPA is for consultation before the system operator invests in assets to enhance the services they provide;

information from the system operator on this enhancement project was included in the Authority's appropriation consultation paper.

- 6.9 The EDF is a component of the market system that sends dispatch instructions to, and receives acknowledgements from, electricity generators and providers of instantaneous reserves. Electricity industry participants have highlighted difficulties they experience with the current EDF mechanism and have requested a new mechanism so that they can better manage their risks. The system operator's proposed EDF enhancements have the potential to significantly improve current services, reduce risk, and enable future innovation.

7 Submissions on the consultation document

- 7.1 Submissions were received from: Electricity Networks Association (ENA), Mercury, Meridian Energy, Major Electricity Users' Group (MEUG), Nova Energy, Pioneer Energy, Powerco, Transpower, Trustpower, Unison Networks (Unison), and Vector.
- 7.2 A summary of submissions is provided in Appendix A.

Support for the proposed appropriations

- 7.3 There were a range of views in the submissions received on the proposed level of overall appropriations. The Authority considers that across the submissions there was a reasonable level of positive support.
- 7.4 Several submissions noted appreciation of the overall decrease in the Authority's overall appropriations.
- 7.5 Detailed comments made on the appropriations themselves and strategic priorities are included in the summary of submissions.

General support for the strategic focus

- 7.6 The Authority's strategic intentions were set out in the 2014/2018 SOI and the 2016/17 SPE.
- 7.7 The Authority's 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.
- 7.8 The Authority signalled a fine tuning of strategic focus for 2017/18 in the consultation paper:
- (a) new advisory groups to assist us to understand, and take appropriate actions, regarding new technologies and business practices
 - (b) pressing on with existing high-value projects to enable innovation and participation
 - (c) continuing to address ongoing issues with third-party access to data, and issues around data quality and standards for data exchange
 - (d) monitoring market behaviour and performance in respect to innovation, including new technologies and business models.
- 7.9 Those submissions that provided comment largely supported this strategic focus.

8 Conclusions

- 8.1 The Authority has consulted levy payers on its proposed appropriations for 2017/18 as required by the Act.
- 8.2 The Authority has taken into consideration the views expressed in submissions, and reached the conclusion that the appropriation levels as consulted on are appropriate.

9 Attachments

9.1 The following items are attached to this paper:

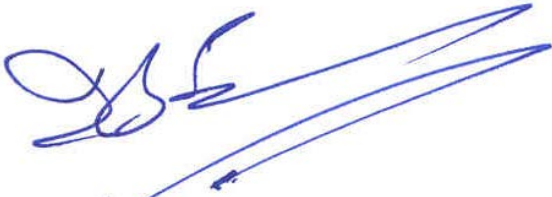
- (a) Summary of submissions: Electricity Authority 2017/18 Appropriations and Strategic Priorities.

10 Recommendations

10.1 The Authority recommends that you:

- (a) **note** that the Authority has completed consultation on its proposed appropriations for 2017/18 under section 129 of the Act and has considered the submissions
- (b) **note** no changes have been made to the proposed appropriations as a result of consultation
- (c) **note** that, as the Authority is levy-funded, the appropriations have a neutral impact on the Government's operating balance and net debt
- (d) **note** the proposed Authority 2017/18 appropriations are:
 - (i) \$73.937 million for *Electricity industry governance and market operations*
 - (ii) \$1.200 million for *Security management* (this is an apportionment of the \$6.000 million multi-year appropriation for the period 1 July 2017 to 30 June 2022)
 - (iii) \$1.000 million for the *Electricity litigation fund*
- (e) **note** the following proposed new initiative bids:
 - (i) an increase in the Electricity litigation fund of \$0.556 million to take the appropriation to \$1.0 million
 - (ii) a new security management multi-year appropriation of \$6.000 million over five years, starting on 1 July 2017
 - (iii) an increase in the Electricity industry governance and market operations appropriation of \$0.333 million in 2018/19 and \$0.999 million in 2019/20 and out-years, to provide funding certainty for the Authority to make decisions on the system operator's EDF enhancement project
- (f) **agree** to submit the proposed Electricity Authority appropriations and new initiative bids for Budget 2017
- (g) **agree** to publication of this report after Budget day 2017
- (h) **note** that the Authority's draft 2017/2021 SOI and draft 2017/18 SPE will be provided to you for comment by 1 May 2017.

**Agreed / agreed with amendments / not
agreed**



Brent Layton
Chair
Electricity Authority

Hon. Judith Collins
Minister of Energy and Resources

Glossary of abbreviations and terms

| | |
|------------------------|---|
| ACOT | Avoided cost of transmission |
| Act | Electricity Industry Act 2010 |
| Authority or EA | Electricity Authority |
| ASX | Australian Securities Exchange |
| BAU | Business as usual |
| CBA | Cost benefit analysis |
| Code | Electricity Industry Participation Code 2010 |
| CRE | Competition, reliability and efficiency (components of the Authority's statutory objective) |
| DDA | Default distributor agreement |
| DG | Distributed generation |
| DGPP | Distributed generation pricing principles |
| EDB | Electricity distribution business |
| EECA | Energy Efficiency and Conservation Authority |
| EDF | Electronic dispatch facility |
| ENA | Electricity Networks Association |
| EIEP | Electricity information exchange protocol |
| FTR | Financial transmission right |
| GIT | Grid investment test |
| GRS | Grid reliability standard |
| HVDC | High voltage direct current |
| ICP | Installation control point |
| IPAG | Innovation and Participation Advisory Group |
| LFC Regulations | Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004 |
| MBIE | Ministry of Business, Innovation and Employment |
| MDAG | Market Development Advisory Group |
| MEUG | Major Electricity Users' Group |
| Minister | Minister of Energy and Resources |
| MUoSA | Model use-of-system agreement |
| NPV | Net present value |
| NAaN | North Auckland and Northland |
| PV | Photovoltaics |
| RAG | Retail Advisory Group |
| SO | System operator |
| SOI | Statement of Intent |
| SOSPA | System operator service provider agreement |
| SPE | Statement of Performance Expectations |
| SME | Small and medium sized enterprise |
| TPM | Transmission pricing methodology |
| UoSA | Use-of-system agreement |
| WMN | What's my number |

Appendix A Summary of submissions: Electricity Authority
2017/18 Appropriations and Strategic
Priorities