

2019/20 Levy-funded appropriations and indicative work programme

Consultation paper

Submissions close: 5 pm 10 December 2018

Published 13 November 2018



Executive summary

Scope of consultation

This consultation paper sets out and seeks feedback on the Electricity Authority's (Authority) appropriations for the forthcoming 2019/20 financial year.

We have also included information about our indicative work programme for 2019/20.

Our strategic direction

The electricity industry is responding to technological advancements, changing consumer expectations and increasing uncertainty. To ensure the industry remains flexible into the future, a significant commitment to market development is required—particularly in the retail and distribution markets—as well as continued emphasis on the ongoing efficient pricing and operation of the electricity system and markets.

Within this context of increasing change and opportunity, we can again expect significant demands on the Authority's resources in the forthcoming year. We are confident that the appropriations proposed in this consultation paper will allow us to meet these demands, undertake our functions effectively, and increase the long-term benefits delivered to consumers.

Proposed appropriations

The Crown funds the Authority 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. The proposed appropriations for 2019/20 are outlined in Table 1.

Operational appropriation

For the *Electricity industry governance and market operations* appropriation we are proposing an appropriation of \$74.936 million for 2019/20. The majority of this appropriation is used to fund the operation of the electricity system and market, with the remainder used to fund the Authority's core operating expenses and work programme.

Accompanying the consultation, we have provided an indicative work programme for 2019/20. This reflects the preference of some respondents, as indicated in feedback on previous consultations, for more detailed information about projects. The indicative 2019/20 work programme maintains our current focus on priority work and faster completion of projects—so that the benefits for consumers are realised sooner.

Contingent appropriations

For the *Managing the security of New Zealand's electricity supply* appropriation, we are proposing no change to the current five-year appropriation of \$6.000 million, which covers the period 1 July 2017 to 30 June 2022.

For the *Electricity litigation fund* appropriation, we are proposing an appropriation of up to \$1.000 million for 2019/20; this could be achieved through a transfer of unused appropriation from 2018/19 into 2019/20.

Table 1: Summary of proposed appropriations

Electricity Authority	\$ million	
	Appropriation 2018/19	Proposed appropriation 2019/20
<i>Operational appropriation</i>		
Electricity industry governance and market operations	74.270	74.936
<i>Contingent appropriations</i>		
Managing the security of New Zealand's electricity supply (1 July 2017 to 30 June 2022)	6.000 over five years	
Electricity litigation fund	1.000	up to 1.000

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1 What you need to know to make a submission

What this consultation paper is about

- 1.1 Submissions are sought regarding our proposed appropriations for the forthcoming 2019/20 financial year, which covers the period 1 July 2019 to 30 June 2020.
- 1.2 Information regarding each of the Authority's three appropriations is contained in sections 3, 4, and 5 of this paper. The legal context for this appropriations consultation is provided in Section 129 of the Electricity Industry Act 2010 (Act).
- 1.3 We also value your input on the indicative work programme for 2019/20, which is outlined in section 3 of this paper.
- 1.4 The consultation period for this paper commences on 13 November 2018 and submissions are due by 5 pm on 10 December 2018.
- 1.5 The Authority can consider submissions relating to amendments to the Electricity Industry Participation Code 2010 (Code) at any time of the year. Practical guidance on how to make a Code amendment submission can be found in the consultation charter.¹

Why we're seeking your submissions

- 1.6 The submissions we receive from you in response to this consultation paper will inform the development and finalisation of our:
 - upcoming appropriations request to the Minister
 - 2019/20 work programme
 - 2019/20 Statement of Performance Expectations (SPE).

How to make a submission

- 1.7 We are looking for specific feedback on our appropriations and indicative work programme, and we request that submissions include a response to the consultation questions that we have included in sections 3, 4 and 5.
- 1.8 We can receive submissions in electronic format (preferably in Microsoft Word). Submissions in electronic form should be emailed to submissions@ea.govt.nz with "**Consultation Paper—2019/20 Appropriations**" in the subject line.
- 1.9 If you cannot send your submission electronically, post one hard copy to either of the addresses below:

Postal address

Submissions
Electricity Authority
PO Box 10041
Wellington 6143

Physical address

Submissions
Electricity Authority
Level 7, Harbour Tower
2 Hunter Street
Wellington

- 1.10 Please include your name on your submission, and if you are submitting on behalf of an organisation/group, include the name of the organisation/group and your position within it.

¹ Details are available from <http://www.ea.govt.nz/code-and-compliance/the-code/amendments/amending-the-code/>

- 1.11 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).
- 1.12 If you indicate there is part of your submission that we should not publish, we will discuss with you before deciding whether to not publish that part of your submission.
- 1.13 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.

Related documents

- 1.14 The following are related documents that may be of use in preparing your submission:
- (a) Our *2017–2021 SOI* sets out our long-term strategic intentions for the next four years. It is available at www.ea.govt.nz/about-us/strategic-planning-and-reporting/statement-of-intent/
 - (b) Our *2018/19 SPE* is our plan for the 2018/19 year. It includes information about our strategy, functions and performance measures. It is available at www.ea.govt.nz/about-us/strategic-planning-and-reporting/statement-of-performance-expectations/
 - (c) Our *2018/19 work programme* provides information about our current work programmes and projects, including some multi-year projects that are expected to continue through into 2019/20. The work programme is available at www.ea.govt.nz/about-us/strategic-planning-and-reporting/our-work-programme/

When to make a submission

- 1.15 Please deliver your submissions by **5pm on 10 December 2018**.
- 1.16 We will acknowledge receipt of all submissions electronically. Please contact the Submissions' Administrator if you do not receive electronic acknowledgement of your written submission within two business days.

Next steps

- 1.17 We will consider all submissions before submitting our request for appropriations to the Minister in early 2019.
- 1.18 The Government will announce the approved appropriations on Budget day, which is usually in mid-May. We will also include the approved appropriations in our 2019/20 SPE, which we intend publishing in June 2019.
- 1.19 Submissions will also inform the development of our 2019/20 SPE and work programme.

2 Introduction

- 2.1 This section outlines the strategic context of the Authority's work and the appropriations required to support this.

Our statutory objective

- 2.2 Our statutory objective is to promote competition in, reliable supply by, and the efficient operation of, the New Zealand electricity industry for the long-term benefit of consumers.
- 2.3 We interpret our statutory objective as requiring us to exercise our functions in ways that, for the long-term benefit of consumers and New Zealand:
- (a) facilitate or encourage increased competition in the markets for electricity and electricity-related services
 - (b) encourage industry participants to efficiently develop and operate the electricity system to manage security and reliability
 - (c) increase the efficiency of the electricity industry.

Electricity industry context

- 2.4 The challenges and characteristics influencing the electricity sector reflect three broad themes—uncertainty, rapid development of technology, and changing consumer expectations. These were first summarised in our Strategic Directions for Market Development document in 2013, and remain relevant as we consider the focus of our work moving into 2019/20 and beyond.

Uncertainty

- 2.5 The electricity industry is very complex. With rapidly changing technology and new innovations in the sector, the risks of unintended outcomes from poorly designed regulatory changes are high—and the consequences for consumers and for the development of the industry can be very serious. In this context, consultation with and advice from groups with a wide range of practical and analytical skills will continue to be essential to the Authority's work.
- 2.6 There are some significant all-of-government initiatives² currently underway to develop advice and recommendations on the opportunities, costs and risks of transitioning towards a lower net emissions economy—as well as whether the current electricity market and its governance structures will continue to be appropriate into the future. These recommendations will have important implications across government—and for the Authority in particular as the industry regulator.

Rapidly developing technology

- 2.7 New technology and business models continue moving the industry towards a more dispersed supply model, in which we see increasing market participation from smaller-scale consumers and other parties.

² For example:

- The Electricity Price Review – further information is available from <https://www.mbie.govt.nz/info-services/sectors-industries/energy/electricity-price-review/consultation>
- The Low-emissions economy report – further information is available from <https://www.productivity.govt.nz/inquiry-content/3254?stage=3>

- 2.8 Technological advances continue to expand the level of choice and control available to consumers. The combination of smart metering, new energy management applications and sensors, small-scale solar power, batteries, smart water-heating-control systems, electric vehicles and other technologies is changing the way consumers engage with electricity markets.

Changing consumer expectations

- 2.9 Consumer expectations about the reliability of their electricity supply, and the services they want to buy, are also changing rapidly.
- 2.10 Electricity markets should be able to adapt to meet changing consumer expectations—particularly if new technology makes it easier for consumers to exercise choice and manage their electricity consumption.
- 2.11 While New Zealand is generally well placed to make the most of new technologies, the regulatory environment must also keep pace with technological change. Therefore the Authority must maintain its current focus on priority work and faster delivery of projects, so that the benefits for consumers are realised sooner.

Our strategic framework

- 2.12 Our 2017–21 SOI sets out our strategic framework, along with impact measures and targets reflecting our long-term strategic intentions for the next four years. In June 2018 the 2018/19 SPE slightly amended the framework (shown in Figure 1) to:

- remove *Maintain Compliance* as a separate strategy, noting that this still remains as a key function for the organisation
- add our *Organisational Capability Strategies* to the framework.

These amendments are reflected in the updated framework in Figure 1 below.

Figure 1: Our Strategic Framework



- 2.13 Our strategic framework outlines the key market development strategies that we are focussed on as we pursue our outcomes for the long-term benefit of consumers and New Zealand:

- reduce barriers
- improve consumer participation
- improve price signals

- increase flexibility and resilience.
- 2.14 The linkages between our key market development strategies and our work programme are summarised on Page 3 of the indicative work programme (Appendix A). The work programme includes six distinct programmes (A to F), each linked to delivery of one or more of our key strategies.
- 2.15 To ensure we remain responsive to changes in our operating environment, we review the focus of our work each year before finalising our SPE and annual work programme.
- 2.16 We are seeking your feedback on our proposed appropriations and indicative work programme for 2019/20, which will inform the development and finalisation of the 2019/20 SPE and work programme in June 2019.

Our appropriations

- 2.17 The Crown funds the Authority 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 industry participants.
- 2.18 Each year we prepare an appropriations request for the Minister, outlining the costs of performing our functions and exercising our powers and duties under the Act.
- 2.19 The appropriations request covers the three appropriations available to the Authority:

Operational appropriation

- (a) The *Electricity industry governance and market operations* appropriation is our main operational appropriation; further information is provided within section 3.

Contingent appropriations

We also have two appropriations that are contingent in nature. While we do not incur expenditure against these appropriations as part of our normal operations, they allow us to respond quickly and effectively should certain events or situations arise:

- (b) The *Managing the security of New Zealand's electricity supply* appropriation; further information is provided in section 4
- (c) The *Litigation fund* appropriation; further information is provided in section 5.

3 Electricity industry governance and market operations appropriation

- 3.1 The *Electricity industry governance and market operations* appropriation is our main operational appropriation.

What is intended to be achieved

- 3.2 This appropriation is intended to achieve the promotion of competition in, reliable supply by, and the efficient operation of, the electricity industry for the long term benefit of consumers.

Scope of appropriation

- 3.3 This appropriation is limited to formulating, monitoring and enforcing compliance with the regulations and Code governing the electricity industry and other outputs in accordance with the statutory functions under the Electricity Industry Act; and delivery of core electricity system and market operation functions, carried out under service provider contracts.

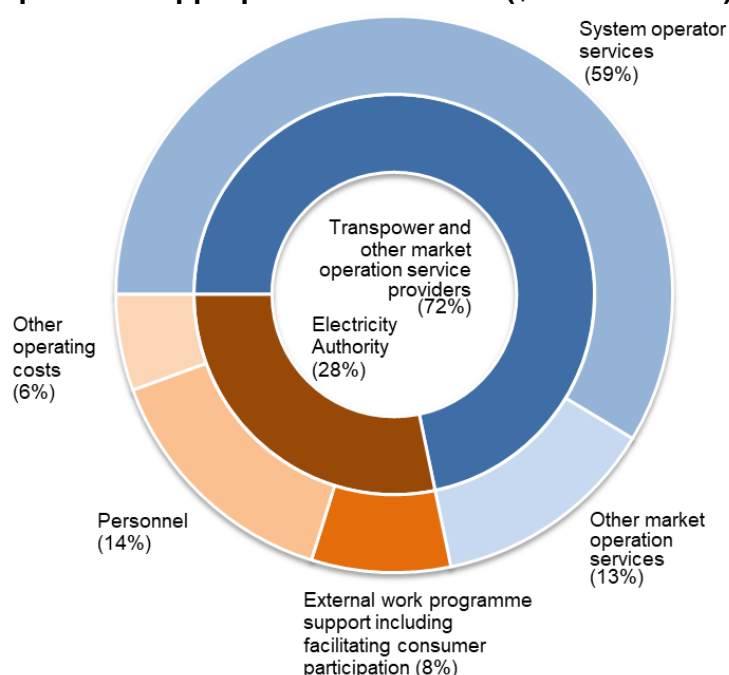
Our functions under this appropriation

- 3.4 This appropriation funds our operations, and the operation of the electricity system and market, enabling us to exercise our four main functions:
- **Promote market development:** we promote development of the electricity markets by making amendments to the Code and through market facilitation measures
 - **Monitor, inform and educate:** we monitor market behaviour, make data, information and tools available, and educate consumers and participants
 - **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
 - **Enforce compliance:** we monitor, investigate and enforce compliance with the Act, relevant regulations, and the Code.

Appropriation funding

- 3.5 To deliver our statutory functions and progress our statutory objective, we propose funding of \$74.936 million for this appropriation in 2019/20.
- 3.6 The majority of this appropriation is used to fund the operation of the electricity system and market, with the remainder used to fund the Authority's core operating expenses and work programme, as outlined in Figure 2.
- 3.7 Information on the year-on-year changes in the appropriation components is provided in the remainder of this section.

Figure 2: Use of the proposed Electricity industry governance and market operations appropriation in 2019/20 (\$74.936 million)



Expenses relating to the system operator (Transpower)

- 3.8 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.³ Performing this role effectively and reliably requires ongoing investment to maintain and enhance the extensive infrastructure supporting the delivery of the services.
- 3.9 System operator expenses of up to \$43.961 million are provided for within in the proposed 2019/20 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 contractual arrangements for system operator costs are specified in the System Operator Service Provider Agreement (SOSPA).⁴
- 3.10 Compared with the 2018/19 appropriation, the system operator component of the proposed 2019/20 appropriation is \$0.501 million higher. This is due to the increased recovery on the investments made to improve the Electronic Dispatch Facility⁵, and CPI-linked adjustments to system operator operating expenses.

³ Further information on the role of the system operator is available on the Authority's website at <http://www.ea.govt.nz/operations/market-operation-service-providers/system-operator/>

⁴ The SOSPA is available on the Authority's website at <http://www.ea.govt.nz/operations/market-operation-service-providers/system-operator/what-the-system-operator-does/>

⁵ This work, now referred to as the Dispatch Service Enhancement (DSE) implementation project, was included in the 2017/18 appropriations consultation, with funding approved in the government's Budget 2017.

Expenses relating to market operation service providers

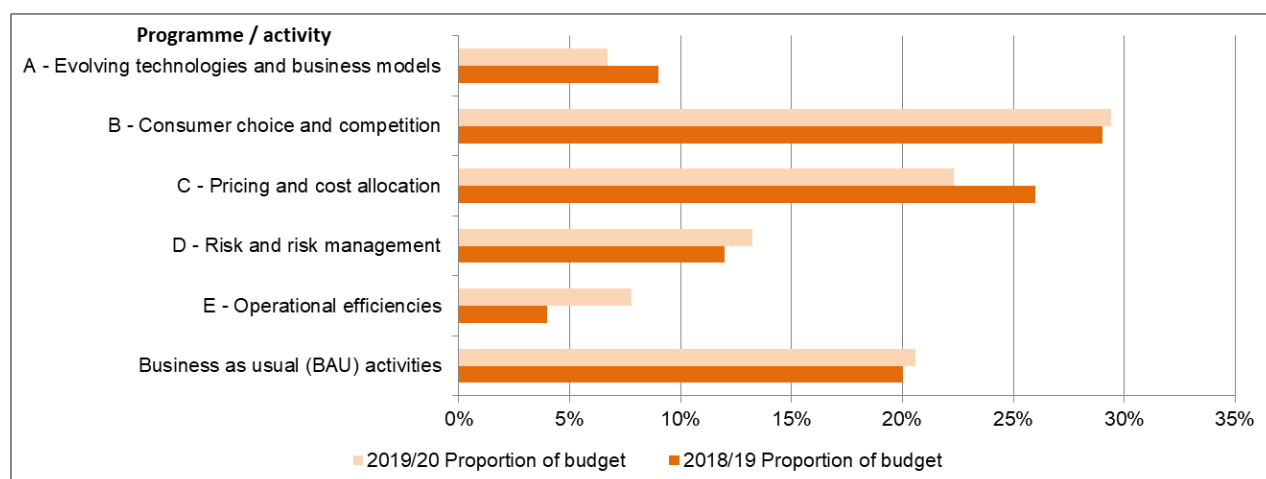
- 3.11 We contract a range of other market operation service providers to operate the electricity markets.⁶ Our focus is on creating fit-for-purpose market services that increase market efficiency, ensure effective market operation and facilitate market development.
- 3.12 The component of the proposed 2019/20 appropriation for other market operation service provider expenses is \$9.796 million. This is \$0.165 million higher than 2018/19 due to CPI-linked increases payable under the service provider contracts, and higher amortisation expenses.
- 3.13 The increase in amortisation expenses reflects investment in the systems that underpin the market operation service provider roles; to ensure the systems keep pace with technological change and continue to be fit-for-purpose. This includes improvements to the Wholesale information and trading system (WITS) to improve the Hedge Disclosure Website, and introducing electronic data feeds for access to WITS and Reconciliation manager data. Also underlying the increase are costs associated with the system changes related to the *Implementation of new wind generation offer provisions* project.

Authority operating expenses

- 3.14 This component of the appropriation covers the Authority's core operating costs, enabling us to exercise our four main functions: *Promote market development*, *Monitor, inform and educate*, *Operate the electricity system and markets*, and *Enforce compliance*.
- 3.15 To provide a breakdown by programme/activity for external work programme support costs (refer Figure 3), *Facilitating Consumer Participation* (FCP) costs of \$2.450 million in both 2018/19 and 2019/20 have been included within the total Authority operating expenses.
- 3.16 Despite there being much important work to be done, the Authority remains committed to exercising restraint over core operating expenses. For 2019/20 we are planning to again hold these expenses flat at \$21.179 million (ie the \$18.729 million historically budgeted for Authority operating costs plus \$2.450 million for external FCP support costs).
- 3.17 We will also 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.
- 3.18 Technological advances and new business models will continue to proceed. These have the potential to be transformative, creating new opportunities and potentially significant change. We need to move quickly to address potential barriers to evolving technology. These developments require a significant commitment to market development and place new demands on the Authority's resources and work programme. Further information on our indicative work programme for 2019/20 is provided in the next section.
- 3.19 Based upon the indicative work programme and high-level cost estimates, an outline by programme/activity of how the Authority's proposed budget for external work programme support may be utilised in 2019/20, is provided in Figure 3.

⁶ Information on market operation service providers is available on the Authority's website at <http://www.ea.govt.nz/operations/market-operation-service-providers/>

Figure 3: Use of the proposed budget for external work programme support costs in 2019/20 (\$6.050 million)



3.20 Changes in the proportion of budget used by programmes are not necessarily indicative of changes in work programme focus or priority, as expenditure on the underlying projects is influenced by what stages the projects are in their lifecycles, and the degree to which work is performed by external support providers versus Authority staff.

3.21 Information at an individual project level is provided in the indicative work programme for 2019/20 (refer Appendix A). Business as usual (BAU) activities refers to non-project work where external support is utilised; this includes audit and assurance work, surveys, enhancements to the Electricity Market Information (EMI) website, and expert services to improve organisational and project performance.

Appropriation breakdown

3.22 Table 2 sets out the main items of expenditure within the electricity industry governance and market operations appropriation:

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

Operational appropriation - Electricity Authority	\$ million	
	Appropriation 2018/19	Proposed appropriation 2019/20
System operator - operating expenses	26.396	26.550
System operator - capital-related expenses	17.064	17.411
System operator expenses	43.460	43.961
Service provider - clearing manager	2.382	2.410
Service provider - wholesale information and trading system (WITS)	1.702	1.722
Service provider - pricing manager	0.764	0.770
Service provider - reconciliation manager	0.936	0.947
Service provider - registry manager	0.654	0.673
Service provider - FTR manager	0.963	0.944
Service provider - depreciation and amortisation*	1.785	1.885
Service provider - IT costs	0.095	0.095
Service provider - Extended reserve manager*	0.350	0.350
Other service provider expenses	9.631	9.796
Authority operations - external work programme support (Incl FCP**)	6.606	6.050
Authority operations - personnel	10.578	10.948
Authority operations - other operating costs	3.995	4.181
Authority operating expenses	21.179	21.179
Total appropriation	74.270	74.936

* The contractual arrangements for the extended reserve manager role have not yet been finalised; this means there is some uncertainty for both the extended reserve manager fees and the amortisation expenses associated with the systems that underpin the role.

** To provide a single breakdown by programme/activity for external support costs, Facilitating Consumer Participation (FCP) costs of \$2.450 million in both 2018/19 and 2019/20 have been included in this line; previously FCP costs have been presented as a separate line item. The additional appropriation funding for FCP activities, which the Authority received across a three year period, ceased on 30 June 2017. However, there has been sufficient capacity within the overall appropriation to continue these activities beyond this date.

Forecasts are based on assumptions and may change

- 3.23 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 changes, the timing and cost of investments in both the Authority's and the system operator's assets, and the final arrangements for the extended reserve manager.

Funding to implement real-time pricing

- 3.24 The Authority is continuing to seek appropriation increases from 2021/22, as included in the prior year's 2018/19 appropriation consultation, required to enable the Authority's Board to make a decision to implement real-time pricing.

Indicative work programme for 2019/20

- 3.25 In addition to outlining the Authority's proposed appropriations, we normally provide participants with some indicative information about the forthcoming work programme.
- 3.26 In submissions received for previous consultations, some respondents have indicated a preference for more detailed information about the forthcoming work programme. In consideration of this feedback, an indicative 2019/20 work programme is included as

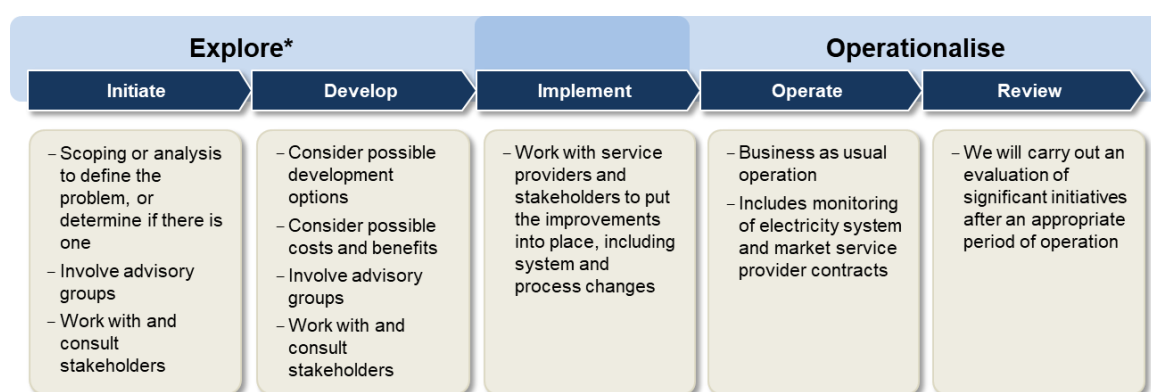
part of this consultation (refer Appendix A). The indicative work programme maintains our current focus on priority work and faster completion of projects—so that the benefits for consumers are realised sooner.

3.27 The format and content of the indicative work programme is based on the 2018/19 work programme. It describes those projects that are proposed to continue, resume or start in 2019/20, and provides project specific detail, including:

- (a) indicative information on the estimated net benefits to consumers, in net present value terms
- (b) proposed project targets
- (c) the proposed market development cycle (MDC) phase per project, which helps summarise and contextualise the proposed focus of the project.

A high-level cost-benefit assessment is normally carried out during the initiate phase of a project, with more detailed assessments developed during subsequent phases of the MDC. The five MDC phases are described in Figure 4 below:

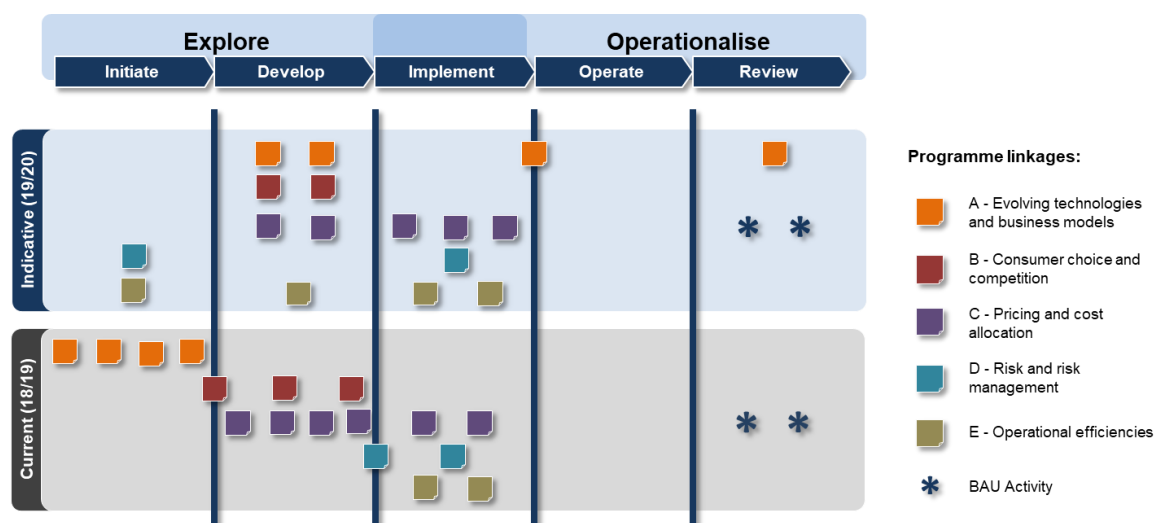
Figure 4: The market development cycle (MDC)—overview



* Most projects on the annual Work Programme conclude once the *Implement* phase of the MDC cycle has been completed.

3.28 Figure 5 graphically represents a shift in focus proposed for the 2019/20 work programme—from project initiation to project development and implementation:

Figure 5: Indicative 2019/20 work programme—shift in focus



- 3.29 The indicative work programme for 2019/20 contains 17 projects, including 12 which would continue from the 2018/19 work programme and a further 5 which could resume or start in 2019/20, assuming the completion of 6 projects on the current 2018/19 work programme, as summarised below:

Table 3: Indicative 2019/20 work programme—summary of projects

Completing in 2018/19	Continuing into 2019/20	Resuming or starting in 2019/20
<ul style="list-style-type: none"> • Multiple trading relationships • Review of distribution sector • Default distributor agreement (DDA) • Distribution pricing: review of pricing principles • ACOT implementation • Review regulatory settings for official conservation campaigns (OCCs) 	<ul style="list-style-type: none"> • Equal access • Transmission pricing review • Spot market settlement on real-time pricing • Extended reserve implementation • Participation of new generating technologies in the wholesale market • What's my number and repurposed information campaign • Saves and win-backs • Implementation of new wind generation offer provisions • Review of spot market trading conduct provisions • Dispatch Service Enhancement (DSE) implementation • Switch process review • Market enhancements omnibus (Including <i>Operational review of registry fields and Single reporting methodology for distributor billing and efficiencies of outage notifications</i>) 	<p>Potentially resuming:</p> <ul style="list-style-type: none"> • Improving accuracy of spot price forecasts • Hedge market enhancements • Review of Code provisions for wholesale market arrangements <p>Potentially starting:</p> <ul style="list-style-type: none"> • Barriers due to legacy systems and processes • Distribution pricing – Monitoring distributors' adoption of more efficient prices

- 3.30 It is important to note that the indicative 2019/20 work programme is in an early stage of development, and has been included to provide a view of the potential projects and activities that may be enabled by appropriation funding. Before the work programme is finalised in June 2019, the Authority's Board will consider the feedback provided on the indicative work programme through this consultation.

mm²

Q1. What is your view on the Authority's proposed 2019/20 Electricity industry governance and market operations appropriation of \$74.936 million?

Q2. What is your view on the Authority's indicative 2019/20 work programme?

4 Managing the security of New Zealand's electricity supply appropriation

What is intended to be achieved

- 4.1 This appropriation is intended to achieve enhanced security of supply in the electricity system during periods of emerging or actual security situations.

Scope statement

- 4.2 This appropriation is limited to the management by the System Operator (Transpower) of actual or emerging emergency events relating to the security of New Zealand's electricity supply.

Our functions under this appropriation

- 4.3 The system operator is responsible for ongoing security monitoring and emergency management.⁷ The system operator's security management functions include preparing the emergency management policy, which is incorporated into the Code by reference following our review and approval. The policy sets out the steps the system operator will take, and encourage industry participants to undertake, during an extended emergency.
- 4.4 Our primary role in respect to security of electricity supply is to ensure that the Code promotes an efficient level of supply reliability. This includes specifying the functions of the system operator, how the functions are to be performed, and to set requirements for transparency and performance. We also monitor system operator performance. This work is covered under the promoting market development and operating the electricity system and markets functions respectively of the electricity industry and market operations appropriation.
- 4.5 Our role in respect to this appropriation is limited to addressing requests from the system operator to use these funds. Our approval of any request is subject to an agreed process and criteria. The process requires the system operator to provide evidence that there is an actual or emerging security event, and to describe the actions it intends to take using the funds and how it will monitor the use of these funds. Agreeing this information in advance can help enable the Authority to assess the effectiveness of the actions and the funding during and after the event.
- 4.6 The system operator can request funding from this appropriation to:
- increase monitoring and management responsibilities in the event of an emerging or actual security situation
 - plan and run an official conservation campaign.
- 4.7 The system operator would seek our approval for funding from this appropriation on a case-by-case basis, if it considered increased monitoring or security management actions to be justified. However, the system operator can, acting on a 'good faith' basis, incur up to \$0.300 million of costs in this area without prior approval if it is not reasonably practicable to seek that approval.

⁷ Section 8(2) of the Electricity Industry Act 2010 states that as well as acting as system operator for the electricity industry, the system operator must (a) provide information, and short- to medium-term forecasting on all aspects of security of supply; and (b) manage supply emergencies.

Information about the system operator's security management role is available on its website at www.systemoperator.co.nz/security-supply

- 4.8 Managing the security of New Zealand's electricity supply is a multi-year appropriation for the period 2017/18 to 2021/22. Expenses under this appropriation can only be incurred by the system operator. The Authority itself cannot incur expenses under this appropriation.

Appropriation funding

- 4.9 This appropriation is contingent in nature and will not be drawn on in the normal course of events. As is the case with the Authority's other appropriations, levies are only collected up to the level of actual expenditure incurred.
- 4.10 In the government's Budget 2017, a new security management appropriation for the period 1 July 2017 to 30 June 2022 was approved. No expenditure has been incurred against this appropriation to date.
- 4.11 The table below outlines the proposed appropriation:.

Table 4: Managing the security of New Zealand's electricity supply appropriation

Contingent appropriation - Electricity Authority	\$ million	
	Appropriation 2018/19	Proposed appropriation 2019/20
Managing the security of New Zealand's electricity supply (1 July 2017 to 30 June 2022)	6.000 over five years	

- 4.12 No changes are proposed to this appropriation.

Q3. What is your view on the Authority's proposal to keep the Managing the security of New Zealand's electricity supply appropriation unchanged for 2019/20?

5 Electricity litigation fund appropriation

What is intended to be achieved

- 5.1 This appropriation is intended to achieve assurance that the Electricity Authority is able to participate in litigation effectively and without delay.

Scope of appropriation

- 5.2 This appropriation is limited to meeting the cost of litigation activity undertaken by the Electricity Authority arising from it carrying out its functions under the Electricity Industry Act 2010.

Our functions under this appropriation

- 5.3 Our functions under this appropriation include defending judicial review and appeal cases taken against us, and taking enforcement action against participants under our compliance function.

Appropriation funding

- 5.4 This appropriation is contingent in nature, and we will only use it if certain events or situations arise.
- 5.5 The Authority saw an increase in litigation activity in 2016/17, and it was considered prudent to seek additional funding, which took the total of this appropriation from the baseline level of \$0.444 million to \$1.000 million in 2017/18. This increase was not ultimately used.
- 5.6 Subsequently the Authority, after consultation on 2018/19 appropriations, sought ministerial approval to transfer the unused appropriation increase from 2017/18 to 2018/19. The Authority expects to have this transfer confirmed in October or November 2018; if approved this will increase the 2018/19 appropriation to \$1.000 million.
- 5.7 As has been the case in prior years, for 2019/20 it is difficult to estimate what the likely level and timing of litigation will be. At this stage the Authority is proposing an appropriation level of up to \$1.000 million for 2019/20. This level of appropriation could again be facilitated by the transfer of any unused appropriation, up to \$0.556 million, from 2018/19 to 2019/20.
- 5.8 The table below outlines the proposed appropriation for 2019/20.

5.9 Table 5: 2019/20 Electricity litigation fund appropriation

Contingent appropriation - Electricity Authority	\$ million	
	Appropriation 2018/19	Proposed appropriation 2019/20
Electricity litigation fund	1.000	up to 1.000

- 5.10 The increase in 2017/18, and the subsequent transfers between years, reflect the difficulties of managing the financial risks arising from litigation, that is by nature unpredictable, within a relatively small annual appropriation.

Q4. What is your view on the Authority's proposal to seek up to \$1.000 million for the Electricity litigation fund appropriation in 2019/20?

6 Indicative levy rates for 2019/20

- 6.1 All Authority functions are funded by three specific Crown appropriations. This consultation seeks feedback on the proposed level of those appropriations.
- 6.2 The Crown funds the appropriations by a levy on electricity industry participants, which is collected in accordance with the Electricity Industry (Levy of Industry Participants) Regulations 2010. The Authority collects the levy on behalf of the Crown.
- 6.3 The actual invoiced rates for recovering the levy in the year beginning 1 July 2019 will be calculated after the Government has confirmed appropriations through the release of Budget 2019, and following finalisation of our internal budget. It is anticipated that the finalised rates will be available in June 2019.
- 6.4 If the actual expenditure incurred against the appropriations in a particular year is less than the levy collected, we refund the over-recovery to industry participants. This is done as part of the annual reconciliation process following the end of each financial year.
- 6.5 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.
- 6.6 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 12 November 2018 on EECA's website:
<https://www.eeca.govt.nz/about-eeeca/consultations-and-proposals/>.

Table 6: Levy rates**2019/20 Indicative levy rates**

Participant Class	Generators	Purchasers	Retailers	Distributors excluding Transpower	Transpower
Activity					
Common quality operations	\$0.1867/MWh	\$0.1879/MWh		\$0.1037/MWh	\$0.1037/MWh
Market operations	\$0.4273/MWh	\$0.4302/MWh			
Registry & consumer operations			\$0.6665/ICP	\$0.6664/ICP	
Supply reliability operations		\$0.0101/MWh			
Transmission operations					\$0.0790/MWh
EECA operations*		\$0.1248/MWh			
Consumer participation operations			\$1.0962/ICP		
Other activities	\$0.0617/MWh	\$0.0621/MWh		\$0.0342/MWh	\$0.0342/MWh

2018/19 Invoiced levy rates

Participant Class	Generators	Purchasers	Retailers	Distributors excluding Transpower	Transpower
Activity					
Common quality operations	\$0.1927/MWh	\$0.1940/MWh		\$0.1073/MWh	\$0.1073/MWh
Market operations	\$0.4046/MWh	\$0.4073/MWh			
Registry & consumer operations			\$0.6276/ICP	\$0.6275/ICP	
Supply reliability operations		\$0.0099/MWh			
Transmission operations					\$0.0846/MWh
EECA operations		\$0.1262/MWh			
Consumer participation operations			\$1.1631/ICP		
Other activities	\$0.0634/MWh	\$0.0638/MWh		\$0.0353/MWh	\$0.0353/MWh

Movement

Participant Class	Generators	Purchasers	Retailers	Distributors excluding Transpower	Transpower
Activity					
Common quality operations	(\$0.0060)/MWh	(\$0.0061)/MWh		(\$0.0036)/MWh	(\$0.0036)/MWh
Market operations	\$0.0227/MWh	\$0.0229/MWh			
Registry & consumer operations			\$0.0389/ICP	\$0.0389/ICP	
Supply reliability operations		\$0.0002/MWh			
Transmission operations					(\$0.0056)/MWh
EECA operations		(\$0.0014)/MWh			
Consumer participation operations			(\$0.0669)/ICP		
Other activities	(\$0.0017)/MWh	(\$0.0017)/MWh		(\$0.0011)/MWh	(\$0.0011)/MWh

*Information on the appropriation funded by the *EECA operations* levy activity is contained in the EECA consultation paper, which will be available from 12 November 2018 at: <https://www.eeca.govt.nz/about-eeeca/consultations-and-proposals/>.

Appendix A Indicative 2019/20 work programme

Glossary of abbreviations and terms

Act	Electricity Industry Act 2010
Authority	Electricity Authority
Code	Electricity Industry Participation Code 2010
CPI	Consumer price index
EECA	Energy Efficiency and Conservation Authority
FCP	Facilitating consumer participation
Minister	Minister of Energy and Resources
SOI	Statement of intent
SPE	Statement of performance expectations