

# Ministerial Briefing: Electricity Authority 2019/20 levy- funded appropriations

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<b>Date:</b>	14/02/2019	<b>Priority:</b>	High
<b>Security Level:</b>	In confidence – budget sensitive	<b>File Number:</b>	1136303_3

## Key Action Sought

Minister of Energy and Resources	<p><b>Note</b> the Electricity Authority (Authority) has completed consultation on its proposed appropriations for 2019/20 in accordance with s129 of the Electricity Industry Act 2010 (the Act).</p> <p><b>Note</b> the proposed 2019/20 operational appropriation of \$74.936 million</p> <p><b>Agree</b> to submit the proposed Authority appropriations for Budget 2019.</p> <p><b>Agree</b> to the publication of this report after Budget day.</p> <p><b>Note</b> that the Authority will publish the <i>summary of submissions and Authority responses</i> along with this report.</p>
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## Contact for Telephone Discussions

### 1<sup>st</sup> Contact

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### 2<sup>nd</sup> Contact

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## Executive summary

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. The appropriations therefore have a neutral impact on the Government's operating balance and net debt. Also, any amount of the levy that is not spent is returned to levy payers after the end of each financial year.

Levies are charged to industry participants in accordance with the Electricity Industry (Levy of Industry Participants) Regulations 2010. These regulations are made on the recommendation of the Minister and are administered by the Ministry of Business, Innovation and Employment (MBIE).

During November and December 2018 we consulted on the Authority's 2019/20 levy-funded appropriations. This briefing contains a report on the outcome of that consultation and our 2019/20 appropriations request, in fulfilment of our obligations to you under section 129(2) of the Act.

This year the submissions included a range of views on our proposed appropriations, indicative 2019/20 work programme, individual projects, ongoing Electricity Pricing Review, and the period of sustained high spot prices in Spring 2018. The summary of submissions includes Authority responses to participant feedback on our proposed appropriations. Feedback on matters not directly related to the appropriations request will be considered further in the planning process for the 2019/20 Statement of Performance Expectations (SPE) and work programme. The Authority's recommended appropriations for 2019/20 are summarised in the table below.

### Appropriations proposed after consultation

Electricity Authority	\$ million	
	Appropriation 2018/19	Proposed appropriation 2019/20
<b>Operational appropriation</b>		
Electricity industry governance and market operations	74.270	74.936
<b>Contingent appropriations</b>		
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

### Electricity industry governance and market operations

Following consideration of feedback received from the consultation process, the Authority recommends the appropriation level as consulted on of \$74.936 million.

This level of funding is sufficient to meet the Authority's obligations in respect of the long-term contracts with the service providers who operate the electricity system and markets. These services comprise 72 per cent of the costs within this appropriation, and for 2019/20 are budgeted as follows:

- System operator (\$43.961 million)
- Clearing manager (\$2.410 million)
- Wholesale information and trading system manager (\$1.722 million)
- Pricing manager (\$0.770 million)
- Reconciliation manager (\$0.947 million)



- Registry manager (\$0.673 million)
- FTR (financial transmission rights) manager (\$0.944 million)
- Extended reserves manager (not yet contracted, but budgeted at \$0.350 million)
- System amortisation, depreciation, and IT costs that underpin the service provider functions (\$1.980 million).

The small increase in the overall appropriation from 2018/19 to 2019/20 primarily relates to the system operator's recovery on the investments made to improve the Electronic Dispatch Facility.<sup>1</sup>

In addition to the funding requirements of the market operations service providers, the recommended appropriation level is considered to be sufficient to fund the Authority's own operating expenses, including the costs of the Authority's work programme and activities specifically targeted at facilitating consumer participation. As occurs every year, there was mixed support for the proposed appropriation, although clear support from a consumer representative body.

### Managing the security of New Zealand's electricity supply

This appropriation is intended to achieve enhanced security of supply in the electricity system during periods of emerging or actual security situations. We expect these situations to be rare and this appropriation is considered contingent in nature.

Following consideration of feedback, which was supportive of the proposed appropriation, no changes to the existing \$6.0 million appropriation is required.

### Electricity litigation fund

This appropriation, which is also contingent in nature, ensures the Authority is able to participate in litigation effectively and without delay. Our functions under this appropriation include defending cases against the Authority, and taking enforcement action under our enforcing compliance function.

The existing baseline appropriation in 2019/20 is \$0.444 million, and we consulted on a level of up to \$1.0 million.

Feedback on this appropriation level was mixed, but consistent with previous years. Whilst we will continue to assess litigation risks over the next several months, at this stage we consider it will be prudent to submit an in-principle expense transfer of \$0.556 million from 2018/19 to 2019/20. If approved, the expense transfer would take the appropriation in 2019/20 up to \$1.0 million.

### Indicative 2019/20 work programme

The Authority also sought stakeholder views on an indicative 2019/20 work programme. Unlike our appropriations request, there is no legislative requirement for the Authority to consult about our proposed work programme—however, we do so because respondent views are valuable and inform the further development of the work programme.

All 11 submissions contain feedback on the indicative 2019/20 work programme, however the submissions are mixed in terms of the varying levels of support expressed for particular projects and for the overall work programme. It is important to note that the Authority's work programme is developed for the long-term benefit of consumers, which may not always align with the preferences indicated in consultation feedback.

<sup>1</sup> This work, also 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.

We plan to engage further with participants and consumers as we continue to develop the detail of our 2019/20 work programme over the coming months. The work programme will be finalised in June 2019 and published in July 2019.

As work programme driven expenditure is only a small proportion (eight per cent) of the total appropriation, the ongoing development and finalisation of the 2019/20 work programme will not have any material impact on the Authority's appropriation funding requirements for 2019/20.





# 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 indicative work programme for 2019/20. It includes the recommended appropriations for submission into the Budget 2019 process.

# 2 Consultation

- 2.1 Consultation on the proposed appropriations took place from 13 November 2018 to 10 December 2018. The submissions are to be published on the Authority's website on 5 March 2019.<sup>2</sup>
- 2.2 There are approximately 90 levy paying entities. In total, we received 11 submissions including:
- one joint submission from two entities controlled by Cumulus Asset Management (Cumulus):
    - Electric Kiwi Limited (Electric Kiwi)
    - Haast Energy Trading (Haast Energy)
  - one joint submission from four independent retailers:
    - Electric Kiwi
    - Flick Electric Co. (Flick)
    - Pulse Energy Alliance LP (Pulse)
    - Switch Utilities Limited (Switch) - controlled by Vocus Communications Limited
  - Entrust
  - Genesis Energy Limited (Genesis)
  - the Major Electricity Users Group (MEUG)
  - Mercury NZ Limited (Mercury)
  - Meridian Energy Limited (Meridian)
  - Nova Energy Limited (Nova)
  - Transpower New Zealand Limited (Transpower)
  - Trustpower Limited (Trustpower)
  - Vector Limited (Vector).
- 2.3 A summary of submissions and Authority responses is included in Appendix A, and the appropriations consultation paper is provided in Appendix B.
- 2.4 These submissions will inform the development of our 2019/20 Statement of Performance Expectations (SPE) and 2019/20 work programme.
- 2.5 The draft SPE for 2019/20 will be provided to you by 1 May 2019 and published in June 2019. The 2019/20 work programme is expected to be finalised in June 2019, and published in July 2019.

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<sup>2</sup> The submissions will be available at <https://www.ea.govt.nz/about-us/corporate-projects/201920-planning-and-reporting/consultations/>





### 3 Appropriations—background information

- 3.1 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. Any amount of levy that is recovered, but is not spent, is returned to levy payers after the end of each financial year. The appropriations therefore have a neutral impact on the Government's operating balance and net debt.
- 3.2 Levies are charged to industry participants in accordance with the Electricity Industry (Levy of Industry Participants) Regulations 2010. These regulations are made on the recommendation of the Minister and are administered by MBIE.
- 3.3 The Authority currently has one main operational appropriation, and two smaller contingent appropriations that are only used if certain events or situations arise.
- 3.4 The Electricity industry governance and market operations appropriation is the operational appropriation<sup>3</sup>. Around 72 per cent of this appropriation is used to fund the service providers that operate the electricity system and markets, with the remainder funding the Authority's own operating costs.
- 3.5 The Authority places significant importance on ensuring the costs of operating the electricity system and markets continue to represent value-for-money. Accordingly, over the last several years we have renegotiated the contractual agreement with Transpower for system operator services, and undertaken competitive procurements for five of the six existing market operation service provider roles.
- 3.6 The renegotiated agreement with the system operator includes increased transparency over service and performance, greater commercial discipline over costs, and requirements for more engagement with stakeholders. As a result of the competitive procurements, contracts that enable the continued use and maintenance of existing market systems have been entered into with service providers, and this has led to significant decreases in annual amortisation expenses. The appropriation components for system and market operations have reduced in recent years; from a peak of \$55.0 million in 2015/16 down to \$53.8 million in 2019/20.
- 3.7 Within the proposed operational appropriation, the Authority's own operating expenses budget of \$21.179 million includes \$2.450 million for external Facilitating Consumer Participation (FCP) support costs. The Authority received specific funding for FCP activities—including the What's My Number campaign that promotes the benefits to consumers of comparing and switching retailers—across a three-year period that ended 30 June 2017. Through the reductions in system and market operation costs described above, the Authority has been able to continue the FCP activities without seeking additional funding.

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<sup>3</sup> Up to 30 April 2014 the Authority also had a separate operational appropriation for *Promoting and facilitating customer switching*.





## 4 Summary of proposed 2019/20 appropriations after consultation

4.1 The recommended appropriations are set out in table 1.

**Table 1: appropriations proposal after consultation**

Electricity Authority	\$ million	
	Appropriation 2018/19	Proposed appropriation 2019/20
<b>Operational appropriation</b>		
Electricity industry governance and market operations	74.270	74.936
<b>Contingent appropriations</b>		
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

## 5 Electricity industry governance and market operations appropriation

5.1 We consulted on an appropriation level of \$74.936 million for 2019/20.

### Submissions on the proposed appropriation

5.2 Of the 11 submissions received, six contain feedback on the proposed *Electricity industry governance and market operations* appropriation for 2019/20. As occurs every year, there is mixed support for the proposed appropriation, although clear support from a consumer representative body. Further details are available in the *Summary of submissions and Authority responses* in Appendix A.

### Recommended appropriation

5.3 The Authority has considered the overall feedback received on the proposed *Electricity industry governance and market operations* appropriation for 2019/20, and is recommending the appropriation level of \$74.936 million as consulted on.

5.4 This level of funding is sufficient to meet the Authority's obligations in respect of the long-term contracts with the service providers, who operate the electricity system and markets—the cost of these services comprise 72 per cent of this appropriation. Table 2 at the end of this section provides a breakdown of the appropriation components.

5.5 Within this appropriation there remains some uncertainty around the costs of the new extended reserves scheme. This is because there are still decisions to be made on the design of the scheme, and the contractual arrangements for implementing and operating it have not yet been finalised.

5.6 The electricity industry is responding to technological advancements, changing consumer expectations and increasing uncertainty. Within this context of increasing change and opportunity, a significant commitment to market development will be beneficial for consumers and for the on-going transition to a more renewable electricity system.

5.7 The feedback we received from the consultation on our indicative 2019/20 work programme will be considered as part of its further development. It is important to acknowledge that as the Authority's work programme is developed to promote the long-term interests of





consumers, the work programme may not always align with the preferences indicated in consultation feedback.

- 5.8 The recommended appropriation level is considered to be sufficient to fund the Authority's own operating expenses, including the costs of the Authority's work programme and activities specifically targeted at facilitating consumer participation.

**Table 2: Breakdown of proposed 2019/20 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
<b>System operator expenses</b>	<b>43.460</b>	<b>43.961</b>
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
<b>Other service provider expenses</b>	<b>9.631</b>	<b>9.796</b>
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
<b>Authority operating expenses</b>	<b>21.179</b>	<b>21.179</b>
<b>Total appropriation</b>	<b>74.270</b>	<b>74.936</b>

### Funding to implement real-time pricing

- 5.9 A brief update was included in the consultation on real-time pricing; which was that the Authority was continuing to seek the appropriation increases from 2021/22 required to enable the Authority's Board to make a decision to implement real-time pricing (RTP) in the wholesale electricity spot market.
- 5.10 As the prior year's consultation included detailed information about the appropriation increases required for RTP, and feedback was broadly supportive, we did not specifically seek further feedback on RTP as part of the 2019/20 consultation. Notwithstanding, six of the submissions received included supportive comments with respect to RTP.

## 6 Managing the security of New Zealand's electricity supply appropriation

- 6.1 This appropriation is intended to achieve enhanced security of supply in the electricity system during periods of emerging or actual security situations. We expect these situations to be rare.



- 6.2 The appropriation is limited to the system operator (Transpower) managing actual or emerging emergency events relating to the security of New Zealand's electricity supply. 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.
- 6.3 A new security management multi-year appropriation was established in Budget 2017, with the same scope and budget (\$6 million over five years) as the previous appropriation that expired on 30 June 2017. For 2019/20 we did not propose any changes to this appropriation.
- 6.4 The security management appropriation is contingent in nature and will only result in a charge to levy payers to the extent that actual costs are incurred.

### Submissions on the proposed appropriation

- 6.5 Four submissions contain feedback on the proposed *Managing the security of New Zealand's electricity supply* appropriation for 2019/20. All four submissions support the proposal. Further details are available in the summary of submissions in Appendix A.

### Recommended appropriation

- 6.6 The Authority has considered the overall feedback that has been provided on the proposed *Managing the security of New Zealand's electricity supply* appropriation, and is proceeding with recommending no change to the current appropriation level of \$6.000 million as consulted on.

## 7 Electricity litigation fund appropriation

- 7.1 This appropriation is intended to ensure that the Authority is able to participate in litigation effectively and without delay. Our functions under this appropriation include defending cases against the Authority, and taking enforcement action under our enforcing compliance function.
- 7.2 The *Electricity litigation fund* appropriation is contingent in nature and will only result in a charge to levy payers to the extent that litigation costs are actually incurred.
- 7.3 For 2019/20 an appropriation level of up to \$1.0 million was consulted on—this is the same level that is available in 2018/19.

### Submissions on the proposed appropriation

- 7.4 Six submissions contain feedback on the proposed *Electricity litigation fund* for 2019/20. Three of these submissions (Mercury, Meridian and MEUG) support the proposal, while the three remaining submissions (Genesis, Transpower, and Trustpower) express some concerns with it.
- 7.5 Further details are available in the summary of submissions in Appendix A.

### Recommended appropriation

- 7.6 During 2019/20 the Authority will continue 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. These initiatives are contentious as they may have adverse financial impacts on some parties; these parties are generally large and well-funded.
- 7.7 The Authority's existing baseline appropriation for the *Electricity litigation fund* in 2019/20 is currently \$0.444 million. Whilst we will continue to assess litigation risks over the next



several months, at this stage we consider it will be prudent to submit an in-principle expense transfer of \$0.556 million from 2018/19 to 2019/20. If approved, the expense transfer would take the appropriation in 2019/20 up to \$1.0 million.

- 7.8 This transfer, if actioned, would be fiscally neutral across the two years. Moreover, due to the contingent nature of the appropriation, it would only result in an increase in levies should actual litigation costs be incurred.

## 8 Feedback on the Authority's indicative 2019/20 work programme

- 8.1 Although there is no legislative requirement to do so, the Authority has historically included information on its work programme for the forthcoming year. In previous consultations, some submissions indicated a preference for more detailed information about the work programme. In consideration of this feedback, this year's consultation paper sought participant views on an indicative 2019/20 work programme.
- 8.2 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. It describes those projects that are proposed to continue, resume or start in 2019/20, and provides a range of project-specific information such as estimated net benefits to consumers, proposed targets and the current phase of development for each project.
- 8.3 All 11 submissions contain feedback on the indicative 2019/20 work programme. Submissions are mixed in terms of the level of support expressed for individual projects and the work programme more generally. Further details are available in the summary of submissions in Appendix A.
- 8.4 We plan to engage further with participants and consumers as we continue to develop the detail of our 2019/20 work programme over the coming months. The work programme will be finalised in June 2019 and published in July 2019.

## 9 Communications plan

- 9.1 In the interests of transparency, the Authority recommends that you agree to this briefing paper being published after Budget day. The Authority will also publish the attached *Summary of submissions and Authority responses* along with this report.

## 10 Conclusions

- 10.1 The Authority has consulted levy payers on its proposed appropriations as required by the Act.
- 10.2 The Authority has considered consultation feedback, and reached the conclusion that the appropriation levels as consulted on are appropriate to ensure the Authority can continue to perform its statutory functions effectively and operate in a financially sustainable manner.

## 11 Attachments

- 11.1 The following items are attached to this paper:
- (a) Appendix A: Summary of submissions and Authority responses: 2019/20 Levy-funded appropriations and indicative work programme.
  - (b) Appendix B: Consultation paper: 2019/20 Levy-funded appropriations and indicative work programme.





## 12 Recommendations

12.1 The Authority recommends that you:

- (a) **note** that the Authority has completed consultation on its proposed appropriations for 2019/20 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 2019/20 appropriations are:
  - (i) \$74.936 million for *Electricity industry governance and market operations*
  - (ii) \$6.000 million over the five year period from 1 July 2017 to 30 June 2022 for *Managing the security of New Zealand's electricity supply* (this is a multi-year appropriation)
  - (iii) Up to \$1.000 million for the *Electricity litigation fund*
- (e) **note** that, although not specifically consulted on, six submissions indicated continued support for the Authority obtaining appropriation funding from 2021/22 to enable implementation of real-time pricing in the wholesale electricity spot market.
- (f) **agree** to submit the Authority's proposed 2019/20 appropriations for Budget 2019
- (g) **agree** to publication of this report after Budget day 2019
- (h) **note** that a draft 2019/20 SPE will be provided to you for comment by 1 May 2019.



Brent Layton  
Chair  
Electricity Authority

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

Hon. Dr Megan Woods  
Minister of Energy and Resources



## Glossary of abbreviations and terms

<b>Act</b>	Electricity Industry Act 2010
<b>Authority</b>	Electricity Authority
<b>EECA</b>	Energy Efficiency and Conservation Authority
<b>FCP</b>	Facilitating consumer participation
<b>IPAG</b>	Innovation and Participation Advisory Group
<b>MBIE</b>	Ministry of Business, Innovation and Employment
<b>MDAG</b>	Market Development Advisory Group
<b>MEUG</b>	Major Electricity Users' Group
<b>Minister</b>	Minister of Energy and Resources
<b>RTP</b>	Real-time pricing
<b>SPE</b>	Statement of Performance Expectations





## Appendix A    Summary of submissions and Authority Responses: 2019/20 Levy-funded appropriations and indicative work programme

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# Summary of Submissions and Authority Responses

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2019/20 Levy-funded appropriations  
and indicative work programme

19 February 2019



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## Executive summary

The Electricity Authority (Authority) is required by the Electricity Industry Act 2010 (Act) to consult annually on its proposed appropriations (ie, the level of its funding) and to include a report on the outcomes of our consultation with our request for appropriations to the Minister of Energy and Resources (Minister). The Authority has completed this consultation for 2019/20 and this document supports the report to the Minister.

The Authority has also consulted on the indicative work programme for 2019/20. There is no legislative requirement for the Authority to report to the Minister on the outcome of that consultation, however for completeness we have provided a summary of issues raised by submitters.

The feedback we have received will be taken into account as we continue to develop the detail of our 2019/20 work programme over the coming months, including further engagement with participants and consumers. Consultation feedback will also inform development of the 2019/20 Statement of Performance Expectations (SPE), a draft of which will be provided to the Minister for comment in April 2019.

There are approximately 90 levy paying entities. In total, we received 11 submissions including:

- one joint submission from two entities controlled by Cumulus Asset Management (Cumulus):
  - Electric Kiwi Limited (Electric Kiwi)
  - Haast Energy Trading (Haast Energy)
- one joint submission from four independent retailers:
  - Electric Kiwi
  - Flick Electric Co. (Flick)
  - Pulse Energy Alliance LP (Pulse)
  - Switch Utilities Limited (Switch) - controlled by Vocus Communications Limited
- Entrust
- Genesis Energy Limited (Genesis)
- the Major Electricity Users Group (MEUG)
- Mercury NZ Limited (Mercury)
- Meridian Energy Limited (Meridian)
- Nova Energy Limited (Nova)
- Transpower New Zealand Limited (Transpower)
- Trustpower Limited (Trustpower)
- Vector Limited (Vector).

### **Feedback on the proposed appropriations**

The key points from those submissions that relate to the Authority's separate appropriations have been summarised in sections 3, 4 and 5 of this document.

The summary of submissions includes Authority responses to participant feedback on our proposed appropriations. Matters raised in the submissions that do not directly relate to the appropriations request will be considered further in the planning process for the 2019/20 SPE and work programme.

Section 3 includes feedback from six submissions on the *Electricity industry governance and market operations* appropriation amount for 2019/20. The submissions are mixed in terms of their level of support for the proposed appropriation level:

- three submissions support the proposed appropriation
- three submissions have various concerns about the proposed appropriation.

A summary of the key points from these submissions, including the Authority's responses, is provided on pages 6 to 8 of this document.

Section 4 includes feedback from four submissions on the proposed *Managing the security of New Zealand's electricity supply* appropriation for 2019/20. All four submissions support the proposed appropriation, as summarised on pages 9 to 10 of this document.

Section 5 includes feedback from six submissions on the proposed *Electricity litigation fund* appropriation for 2019/20. The submissions are mixed in terms of their level of support for the proposed appropriation level:

- three submissions support the proposed appropriation
- three submissions have various concerns about the proposed appropriation.

A summary of the key points from these submissions, including the Authority's responses, is provided on pages 11 to 13 of this document.

On consideration of the consultation feedback, the Authority has concluded that the appropriation levels as consulted on are appropriate to ensure the Authority can continue to perform its statutory functions effectively and operate in a financially sustainable manner for the long-term benefit of consumers.

### **Feedback on the indicative work programme**

The Authority also sought stakeholder views on an indicative 2019/20 work programme. Unlike our appropriations request, there is no legislative requirement for the Authority to consult about our proposed work programme—however, we do so because respondent views are valuable and inform the further development of the work programme.

Section 6 includes feedback from all 11 submissions on the indicative work programme for 2019/20. The submissions are mixed in terms of the varying levels of support expressed for particular projects and for the overall work programme, as summarised on pages 14 to 16 of this document.

The Authority is considering the feedback that has been provided on the indicative 2019/20 work programme. We plan to engage further with participants and consumers as we continue to develop the detail of our 2019/20 work programme over the coming months. The work programme will be finalised in June 2019.

### **Next steps**

The submissions received to this consultation inform the development and finalisation of:

- our appropriations request to the Minister
- our 2019/20 SPE, to be published in June 2019
- our 2019/20 work programme, to be published in July 2019.



# 1 Introduction and purpose of this report

- 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. We have prepared this report to support the process of reporting to the Minister with our recommended appropriations, as required by section 129(2) of the Act.
- 1.2 Consultation on the proposed appropriations for 2019/20 took place from 13 November 2018 to 10 December 2018.<sup>1</sup> The submissions are to be published on the Authority's website on 5 March 2019.
- 1.3 We requested that submissions include responses to four consultation questions related to our proposed appropriations and our indicative 2019/20 work programme. Respondent feedback to these questions has been summarised in section 3 through section 6 of the consultation paper.

# 2 List of respondents

- 2.1 In total, we received 11 submissions including:
  - Joint submission 1 - a joint submission from two entities controlled by Cumulus Asset Management (Cumulus):
    - Electric Kiwi Limited (Electric Kiwi)<sup>2</sup>
    - Haast Energy Trading (Haast Energy)
  - Joint submission 2 - a joint submission from four independent retailers:
    - Electric Kiwi<sup>2</sup>
    - Flick Electric Co. (Flick)
    - Pulse Energy Alliance LP (Pulse)
    - Switch Utilities Limited (Switch) - controlled by Vocus Communications Limited
  - Entrust
  - Genesis Energy Limited (Genesis)
  - the Major Electricity Users Group (MEUG)
  - Mercury NZ Limited (Mercury)
  - Meridian Energy Limited (Meridian)
  - Nova Energy Limited (Nova)
  - Transpower New Zealand Limited (Transpower)
  - Trustpower Limited (Trustpower)
  - Vector Limited (Vector).

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<sup>1</sup> The consultation paper will be available at <https://www.ea.govt.nz/dmsdocument/24346-201920-consultation-paper-levy-funded-appropriations-and-indicative-work-programme>

<sup>2</sup> Note that Electric Kiwi is associated with both joint submissions.

### 3 Submissions relating to the *Electricity industry governance and market operations* appropriation

#### *The proposed 2019/20 appropriation amount*

- 3.1 The main items of expenditure within the *Electricity industry governance and market operations* appropriation were set out in Table 3 of the consultation paper:

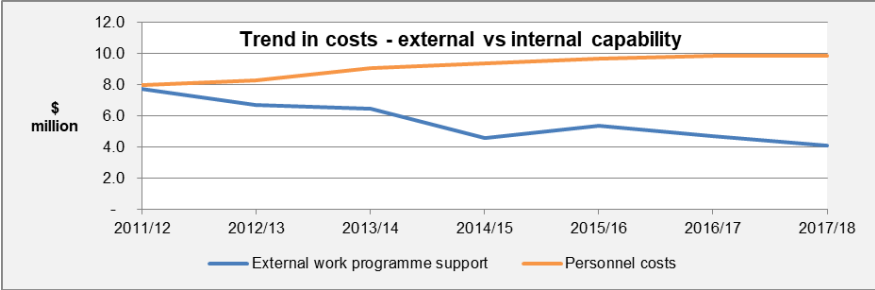
Operational appropriation - Electricity Authority	\$ million	
	Appropriation 2018/19	Proposed appropriation 2019/20
System operator - operating expenses	26.396	26.550
System operator - capital-related expenses	17.064	17.411
<b>System operator expenses</b>	<b>43.460</b>	<b>43.961</b>
Service provider - 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
<b>Other service provider expenses</b>	<b>9.631</b>	<b>9.796</b>
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
<b>Authority operating expenses</b>	<b>21.179</b>	<b>21.179</b>
<b>Total appropriation</b>	<b>74.270</b>	<b>74.936</b>

\* 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.



- 3.2 In Question 1, the Authority asked: “What is your view on the Authority’s proposed 2019/20 *Electricity industry governance and market operations* appropriation of \$74.936 million?”
- 3.3 Five of the submissions we received included a response to Question 1; Entrust, Mercury, Meridian, MEUG and Trustpower. The key points from these submissions are summarised in the table below.

Q1. What is your view on the Authority’s proposed 2019/20 <i>Electricity industry governance and market operations</i> appropriation of \$74.936 million?		
Key points from submissions	Submissions	Authority comment
1. Supports the proposed appropriation	Mercury, Meridian and MEUG	The Authority notes the mixed level of support expressed for the proposed appropriation level.
2. Does not think the proposed appropriation has been justified	Entrust	
3. Concerned about the use of consultants	Entrust	<p>The Authority reiterates the importance of a strategy we have been implementing successfully since 2012—to increase our internal capability and reduce our reliance on external consultants.</p> <p>Our expenditure data from 2011/12 to 2017/18 demonstrates the success of this strategy and refutes any concerns about our reliance on external consultants:</p> <ul style="list-style-type: none"> <li>• personnel numbers increased moderately</li> <li>• personnel costs also increased moderately</li> <li>• external advice costs decreased substantially.</li> </ul> <p>This is clearly illustrated in the graph below:</p> 

Q1. What is your view on the Authority's proposed 2019/20 <i>Electricity industry governance and market operations</i> appropriation of \$74.936 million?		
Key points from submissions	Submissions	Authority comment
4. Suggests that the Authority consider legislative and code changes that would enable the System Operator contract to be subject to competitive tender	Vector	The Authority must act in a way that is fully consistent with legislation—and the Authority's contract with the System Operator is required by legislation <sup>3</sup> .
5. Would like the Authority to apply a more flexible regulatory approach in circumstances where non-compliance has not harmed any industry participants or consumers	Vector	The Authority's role is to ensure compliance with all aspects of the code. Some provisions, which may seem less directly beneficial to consumers, are often playing an important role in ensuring the smooth running of the regulatory system, which ultimately benefits consumers. The Authority regularly reviews parts of the Code and amends the Code where necessary, including changes where regulation is not necessary or is unduly restrictive. The Authority also has a process for participants to suggest Code amendments. The Authority's enforcement function takes into account the impact of any Code breach as part of its investigation and resultant enforcement action.
6. Provides suggestions around how the Authority's operations could continue to promote stakeholder satisfaction, alignment in thinking across energy regulation, climate change and resource management, and draw on broader experience from overseas jurisdictions	Trustpower	<p>The Authority is committed to working with stakeholders and consumers to develop improvements for New Zealand's electricity market. We have established sound processes for consultation and engagement but acknowledge there is room for improvement. We have developed a communications strategy and will review our approach to stakeholder engagement in 2019.</p> <p>The Authority works closely with other energy market regulators to share our ideas and expertise and promote alignment across the sector. Examples include submissions on the EPR, our work with the Productivity Commission on the Low emissions economy inquiry and the Electricity markets interface working group.</p> <p>We will continue to draw on the experiences of overseas jurisdictions and in turn, share our experience and expertise at international conferences and forums.</p>

<sup>3</sup> Section 8(1) of the Electricity Industry Act 2010 requires that Transpower is the System Operator.



Q1. What is your view on the Authority's proposed 2019/20 <i>Electricity industry governance and market operations</i> appropriation of \$74.936 million?		
Key points from submissions	Submissions	Authority comment
7. Some concerns regarding the proposed appropriation based on the prioritisation of two particular projects on the 2019/20 work programme		Submissions regarding our indicative 2019/20 work programme will be taken into account in the forthcoming development of the work programme, which will be finalised in June 2019
8. No comments on the proposed appropriation	Joint submission 1, Joint submission 2, Genesis, Nova, Transpower and Vector.	N/A
<b>Outcome of consultation:</b> The Authority has considered the overall feedback that has been provided on the proposed Electricity industry governance and market operations appropriation for 2019/20, and will proceed with recommending the appropriation level of \$74.936 million as consulted on.		

## 4 Submissions relating to the *Managing the security of New Zealand's electricity supply* appropriation

### *The proposed 2019/20 appropriation amount*

- 4.1 The intended outcomes, scope and functions of the Authority under this appropriation were set out in Section 4 of the consultation paper.
- 4.2 Section 4 also explained that a new security management appropriation for the period 1 July 2017 to 30 June 2022 had been established in Budget 2017. No changes to this appropriation were sought for 2019/20, as set out in the table below:

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	

- 4.3 In Question 3, the Authority asked “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?”
- 4.4 Four of the submissions we received included a response to Question 3; Meridian, MEUG, Transpower and Trustpower. The key points from these submissions are summarised in the table below.

Q3. What is your view on the Authority’s proposal to keep the <i>Managing the security of New Zealand's electricity supply</i> appropriation unchanged for 2019/20?		
Key points from submissions	Submissions	Authority comment
1. Supports the proposed appropriation	Meridian, MEUG, Transpower, Trustpower	The Authority notes the support expressed for the proposed appropriation level.



**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?**

Key points from submissions	Submissions	Authority comment
2. No comments on the proposed appropriation	Joint submission 1, Joint submission 2, Entrust, Genesis, Mercury, Nova, Transpower, Vector	N/A
<b>Outcome of consultation:</b> The Authority has considered the overall feedback that has been provided on the proposed <i>Managing the security of New Zealand's electricity supply</i> appropriation, and is proceeding with recommending no change to the current appropriation level of \$6.000 million as consulted on.		

## 5 Submissions relating to the *Electricity litigation fund* appropriation

### *The proposed 2019/20 appropriation amount*

- 5.1 The intended outcomes, scope and functions of the Authority under this appropriation were set out in Section 5 of the consultation paper.
- 5.2 The government-approved baseline level for the *Electricity litigation fund* appropriation each year is \$0.444 million. Section 5 of the consultation paper proposed increasing this by up to \$0.556 million for 2019/20, taking the total up to a maximum of \$1.000 million; as was the case in the 2018/19 year.

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

- 5.3 Section 5 suggested that an appropriation level of up to \$1.000 million in 2019/20 could again be facilitated by the transfer of any unused appropriation, up to \$0.556 million, from 2018/19 to 2019/20.
- 5.4 In Question 4, the Authority asked “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?”
- 5.5 Six of the submissions we received included a response to Question 4; Genesis, Mercury, Meridian, MEUG, Transpower and Trustpower. The key points from these submissions are summarised in the table below.

Q4. What is your view on the Authority’s proposal to seek up to \$1.000 million for the <i>Electricity litigation fund</i> appropriation in 2019/20?		
Key points from submissions	Submissions	Authority comment
1. Supports the proposed appropriation	Mercury, Meridian and MEUG	The Authority notes the mixed level of support expressed for the proposed appropriation level.



Q4. What is your view on the Authority's proposal to seek up to \$1.000 million for the <i>Electricity litigation fund</i> appropriation in 2019/20?		
Key points from submissions	Submissions	Authority comment
2. Some concerns regarding the proposed appropriation, suggesting that the Authority would have a greater incentive to reduce the risk of litigation if the costs were funded out of the Authority's operating budget.	Trustpower	<p>The approach of funding litigation costs from the Authority's operating budget would not be in the interests of consumers, as it would result in a situation where market development initiatives are slowed or deferred to fund litigation when it arises. As some parties have incentives for this to occur, this approach has the potential to increase, rather than decrease, overall litigation costs.</p> <p>During 2019/20 the Authority intends to advance market development initiatives that have the potential to bring about net benefits worth hundreds of millions of dollars for consumers over the next decade—but that may also have adverse financial impacts for some parties.</p>
3. Suggests the risk/expense of litigation could be lowered by running policy processes well	Transpower	<p>The Authority is confident in the quality of its policy development processes. However, we expect there to be increasing incentives for some parties to obstruct the progress of our market development initiatives, and that this will be the case regardless of the quality of the policy development processes we adhere to.</p>
4. No comments on the proposed appropriation, although a clearer view of litigation liability in the coming year/s should be provided.	Genesis	<p>Whilst the Authority can observe past trends in litigation activity, and consider future litigation risks around potentially contentious initiatives, the costs associated with litigation are inherently difficult to predict.</p>

**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?**

Key points from submissions	Submissions	Authority comment
5. No comments on the proposed appropriation	Joint submission 1, Joint submission 2, Entrust, Nova and Vector	N/A
<b>Outcome of consultation:</b> The Authority has considered the overall feedback that has been provided on the proposed <i>Electricity litigation fund</i> appropriation, and is proceeding with recommending an appropriation level of up to \$1.000 million as consulted on. This level of appropriation can be facilitated, in part, through the transfer of any unused appropriation, up to \$0.556 million, from 2018/19 to 2019/20.		



## 6 Submissions relating to the indicative 2019/20 work programme

- 6.1 In Question 2, the Authority asked: “What is your view on the Authority’s indicative 2019/20 work programme?”
- 6.2 Unlike our appropriations request, there is no legislative requirement for the Authority to consult about our proposed work programme—however, we do so because respondent views are valuable and inform the further development of the work programme.
- 6.3 All 11 submissions included a response to Question 2. These responses have been categorised as either general feedback, or project-specific feedback.
- 6.4 We plan to engage further with participants and consumers as we continue to develop the detail of our 2019/20 work programme over the coming months. The work programme will be finalised in June 2019 and published in July 2019.

### ***General feedback***

- 6.5 The general feedback we received on the work programme is summarised below.
- a) Feedback on the focus of the work programme;
- Five submissions want the 2019/20 work programme to prioritise particular outcomes
  - One submission would like the 2019/20 work programme to focus on a small number of the highest priority projects
  - Three submissions appreciate the tighter, more focussed work programme
  - Five submissions would like the 2019/20 work programme to be even tighter and more focussed
  - One submission suggests that a tighter, more focussed work programme should also be less expensive.
- b) Feedback relating to the Electricity Pricing Review (EPR);
- One submission supports the Authority's assessment of the market and sees this reflected in the indicative 2019/20 work programme
  - Four submissions expect a reprioritisation of the 2019/20 work programme to address emergent issues, eg from the EPR, the recent UTS claim and the Spring 2018 enquiry
  - One submission suggests that the Authority resolve EPR issues before the Expert Advisory Panel makes its recommendations.
- c) Feedback on the level of detail provided in the work programme;
- Four submissions appreciate the additional information provided in the work programme, eg the net benefits and proposed targets per project

- Two submissions would have liked additional information about the calculation of net benefits per project to have been made available.
  - One submission would have liked additional information about the prioritisation of projects to have been made available
  - Two submissions would have liked additional operational and project level information to have been itemised in the proposed appropriations, e.g. staffing, project budgets, milestones, project-related overseas travel.
- d) Feedback on the proposed targets;
- Two submissions want stronger targets established across the work programme
  - One submission wants the work programme to be progressed more rapidly.
- e) Feedback on participant participation processes;
- One submission wants the minutes and papers of advisory group meetings to be made available
  - Two submissions want MDAG to be more representative of independent retailers
  - One submission feels that the concerns they raised in submissions to the 2018/19 appropriations consultation were unreasonably dismissed
  - One submission would like greater overall transparency from the Authority.

### ***Project-specific feedback***

6.4 The project-specific feedback we received on the work programme is summarised below.

- a) Feedback on project prioritisation;
- Ten submissions want particular projects to be prioritised on the 2019/20 work programme – for example, Further development of the hedge market, Spot market settlement on real-time pricing and Review of spot market trading conduct provisions
  - One submission wants particular projects on the current 2018/19 work programme to be prioritised in 2019/20 if they are incomplete, such as Review of distribution sector, Default distribution agreement (DDA) and Review regulatory settings for official conservation campaigns (OCCs)
  - Three submissions want particular projects on the indicative 2019/20 work programme to be de-prioritised, such as Transmission pricing review, Barriers due to legacy systems and processes and Equal access
  - Three submissions want to add specific initiatives to the 2019/20 work programme to address emergent issues, including those arising from the EPR, the recent UTS claim and the Spring 2018 enquiry.

b) Feedback on project scope and implementation;

- Three submissions seek changes to the scope and/or implementation of particular projects, such as Saves and win-backs, Distribution pricing: review of pricing principles and What's my number and repurposed information campaign
- Two submissions would like stronger targets to be established for Further development of the hedge market and Review of spot market trading conduct provisions
- Two submissions seek more rapid progress of particular projects, such as Saves and win-backs, Review of spot market trading conduct provisions and Distribution pricing: review of pricing principles
- Three submissions want a firm end date to be established for Distribution pricing: review of pricing principles.

c) Feedback on project information;

- One submission wanting additional information to be made available about the Review of distribution sector project.



## Glossary of abbreviations and terms

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

Appendix B    Consultation paper: Electricity Authority  
2019/20 Levy-funded appropriations and  
indicative work programme



# 2019/20 Levy-funded appropriations and indicative work programme

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## 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
<b><i>Operational appropriation</i></b>		
Electricity industry governance and market operations	74.270	74.936
<b><i>Contingent appropriations</i></b>		
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.<sup>1</sup>

## 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](mailto: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.

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<sup>1</sup> 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/](http://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/](http://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/](http://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 initiatives<sup>2</sup> 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.

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<sup>2</sup> 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

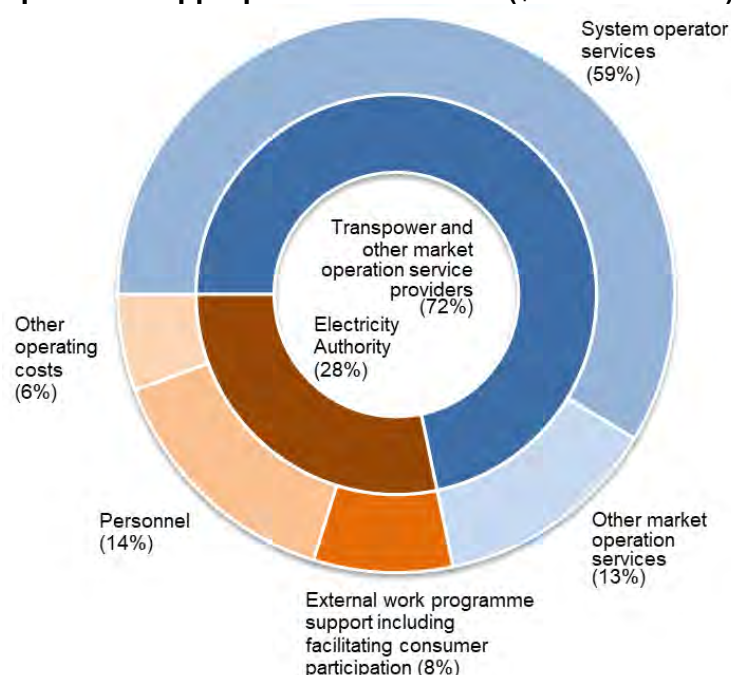
- 3.4 This appropriation funds our operations, and the operation of the electricity system and market, enabling us to exercise our four main functions:
- **Promote market development:** we promote development of the electricity markets by making amendments to the Code and through market facilitation 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.<sup>3</sup> 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).<sup>4</sup>
- 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 Facility<sup>5</sup>, and CPI-linked adjustments to system operator operating expenses.

<sup>3</sup> 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/>

<sup>4</sup> 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/>

<sup>5</sup> 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.<sup>6</sup> 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.

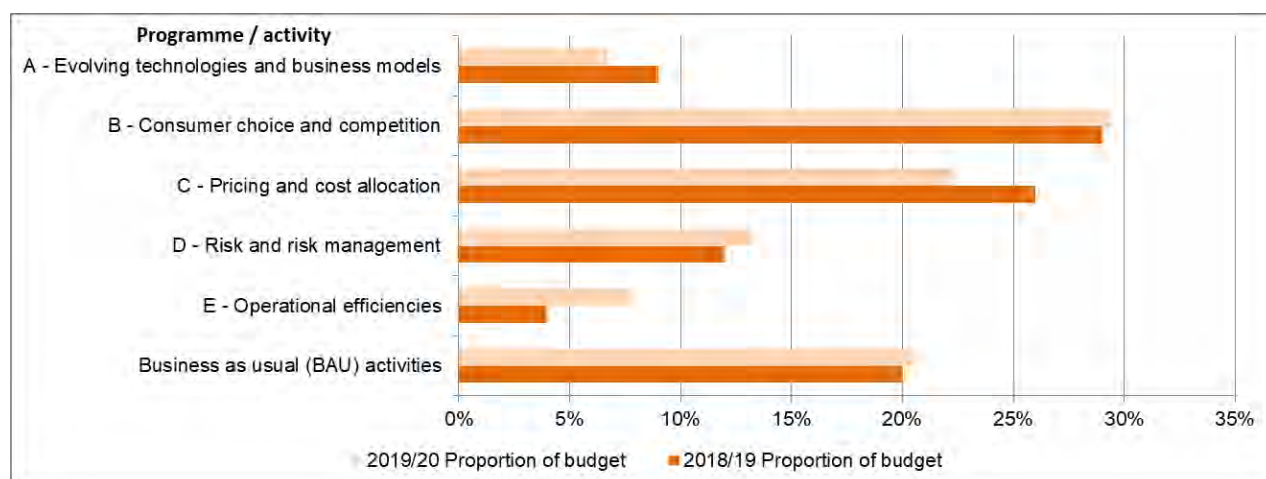
### **Authority operating expenses**

- 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.

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<sup>6</sup> 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
<b>System operator expenses</b>	<b>43.460</b>	<b>43.961</b>
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
<b>Other service provider expenses</b>	<b>9.631</b>	<b>9.796</b>
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
<b>Authority operating expenses</b>	<b>21.179</b>	<b>21.179</b>
<b>Total appropriation</b>	<b>74.270</b>	<b>74.936</b>

\* 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



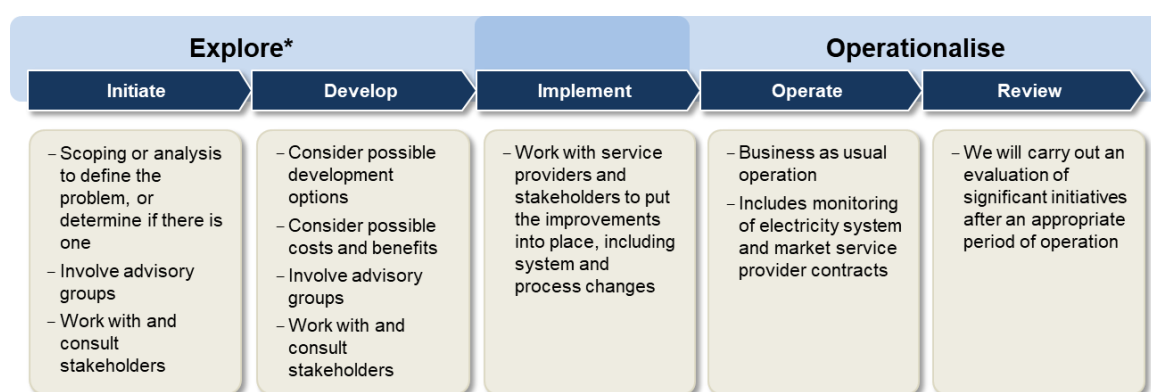
part of this consultation (refer Appendix A). The indicative work programme maintains our current focus on priority work and faster completion of projects—so that the benefits for consumers are realised sooner.

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:

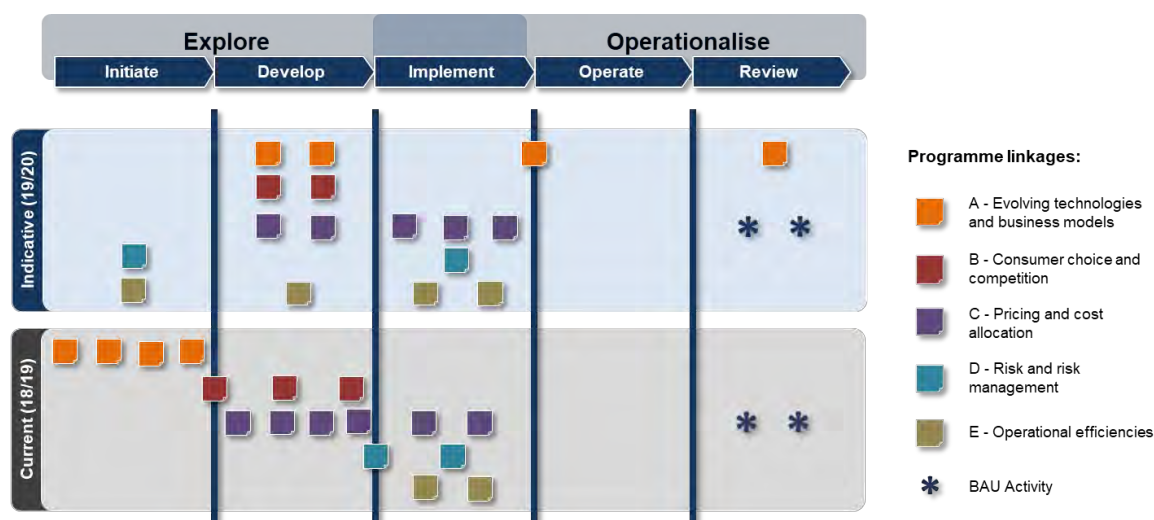
**Figure 4: The market development cycle (MDC)—overview**



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

- 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.

mm<sup>2</sup>

**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.<sup>7</sup> 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.

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<sup>7</sup> 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](http://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





# **Indicative Electricity Authority Work Programme for consultation**

**1 July 2019 – 30 June 2020**

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13 November 2018

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## Linking our strategy and work programme

Along with the exercise of our functions, the work programme also makes a significant contribution to achieving our strategic objectives. The work programme framework has five distinct programmes (A to E), each linked to the delivery of one or more of our key strategies. The main links between our programmes and our strategic priorities are described in Table 1 below.

**Table 1: A summary of our work programme framework**

Programmes	Programme descriptions	Main links to our strategies
<b>Programme A: Evolving technologies and business models</b>	<b>Initiatives to reduce inefficient barriers to the development and use of evolving technologies and business models across the supply chain.</b>	<b>Reduce barriers</b>
<b>Programme B: Consumer choice and competition</b>	<b>Initiatives to promote competition and empower consumer choice in the retail market.</b>	<b>Improve consumer participation</b>
<b>Programme C: Pricing and cost allocation</b>	<b>Initiatives to promote efficient pricing in markets and for monopoly services.</b>	<b>Improve price signals</b>
<b>Programme D: Risk and risk management</b>	<b>Initiatives to promote efficient management of capacity and energy risks.</b>	<b>Improve price signals Increase flexibility and resilience</b>
<b>Programme E: Operational efficiencies</b>	<b>Initiatives to increase the efficiency of electricity market operations, including services provided by market operations service providers.</b>	<b>Supports all our strategies</b>

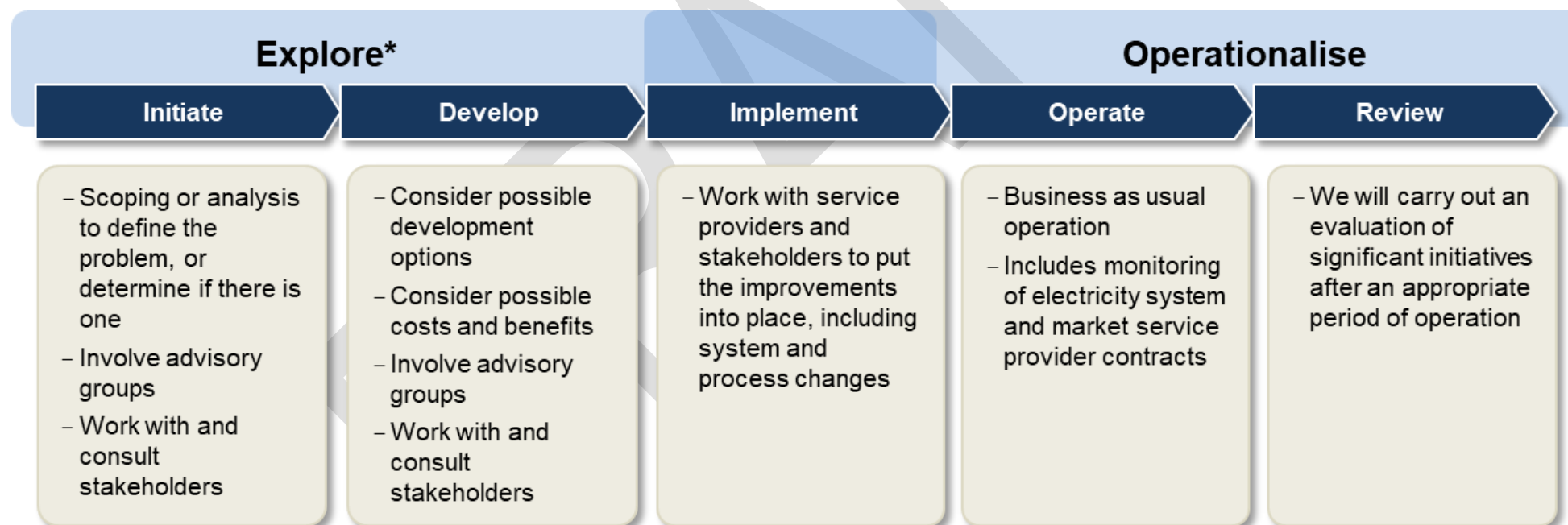
## Our market development cycle

The format and content of the indicative work programme is based on the current 2018/19 published work programme. It describes those projects that are proposed to continue, resume or start in 2019/20.

Each project includes:

- indicative information on the estimated net benefits to consumers, in net present value terms
- a proposed project target for 2019/20
- a proposed market development cycle (MDC) phase, to help 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 below:



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



## Programme A: Evolving technologies and business models

This programme covers initiatives to reduce inefficient barriers to the development and use of evolving technologies and business models across the supply chain. This includes reducing inefficient barriers to:

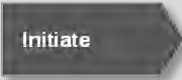



- any consumers purchasing directly from the wholesale electricity market or directly from local generators
- mass-market demand response (DR) and aggregators of mass-market DR
- mass-market distributed energy resources (DERs) and aggregators of mass-market DERs. DERs include traditional distributed generation, batteries, micro-grids and 'prosumer' situations.

Project name	Description	Why we are doing this project	MDC stage and target	
			Current 2018/19	Proposed 2019/20
Equal access  Continuing into 2019/20	<p>The Innovation and Participation Advisory Group (IPAG) is to consider and report on:</p> <p>(a) the effectiveness of the operation of the existing equal access framework for transmission and distribution networks, eg establishing the current feasibility for competitive supply of network support services</p> <p>(b) potential options to strengthen the equal access framework</p> <p>(c) the design, cost and benefits of any changes (regulations and/or market facilitation measures) identified to strengthen the equal access framework (including arrangements for exchange of network support services).</p>	<p>The Authority is concerned network users are not confident that they will be treated equally when connecting to or using the distribution and transmission networks to either deliver services over the network or provide services to the network itself. The Authority is concerned the lack of confidence will adversely affect competition, reliability and efficiency.</p> <p><b>Indicative net benefits to consumers:</b> <b>&gt;\$350 million</b></p>	<div>Initiate</div> <p>Board <b>decide</b> response to IPAG advice</p>	<div>Develop</div> <p>If necessary, <b>amend the Code</b> to provide for equal access.</p>

Project name	Description	Why we are doing this project	MDC stage and target	
			Current 2018/19	Proposed 2019/20
Participation of new generating technologies in the wholesale market  Continuing into 2019/20	Investigate and address any barriers in the code to the efficient operation of new generating technologies in the wholesale market (eg offer, dispatch, spot price arbitrage and ancillary service market participation).	Removing any barriers to different forms of generating technologies in the wholesale market could improve competition, contribute to reliability and potentially improve the operational efficiency of the electricity industry.  Indicative net benefits to consumers: Not yet assessed	<p>Initiate development of consultation paper, possibly as a discussion paper by MDAG.</p>	<p>Initiate development of consultation paper on MDAG recommendations.</p>
Barriers due to legacy systems and processes  Starting in 2019/20	A market performance review of the retail electricity market, with a particular focus on identifying barriers to new entrants transacting with incumbents.	Over time some retailers have developed workarounds and side-arrangements to cater for limitations in their legacy systems. Sometimes these processes make it unnecessarily difficult for new entrants to transact with incumbent retailers and meet their Code requirements.  We want to remove these inefficient barriers so that new entrants can compete on a 'level playing field'. We also want to facilitate increased automation in the retail sector as this can lead to greater innovation and lower costs.  Indicative net benefits to consumers: Not yet assessed	This project is not part of the 2018/19 work programme.	<p>Initiate the review.</p>

## Programme B: Consumer choice and competition

This programme covers initiatives to promote consumer participation through the retail market. Aspects relating to prosumers and/or consumer participation directly in wholesale markets are covered in programme A.

Project name	Description	Why we are doing this project	MDC stage and target	
			Current 2018/19	Proposed 2019/20
What's my number and repurposed information campaign  <b>Continuing into 2019/20</b>	Promote to consumers the benefits of comparing and switching retailers using a multi-channel advertising campaign—and consider the benefits of continuing WMN in its current form, to determine whether the campaign needs to evolve given innovation in services and products and emerging technologies.	WMN encourages consumers to shop around by increasing awareness of the possible savings available and that it is easy to switch. However, consumers are increasingly choosing between traditional and emerging innovative services and products, and between suppliers of these products (eg solar, batteries, electric vehicles, etc.). As we continue to implement the current campaign, we will be reviewing whether greater long-term benefits to consumers could be realised through a repurposed campaign.  <b>Indicative net benefits to consumers:</b> <b>&gt;\$100 million to date</b>	  <b>Deliver</b> 2018 WMN winter campaign.  <b>Decide</b> to continue WMN and/or to develop repurposed information campaign.	  <b>Deliver</b> 2019 campaign.
Saves and win-backs  <b>Continuing into 2019/20</b>	A project to consider whether changes to the Code are required in response to the post-implementation review of the 'saves' Code provisions. MDAG will complete consultation on an issues paper on 29 June 2018 and then will consider the next steps.	It is important that new entrant retailers have a 'level playing field' for competing for customers, and that saves and win-backs do not impede efficient competition.  <b>Indicative net benefits to consumers:</b> <b>Not yet assessed</b>	  <b>Decide</b> response to MDAG recommendations on saves protection scheme.	  If necessary, <b>amend</b> the Code.

## Programme C: Pricing and cost allocation

This programme covers initiatives to promote efficient pricing in markets and for monopoly services.

Project name	Description	Why we are doing this project	MDC stage and target	
			Current 2018/19	Proposed 2019/20
Transmission pricing review  Continuing into 2019/20	A review of the transmission pricing guidelines.	<p>We want to improve operational and investment efficiency in the transmission sector. This will also contribute to efficiency in the broader electricity market.</p> <p>More efficient transmission pricing will promote more efficient use of the transmission network and more efficient investment in the transmission network and by parties using the transmission network.</p> <p><b>Indicative net benefits to consumers:</b> <b>&gt;\$100 million</b></p>	<div>Develop</div> <p><b>Complete</b> development of draft TPM guidelines for consultation.</p>	<div>Implement</div> <p>If necessary, <b>amend</b> the transmission pricing guidelines.</p>




Project name	Description	Why we are doing this project	MDC stage and target	
			Current 2018/19	Proposed 2019/20
Spot market settlement on real-time pricing  Continuing into 2019/20	Complete design of the systems, processes, and enabling Code amendments required to implement settlement based on wholesale spot market prices produced in real-time.	We want to reduce barriers to retail competition and new technologies for demand response arising from current spot market arrangements. Enhancements to the spot market pricing arrangements have the potential to increase competition in the hedge and retail markets, and improve reliability and operational efficiency through greater technology adoption and demand responsiveness to spot market prices.  <b>Indicative net benefits to consumers:</b> <b>\$50 million</b>	<b>Develop</b>  <b>Publish</b> decision paper on final RTP design and Code amendment.	<b>Implement</b>  <b>Commence</b> implementation of spot market settlement on real time pricing.  <i><b>Note:</b> target is subject to confirmation of additional appropriation funding, as detailed in the 2018/19 appropriations consultation.</i>
Implementation of new wind generation offer provisions  Continuing into 2019/20	This project will implement improvements to offer and dispatch Code provisions for wind generators.	To improve offer provisions covering wind generators to ensure that they promote reliability and efficiency in the long-term interests of consumers.  <b>Indicative net benefits to consumers:</b> <b>\$3 million</b>	<b>Implement</b>  <b>Initiate</b> implementation.	<b>Implement</b>  <b>Complete</b> implementation.
Review of spot market trading conduct provisions  Continuing into 2019/20	Review trading conduct provisions in light of events that have tested these provisions. Take into account any findings from case studies, performance reports and compliance reports.	To ensure the trading conduct provisions are effective in promoting outcomes consistent with workable competition.  <b>Indicative net benefits to consumers:</b> <b>\$10–100 million</b>	<b>Develop</b>  MDAG <b>publish</b> discussion paper, if any.	<b>Develop</b>  <b>Initiate</b> development of consultation paper on MDAG recommendations.



Project name	Description	Why we are doing this project	MDC stage and target	
			Current 2018/19	Proposed 2019/20
Improving accuracy of spot price forecasts  Resuming in 2019/20	Improve the accuracy of prices in the spot market forecast schedules available up to 36 hours in advance of real-time by improving the system operator's load forecast.	We want to reduce barriers to retail competition and demand response arising from current spot market arrangements.  Improving the accuracy of spot price forecasts is expected to encourage more efficient demand-response and generation scheduling, and benefit those parties looking to employ new technology and business models.  <b>Indicative net benefits to consumers: \$20 million</b>	This project is not part of the 2018/19 work programme.	<b>Develop</b>  <b>Publish</b> decision paper on preferred option for improving the system operator's load forecast and <b>commence</b> implementation.
Distribution pricing – Monitoring distributors' adoption of more efficient prices  Starting in 2019/20	This project will implement and operate the monitoring framework developed as part of the Distribution pricing review.	Distribution price reform is currently industry-led. The Authority wants distributors to move as quickly as practical to reform their prices. The Authority will monitor the speed and quality of industry reform efforts.  <b>Indicative net benefits to consumers: Net benefits &gt;\$1 billion were associated with the Distribution pricing review</b>	This project arises out of and supersedes the <i>Distribution pricing review</i> project.	<b>Implement / Operate</b>  <b>Complete</b> first round of monitoring.

## Programme D: Risk and risk management

This programme covers initiatives to promote efficient management of capacity and energy risks.





Project name	Description	Why we are doing this project	MDC stage and target	
			Current 2018/19	Proposed 2019/20
Extended reserve implementation  Continuing into 2019/20	Replace the current 2-block common mandate scheme for automatic under-frequency load shedding (AUFLS) with a centrally-selected 4-block plus df/dt extended reserve scheme	<p>We are seeking more efficient provision and use of extended reserve.</p> <p>Contributes to the efficiency and reliability limbs of the Authority's statutory objective.</p> <p><b>Indicative net benefits to consumers:</b> \$75 million</p>	  <b>Decide</b> on the design of the scheme.	  <b>Commence</b> implementation.
Hedge market enhancements  Resuming in 2019/20	<p>Investigating and making ongoing enhancements to the hedge market.</p> <p>Investigate the value of further development of exchange traded (ASX) products.</p> <p>Evaluation of incentive based arrangements for market making.</p> <p>Review of the hedge disclosure website.</p>	<p>We seek to improve reliability and competition by giving market participants greater certainty about forward price expectations and improved mechanisms to manage risk. This will enhance decision-making.</p> <p>We have a continuing programme of initiatives to enhance the hedge market.</p> <p>To progress the hedge market related recommendation resulting from the Authority's review of winter 2017.</p> <p><b>Indicative net benefits to consumers:</b> \$10–100 million</p>	<p>This project is not part of the 2018/19 work programme.</p>	  <b>Evaluate</b> options to enhance hedge market.



## Programme E: Operational efficiencies

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.

Code improvements include removing barriers to efficient operation and interaction, including via data exchange.

Market systems are provided by market operations service providers (MOSPs) and the system operator. We want these services to deliver effective market operation, increase market efficiency, and facilitate market development.

Project name	Description	Why we are doing this project	MDC stage and target	
			Current 2018/19	Proposed 2019/20
Dispatch Service Enhancement (DSE) implementation  Continuing into 2019/20	Amendments to the Code and the Approved Systems Document are needed to enable the system operator to implement its DSE project).  These amendments allow the system operator to replace GENCO as the approved system for issuing dispatch instructions with two alternate communication protocols (ICCP and web services).	Improve efficiency and competition in the wholesale market by lowering entry and operational costs for dispatch and enabling potential new features. DSE is regarded as a key enabling project for settlement on real-time pricing, and for greater participation in dispatch by new technologies.  <b>Indicative net benefits to consumers:</b> <b>Significant, because of the high cost of maintaining unsupported legacy systems</b>	  <b>Publish</b> decision paper and final amendments to the Code and the Approved Systems Document.	  <b>Complete</b> implementation of DSE and begin transition from GENCO.
Market enhancements omnibus  Continuing into 2019/20	This project includes a suite of non 'sector-shaping' market enhancement initiatives. This will include initiatives such as operational or fit-for-purpose reviews, the annual Code review program and enhancements to the current market.	These rapidly realisable initiatives are implemented by the Authority's Market Operations team and ensure the smooth running of the market, without diverting resources from the Authority's top priority projects.  <b>Indicative net benefits to consumers:</b> <b>Not yet assessed</b>	  <b>At least 80%</b> of market enhancements <b>achieve</b> planned deliverables for the year.	  <b>At least 80%</b> of market enhancements achieve planned process deliverables for the year.

Project name	Description	Why we are doing this project	MDC stage and target	
			Current 2018/19	Proposed 2019/20
Switch process review  <b>Continuing into 2019/20</b>	To implement changes to the switching process in response to emerging retail business models.	With the smart meter (AMI) rollouts nearing completion, new retail business models have emerged and become established. The current switching processes are causing issues and need to be reviewed and refined to ensure they are fit for purpose.  <b>Indicative net benefits to consumers:</b> <b>Not yet assessed</b>	This project arises out of the 2018/19 Market enhancements omnibus project.	  If necessary, <b>amend</b> the Code.
Review of Code provisions for wholesale market arrangements  <b>Resuming in 2019/20</b>	Review Part 13 (also potentially Part 8 and elements of Part 1) of the Code relating to trading. Part 13 includes the spot market, scheduling, offering, dispatch, pricing, hedge market and FTR trading information. This would include removing unnecessary barriers to new technology. Possible MDAG project.	Improve the efficiency and competition of the wholesale market by clarifying operational processes and requirements, removing unnecessary barriers, and providing useful information to participants.  <b>Indicative net benefits to consumers:</b> <b>Not yet assessed</b>	This project is not part of the 2018/19 work programme.	  <b>Initiate</b> development of consultation paper, potentially with advice from MDAG.

END

## Glossary of abbreviations and terms

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