

2020/21

**LEVY-FUNDED APPROPRIATIONS |
NGĀ TAHUA KUA UTUA E NGĀ MONI**

**CONSULTATION PAPER |
PEPA WHAKAWHITIWHITINGA**

Submissions close: 5pm 3 December 2019

EXECUTIVE SUMMARY

WHAKARĀPOPOTOTANGA WHAKAHAERE

Scope of consultation

This consultation paper sets out and seeks feedback on the Electricity Authority's (the Authority) appropriations for the forthcoming 2020/21 financial year.

In 2020/21 we are embarking on a new strategy development process, described below, to reset the Authority's current strategy. We will engage with stakeholders during the strategy development process. Because of this we do not intend to consult on our indicative work programme in our appropriations consultation paper as we have done in previous years. Our work programme for 2020/21 will be published in July 2020.

Strategy Development

The Authority is undergoing a new strategy development process over the next 6 months to reset the current strategy which was established in 2013. Since then the industry, regulatory and authorising environments in which we operate have significantly changed. The new organisational strategy will shape the direction of our market development functions and guide our investment in policy reform. The aim is to create a new narrative for an agile and connected Electricity Authority that adds value as we work across the system to address New Zealand's energy and decarbonisation challenges. Our focus will continue to be on the long-term benefit of consumers.

Responding to change in the interests of consumers

The electricity industry is responding to technological advancements, changing consumer expectations and increasing uncertainty. To ensure the industry remains flexible into the future, an ongoing 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.

We are also working in the broader context of a transition to a low-emissions economy and a Government with a firm focus on wellbeing and ensuring policies respond to and benefit the most

vulnerable in our communities. The sector is at the centre of some of these broader issues.

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 2020/21 are outlined in **Table 1**.

Operational appropriation

For the *Electricity industry governance and market operations* appropriation we are proposing an appropriation of \$76.936 million for 2020/21, this includes additional funding of \$2.000 million for Electricity Pricing Review (EPR) initiatives. 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.

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 2020/21; this could be achieved through a transfer of unused appropriation from 2019/20 into 2020/21.

TABLE 1: SUMMARY OF PROPOSED APPROPRIATIONS

| ELECTRICITY AUTHORITY | \$ MILLION | |
|--|----------------------------------|---|
| | APPROPRIATION 2019/20 | PROPOSED APPROPRIATION 2020/21 |
| Operational appropriation | | |
| Electricity industry governance and market operations | 74.936 | 74.936 |
| Electricity pricing review | - | 2.000 |
| Total operational appropriation | | 76.936 |
| Contingent appropriations | | |
| Managing the security of New Zealand's electricity supply (1 July 2017 to 30 June 2022) | 6.000 over five years | |
| Electricity litigation fund | 0.444* | up to 1.000 |

* An expense transfer of \$0.556 million has been requested from 2018/19 to 2019/20 and approval will not be confirmed until the October 2019 baseline update.

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WHAT YOU NEED TO KNOW TO MAKE A SUBMISSION

TĀU E HIAHIA ANA KIA MŌHIO KOE KI TE TUKU TUKUNGA

What this consultation paper is about

We welcome and request submissions about our proposed appropriations for the 2020/21 financial year, which covers the period 1 July 2020 to 30 June 2021.

This consultation paper contains information about each of the Authority's three appropriations. The Authority is required to consult on our proposed appropriations under section 129 of the Electricity Industry Act 2010 ("the Act"). The legal context for this consultation is set out in **Appendix A**.

Consultation on this paper starts on 5 November 2019 and closes at 5 pm on 3 December 2019.

Why we're seeking your submissions

Submissions received on this consultation paper will inform the Authority's:

- upcoming appropriations request to the Minister
- 2020/21 Statement of Performance Expectations (SPE).

How to make a submission

We are looking for specific feedback on our appropriations. We request submissions include a response to the consultation questions in **section 6**.

You can email your submission to appropriations@ea.govt.nz with "**Consultation Paper – 2020/21 Appropriations**" in the subject line.

If you cannot send your submission by email, please post it to:

Submissions
Electricity Authority
PO Box 10041
Wellington 6143

Please include your name on your submission. If you are submitting on behalf of an organisation/group, include the name of the organisation/group and your position.

All received submissions will be acknowledged on receipt.

The Authority will publish all submissions it receives on its website. If required, please indicate any information you wish to provide on a confidential basis and do not want published. The Authority is subject to the Official Information Act 1982 and this means we may be required to release information, unless there is a good reason to withhold it.

Submission deadline

The consultation period starts on 5 November 2019 and **all submissions must be received by 5pm on 3 December 2019**.

Next steps

The Authority will consider all submissions before submitting our request for appropriations to the Minister of Energy and Resources in early 2020.

The approved appropriations will be announced by the Government on Budget day, which is usually in May. This information will be included in the Authority's Statement of Performance Expectations 2020-2021 which will be published in mid-2020.

Authority contact

If you have any questions regarding the contents of this consultation document or the submission process, please email us at appropriations@ea.govt.nz.

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INTRODUCTION

KUPU WHAKATAKI

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

Our statutory objective

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.

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 – challenges and opportunities

Although the Authority's statutory objective, powers and functions have remained the same since 2010, the environment in which it operates is changing significantly and at pace.

The sector is facing great opportunities through rapidly changing technology and new innovations. But with these opportunities through rapidly changing technology come certain challenges. 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.

There are some significant all-of-government initiatives¹ 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 as the industry regulator.

Electricity Price Review

The Government recently released the Electricity Price Review's final report and its response to the report's recommendations. The recommendations include several pieces of work that fall into seven different categories:

- i. Strengthening the consumer voice
- ii. Reducing energy hardship
- iii. Increasing retail competition
- iv. Reinforcing wholesale market
- v. Improving transmission and distribution
- vi. Improving the regulatory system
- vii. Preparing for a low-carbon future

¹ For example:

- The Electricity Price Review – further information is available from <https://www.mbie.govt.nz/building-and-energy/energy-and-natural-resources/energy-consultations-and-reviews/electricity-price/>
- The Low-emissions economy report – further information is available from <https://www.productivity.govt.nz/inquiries/lowemissions/>

The review and the Government response include several recommendations and actions that fall to the Authority to address.

Rapidly developing technology

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

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.

Transition to a low emissions economy

Electrification of transport and some process heating is likely to play a significant role in decarbonising New Zealand's economy. With over 80 percent renewable energy sources, New Zealand is well poised for transitioning to a low emissions economy. However, given our current technology for electricity generation and system management, a move to 100 percent renewable generation while maintaining current levels of reliability and affordability remains challenging.

The key is to ensure we benefit from our renewable advantage over time. The Authority's role will be increasingly important as New Zealand's electricity sector navigates its way through the changes in technology and the large increases in output likely to be required. Enhancing our hedge market will provide a stronger platform for dealing with the potential volatility associated with higher levels of renewable generation.

We remain committed to ongoing market design improvements to better enable participation and competition, increase flexibility and resilience, and improve price signals.

Changing consumer expectations

Consumer expectations about the reliability of their electricity supply, and the services they want to buy, are also changing rapidly.

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.

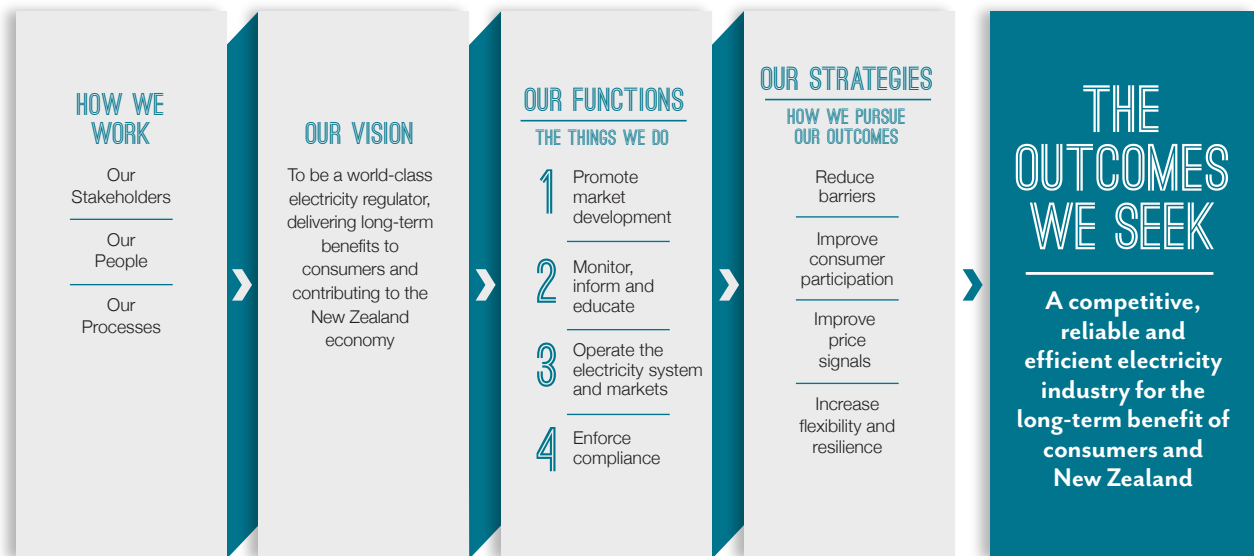
While New Zealand is generally well placed to make the most of new technologies, the regulatory environment must also keep pace with technological change. The Authority must maintain its current focus on priority work and faster delivery of projects so benefits for consumers are realised sooner.

Our strategic framework

Our 2017–21 Statement of Intent 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 Statement of Performance Expectations slightly amended the framework (shown in **Figure 1**) to:

- remove *Maintain Compliance* as a separate strategy, noting this remains a key function for the organisation
- highlight the strategic importance of lifting our organisational capability by including our Organisational Capability Strategies

FIGURE 1: OUR STRATEGIC FRAMEWORK



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.

The outcomes we seek are well aligned to Government priorities of building a productive, sustainable and inclusive economy that improves the wellbeing of New Zealanders and their families.

Our work addresses the issues that matter to consumers:

- Will the lights stay on?
- Do consumers have choice?
- Are prices reasonable?
- Is innovation occurring?

The operational funding requested in the Electricity Governance and Market Operations appropriations will help us to continue to achieve the above.

Our 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 industry participants.

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.

The appropriations request covers the three appropriations available to the Authority:

Operational appropriation

The *Electricity industry governance and market operations* appropriation is our main operational appropriation; go to **section 3** for more detail.

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:

- The Managing the security of New Zealand's electricity supply appropriation; go to section 4 for more detail
- The *Litigation fund* appropriation; go to **section 5** for more detail.



ELECTRICITY INDUSTRY GOVERNANCE AND MARKET OPERATIONS APPROPRIATION

TE RANGATIRATANGA O TE HIKO ME NGĀ MAHI MĀKETE

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

What is intended to be achieved

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

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

This appropriation funds our operations, and the operation of the electricity system and market, enabling us to exercise our four main functions:

- **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

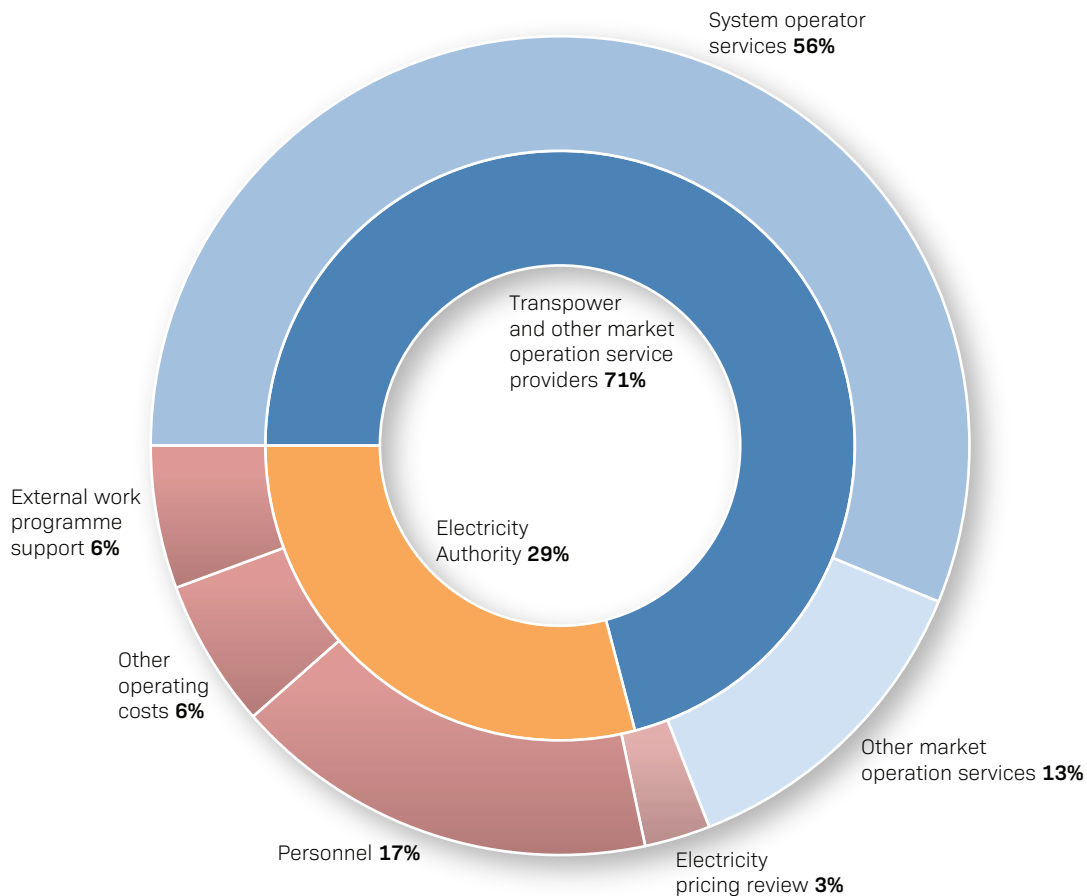
To deliver our statutory functions and progress our statutory objective, we propose baseline funding of \$76.936 million for this appropriation in 2020/21.

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**.

Information on the year-on-year changes in the appropriation components is provided in the remainder of this section.

- **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

FIGURE 2: PROPOSED USE OF THE ELECTRICITY INDUSTRY GOVERNANCE AND MARKET OPERATIONS APPROPRIATION 2020/21 (\$76.936 MILLION)



Expenses relating to the system operator (Transpower)

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.² Performing this role effectively and reliably requires ongoing investment to maintain and enhance the extensive infrastructure supporting the delivery of the services.

System operator expenses of up to \$43.255 million are provided for in the proposed 2020/21 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).³

Compared with the 2019/20 appropriation, the system operator component of the proposed 2020/21 appropriation is \$0.706 million lower. Capital-related expenses are estimated to be lower, while still providing sufficient capital for market design initiatives.

² 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/>

³ 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/>

Expenses relating to market operation service providers

We contract a range of other market operation service providers to operate the electricity markets.⁴ Our focus is on creating fit-for-purpose market services that increase market efficiency, ensure effective market operation and facilitate market development.

The component of the proposed 2020/21 appropriation for other market operation service provider expenses is \$9.881 million. This is \$0.085 million higher than 2019/20 due to consumer price index (CPI) linked increases payable under the service provider contracts and higher amortisation expenses. 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 Registry manager to improve functionality and incorporate changes due to the switch process review; and development of the FTR (Financial Transmission Right) manager to support expected allocation plan changes.

Authority operating expenses

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.*

The Authority has an ambitious work programme and is committed to delivering against key initiatives and activities. We are anticipating a requirement for a short-term uplift in resourcing in 2020/21 to align organisational capability with our refreshed strategy. Due to this we are proposing an increase of \$0.621 million compared to 2019/20. This would result in a total operating expenditure of \$21.800 million.

The work programme budget of \$4.340 million for 2020/21 is an indicative budget based on high level assumptions while we are reviewing the Authority's strategic direction and priorities for 2020/21 and future years.

Electricity pricing review (EPR)

The government's response to the EPR provides direction that the Authority should give priority to the recommendations stipulated, including several new initiatives. We are already working on many of these recommendations; however, a detailed assessment of the EPR and the financial implications are yet to be fully assessed. We consider it prudent to signal that additional funding is being sought and the potential financial impact of this.

The Authority is proposing additional funding for EPR of up to \$2.000 million in 2020/21. This is to support the recommended initiatives in the timeframe required, while also delivering existing priority projects and meeting our statutory obligations.

Appropriation breakdown

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

Forecasts are based on assumptions and may change

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 CPI 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.

⁴ Information on market operation service providers is available on the Authority's website at <http://www.ea.govt.nz/operations/market-operation-service-providers/>

TABLE 2: BREAKDOWN OF PROPOSED ELECTRICITY INDUSTRY GOVERNANCE AND MARKET OPERATIONS APPROPRIATION

| OPERATIONAL APPROPRIATION - ELECTRICITY AUTHORITY | \$ MILLION | |
|--|--------------------------|--------------------------------------|
| | APPROPRIATION 2019/20 | PROPOSED APPROPRIATION 2020/21 |
| System operator - operating expenses | 26.550 | 26.787 |
| System operator - capital-related expenses | 17.411 | 16.468 |
| System operator expenses | 43.961 | 43.255 |
| Service provider - clearing manager | 2.410 | 2.531 |
| Service provider - wholesale information and trading system (WITS) | 1.722 | 1.774 |
| Service provider - pricing manager | 0.770 | 0.785 |
| Service provider - reconciliation manager | 0.947 | 0.975 |
| Service provider - registry manager | 0.673 | 0.692 |
| Service provider - FTR manager | 0.944 | 0.972 |
| Service provider - depreciation and amortisation | 1.885 | 2.057 |
| Service provider - IT costs | 0.095 | 0.095 |
| Service provider - Extended reserve manager | 0.350 | - |
| Other service provider expenses | 9.796 | 9.881 |
| Electricity pricing review | - | 2.000 |
| Authority operations - external work programme support | 4.731 | 4.340 |
| Authority operations - personnel | 11.987 | 12.949 |
| Authority operations - other operating costs | 4.461 | 4.511 |
| Authority operating expenses | 21.179 | 21.800 |
| TOTAL APPROPRIATION | 74.936 | 76.936 |

Funding to implement real-time pricing (RTP)

In February 2019, funding for RTP was approved by the Cabinet Economic Development Committee and the Authority's appropriation will increase by \$3.000 million per year in 2021/22 and out years. This provided certainty to enable the Authority's Board to make a decision to implement RTP. The Authority has previously consulted on RTP and we are not seeking feedback on RTP in this process.

Existing work programme items likely to continue into 2020/21

Table 3 provides a breakdown of the indicative work programme for 2020/21. This is made up of existing projects on the 2019/20 work programme that are forecast to continue into 2020/21 and out years. The existing work programme items likely to continue are subject to reprioritisation.

TABLE 3: EXISTING WORK PROGRAMME ITEMS LIKELY TO CONTINUE INTO 2020/21

| WORK PROGRAMME ITEM | DESCRIPTION | INDICATIVE COMPLETION DATE |
|---|---|-----------------------------------|
| Transmission Pricing Review (TPM) | A review of the transmission pricing guidelines to improve operational and investment efficiency in the transmission sector. This will promote more efficient use of the transmission network and by parties using the transmission network. <ul style="list-style-type: none"> Transpower to develop methodology in 2020/21 | 2023/24 |
| Participation of new generating technologies in the wholesale market | Investigate any barriers in the Code to the efficient operation of new generating technologies in the wholesale market (e.g. offer, dispatch, spot price arbitrage and ancillary service market participation) | Q2 2020/21 (MDAG advice) |
| Hedge Market enhancements | Progress the hedge market recommendation resulting from the Authority's view of winter 2017: <ul style="list-style-type: none"> Investigate and make on-going enhancements to the hedge market Investigate the value of further development of exchange traded (ASX) products Evaluation of incentive based arrangements for market making Review of the hedge disclosure website | Q3 2020/21 |
| Are there barriers to renewables in the wholesale market | Investigates whether there are any impediments in the wholesale market to achieving the Government's commitments relating to renewable electricity generation. | Q3 2020/21 |
| Review of spot market trading conduct provisions | 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. | 2020/21 |
| Open networks development programme | Identifying ways of providing for uptake of new technology (particularly distributed energy resources) on distribution networks | TBC |
| Switch Process Review | Address known shortcomings that inhibit innovation and implement changes to the switching process in response to emerging retail business models. | 2021/22 |
| Additional consumer choice of electricity services | Investigate the benefits of enabling additional consumer choice of electricity services and any barriers that may prevent this choice. The project will effectively allow for the un-bundling of service offerings. | 2021/22 |
| Wholesale market information disclosure | A project to identify any gaps in the Authority's power to require further information disclosure (such as contract fuel supplies) and strengthen disclosure rules to include information on the availability of generation fuel. | 2022/23 |
| Extended reserves implementation | Consider the appropriateness of current measures to minimise disruption of supply in the event of unexpected adverse events. | 2022/23 |
| Spot market settlement on real-time pricing (implementation) | Develop and implement system changes to introduce Code amendments for real-time pricing market service provider systems, to change the way spot prices are calculated and published, so everything is done in real-time. | 2022/23 |
| Market enhancements omnibus | 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 programme and enhancements to the current market. | On-going |
| What's my number and repurposed information campaign | 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. | On-going |
| Distribution pricing - monitoring distributors adoption of more efficient prices | Implement and operate the monitoring framework developed as part of the Distribution pricing review. | On-going |

4

MANAGING THE SECURITY OF NEW ZEALAND'S ELECTRICITY SUPPLY APPROPRIATION

TE WHAKAHAERE I TE HAUMARUTANGA O TE UTU PUTEA HIKO O NIU TIRENI

What is intended to be achieved

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

Scope statement

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

The system operator is responsible for ongoing security monitoring and emergency management.⁵ 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.

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.

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.

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.

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.

⁵ 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 transpower.co.nz/system-operator/security-supply

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

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.

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.

The table below outlines the proposed appropriation.

No changes are proposed to this appropriation.

TABLE 4: MANAGING THE SECURITY OF NEW ZEALAND'S ELECTRICITY SUPPLY APPROPRIATION

| CONTINGENT APPROPRIATION - ELECTRICITY AUTHORITY | APPROPRIATION 2019/20 | PROPOSED APPROPRIATION 2020/21 |
|--|--------------------------|--------------------------------------|
| Managing the security of New Zealand's electricity supply (1 July 2017 to 30 June 2022) | 6,000 | over five years |



ELECTRICITY LITIGATION FUND APPROPRIATION

TE TAHUA A TE KAUTE HIKO

What is intended to be achieved

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

Scope of appropriation

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

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

This appropriation is contingent in nature, and we will only use it if certain events or situations arise.

In 2017/18 the baseline of this appropriation increased from \$0.444 million to \$1.000 million to

allow the Authority to effectively manage litigation risks. The increase was not used and the appropriation increase of \$0.556 million was transferred to 2018/19. The funds were also not required in 2018/19 and the Authority sought ministerial approval for the same transfer to 2019/20, which is expected to be confirmed in the October 2019 baseline. If approved, this will increase the 2019/20 appropriation to \$1.000 million.

As in previous years, it is difficult to estimate the likely level and timing of litigation for 2020/21. At this stage the Authority is proposing an appropriation level of up to \$1.000 million for 2020/21. This level of appropriation could again be facilitated by the transfer of any unused appropriation, up to \$0.556 million, from 2019/20 to 2020/21.

The table below outlines the proposed appropriation for 2020/21.

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

TABLE 5: ELECTRICITY LITIGATION FUND APPROPRIATION

| CONTINGENT APPROPRIATION - ELECTRICITY AUTHORITY | APPROPRIATION 2019/20 | PROPOSED APPROPRIATION 2019/20 |
|---|--------------------------|--------------------------------------|
| Electricity litigation fund | 0.444* | up to 1.000 |

* An expense transfer of \$0.556 million has been requested from 2018/19 to 2019/20 and approval will not be confirmed until the October 2019 baseline.



CONSULTATION QUESTIONS

NGĀ PĀTAI WHAKAWHITIWHITI WHAKAARO

- 1** What kinds of engagement have you or your organisation had with the Authority?
- 2** The Authority is proposing that the operational appropriation for Electricity Industry Governance and Market Operations in 2020/21 is \$76.936 million.
 - a. Do you support the Authority's proposal for funding of \$76.936 million?
 - b. Are there any specific activities that you think the Authority should invest more or less funding in for 2020/21 or in the future?
- 3** The Authority is proposing that the contingent appropriation for Managing the Security of New Zealand's Electricity Supply is unchanged for 2020/21. Do you support the Authority's proposal for maintaining this contingent funding at its current level?
- 4** The Authority is proposing that the contingent appropriation for the Electricity Litigation Fund may be up to \$1.000 million in 2020/21. Do you support the Authority's proposal for this contingent funding?
- 5** Would you like to provide any other comment on the Authority's proposed 2020/21 funding?



INDICATIVE LEVY RATES FOR 2020/21

KO NGA REETI RIIHI WHAKAATU MO TE 2020/21

All Authority functions are funded by three specific Crown appropriations. This consultation seeks feedback on the proposed level of those appropriations.

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.

The actual invoiced rates for recovering the levy in the year beginning 1 July 2020 will be calculated after the Government has confirmed appropriations through the release of Budget 2020, and following finalisation of our internal budget. It is anticipated that the finalised rates will be available in June 2020.

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.

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.

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 18 November 2019 on EECA's website: <https://www.eeca.govt.nz/about-eeeca/consultations-and-proposals/>.

TABLE 6: LEVY RATES**2019/20 INVOICED LEVY RATES**

| PARTICIPANT CLASS ACTIVITY | GENERATORS | PURCHASERS | RETAILERS | DISTRIBUTORS EXCLUDING TRANSPOWER | TRANSPOWER |
|---------------------------------------|-------------------|-------------------|------------------|--|-------------------|
| Common quality operations | \$0.1810/MWh | \$0.1824/MWh | | \$0.1010/MWh | \$0.1010/MWh |
| Market operations | \$0.4284/MWh | \$0.4317/MWh | | | |
| Registry & consumer operations | | | \$0.7313/ICP | \$0.7310/ICP | |
| Supply reliability operators | | \$0.0124/MWh | | | |
| Transmission operations | | | | | \$0.0797/MWh |
| EECA operations* | | \$0.1240/MWh | | | |
| Consumer participation operations | | | \$0.6891/ICP | | |
| Other activities | \$0.0656/MWh | \$0.0661/MWh | | \$0.0366/MWh | \$0.0366/MWh |

2020/21 INDICATIVE LEVY RATES

| PARTICIPANT CLASS ACTIVITY | GENERATORS | PURCHASERS | RETAILERS | DISTRIBUTORS EXCLUDING TRANSPOWER | TRANSPOWER |
|---------------------------------------|-------------------|-------------------|------------------|--|-------------------|
| Common quality operations | \$0.1767/MWh | \$0.1779/MWh | | \$0.0981/MWh | \$0.0981/MWh |
| Market operations | \$0.4379/MWh | \$0.4408/MWh | | | |
| Registry & consumer operations | | | \$0.8051/ICP | \$0.8050/ICP | |
| Supply reliability operators | | \$0.0178/MWh | | | |
| Transmission operations | | | | | \$0.0865/MWh |
| EECA operations | | \$0.1331/MWh | | | |
| Consumer participation operations | | | \$0.9583/ICP | | |
| Other activities | \$0.0734/MWh | \$0.0739/MWh | | \$0.0408/MWh | \$0.0408/MWh |

MOVEMENT

| PARTICIPANT CLASS ACTIVITY | GENERATORS | PURCHASERS | RETAILERS | DISTRIBUTORS EXCLUDING TRANSPOWER | TRANSPOWER |
|---------------------------------------|-------------------|-------------------|------------------|--|-------------------|
| Common quality operations | (\$0.0043)/MWh | (\$0.0045)/MWh | | (\$0.0029)/MWh | (\$0.0029)/MWh |
| Market operations | \$0.0095/MWh | \$0.0091/MWh | | | |
| Registry & consumer operations | | | \$0.0738/ICP | \$0.0740/ICP | |
| Supply reliability operators | | \$0.0054/MWh | | | |
| Transmission operations | | | | | \$0.0068/MWh |
| EECA operations | | \$0.0091/MWh | | | |
| Consumer participation operations | | | \$0.2692/ICP | | |
| Other activities | \$0.0078/MWh | \$0.0078/MWh | | \$0.0042/MWh | \$0.0042/MWh |

GLOSSARY OF ABBREVIATIONS AND TERMS

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

APPENDIX A:

LEGAL BASIS FOR CONSULTATION

Section 129 of the Electricity Industry Act 2010 requires the Electricity Authority to consult with those industry participants who are liable to pay a levy; and any other representatives of persons whom the Authority believes to be significantly be affected by a levy:

Section 129

Authority consultation about request for appropriation

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