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Our plan for  
1 July 2017–30 June 2018

# Statement of Performance Expectations



This Statement of Performance Expectations (SPE) is a partner document to the Statement of Intent 2017–2021 (SOI) published in June 2017.

The SOI sets out our long-term strategic intentions for a four-year period. It is published at least each three years.

The SPE is published annually. It details our planned work and financial forecasts for one year.

The SOI is available at: <http://www.ea.govt.nz/about-us/strategic-planning-and-reporting/statement-of-intent/>

For further information about our work, visit [www.ea.govt.nz](http://www.ea.govt.nz)

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#### Glossary and abbreviations

There are many technical terms used in the electricity sector, and some of these occur in this document. To assist readers, a glossary and list of abbreviations is provided at the end of the document. In addition, we have a glossary of common electricity industry terms on our website at [www.ea.govt.nz/glossary/](http://www.ea.govt.nz/glossary/)

## Contents

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<b>An introduction from our Chair</b> .....	<b>4</b>
<b>Statement of Responsibility</b> .....	<b>6</b>
<b>Our strategic framework</b> .....	<b>7</b>
The outcomes we seek.....	8
Our strategies—how we pursue our outcomes .....	9
<b>Our functions—the things we do</b> .....	<b>11</b>
A. Electricity industry governance and market operations appropriation .....	11
B. Managing the security of New Zealand’s electricity supply appropriation.....	22
C. Electricity litigation fund appropriation .....	25
<b>How we work</b> .....	<b>26</b>
<b>How we are funded</b> .....	<b>27</b>
<b>Financial information</b> .....	<b>28</b>
Prospective financial statements .....	28
Notes to the prospective financial statements.....	33
Statement of significant accounting policies .....	34
Changes in accounting policies .....	38
<b>Glossary and abbreviations</b> .....	<b>39</b>

## Figures

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<b>Figure 1: Our strategic framework</b> .....	<b>7</b>
<b>Figure 2: Our market development cycle</b> .....	<b>14</b>

## An introduction from our Chair

Our Statement of Performance Expectations (SPE) outlines our plan for the 2017/18 financial year. It includes information about our programmes and our business-as-usual functions, as well as our forecast financial statements.

The SPE is a partner document to our Statement of Intent 2017–2021 (SOI) published in June 2017. The SOI sets out our long-term strategic intentions for a four-year period, while the SPE details our planned work and financial forecasts for the first year of the period covered by our new SOI.

This SPE has been informed by the submissions we received on the consultation regarding our 2017/18 appropriations and work programme. It outlines how we plan to use each of our appropriations and what we are aiming to achieve.

We also publish a more detailed work programme on our website, setting out our projects and key deliverables for the 2017/18 year.

### Our journey so far

We were established in November 2010 and by November 2011 we had addressed the issues required by section 42 of the Electricity Industry Act 2010 (the Act). These changes were primarily about initiatives to improve reliability of supply and enhance retail market competition.

During the following years we focused on further initiatives to enhance competition in both the retail and wholesale electricity markets. In the last couple of years we have focused on the efficient operation of the electricity industry, primarily in regard to establishing more efficient pricing of transmission and distribution services.

In 2016/17 we shifted our strategic focus significantly, in response to potential security of supply issues and rapidly advancing improvements in new technology and rapidly falling prices for many of those technologies. As a result of the new strategic direction, we decided to re-orient the structure and presentation of our work programme. We also decided to re-orient our advisory groups, because new technology and business models are increasingly blurring the traditional demarcation between retail, distribution, transmission and wholesale market activities.

### Looking ahead

We made a significant shift in our strategic focus last year, and in doing so created a solid foundation to guide and drive our work. We will continue to follow this course in 2017/18, as discussed further under the 'What we do' section.

We are focused on removing any unwarranted barriers to market entry, expansion, exit, innovation and technological change. This includes increasing the scope for competitive provision of support services to distribution and transmission businesses. Likewise, we want to improve consumers' access to and participation in markets, and remove unwarranted barriers to consumers and their agents (eg, energy services companies) obtaining accurate information when they want it.

We are focused on creating the conditions for more efficient prices in the market, and ensuring price-related information is readily available. In particular, we will continue to support and encourage Transpower and distributors to implement changes to their pricing structures.

We are focused on developing the hedge market to provide new products for market participants to manage their price risks, and provide better price signals about future supply risks and more options for parties to respond in ways that address those risks. Similarly, we are focused on making it easier for the market and participants to respond to changing market conditions or adverse events.

Our strategy will continue to evolve as our operating environment changes and develops. We are driven by section 15 of the Electricity Industry Act, which requires the Authority to promote competition in, reliable supply by, and the efficient operation of the electricity industry for the long-term benefit of consumers.

Dr Brent Layton  
Chair

## Statement of Responsibility

The Crown Entities Act 2004 requires the Electricity Authority to prepare a Statement of Performance Expectations, including prospective financial and non-financial information, before the start of each year, to promote our accountability to the public. The prospective financial and non-financial information may not be appropriate for any other purpose and is unaudited.

We acknowledge responsibility for the preparation of the prospective financial and non-financial performance statements included in this Statement of Performance Expectations for 1 July 2017–30 June 2018. This includes the appropriateness of the assumptions underlying the prospective financial statements and all other required disclosures, pursuant to the Crown Entities Act 2004.

We acknowledge the responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of the Authority's performance and financial reporting.

In our opinion, the prospective statements fairly reflect the forecast financial position of the Authority at 30 June 2018, and results of our financial and service performance for the period ending on that date. We therefore authorise the issue of the prospective statements.



Dr Brent Layton  
Chair  
8 June 2017

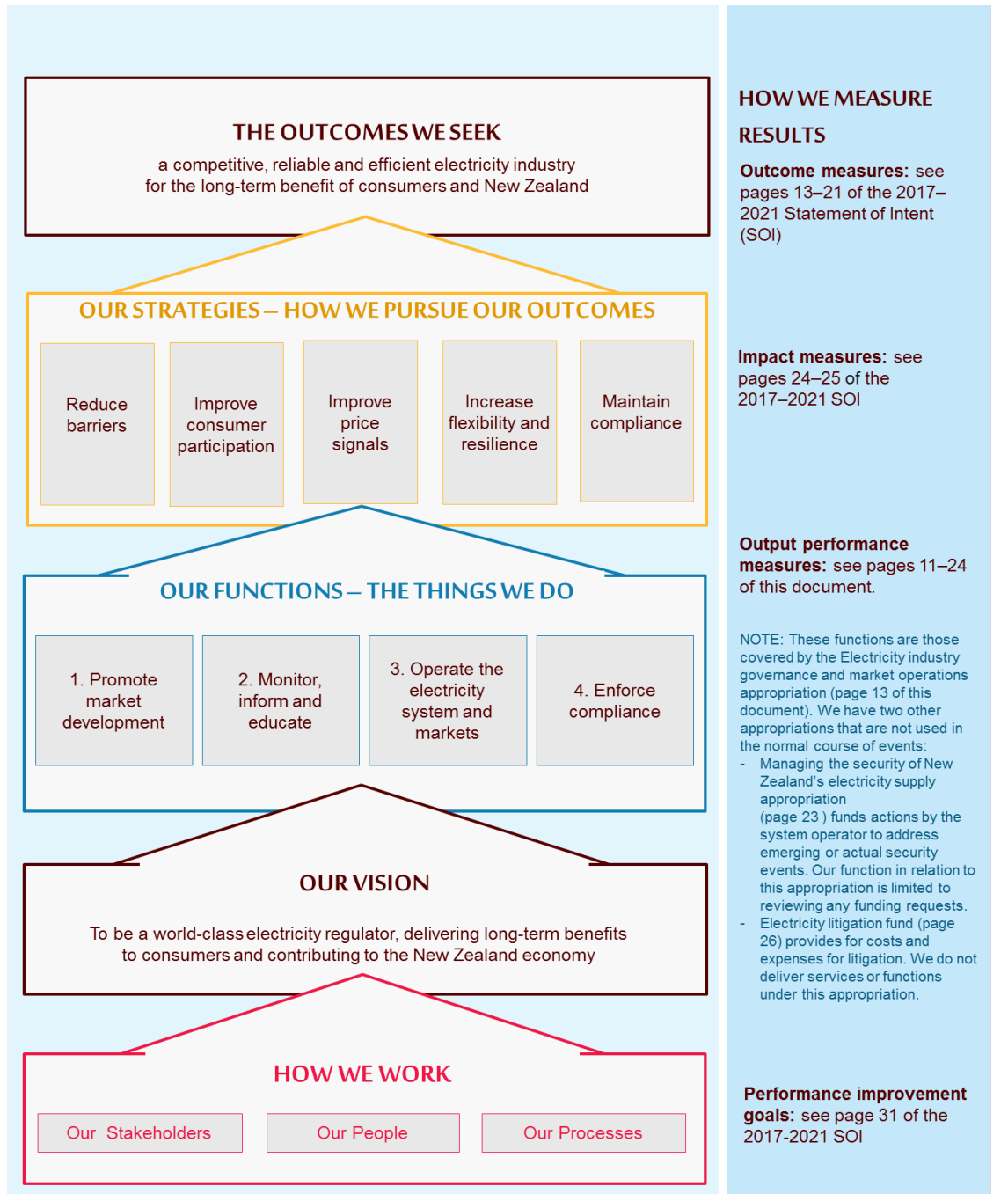


Lana Stockman  
Member  
8 June 2017

# Our strategic framework

Our strategic framework is outlined in detail in our *Statement of Intent 2017–2021*, and is summarised in Figure 1.

Figure 1: Our strategic framework



## The outcomes we seek

### **A competitive, reliable and efficient electricity industry for the long-term benefit of consumers and New Zealand.**

This outcome statement addresses our statutory objective and is supported by detailed information provided in our SOI.

Section 15 of the Electricity Industry Act 2010 sets our statutory objective:

**to promote competition in, reliable supply by, and the efficient operation of, the electricity industry for the long-term benefit of consumers.**

Our *Interpretation of our statutory objective* shows how the objective will be applied to our work.<sup>1</sup>

#### **Competition, reliability and efficiency**

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:**

- facilitate or encourage increased **competition** in the markets for electricity and electricity-related services, taking into account long-term opportunities and incentives for efficient entry, exit, investment and innovation in those markets
- encourage industry participants to efficiently develop and operate the electricity system to manage security and **reliability** in ways that minimise total costs whilst being robust to adverse events
- increase the **efficiency** of the electricity industry, taking into account the transaction costs of market arrangements and the administration and compliance costs of regulation and taking into account Commerce Act implications for the non-competitive parts of the electricity industry, particularly in regard to preserving efficient incentives for investment and innovation.

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<sup>1</sup> Available at [www.ea.govt.nz/about-us/strategic-planning-and-reporting/foundation-documents/](http://www.ea.govt.nz/about-us/strategic-planning-and-reporting/foundation-documents/)



## Our strategies—how we pursue our outcomes

Our strategic framework outlines the five key strategies that we focus on to deliver on our statutory objective for the long term benefit of consumers and the New Zealand economy. The strategies are outlined below:

### 1. Reduce barriers

We want to facilitate the entry, expansion and exit of parties in electricity markets, especially for new and potential entrants. By focusing on reducing barriers we provide the conditions for innovation in business models, whether by retailer or non-traditional businesses wanting to supply an electricity-related product or service. This will lead to more options available to electricity consumers to do what they want to do.

To achieve this we will continue our work towards reducing inefficient barriers to parties wanting to generate, store, transport and purchase electricity. This also includes removing any inefficient barriers to residential consumers purchasing directly from the wholesale electricity market, or directly from their neighbour or a local generator.

### 2. Improve consumer participation

Consumer participation is important because consumers who are actively participating in markets put pressure on suppliers to compete more vigorously and to innovate. Enhancing competitive markets can then make it easier for consumers to choose the electricity supplier and price that is right for them.

We aim to improve consumer participation by improving consumers' access to markets, and to make it easier for consumers to make choices.

### 3. Improve price signals

We believe it is important that the prices for distribution and transmission services be service-based and cost-reflective. Achieving this will assist consumers to base their decisions on better information about the true cost of their decisions, and encourage consumers to invest in technology in ways that have long-term benefits.

Also, to improve price signals we will consider introducing more advanced spot market pricing arrangements, bringing new products onto the hedge market, establishing new markets (where efficient and practicable) and publicising price data and information.

### 4. Increase flexibility and resilience

We are focused on increasing the flexibility and resilience of the electricity market and electricity systems so they are able to respond efficiently to changing circumstances and unexpected events. More flexible market arrangements will be better able to respond to changes to market circumstances, such as an increase in the number of industry participants from the current 130 to a possible 1,300. This is a plausible scenario given adoption of technologies and innovation in business practices. More resilient market arrangements will be better able to respond to unexpected events, such as the sudden exit of a large retailer.

We aim to improve flexibility and resilience by putting measures in place that allow electricity industry participants to respond more efficiently to changing market circumstances, and to make sure systems and practices can respond to the unexpected.

## 5. Maintain compliance

Compliance plays a key role in promoting the integrity of the electricity markets.

The technological environment and the way consumers engage with electricity markets is changing, such that in the near future we may see the number of market participants' increase from the current 130 to thousands. As such, it's important to maintain compliance in this ever-changing environment. A key risk of non-compliance is that innovation is stifled, but heavy-handed compliance can also stifle innovation and new competitors.

We seek to encourage continuous improvement by industry participants so they are "learning" when things go wrong, including taking action to avoid any recurrence.

We seek to always follow a good compliance process so that we can:

- encourage settlement agreements between parties
- deal with breaches in the appropriate manner in regard to their level of severity.

## Our functions—the things we do

We undertake a range of programmes and business-as-usual activities to progress our strategies. What we plan to achieve in 2017/18, and how we'll assess this, is outlined below.

The **bold** performance measures in the tables that follow are those contained in the Estimates.<sup>2</sup>

### A. Electricity industry governance and market operations appropriation

#### What is intended to be achieved

This appropriation is intended to achieve effective 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 rules governing the electricity industry and other functions in accordance with the statutory functions under the Electricity Industry Act 2010 (the 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, including Board members' costs, the Rulings Panel, the Security and Reliability Council, advisory groups and the operation of the electricity system and market operations as detailed below. This includes our four main functions, which are specified in the sections that follow:

1. **Promote market development:** we promote development of the electricity markets by making amendments to the Electricity Industry Participation Code 2010 (Code) and through market facilitation measures.<sup>3</sup>
2. **Monitor, inform and educate:** we monitor market behaviour, make data, information and tools available, and educate consumers and participants.
3. **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.

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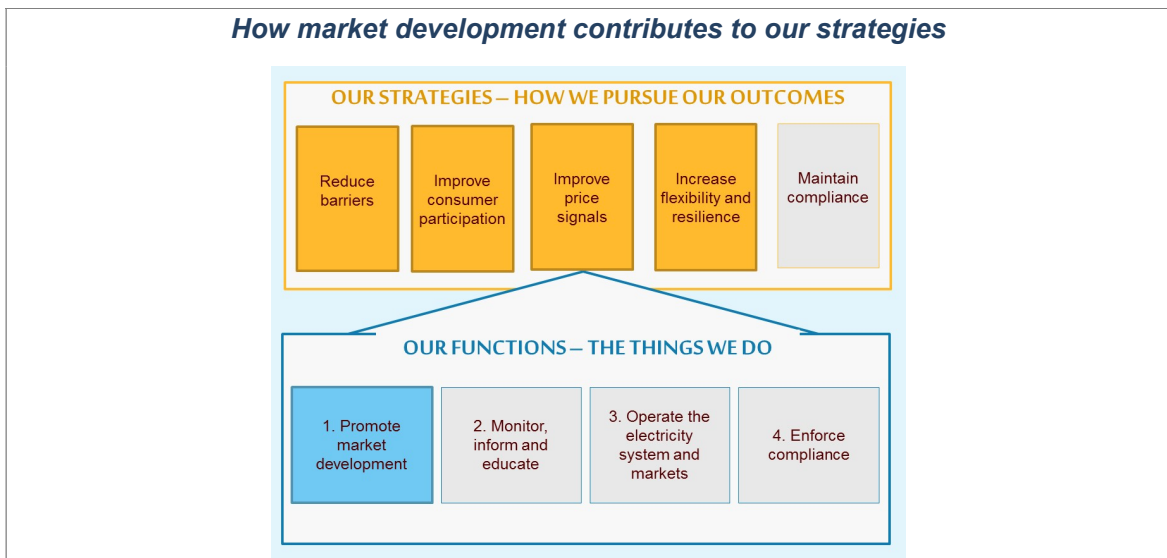
<sup>2</sup> The Estimates of Appropriations for the Government of New Zealand for the Year Ending 30 June 2018 is the Government-level budget, available at [www.treasury.govt.nz/budget](http://www.treasury.govt.nz/budget)

<sup>3</sup> Market facilitation measures are actions we can take short of amending the Code or recommending changes to regulations. This can include working directly with participants to develop desired results, education programmes, publication of guidelines and publication of model agreements.

4. **Enforce compliance:** we monitor, investigate and enforce compliance with the Act, relevant regulations and the Code.

## 1. Promote market development

We expect that technological advances will continue to proceed rapidly and that the price of many of these technologies will decline rapidly. We will need to move quickly to address potential barriers to evolving technology. This will require a significant commitment to market development.



The Authority will promote market development through the following programmes.

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

The electricity industry is moving away from a 'bulk supply' model that has characterised its operation over the last one hundred years or so to a more dispersed model where technology and new business models enable consumers to become more active participants in the market.

In 2017/18, the Authority will focus on:

- increasing the scope for competitive provision of support services to distribution and transmission businesses, and examining options to promote greater participation in electricity markets
- reviewing the accuracy and timeliness of data and data exchanges between industry participants (including service providers), and considering ways to improve systems and processes to facilitate greater participation in the electricity market and ensure the right information is provided at the right times and at an appropriate level of accuracy
- the feasibility and options to allow consumers to enter multiple trading relationships at an ICP
- facilitating industry-led adoption of more efficient distribution pricing and clarifying current distribution pricing principles. We will support distributors and the wider electricity market to implement changes for the long term benefit of consumers and New Zealand.

***Programme B: Consumer choice and competition***

We will see greater consumer participation and market competition when consumers have ready access to good information that gives them more confidence to take advantage of the choices available to them.

The Authority will continue the successful What's My Number campaign in 2017/18, including supporting the price comparison services provided by Consumer NZ's Powerswitch tool.

***Programme C: Pricing and cost allocation***

An important part of our work is to promote efficient pricing in markets and for monopoly services.

In 2017/18, the Authority will focus on further developing its initiative to introduce settlement on real-time pricing. We want to reduce any barriers to retail competition arising from current spot market arrangements. Refinements to the spot market have the potential to enhance competition in both the hedge and retail markets, and to make it easier for consumers to participate directly in the wholesale market and also to respond to wholesale market conditions. There are also reliability benefits from potential increases in demand-side participation.

We are also reviewing the guidelines for determining transmission prices so that prices are more closely linked to the transmission services delivered and the costs involved. We are expecting to complete our review of these guidelines in the 2017/18 year.

***Programme D: Risk and risk management***

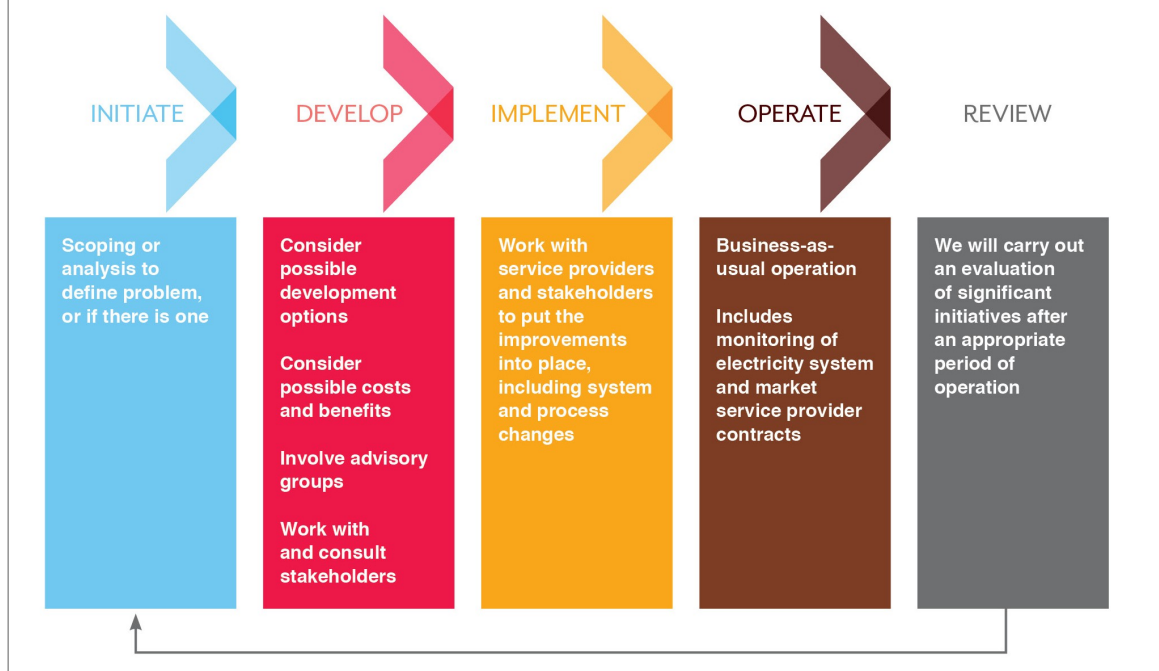
It is becoming increasingly important that participants and consumers have more tools and products to manage their risks. This is particularly valuable as changing technologies lead to more diverse services and business models.

In 2017/18, the Authority will focus on:

- hedge market development: exchange traded products. We continue to seek improvements to retail and wholesale competition by providing market participants with greater certainty about price risks, better price signals about future supply risks, and more options for addressing those risks. This will support reliability and efficiency better enabling participants to make more informed decisions about operating existing assets and investing in new assets.

***Our market development cycle***

Our market development cycle, shown in figure 2, ensures that market improvement initiatives are effectively implemented and the results assessed.

**Figure 2: Our market development cycle****Performance measures**

Desired result	2015/16 result	2016/17 target	2017/18 target
<b>Top priority market development projects, as listed in the Electricity Authority Work Programme<sup>4</sup>, achieve planned deliverables for the year</b>	Achieved. 83% (5 of 6) projects achieved their deliverables for the year	80% of top priority projects meet all of their milestones	<b>80% of top priority projects meet all of their milestones</b>
No legal challenges that result in an Authority decision being overturned	Achieved. There were no legal challenges in the year	Zero (0) successful challenges	Zero (0) successful challenges*

<sup>4</sup> The Electricity Authority Work Programme is published on our website: <http://www.ea.govt.nz/about-us/strategic-planning-and-reporting/our-work-programme/>

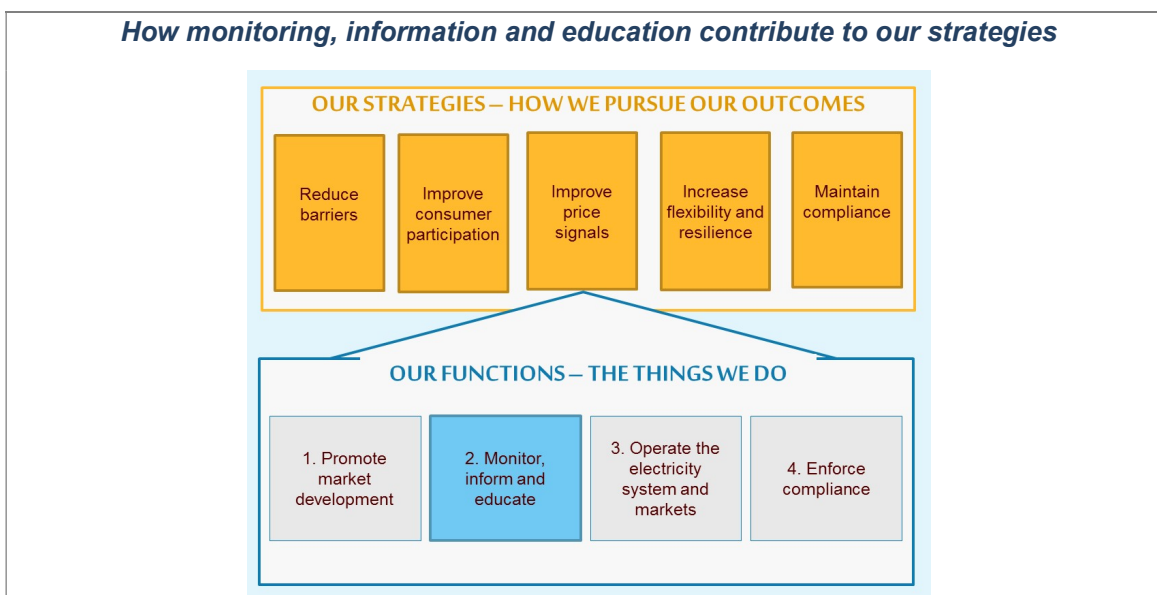
Desired result	2015/16 result	2016/17 target	2017/18 target
Code amendments deliver intended benefits and impacts on market behaviour	Achieved. Post-implementation review completed on demand-side bidding and forecasting	Post-implementation reviews show that market behaviour altered in intended direction identified when the Code or market facilitation measure was approved  In 2016/17 we planned to complete one to two post-implementation reviews	Post-implementation reviews show that market behaviour altered in intended direction identified when the Code or market facilitation measure was approved  In 2017/18 we plan to complete one to two post-implementation reviews

**Notes:**

\* This measure relates to Code amendment decisions, which may be challenged in court through judicial review. It includes a challenge that results in a Court directing the Authority to reconsider a decision or re-run a process. Our processes and all subsequent decisions are expected to be able to withstand scrutiny through the judicial review process.

## 2. Monitor, inform and educate

Transparency and understanding are vital to ensure the competitive, reliable and efficient operation of the electricity system and markets. Our market monitoring, information and education work focuses on improving the availability of data, information and tools and improving awareness and understanding of how electricity markets function.



During 2017/18 we will continue to place emphasis on monitoring the result of our initiatives, investigating market events, and assessing market performance. Monitoring work will continue to be used to inform further Code or market facilitation initiatives, where warranted.

## Performance measures

Desired result	2015/16 result	2016/17 target	2017/18 target
Robust investigation, analysis and reporting on anomalous events	Achieved. Seven reports completed and published  Achieved. The residential electricity market performance – 2015 year in review was rated as very good by the external reviewer	Minimum of two reports completed per annum  Key reports rated as good or very good against writing quality standards	Minimum of two reports completed per annum  Key reports rated as good or very good against writing quality standards*
Reviews requested by the Minister under section 18 of the Act	Achieved. Section 18 review completed on the Auckland power outage of 5 October 2014. Report published 20 November 2015	Reports under section 18 of the Act rated as good or very good by independent peer review	Reports under section 18 of the Act rated as good or very good by independent peer review*
Making information available to enable consumers to understand electricity market performance	Achieved. Eight new pages available on the website and one page updated  Achieved. 17% increase in page views	Increase the amount of information available to consumers via the Authority website  Increase the number of visits to the consumer section of the Authority website by 5%	Publish 10 or more consumer friendly items on market performance  Maintain the number of annual visits (15,000) to the consumer section of the Authority website
Making data, insights and analytical tools available to industry participants	Achieved. Thirteen new reports were published in 2015/16	Develop and make available six or more new reports on the EMI website	Develop and make available six or more new reports on the EMI website**

### Notes:

\* Assessment is by external expert reviewers using a 5-point scale of: very poor, poor, average, good, very good.

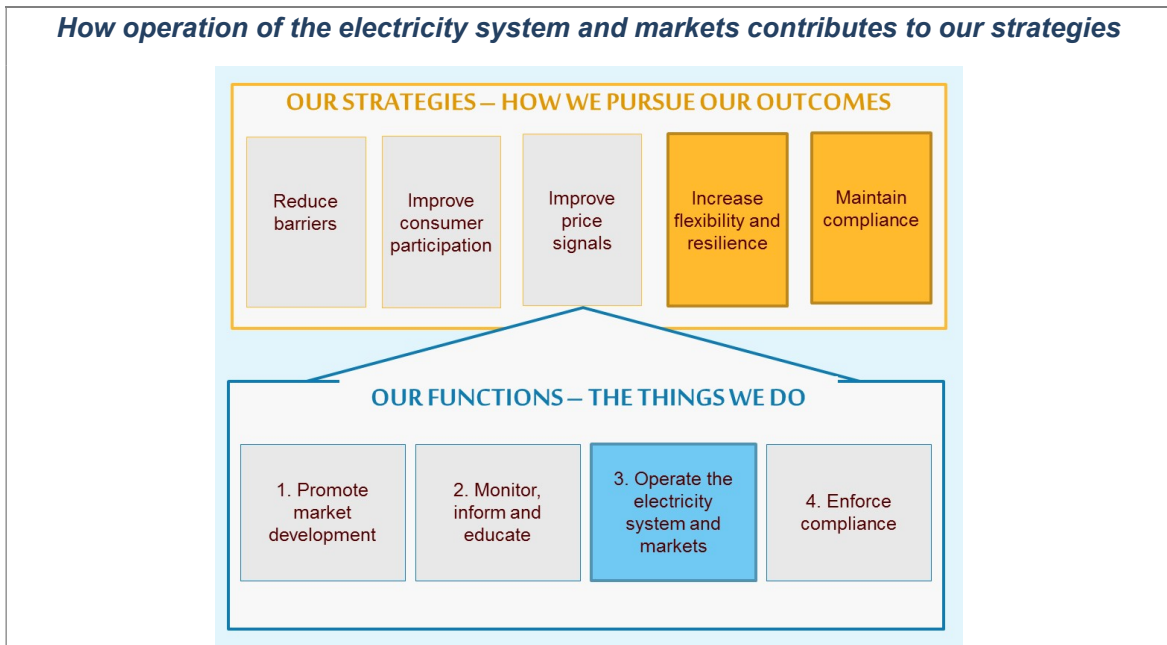
\*\* The EMI website is explained and is available at: [www.emi.ea.govt.nz](http://www.emi.ea.govt.nz).

## 3. Operate the electricity system and markets

We are responsible for the day-to-day (real-time) efficient and reliable operation of the electricity system and markets. The Act requires us to contract out a number of functions to a group of service providers<sup>5</sup>.

<sup>5</sup> A list of service providers is available on page 39 of our 2017–2021 Statement of Intent.





The Authority will focus on the following programme in operating the electricity system and markets.

**Programme D: Risk and risk management**

There have been extensive changes to the market operation service provider (MOSP) services, systems and contract arrangements over recent years. Because of this, the main focus under this function for 2017/18 will continue to be on ensuring that services are delivered to the high standard expected by the Authority and the users of the services.

In 2017/18 we will focus on:

- removing the risks associated with the current Automatic under-frequency load shedding (AUFLS) scheme and establishing the systems and network infrastructure that will enable this “last resort” mechanism to operate efficiently
- reviewing market systems resilience to adverse events.
- The Board will make a decision on the electronic dispatch facility (EDF) enhancement project proposed by the system operator.

The EDF is a component of the market system that sends dispatch instructions to, and receives acknowledgements from, electricity generators and providers of instantaneous reserves. Electricity industry participants have highlighted difficulties they experience with the current EDF mechanism and have requested a new mechanism so that they can better manage their risks.

The system operator’s proposed EDF enhancements have the potential to significantly improve current services, reduce risk, and enable future innovation. The system operator will commence delivery of this project in 2017/18, and the costs associated with the project will give rise to an appropriation increase for the Authority of \$0.333 million in 2018/19 and \$0.999 million in 2019/20 and out-years.

## Performance measures

Desired result	2015/16 result	2016/17 target	2017/18 target
<b>Electricity system and market operation performance will be assessed by monitoring service provider performance to ensure that contract and Code requirements, including performance standards, are met</b>	Achieved. We have published our annual review of the system operator's performance for the year ended 31 August 2015. Overall the conclusion of this review is that the review period has been one of strong performance and growth for the system operator. Monitoring shows market operations service provider performance requirements are being met	Contract, Code and performance standards met.	<b>Contract, Code and performance standards met*</b>
	Achieved. Annual audits complete. No material issues identified	Annual audits of market operation service providers do not reveal any significant issues	Audits of market operation service providers do not reveal any significant issues
	Achieved. 77% of respondents to the user survey of performance of system operator service rated overall performance as good or very good using a five-point scale. Results for all market services indicate overall user satisfaction	The percentage of system operator and market service users who rate the overall services provided as good or very good	The percentage of system operator and market service users who rate the overall services provided as good or very good**
The Authority carries out its functions in accordance with the Electricity Industry Participation Code	Achieved. No significant breaches in the year	No significant breaches as a result of the Authority carrying out its market administration function	No significant breaches as a result of the Authority carrying out its Code obligations***
Effective implementation of market development initiatives	Achieved. The retail data project and the inter-island instantaneous reserve sharing project were the only significant implementation projects commissioned during the year. They were delivered on time and within approved budgets	Significant implementation projects are delivered on time and within approved budgets	Significant implementation projects are delivered on time and within approved budgets as measured by case-by-case analysis, including participant feedback

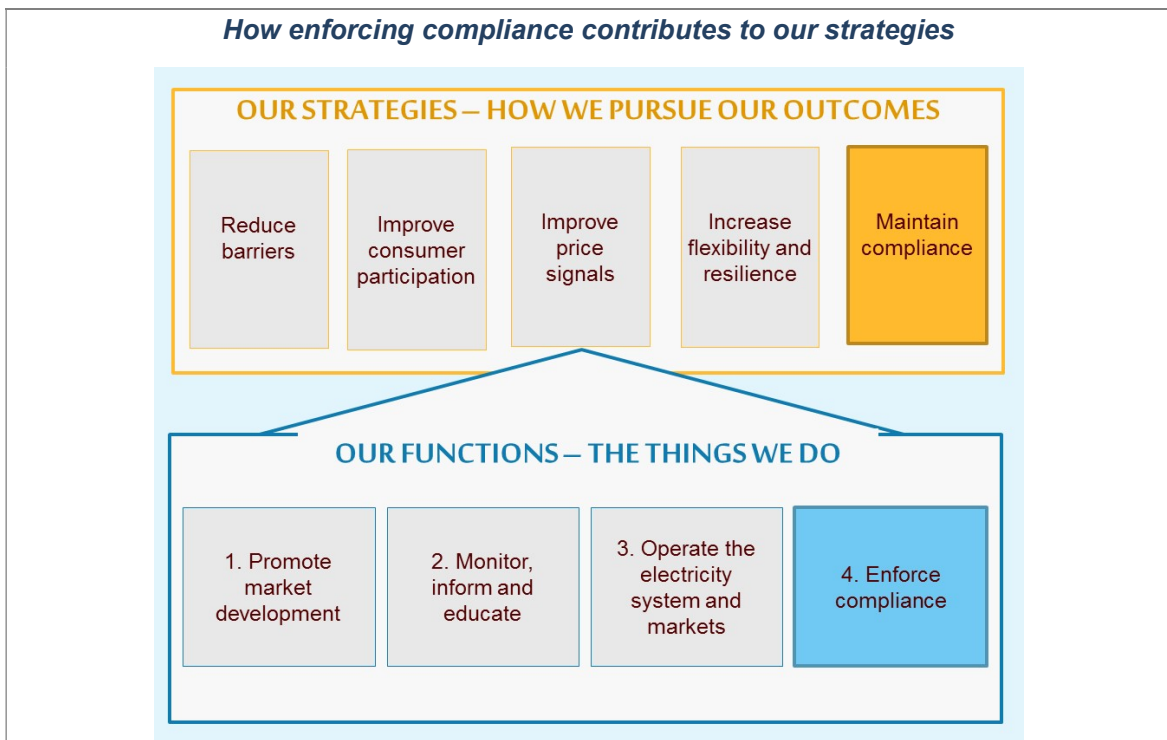
**Notes:**

- \* Previous measures for the system operator and market service providers have been combined. Performance standards for the system operator include the principal performance obligations (PPOs), which are contained in the Code, available at: [www.ea.govt.nz/code-and-compliance/the-code/](http://www.ea.govt.nz/code-and-compliance/the-code/) Breaches of the PPOs are investigated by the Compliance team. Measurement of contract performance includes the annual assessment of the system operator's performance published on our website at [www.ea.govt.nz/operations/market-operation-service-providers/system-operator/annual-system-operator-reviews-and-assessments/](http://www.ea.govt.nz/operations/market-operation-service-providers/system-operator/annual-system-operator-reviews-and-assessments/) Market operation service providers' Code and contract performance standards, including availability standards, vary between the various providers. Details are available on the Authority's website.
- \*\* Baseline being established. Measured by user surveys, carried out by the system operator and market service providers. Users are asked to rate services using a 5-point scale of: very poor, poor, average, good, very good. Previous measures for the system operator and market service providers have been combined.
- \*\*\* Breaches by the market administrator are investigated by the Compliance team. The absence of breaches is an indicator that standards are met. A significant breach is one that results in at least a warning letter to the CEO.

#### 4. Enforce compliance

We are responsible for monitoring, investigating and enforcing compliance with the Act, regulations made under the Act, and the Code.

We recognise that most industry participants want to meet their regulatory obligations voluntarily, or can be encouraged or induced to do so. We provide information, education and assistance to support them. If a serious compliance matter arises, we will ensure it is formally investigated and subject to enforcement action if required.



In 2017/18 we will continue our proactive approach to ensuring compliance as well as responding to alleged breaches. We will continue to provide information to assist industry participants to effectively apply specific Code requirements.

**Performance measures**

Desired result	2015/16 result	2016/17 target	2017/18 target
<b>Percentage of investigations decided within 12 months of the investigation being opened</b>	100%	100%	<b>100%*</b>
Percentage of investigations decided within eight months of the investigation being opened	95.5%	90%	90%**
Percentage of investigations decided within four months of the investigation being opened	85.9%	85%	85%***
Number of compliance updates published	NA	NA	4****
Sound compliance processes are followed	Achieved. All reports to the Compliance Committee comply with the Authority's quality standards and case management procedures	All reports to the Compliance Committee comply with the Authority's quality standards and case management procedures	All reports to the Compliance Committee comply with the Authority's quality standards and case management procedures

**Note:**

\* Investigations in this context include all fact finding enquiries as well as formal investigations

\*\* The 2015/16 timeframe was six months, which overly emphasised speed over quality decision making. This was changed for 2016/17 because of the increasing complexity of compliance investigations and to better reflect the Authority's emphasis on robust process and quality decision-making.

\*\*\* The 2015/16 timeframe was three months, which overly emphasised speed over quality decision making. This was changed for 2016/17 because of the increasing complexity of compliance investigations and to better reflect the Authority's emphasis on robust process and quality decision-making.

\*\*\*\* New measure added for 2017/18 financial year. Compliance updates give an overview of the compliance matters considered by the Compliance Committee, which may include key decisions, themes and findings from investigations or matters arising from proactive monitoring. Compliance updates are published at [www.ea.govt.nz/code-and-compliance/compliance/compliance-monitoring/compliance-update/](http://www.ea.govt.nz/code-and-compliance/compliance/compliance-monitoring/compliance-update/)

## Appropriation and cost breakdown

<b>Electricity industry governance and market operations appropriation</b>	<b>Actual 2015/16 \$000</b>	<b>Budget 2016/17 \$000</b>	<b>Budget 2017/18 \$000</b>
Revenue from the Crown	72,520	76,037	73,937
Expenditure*	72,520	76,037	73,937

\* A breakdown of expenditure is provided in the following table.

<b>Electricity industry governance and market operations expenditure</b>	<b>Actual 2015/16 \$000</b>	<b>Budget 2016/17 \$000</b>	<b>Budget 2017/18 \$000</b>
System operator—operating expenses	23,903	25,760	26,396
System operator—capital-related expenses	17,287	20,130	16,731
<b>System operator expenses</b>	<b>41,190</b>	<b>45,890</b>	<b>43,127</b>
Service provider—clearing manager	2,016	2,245	2,312
Service provider—wholesale information and trading system	1,430	1,604	1,797
Service provider—pricing manager	1,591	736	750
Service provider—reconciliation manager	1,077	882	909
Service provider—registry	550	562	636
Service provider—FTR manager	807	914	935
Service provider—extended reserves manager*	-	25	350
Service provider—depreciation and amortisation	2,228	1,799	1,797
Service provider—IT costs	197	151	95
<b>Other service provider expenses</b>	<b>9,896</b>	<b>8,918</b>	<b>9,581</b>
<b>Facilitating consumer participation expenses</b>	<b>2,959</b>	<b>2,500</b>	<b>2,500</b>
Authority operations—external work programme support	5,413	4,952	4,767
Authority operations—personnel	9,654	9,895	10,152
Authority operations—other operating costs	3,408	3,882	3,810
<b>Authority operating expenses</b>	<b>18,475</b>	<b>18,729</b>	<b>18,729</b>
<b>Total expenses</b>	<b>72,520</b>	<b>76,037</b>	<b>73,937</b>

\* The service provider agreement for the extended reserves manager has not been finalised; the fees included in the above table are an estimate.

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

### 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. These situations are expected to be rare. This appropriation will not be drawn on in the normal course of events.

### Scope of appropriation

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. 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.

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.

### Our functions under this appropriation

The system operator is responsible for ongoing security monitoring and emergency management.<sup>6</sup> The security management functions of the system operator include the preparation of 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

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<sup>6</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)

or emerging security event, and to describe the actions it intends to take using the funds and how the use of these funds will be monitored. 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 would seek our approval for funding from this appropriation on a case-by-case basis, when it considers increased monitoring or security management actions are justified. However, the system operator can, acting on a 'good faith' basis, incur up to \$300,000 of costs in this area without prior approval if it is not reasonably practicable to seek that approval.

## Performance measures

Managing the security of New Zealand's electricity supply contributes to our reliability outcome (see pages 15–17 of the 2017–2021 Statement of Intent). The effective management of dry years and emergency events, as measured by case-by-case-analysis, is one of a suite of statistics we use to measure whether there are efficient levels of reliable electricity supply. Should the system operator seek funding under this appropriation to manage the dry-year or emergency event, its utilisation of that funding would be reviewed as part of the subsequent analysis. The results of the review would be published on our website and a summary would be reported in the outcomes section of our Annual Report.

Given that the relevant outcome and function performance measures are already captured elsewhere, the measures below are limited to those that demonstrate that the Authority has fulfilled its obligations in relation to this appropriation.

Desired result	2015/16 result	2016/17 target	2017/18 target
<b>The Electricity Authority decisions in relation to managing the security of New Zealand's electricity supply appropriation are made in accordance with the agreed process and criteria</b>	There were no requests for funding during the period	Process and criteria met	<b>Process and criteria met*</b>
<b>Note:</b>			
* Process and criteria agreed between the Authority and the system operator, for example: correct documentation is provided; appropriate signoff by system operator management; evidence that there is an actual or emerging security event; intended actions are clearly described; and monitoring and reporting is specified.			

## Appropriation

<b>Managing the security of New Zealand's electricity supply appropriation</b>	<b>Actual 2015/16 \$000</b>	<b>Budget 2016/17 \$000</b>	<b>Budget 2017/18 \$000</b>
Revenue from the Crown	-	1,200	1,200
Expenditure	-	1,200	1,200

**Note:**

This is a multi-year appropriation of \$6 million over five years. Following the expiry of the previous appropriation, a new appropriation has been established commencing on 1 July 2017 and expiring on 30 June 2022. This appropriation is contingent in nature and is not routinely utilised. To provide consistency with the appropriations contained in the Government's Estimates documents for Vote Business, Science and Innovation, annual budgeted amounts have been included in the above appropriation table. However, as it is not routinely utilised, no amounts in relation to this appropriation have been included in the 2017/18 budgets within the other prospective financial statements contained in this SPE.



## C. Electricity litigation fund appropriation

### What is intended to be achieved

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

### Scope of appropriation

This appropriation is limited to the costs and expenses the Authority incurs in participating in litigation.

### Our functions under this appropriation

Our functions under this appropriation include defending cases against the Authority and taking enforcement action under our enforcing compliance function.

### Performance measures

Desired result	2015/16 result	2016/17 target	2017/18 target
The Electricity Authority uses the litigation fund in accordance with the criteria for use of the fund	Achieved	Criteria met	Criteria met*

Note:

\* The criteria are set out in the output agreement between the Minister of Energy and Resources and the Authority.

### Appropriation

Electricity litigation fund appropriation	Actual 2015/16 \$000	Budget 2016/17 \$000	Budget 2017/18 \$000
Revenue from the Crown	7	444	1,000
Expenditure	7	444	1,000

## How we work

Our vision to be a world-class electricity regulator—delivering long-term benefits for consumers and contributing to the New Zealand economy—drives the way we work. We will pursue our vision by focusing on the following three organisational capability areas:

### Our stakeholders

Strong, professional and ongoing relationships with consumers and stakeholders are vital to assist us to develop effective improvements to the New Zealand electricity market. Our foundation documents<sup>7</sup> provided information about how we interpret our statutory objective, consult, develop Code and market facilitation measures and how we work with advisory groups.

### Our people

We value our people and strive to provide a workplace and culture that is open and supportive. Our work standards are high, in keeping with the importance of the issues we are addressing.

### Our processes

We strive to ensure our systems, tools and processes are in line with international best practice. We aim for ongoing improvements in efficiency, productivity and quality.

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<sup>7</sup> Available at [www.ea.govt.nz/about-us/strategic-planning-and-reporting/foundation-documents/](http://www.ea.govt.nz/about-us/strategic-planning-and-reporting/foundation-documents/).

## How we are funded

We are funded by the Crown from three appropriations within Vote Business, Science and Innovation:

- A. electricity industry governance and market operations
- B. managing the security of New Zealand's electricity supply (contingent in nature)
- C. electricity litigation fund (contingent in nature).

This SPE provides prospective information for each appropriation on the functions that will be provided, the results to be achieved, and the costs of delivering these.

The Crown is reimbursed for the cost of funding the Authority through a levy on industry participants. This levy also funds electricity efficiency programmes delivered by the Energy Efficiency and Conservation Authority (EECA).

We administer the collection of the levy on behalf of the Crown under the Electricity Industry (Levy of Industry Participants) Regulations 2010.

Each year the Authority makes a request to the Minister of Energy and Resources (Minister) seeking an appropriation of public money. Prior to making this request we consult on the proposed appropriation levels with those affected by the levy, and the outcome of this consultation is reported to the Minister at the time the appropriations request is submitted.

For each financial year the Crown recovers levy revenue up to the level of actual expenditure incurred against appropriations. Any over-recovery of levy revenue is refunded to levy payers.

## Financial information

This part of the SPE is the forecast financial statements required by section 149G of the Crown Entities Act 2004.

### Prospective financial statements

The purpose of these prospective financial statements is to provide a base against which the Authority's actual financial performance can be assessed to promote public accountability.

These prospective financial statements are prepared for the purpose described above, and the information may not be appropriate for any other purpose. Actual financial results achieved for the period covered may vary from the information presented, and the variations may be material. The information in the prospective financial statements is unaudited.

These prospective financial statements have been prepared to comply with the Public Benefit Entity Financial Reporting Standard 42 *Prospective Financial Statements*.

There is no intention to update the prospective financial statements subsequent to presentation.

### Reporting entity

The reporting entity is the Electricity Authority, which is an independent Crown entity in terms of the Crown Entities Act 2004 and the Public Finance Act 1989. The Authority was established under the Electricity Industry Act 2010.

The Authority is a Tier 1 public benefit entity, as defined under the *External Reporting Board Accounting Standards Framework*, and a reporting entity for the purposes of the Financial Reporting Act 1993, the Public Finance Act 1989 and the Crown Entities Act 2004.

### Statement of compliance and basis of preparation

These prospective financial statements have been prepared on a going concern basis in accordance with the requirements of the applicable *International Public Sector Accounting Standards*.

The financial statements are presented in New Zealand dollars rounded to the nearest thousand.

The accounting policies below have been applied consistently to all periods presented in the financial statements.

The financial information presented for the 2015/16 year reflects the actual results as published in the Authority's 2015/16 Annual Report. The financial information presented for the 2016/17 year reflects the budget as published in the Authority's 2016/17 SPE. The financial information presented for the 2017/18 year reflects the Authority's intended budget for that year. Budgeted financial information does not include actual transactions and events.

The statement of significant accounting policies forms an integral part of, and should be read in conjunction with, the financial statements.

## Statement of significant assumptions

These prospective financial statements have been compiled on the basis of government policies and legislation at the time the statements were finalised.

The prospective financial statements are consistent with the delivery of strategies and impacts disclosed in this SPE and the programme of work the Authority expects to undertake during the forecast period.

A conservative view has been adopted with the assumption that funding will remain at the currently appropriated levels over the forecast period of these statements.

Budget expenditure is based on the assumption that the cost of certain inputs will increase in line with general inflation, while others will decrease as cost saving measures are implemented.

The prospective financial statements have been prepared using the most appropriate assumptions at the time the statements were prepared. As the statements are prospective in nature, actual results will vary from those presented in this SPE.

Factors that may lead to material differences between the prospective financial statements and the subsequent actual financial results reported include:

- The level of litigation activity. In the 2017/18 year the Electricity litigation fund appropriation provides the Authority funding of up to \$1 million to ensure that it is able to participate in litigation effectively and without delay. The actual amount of expenditure incurred will primarily be driven by the number and complexity of legal challenges the Authority is a party to, if any, during 2017/18.
- Security of supply emergency events. The Authority renewed the Managing the security of New Zealand's electricity supply appropriation available to fund the management of emergency events by the system operator. This is a multi-year appropriation of \$6 million over five years (commencing on 1 July 2017 and expiring on 30 June 2022). As this appropriation is contingent in nature and is not routinely utilised, no revenue or expenditure in relation to this appropriation has been included in the 2017/18 budgets in the prospective financial statements.

**Prospective statement of comprehensive revenue and expense**

	Note	Actual 2015/16 \$000	Budget 2016/17 \$000	Budget 2017/18 \$000
Funding from the Crown	1	72,527	76,481	74,937
Interest revenue		539	350	350
<b>Total revenue</b>		<b>73,066</b>	<b>76,831</b>	<b>75,287</b>
Personnel costs	2	9,654	9,895	10,152
Depreciation and amortisation		2,542	2,177	2,047
Service provider contracts		48,859	53,009	50,911
Other expenses	3	11,472	11,400	11,827
<b>Total expenditure</b>		<b>72,527</b>	<b>76,481</b>	<b>74,937</b>
<b>Total comprehensive revenue and expense</b>		<b>539</b>	<b>350</b>	<b>350</b>

**Prospective statement of changes in equity**

	Actual 2015/16 \$000	Budget 2016/17 \$000	Budget 2017/18 \$000
Opening balance at 1 July	11,099	11,599	11,949
Total comprehensive revenue and expense	539	350	350
<b>Closing balance at 30 June</b>	<b>11,638</b>	<b>11,949</b>	<b>12,299</b>

The statement of significant accounting policies forms an integral part of, and should be read in conjunction with, the financial statements.

## Prospective statement of financial position

	Note	Actual 2015/16 \$000	Budget 2016/17 \$000	Budget 2017/18 \$000
<b>Assets</b>				
<i><b>Current assets</b></i>				
Cash and cash equivalents		14,029	13,080	13,015
Receivables and prepayments		62	200	200
GST receivable		279	-	-
<b>Total current assets</b>		<b>14,370</b>	<b>13,280</b>	<b>13,215</b>
<i><b>Non-current assets</b></i>				
Property, plant and equipment	4	325	273	418
Intangible assets	5	6,576	6,596	6,866
<b>Total non-current assets</b>		<b>6,901</b>	<b>6,869</b>	<b>7,284</b>
<b>Total assets</b>		<b>21,271</b>	<b>20,149</b>	<b>20,499</b>
<b>Liabilities</b>				
<i><b>Current liabilities</b></i>				
Payables and accruals		7,565	7,000	7,000
Employee entitlements		796	1,000	1,000
GST payable		-	200	200
Appropriation repayable to the Crown		1,247	-	-
<b>Total current liabilities</b>		<b>9,608</b>	<b>8,200</b>	<b>8,200</b>
<i><b>Non-current liabilities</b></i>				
Employee entitlements		25	-	-
<b>Total liabilities</b>		<b>9,633</b>	<b>8,200</b>	<b>8,200</b>
<b>Net assets</b>		<b>11,638</b>	<b>11,949</b>	<b>12,299</b>
<b>Equity</b>				
Contributed capital		9,011	9,011	9,011
Accumulated surplus/(deficit)		2,627	2,938	3,288
<b>Total Equity</b>		<b>11,638</b>	<b>11,949</b>	<b>12,299</b>

The statement of significant accounting policies forms an integral part of, and should be read in conjunction with, the financial statements.

**Prospective statement of cash flows**

	<b>Actual 2015/16 \$000</b>	<b>Budget 2016/17 \$000</b>	<b>Budget 2017/18 \$000</b>
<b>Cash flows from operating activities</b>			
Receipts from the Crown	73,774	76,481	74,937
Interest from investments	539	350	350
Repayment of appropriations to the Crown	(1,806)	-	-
Payments to suppliers	(60,096)	(64,409)	(62,738)
Payments to personnel	(9,590)	(9,895)	(10,152)
Goods and services tax (net)	(284)	-	-
<b>Net cash flows from operating activities</b>	<b>2,537</b>	<b>2,527</b>	<b>2,397</b>
<b>Cash flows from investing activities</b>			
Receipts from the sale of fixed assets	275	-	-
Purchase of property, plant and equipment	(68)	(125)	(137)
Purchase of intangibles	(1,083)	(1,998)	(2,000)
<b>Net cash flows from investing activities</b>	<b>(876)</b>	<b>(2,123)</b>	<b>(2,137)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>1,661</b>	<b>404</b>	<b>260</b>
Cash and cash equivalents at the beginning of the year	12,368	12,676	12,755
<b>Cash and cash equivalents at the end of the year</b>	<b>14,029</b>	<b>13,080</b>	<b>13,015</b>

The statement of significant accounting policies forms an integral part of, and should be read in conjunction with, the financial statements.



## Notes to the prospective financial statements

<b>1. Appropriation revenue</b>	<b>Actual 2015/16 \$000</b>	<b>Budget 2016/17 \$000</b>	<b>Budget 2017/18 \$000</b>
Electricity industry governance and market operations	72,520	76,037	73,937
Managing the security of New Zealand's electricity supply*	-	-	-
Electricity litigation fund	7	444	1,000
	<b>72,527</b>	<b>76,481</b>	<b>74,937</b>

**Note:**

\* This appropriation is contingent in nature and is not routinely utilised. Therefore no revenue in relation to it has been included in the 2017/18 budget.

<b>2. Personnel costs</b>	<b>Actual 2015/16 \$000</b>	<b>Budget 2016/17 \$000</b>	<b>Budget 2017/18 \$000</b>
Salaries and contractors	9,301	9,483	9,729
Contributions to defined contribution plans	370	412	423
Increase/(decrease) in leave provisions	(17)	-	-
	<b>9,654</b>	<b>9,895</b>	<b>10,152</b>

<b>3. Other expenses</b>	<b>Actual 2015/16 \$000</b>	<b>Budget 2016/17 \$000</b>	<b>Budget 2017/18 \$000</b>
Managing the security of New Zealand's electricity supply*	-	-	-
Litigation fund	7	444	1,000
Facilitating consumer participation	2,959	2,500	2,500
External work programme support	5,413	4,952	4,767
Auditor fees	46	46	47
Auditor fees for other services	20	-	-
Advisory and working group fees	22	52	52
Board members' fees	550	582	656
Rulings Panel fees	87	100	100
Operating lease expenses	528	515	515
Travel expenses	222	257	261
Other operating expenses	1,618	1,952	1,929
	<b>11,472</b>	<b>11,400</b>	<b>11,827</b>

**Note:**

\* This appropriation is contingent in nature and is not routinely utilised. Therefore no expenditure in relation to it has been included in the 2017/18 budget.

<b>4. Property, plant and equipment</b>	<b>Actual 2015/16 \$000</b>	<b>Budget 2016/17 \$000</b>	<b>Budget 2017/18 \$000</b>
Computer hardware*	87	91	293
Office equipment	17	14	9
Furniture and fittings	108	71	36
Leasehold improvements	113	97	80
<b>Net book value at 30 June</b>	<b>325</b>	<b>273</b>	<b>418</b>

**Note:**  
\* The increase in the net book value of computer hardware is due to the Authority completing a replacement programme for desktop computers and wireless network infrastructure during the 2016/17 financial year.

<b>5. Intangible assets</b>	<b>Actual 2015/16 \$000</b>	<b>Budget 2016/17 \$000</b>	<b>Budget 2017/18 \$000</b>
Software	6,576	6,596	6,866
<b>Net book value at 30 June</b>	<b>6,576</b>	<b>6,596</b>	<b>6,866</b>

## Statement of significant accounting policies

### Revenue

The specific accounting policies for significant revenue items are explained below.

### Funding from the Crown

The Authority is primarily funded from the Crown. This funding is restricted in its use for the purpose of the Authority meeting the objectives specified in its founding legislation and the scope of the relevant appropriations of the funder.

The Authority considers there are no conditions attached to the funding and it is recognised as non-exchange revenue at the point of entitlement. Appropriations received from the Crown are recognised as revenue to the extent that expenditure has been incurred. Appropriations received but not spent are treated as a Crown creditor and shown in the statement of financial position as a provision for refund of appropriations to the Crown.

### Levies

The Authority administers a levy on industry participants under the Electricity Industry (Levy of Industry Participants) Regulations 2010. Levies are paid directly to the Crown for reimbursement of funding provided to the Authority. Levies are not recognised as revenue in the Authority's financial statements.

### Interest

Interest is earned on bank deposits and is recognised in the period to which it relates.

The statement of significant accounting policies forms an integral part of, and should be read in conjunction with, the financial statements.

## **Leases**

### **Operating leases**

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset to the lessee.

Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

### **Cash and cash equivalents**

Cash and cash equivalents include cash on hand, deposits held on call with banks, and other short-term highly liquid investments with original maturities of normally three months or less.

### **Receivables and prepayments**

Short-term receivables and prepayments are recorded at their face value, less any provision for impairment.

A receivable is considered impaired when there is evidence that the Authority will not be able to collect the amount due. The amount of the impairment is the difference between the carrying amount of the receivable and the present value of the amounts expected to be collected.

### **Property, plant and equipment**

Property, plant and equipment consists of the following asset classes: computer hardware, furniture and fittings, office equipment, and leasehold improvements.

Property, plant and equipment are shown at cost or valuation, less any accumulated depreciation and impairment losses.

All fixed assets costing \$1,000 (excluding GST) or more are capitalised and recorded at historical cost.

### **Additions**

The cost of an item of property, plant and equipment is recognised as an asset only when it is probable that future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably.

### **Disposals**

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are reported net in the surplus or deficit.

## Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment at rates that will write-off the cost (or valuation) of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of each asset class have been estimated as follows:

Computer hardware	3–5 years	20%–33%
Furniture and fittings	5 years	20%
Office equipment	5 years	20%
Leasehold improvements	Unexpired period of the lease	

## Intangible assets

### Software acquisition and development

Acquired software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs that are directly associated with the development of software are recognised as an intangible asset when the software becomes operational. Work in progress is recognised at cost less impairment.

Staff training costs are recognised as an expense when incurred.

Costs associated with maintaining software are recognised as an expense when incurred.

Costs associated with development and maintenance of the Authority's corporate websites are recognised as an expense when incurred.

### Amortisation

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each financial year is recognised in the surplus or deficit. The value of additions made to an existing asset are amortised over the remaining useful life of the existing asset.

The useful lives and associated amortisation rates of each asset class are estimated as follows:

Computer software	3–9 years	11%–33%
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## Impairment of capital assets

The Authority does not hold any cash-generating assets. Assets are considered cash-generating where their primary objective is to generate a commercial return.

The statement of significant accounting policies forms an integral part of, and should be read in conjunction with, the financial statements.

Property, plant and equipment and intangible assets that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss would be recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

## **Payables and accruals**

Short-term payables and accruals are recorded as exchange transactions at their face value.

## **Employee entitlements**

### **Short-term employee entitlements**

Employee benefits that are due to be settled within 12 months after the end of the period in which the employee renders the related service are measured based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date, annual leave earned but not yet taken at balance date, and sick leave.

Annual leave earned but not yet taken is recognised as it accrues to employees at current rates of pay.

Sick leave is recognised to the extent that compensated absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date to the extent that the Authority anticipates it likely to be used by staff to cover those future absences.

A liability and an expense are recognised for bonuses where there is a contractual obligation or where there is a past practice that has created a constructive obligation and a reliable estimate of the obligation can be made.

### **Long-term employee entitlements**

Employee benefits that are due to be settled beyond 12 months after the end of period in which the employee renders the related service, such as long service leave, are calculated on an actuarial basis. The calculations are based on:

- likely future entitlements accruing to staff, based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement, and contractual entitlement information
- the present value of the estimated future cash flows.

### **Presentation of employee entitlements**

Sick leave, annual leave and vested long service leave are classified as a current liability. Non-vested long service leave and retirement gratuities expected to be settled within 12 months of balance date are classified as a current liability. All other employee entitlements are classified as a non-current liability.

## Superannuation schemes

### Defined contribution schemes

Obligations for contributions to KiwiSaver and the State Sector Retirement Savings Scheme are accounted for as defined contribution superannuation schemes and are recognised as an expense in the surplus or deficit as incurred.

### Provisions

A provision is recognised for future expenditure of uncertain timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that expenditure will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

### Equity

Equity is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified into the following components:

- contributed capital
- accumulated surplus/(deficit).

### Goods and services tax (GST)

All items in the financial statements are presented exclusive of GST, except for receivables and payables, which are presented on a GST-inclusive basis. Where GST is not recoverable as input tax, it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the IRD is included as part of receivables or payables in the statement of financial position.

The net GST paid to, or received from, the IRD, including the GST relating to investing and financing activities, is classified as a net operating cash flow in the statement of cash flows.

### Income tax

The Authority is a public authority and consequently is exempt from the payment of income tax. Accordingly, no provision are been made for income tax.

## Changes in accounting policies

There have been no changes to accounting policies.

The statement of significant accounting policies forms an integral part of, and should be read in conjunction with, the financial statements.

## Glossary and abbreviations

A detailed glossary is available at [www.ea.govt.nz/glossary/](http://www.ea.govt.nz/glossary/)

<b>Act</b>	Electricity Industry Act 2010.
<b>AUFLS</b>	Automatic under-frequency load shedding. AUFLS is a form of extended reserve, used alongside instantaneous reserve to manage under-frequency events, such as an unexpected outage or the loss of multiple generating units, to limit the fall in frequency to within the limits set out in the Code.
<b>Authority</b>	Electricity Authority.
<b>Code</b>	Electricity Industry Participation Code 2010.
<b>Consumer</b>	Any person who is supplied with electricity other than for resupply.
<b>Demand-side participants</b>	Participants who modify their usage in a way that reduces consumption in a specific time period or shifts consumption from one time period to another.
<b>Distributor</b>	A company that owns or operates the power lines that transport electricity on local low voltage networks. This term can be used interchangeably with 'distribution company', 'lines company' and 'network company'.
<b>EDF</b>	Electronic dispatch facility.
<b>EECA</b>	Energy Efficiency and Conservation Authority.
<b>EMI</b>	Electricity market information website: <a href="http://www.emi.ea.govt.nz">www.emi.ea.govt.nz</a>
<b>FTR</b>	Financial transmission right.
<b>Hedge market</b>	A market through which hedge contracts are bought and sold. A hedge contract is a financial risk management product or contract for sale and purchase of electricity that shifts the price risks associated with the spot price of electricity. For example, a common hedge contract is a contract for differences (CFDs). CFDs set a price at which a buyer will purchase a specific quantity of electricity at a specified node for a set period. The buyer of the CFD pays this price regardless of whether the spot market price is higher or lower than the set price.
<b>ICP</b>	Installation Control Point. An ICP is a physical point of connection on a local network or an embedded network that the distributor nominates as the point at which a retailer will be deemed to supply electricity to a consumer.
<b>Instantaneous reserves</b>	Generation capacity and interruptible load that is made available to be used in the event of a sudden failure of a generation or transmission facility to maintain system frequency at 50 Hertz. Fast instantaneous reserve is available within six seconds and must be able to operate for one minute. Sustained instantaneous reserve is available within 60 seconds and must be available for 15 minutes.
<b>MOSP</b>	Market operation service provider.

<b>Outcome, impact and output</b>	<p>Accountability terms used in the State sector that link the work we do with the results we are contributing to.</p> <ul style="list-style-type: none"> <li>• Outcome: a state or condition of society, the economy or the environment and includes a change in that state or condition. For us this is expressed in our statutory objective. Outcomes are assessed over the long-term.</li> <li>• Impact: the contribution made to an outcome by a specified set of outputs, or actions, or both. We use our strategic priorities, and specific changes we seek through our projects and business-as-usual functions to assess the impact we are making. These changes can usually only be assessed over the medium to long-term.</li> <li>• Output: the goods or services that we supply. We have called these 'our functions' in this SPE. These are measured and reported on annually.</li> </ul>
<b>Participant</b>	<p>A person, or a person belonging to a class of persons, identified in section 7 of the Act as being a participant in the electricity industry. These include generators, Transpower, distributors, retailers, other lines owners, consumers directly connected to the national grid, buyers of electricity from the clearing manager and service providers.</p>
<b>Real-time price</b>	<p>The price of wholesale electricity calculated for every five-minute period through each day.</p>
<b>Service providers</b>	<p>We contract third parties to manage the electricity system (system operator) and market services, as described in Part 3 of the Code.</p>
<b>SPE</b>	<p>Statement of performance expectations. Prepared in accordance with the Crown Entitles Act 2004.</p>
<b>SOI</b>	<p>Statement of Intent. Prepared in accordance with the Crown Entitles Act 2004.</p>