



Our plan for
1 July 2018 – 30 June 2019

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 every three years.

The SPE is published annually. It details our planned work and financial forecasts for one year. This year, the SPE includes an amendment to the strategic framework set out in the SOI.

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

For further information about the Electricity Authority's work, visit 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/

Contents

An introduction from our Chair	4
Statement of Responsibility	6
Our strategic framework	7
The outcomes we seek.....	8
Our strategies – how we pursue our outcomes.....	8
Measuring the progress of our strategies.....	9
Linking our strategy, functions and work programme.....	10
Our functions	11
Our appropriations	13
The Electricity industry governance and market operations appropriation	14
Managing the security of New Zealand’s electricity supply appropriation.....	19
Electricity litigation fund appropriation.....	21
Our work programme	22
The focus of our work programme for 2018/19	23
Financial information	25
Prospective financial statements	25
Notes to the prospective financial statements.....	30
Statement of significant accounting policies	31
Changes in accounting policies	35
Appendix A: Our strategies and impact measures	36
Appendix B: Glossary and abbreviations	38

An introduction from our Chair

I am pleased to present this Statement of Performance Expectations (SPE) outlining our plan for the 2018/19 financial year. It includes information about our programmes and business-as-usual functions, as well as our forecast financial statements.

The SPE is a partner document to our Statement of Intent 2017–21 (SOI) published in June 2017. The SOI sets out our long-term strategic intentions for a four-year period, while this SPE details our planned work and financial forecasts for the 2018/19 financial year.

The 2018/19 SPE has been informed by submissions we received on the consultation for our 2018/19 appropriations and key focus areas for our work programme. It outlines how we plan to use each of our appropriations and what we aim to achieve.

We also publish our detailed work programme on our website, setting out our projects and key deliverables for the 2018/19 year.

Our journey so far

The Electricity Authority (Authority) was established in November 2010, and by November 2011 had addressed the issues required by section 42 of the Electricity Industry Act 2010 (Act). These changes were primarily about initiatives to improve the actual and perceived reliability of supply and to improve retail market competition.

Our focus then shifted to enhancing retail and wholesale competition, including improvements to the hedge market. Emphasis was also placed on the efficiency limb of our statutory objective, including efficient operations and efficient pricing of transmission and distribution services.

We have brought together significant industry expertise through our specialist advisory groups. The Security and Reliability Council (SRC) was established under the Act to provide advice on reliability of supply issues and the performance of the electricity system and the system operator. More recently, we established the Innovation and Participation Advisory Group (IPAG) to provide specific advice about new technologies and business models, and consumer participation. We also established the Market Development Advisory Group (MDAG) to provide advice on pricing and cost allocation, risk and risk management, and operational efficiencies.

Noting the rapid improvements in the capability and affordability of new technology, we revised our strategic focus and work programme structure in 2016/17. This set a direction that we have continued to pursue in 2017/18. We developed the proposal to move from an ex-post to a real-time pricing approach for the spot market. Once implemented, this will increase price certainty for market participants and enable better-informed decisions about what electricity to consume and produce.

With the system operator, we launched a national market for instantaneous reserve, which has achieved significant efficiency gains. We also changed the distributed generation pricing principles, which we expect will save consumers several million dollars per year in the future.

Looking ahead

It is a challenging and exciting time in New Zealand's electricity sector as innovation, evolving technologies and business models continue to transform our environment. An

increasing range of choices and technologies will be available to consumers, such as small scale distributed generators, batteries, electric vehicles and intelligent demand and production management systems. Our focus is on removing any unwarranted barriers to these advances from our rules and processes, and we want to make sure electricity lines companies will do the same.

New Zealand has a great foundation on which to build higher levels of renewable generation. Existing generators and those proposing new generation are clearly optimistic about the industry and confident about where the electricity sector is heading. Transpower, the system operator and grid owner, has expressed confidence that the national grid and our electricity system can easily physically accommodate significantly more renewable generation, such as wind and solar.

The electricity industry has managed two significant dry events since the Authority was established in 2010, thanks in part to the availability of better information and incentives for electricity generators and retailers from reforms introduced in 2011 and 2012. However, the Authority believes it is prudent to continue to modify elements of New Zealand's electricity system to further promote secure electricity supply.

In some other countries, sharp increases in renewable electricity generation have undermined the security of supply. This is unlikely in New Zealand, where we have a voluntary hedge market for retailers and large consumers to manage the financial impacts of supply risks. This, in turn, provides incentives to build and supply the amount of back-up generation that consumers want to have available in the market.

With some further enhancements, our hedge market offers a strong platform for dealing with the potential volatility of even higher levels of renewable generation, without needing subsidies for back-up generation in the form of capacity markets, flexibility markets or other arrangements.

With the support of our advisory groups and stakeholders, we will continue our work to deliver against the strategies outlined in our 2017–21 SOI, including a strong focus on reducing barriers to the adoption of new technologies and business models. We will continue to encourage distributors to adopt approaches that allow those providing innovative services to access their networks on a non-discriminatory basis, and to adopt pricing structures that better reflect the costs of the services they provide.

As the electricity industry's operating environment develops and changes, the Authority's strategy will need to continue to evolve, to ensure we promote a competitive, reliable and efficient electricity industry for the long-term benefit of consumers and New Zealand.



Brent Layton
Electricity Authority 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 2018 – 30 June 2019. 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 our performance and financial reporting.

In our opinion, the prospective statements fairly reflect our forecast financial position at 30 June 2019 and the 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
05 June 2018



Mark Sandelin
Member
05 June 2018

Our strategic framework

Our 2017–21 SOI sets out our strategic framework, along with impact measures and targets reflecting our long-term strategic intentions for the next four years. At its strategy session in October 2017, the Authority’s Board agreed to slightly amend the framework to:

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

This SPE introduces the amended strategic framework, as shown in Figure 1.

Figure 1: The Electricity Authority’s strategic framework



The outcomes we seek

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

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

Section 15 of the Act sets out 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.¹

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.

Our strategies – how we pursue our outcomes

Our strategic framework outlines the four key strategies that we focus on to meet our statutory objective for the long-term benefit of consumers and New Zealand. These strategies are outlined below.

1. Reduce barriers

We will continue our work on reducing barriers to 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 retailers or

¹ Available at www.ea.govt.nz/about-us/strategic-planning-and-reporting/foundation-documents/

non-traditional businesses wanting to supply an electricity-related product or service. This will lead to more options for electricity consumers to do what they want to do.

To achieve this strategy, we will continue our work towards reducing inefficient barriers to parties wanting to generate, store, transport and purchase electricity. This 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

Active consumer participation in markets puts 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 are 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 the prices for distribution and transmission services should be service-based and cost-reflective. This will give better information about the true cost of their decisions and encourage them to invest in technology in ways that have long-term benefits.

We can improve price signals by publicising price data and information and considering the introduction of more advanced spot market pricing arrangements. We can also consider bringing new products onto the hedge market and establishing new markets where efficient and practicable.

4. Increase flexibility and resilience

We are focused on increasing the flexibility and resilience of the electricity market and electricity systems so they can respond efficiently to changing circumstances and unexpected events. More flexible arrangements will improve the market's response to changes such as an increase in the number of registered industry participants from the current 130 to potentially thousands. Given the adoption of technologies and innovation in business practices, this is a plausible scenario. More resilient arrangements will also improve the market's response 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.

Measuring the progress of our strategies

Our impact measures allow us to measure the progress of our strategies. We report the progress of our strategies every year in our Annual Report. Our amended strategic framework (page 7) has not resulted in any changes to our impact measures for the four remaining strategies. These impact measures are shown in Appendix A.

Reporting on our impact measures includes a mix of statistical analysis and qualitative assessments, drawing on the results of post-implementation and post-event reviews where relevant. Post-implementation reviews are used to assess the medium- to long-term impacts of our work, particularly for key market development initiatives where the greatest benefits and impacts are expected. However, as many external factors can influence the progress of

our strategies, it is sometimes difficult to determine the impact of our work robustly. Where relevant, the Annual Report includes commentary on the influence of these external factors to help interpret the progress of our strategies.

Linking our strategy, functions and work programme

To remain responsive to changes in our operating environment, we review the focus of our work programme and the exercise of our functions each year. We then set out in the SPE how our work for the coming year is expected to contribute to achieving our strategic objectives.

In this SPE, we describe the links between our amended strategy and functions, as well as the performance measures and targets we intend to achieve through the exercise of our functions over the coming year. In developing this SPE, we have engaged with the Minister of Energy and Resources (Minister), the Ministry of Business, Innovation and Employment (MBIE) and Audit New Zealand.

Although there is no legislative requirement for us to do so, we describe the focus of our annual work programme in the SPE because of the vital contribution it makes to achieving our strategic objectives. We are not required to seek stakeholder views about the focus of our work programme, however, we value the input provided by stakeholders to assist in setting the direction for our work. Submissions on the focus of our 2018/19 work programme were sought during the appropriations consultation process, and we have considered respondent feedback in developing our work programme and SPE.

Our functions

Alongside implementing our work programme, the exercise of our functions also makes a valuable contribution to our strategic priorities. The SPE sets out these functions, along with the measures and targets used to report our performance over the coming year.

We have four operating functions covering the business we carry out from day to day, including our work programme. We also have two contingent functions, which are only expected to be carried out if certain events or situations occur.

Our functions and their contribution to our strategies are summarised in Table 1, where tick size indicates the relative importance of contributions.

Table 1: The strategic impact of Electricity Authority functions

Our functions	Links to our strategies			
	Reduce barriers	Improve consumer participation	Improve price signals	Increase flexibility and resilience
Operating functions:				
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*	✓	✓	✓	✓
Monitor, inform and educate We monitor market behaviour, make data, information and tools available, and educate consumers and participants	✓	✓	✓	✓
Operate the electricity system and markets We are responsible for the day-to-day operation of the electricity system and markets, delivered through contracts with service providers			✓	✓
Enforce compliance We monitor, investigate and enforce compliance with the Act, relevant regulations and the Code	✓	✓	✓	✓

Contingent functions:				
Addressing funding requests from the system operator for the management of security of supply events				✓
Defending cases against the Authority and taking enforcement action	✓	✓	✓	✓
Notes: * 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.				

Our appropriations

We receive funding from the Crown each financial year through appropriations of public money. The Crown recovers the cost of this funding, up to the level of actual expenditure incurred, through a levy on industry participants. Any over-recovery of levy revenue is refunded to levy payers.

To obtain these funds, we prepare an appropriations request for the Minister, outlining the costs of performing our functions and exercising our powers and duties under the Act. Before 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.

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

Table 2: Electricity Authority functions per appropriation

Our appropriations	Our functions
Operating appropriation:	
1) The electricity industry governance and market operations appropriation	Promote market development
	Monitor, inform and educate
	Operate the electricity system and markets
	Enforce compliance
Contingent appropriations:	
2) The managing the security of New Zealand's electricity supply appropriation	Addressing funding requests from the system operator for the management of security of supply events
3) The litigation fund appropriation	Defending cases against the Authority and taking enforcement action

Under each appropriation, the following sections of the SPE will describe:

- what is intended to be achieved
- the scope of appropriation
- functions provided under this appropriation
- 2018/19 performance measures and targets
- the 2018/19 appropriation.

Performance measures used in the 2018/19 Estimates of Appropriations

Some performance measures we use in the SPE are also used in the 2018/19 Estimates of Appropriations. These performance measures are shown in **bold**.

The Electricity industry governance and market operations appropriation

The Electricity industry governance and market operations appropriation is the operational appropriation. Over 70 per cent of this appropriation is used to fund the service providers that operate the electricity system and markets, with the remainder funding the Authority's own operating costs.

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.

Functions provided under this appropriation

This appropriation funds our operations, including Board members' costs, the Rulings Panel, the Security and Reliability Council, advisory groups. It also funds the operation of the electricity system and market operations and the exercise of our four operating functions, including:

- 1) Promote market development
- 2) Monitor, inform and educate
- 3) Operate the electricity system and markets
- 4) Enforce compliance.

2018/19 performance measures

1) Promote market development			
Measure	2016/17 result	2017/18 target	2018/19 target
Top-priority market development projects, as listed in the Electricity Authority Work Programme*, achieve planned deliverables for the year	Not achieved. Four projects achieved their targets, two partially achieved and one did not achieve its targets.	80% of top priority projects meet all of their milestones	80% of top priority projects meet all of their milestones
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**

1) Promote market development			
Measure	2016/17 result	2017/18 target	2018/19 target
Code amendments deliver intended benefits and impacts on market behaviour	Not achieved. Post-implementation review completed on switch save protection scheme. The review showed that the change did not achieve intended benefits and impacts on market behaviour.	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.	Post-implementation reviews show that market behaviour altered in intended direction identified when the Code or market facilitation measure was approved. In 2018/19 we plan to complete one to two post-implementation reviews.
Notes:			
* The Electricity Authority Work Programme is published on our website: http://www.ea.govt.nz/about-us/strategic-planning-and-reporting/our-work-programme/			
** 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 us 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			
Measure	2016/17 result	2017/18 target	2018/19 target
Robust investigation, analysis and reporting on events	Achieved. Three reports completed and published. One report completed and still to be published.	Minimum of two reports completed per annum	Minimum of two reports completed per annum
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 public understanding of the electricity system in New Zealand	Achieved. Increased information available.** Achieved. Visits increased by 214% from 15,390 to 48,343.***	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	Publish 10 or more consumer focussed items on the New Zealand electricity system** Maintain the number of annual visits (25,000) to the consumer section of the Authority website
Making data, insights and analytical tools available to industry participants	Achieved. Seven new reports were published in 2016/17.	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****

2) Monitor, inform and educate

Measure	2016/17 result	2017/18 target	2018/19 target
Notes: * Assessment is by external expert reviewers using a 5-point scale of: very poor, poor, average, good, very good. ** Reporting to date has been based on new or updated content placed on the 'Consumers' section of the website during the year. New pages: 'Will I still get my local energy trust rebate if I switch electricity retailer?', 'Why is my electricity bill higher in winter?', 'How could spot prices affect my bill?' Updated pages: 'What are my rights as an electricity consumer?', 'How do I switch electricity companies', 'Is a spot price contract right for me?'. *** The 'My Meter' page accounts for 45% of page views between 1 July 2016 and 30 June 2017. However, it is likely that industry participants (rather than consumers) are the primary users of this page. If we exclude the 'My Meter' results, the increase in visits to the Consumers' section of our website is 115%. **** The EMI website is explained and is available at: www.emi.ea.govt.nz .			

3) Operate the electricity system and markets

Measure	2016/17 result	2017/18 target	2018/19 target
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	Achieved. Monitoring shows market operation service provider performance requirements are being met.*	Contract, Code and performance standards met*	Contract, Code and performance standards met*
	Achieved. Annual audits completed. No material issues identified.	Audits of market operation service providers do not reveal any significant issues	Audits of market operation service providers do not reveal any significant issues**
	N/A	N/A	Monitoring reports of market operation service providers do not reveal any significant issues** (NEW)
	Achieved. 81% of respondents to the user survey rated overall performance as good or very good using a five-point scale.	The percentage of system operator and market service users who rate the overall services provided as good or very good***	An increasing percentage of users 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 Code obligations****	No significant breaches as a result of the Authority carrying out its Code obligations****
Effective implementation of market development initiatives	Not achieved. The extended reserve project met two of three timeframe targets for the year as well as its budget target for the year.	Significant implementation projects are delivered on time and within approved budgets, as measured by case-by-case analysis, including participant feedback	Significant implementation projects are delivered on time and within approved budgets, as measured by case-by-case analysis, including participant feedback

Notes:

- * This measure combines several different performance measures for the system operator and market service providers:
- **System operator principal performance obligations (PPOs):** these are contained in the Code available at: www.ea.govt.nz/code-and-compliance/the-code/. Breaches of the PPOs are investigated by the Authority's Compliance team.
 - **System operator annual performance assessment** is published on our website at www.ea.govt.nz/operations/market-operation-service-providers/system-operator/annual-system-operator-reviews-and-assessments/
 - **Regular monitoring and review:** we monitor the performance of market operation service providers – including the system operator—through regular reporting and review. Code and contract performance standards, including availability standards, vary between the various providers. Links to the applicable standards per provider, as well as the monitoring and reporting arrangements, are available at <https://www.ea.govt.nz/operations/market-operation-service-providers>.
- ** For example, significant service provision issues may include breaches of the Code and/or issues that have affected market confidence, and/or issues that have resulted in multiple complaints and/or a warning letter to the CEO.
- *** Measured by user surveys, carried out by the system operator and market service providers. Users are asked to rate services using a five-point scale of: very poor, poor, average, good, very good. Individual targets are agreed with each service provider. This measure refers to the aggregate increase across all providers.
- **** 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

Measure	2016/17 result	2017/18 target	2018/19 target
Percentage of investigations decided within 12 months of the investigation being opened	Achieved. 100%	100%	100%
Percentage of investigations decided within eight months of the investigation being opened	Achieved. 98%	90%*	90%*
Percentage of investigations decided within four months of the investigation being opened	Achieved. 96%	85%	85%
Number of compliance updates published	Not applicable	4**	4**
Sound compliance processes 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

Notes:

- * Investigations in this context include all fact-finding enquiries as well as formal investigations.
- ** New measure added for 2017/18 financial year. Compliance updates give an overview of 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/.

2018/19 appropriation and cost breakdown

Electricity industry governance and market operations appropriation	Actual 2016/17 (\$000)	Budget* 2017/18 (\$000)	Budget* 2018/19 (\$000)
Revenue from the Crown	73,152	73,937	74,270
Expenditure**	73,152	73,937	74,270
<p>* The budget for 2017/18 corresponds to the Supplementary Estimates of Appropriations for the year ending 30 June 2018. The budget for 2018/19 corresponds to the Estimates of Appropriations for the year ending 30 June 2019</p> <p>** A breakdown of expenditure is provided in the table below.</p>			

Electricity industry governance and market operations expenditure breakdown	Actual 2016/17 (\$000)	Budget 2017/18 (\$000)	Budget 2018/19 (\$000)
System operator—operating expenses	25,351	26,396	26,396
System operator—capital-related expenses	18,867	16,731	17,064
System operator expenses	44,218	43,127	43,460
Service provider—clearing manager	2,188	2,312	2,382
Service provider—wholesale information and trading system	1,710	1,797	1,702
Service provider—pricing manager	725	750	764
Service provider—reconciliation manager	866	909	936
Service provider—registry	563	636	654
Service provider—FTR manager	868	935	963
Service provider—extended reserves manager*	-	350	350
Service provider—depreciation and amortisation	1,247	1,797	1,785
Service provider—IT costs	122	95	95
Other service provider expenses	8,289	9,581	9,631
Facilitating consumer participation expenses	2,493	2,500	2,450
Authority operations—external work programme support	4,745	4,767	4,156
Authority operations—personnel	9,926	10,152	10,578
Authority operations—other operating costs	3,481	3,810	3,995
Authority operating expenses	18,152	18,729	18,729
Total expenses	73,152	73,937	74,270
<p>* The service provider agreement for the extended reserves manager has not been finalised; the fees included in the above table are an estimate.</p>			

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 and the appropriation is not 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—we cannot incur any expenses of our own under this appropriation.

Functions provided under this appropriation

The system operator is responsible for ongoing security monitoring and emergency management.² 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 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 setting the requirements for transparency and performance. We also monitor the system operator's performance. This work is covered under the **promoting market development** and **operating the electricity system and markets** functions, respectively, of the electricity industry governance 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 of an actual or emerging security event, and to describe the actions it intends to take using the funds and

² 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

how the use of these funds will be monitored. Agreeing this information in advance can help us 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.

2018/19 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 a dry-year or emergency event, how it uses the funding would be reviewed as part of the subsequent analysis. The results of the review would be published on our website and a summary 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 we have fulfilled our obligations for this appropriation.

Measure	2016/17 result	2017/18 target	2018/19 target
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	There were no requests for funding during the period.	Process and criteria met	Process and criteria met*
Note:			
* We have an agreed process and criteria for the system operator to follow. 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 are specified.			

2018/19 Appropriation

Managing the security of New Zealand's electricity supply appropriation*	Actual 2016/17 (\$000)	Budget** 2017/18 (\$000)	Budget** 2018/19 (\$000)
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, starting on 1 July 2017 and expiring on 30 June 2022. This appropriation is contingent in nature and is not routinely used. For 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 used, no amounts in relation to this appropriation have been included in the 2018/19 budgets within the other prospective financial statements contained in this SPE.			
** The budget for 2017/18 corresponds to the Supplementary Estimates of Appropriations for the year ending 30 June 2018. The budget for 2018/19 corresponds to the Estimates of Appropriations for the year ending 30 June 2019			

Electricity litigation fund appropriation

What is intended to be achieved

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

Scope of appropriation

This appropriation is limited to the costs and expenses we incur in participating in litigation.

Functions provided 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.

2018/19 Performance measures

Measure	2016/17 result	2017/18 target	2018/19 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 our output agreement with the Minister of Energy and Resources.			

2018/19 Appropriation

Electricity litigation fund appropriation*	Actual 2016/17 (\$000)	Budget** 2017/18 (\$000)	Budget** 2018/19 (\$000)
Revenue from the Crown	256	1,000	444***
Expenditure	256	1,000	444***
Note:			
* As this appropriation is contingent in nature, and is only used where certain events or situations arise, no amounts in relation to this appropriation have been included in the 2018/19 budgets within the other prospective financial statements contained in this SPE.			
** The budget for 2017/18 corresponds to the Supplementary Estimates of Appropriations for the year ending 30 June 2018. The budget for 2018/19 corresponds to the Estimates of Appropriations for the year ending 30 June 2019			
*** The Authority has requested an expense transfer of 0.556 million, from 2017/18 to 2018/19, to ensure sufficient funding is available to effectively manage litigation risks. If this expense transfer is approved, the appropriation funding available in 2018/19 will increase to \$1.000 million.			

Our work programme

Our work programme makes a significant contribution to achieving our strategic priorities. The specific links between our programmes and our strategic priorities are described in our work programme framework in Table 3. The framework has six distinct programmes (A to F), each linked to delivery of one or more of our key strategies.

Table 3: A summary of our work programme framework

Our programmes	Links to our strategies			
	Reduce barriers	Improve consumer participation	Improve price signals	Increase flexibility and resilience
Programme A: Evolving technologies and business models Initiatives to reduce inefficient barriers to the development and use of evolving technologies and business models across the supply chain.	✓			
Programme B: Consumer choice and competition Initiatives to promote competition and empower consumer choice in the retail market.		✓		
Programme C: Pricing and cost allocation Initiatives to promote efficient pricing in markets and for monopoly services.			✓	
Programme D: Risk and risk management Initiatives to promote efficient management of capacity and energy risks.			✓	✓
Programme E: Operational efficiencies Initiatives to increase the efficiency of electricity market operations, including services provided by market operations service providers.	✓	✓	✓	✓
Programme F: Compliance education Initiatives to improve participant compliance with the Act, regulations and the Code.	✓	✓	✓	✓

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

The focus of our work programme for 2018/19

Evolving technology

In 2018/19, we will focus on projects that remove inefficient barriers for companies using new technologies or business models to offer new products and services to consumers or other businesses.

For example, we are considering how to ensure consumers and businesses have equal access to the 'poles and wires' that electricity networks use to transport electricity. We are also considering barriers to consumers entering into contracts with more than one electricity service provider. This could mean a household engages a company that reduces the household's demand when the price of electricity gets beyond a certain point (when demand is high or supply looks low). Being able to do this could help the electricity system become more secure and, therefore, more open to increased renewable generation.

Keeping prices reasonable

Unless parties see the real distribution and transmission costs of their decisions, they are unlikely to adopt the most appropriate technologies for their circumstances. We want to improve price signals so that consumers and participants can make more efficient operational and investment decisions. In 2018/19, we will continue our work helping distributors and Transpower to adopt service-based and cost-reflective pricing to better facilitate these technological changes.

We will also work to complete the design of the systems, processes, and enabling Code amendments required to implement the settlement of the electricity spot market on real-time prices. The implementation of real-time pricing would help 'future proof' the electricity system, unlocking opportunities for new technologies and business models. Real-time pricing would therefore play an important role in enabling the investments in distributed generation, battery storage, and demand response technologies required to transition to a 100 per cent renewable electricity system.

Strengthening energy resilience

Efficient risk management leads to better decisions about asset operation, market entry and investment. However, the prospects of new technology create uncertainty for current and prospective participants, such as pricing and future supply risks. The entry of new types of electricity businesses may also erode some aspects of our current security of supply regime, while increased investment in renewable generation will require market arrangements to evolve to deliver efficient levels of security of supply.

In 2018/19, we will focus on making it easier for participants to get greater certainty about price risks, better price signals about future supply risks, and more options for addressing those risks. We will be facilitating an exchange-traded cap product to improve investment signals for generators and demand-side response, while providing retailers with additional tools for effectively managing wholesale spot price volatility.

Our organisational capability strategies

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.

Effective stakeholder engagement and communication

Strong, professional and ongoing relationships with consumers and stakeholders are vital to helping us develop improvements for New Zealand's electricity market. Our foundation documents³ provide information about how we interpret our statutory objective, consult, develop Code and market facilitation measures, and how we work with advisory groups.

Empowered and engaged 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.

Processes that achieve improved efficiency, productivity and quality

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

³ Available at www.ea.govt.nz/about-us/strategic-planning-and-reporting/foundation-documents/.

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, Public Finance Act 1989 and 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 2016/17 year reflects the actual results as published in the Authority's 2016/17 Annual Report. The financial information presented for the 2017/18 year reflects the budget as published in the Authority's 2017/18 SPE. The financial information presented for the 2018/19 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 2018/19 year, the Electricity litigation fund appropriation provides the Authority with funding of up to \$1 million to ensure that it can 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 2018/19. As this appropriation is contingent in nature, no revenue or expenditure in relation to this appropriation has been included in the 2018/19 budgets in the prospective financial statements. This approach differs from the previous 2017/18 SPE, where revenue and expenditure was included
- 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 (starting on 1 July 2017 and expiring on 30 June 2022). As this appropriation is contingent in nature and is not routinely used, no revenue or expenditure in relation to this appropriation has been included in the 2018/19 budgets in the prospective financial statement. This is consistent with the approach in the 2017/18 SPE.

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

Prospective statement of comprehensive revenue and expense

	Note	Actual 2016/17 \$000	Budget 2017/18 \$000	Budget 2018/19 \$000
Funding from the Crown	1	73,408	74,937	74,270
Interest revenue		418	350	400
Total revenue		73,826	75,287	74,670
Personnel costs	2	9,926	10,152	10,578
Depreciation and amortisation		1,451	2,047	2,035
Service provider contracts		51,261	50,911	51,306
Other expenses	3	10,770	11,827	10,351
Total expenditure		73,408	74,937	74,270
Total comprehensive revenue and expense		418	350	400

Prospective statement of changes in equity

	Actual 2016/17 \$000	Budget 2017/18 \$000	Budget 2018/19 \$000
Opening balance at 1 July	11,638	11,949	12,450
Total comprehensive revenue and expense	418	350	400
Closing balance at 30 June	12,056	12,299	12,850

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 2016/17 \$000	Budget 2017/18 \$000	Budget 2018/19 \$000
Assets				
Current assets				
Cash and cash equivalents		15,101	13,015	15,260
Receivables and prepayments		223	200	200
GST receivable		59	-	-
Total current assets		15,383	13,215	15,460
Non-current assets				
Property, plant and equipment	4	352	418	277
Intangible assets	5	6,934	6,866	5,313
Total non-current assets		7,286	7,284	5,590
Total assets		22,669	20,499	21,050
Liabilities				
Current liabilities				
Payables and accruals		7,101	7,000	7,000
Employee entitlements		855	1,000	1,000
GST payable		-	200	200
Appropriation repayable to the Crown		2,629	-	-
Total current liabilities		10,585	8,200	8,200
Non-current liabilities				
Employee entitlements		28	-	-
Total liabilities		10,613	8,200	8,200
Net assets		12,056	12,299	12,850
Equity				
Contributed capital		9,011	9,011	9,011
Accumulated surplus/(deficit)		3,045	3,288	3,839
Total Equity		12,056	12,299	12,850

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

	Actual 2016/17 \$000	Budget 2017/18 \$000	Budget 2018/19 \$000
Cash flows from operating activities			
Receipts from the Crown	76,037	74,937	74,270
Interest from investments	418	350	400
Repayment of appropriations to the Crown	(1,247)	-	-
Payments to suppliers	(62,655)	(62,738)	(61,657)
Payments to personnel	(9,864)	(10,152)	(10,578)
Goods and services tax (net)	220	-	-
Net cash flows from operating activities	2,909	2,397	2,435
Cash flows from investing activities			
Purchase of property, plant and equipment	(168)	(137)	(125)
Purchase of intangibles	(1,669)	(2,000)	(2,000)
Net cash flows from investing activities	(1,837)	(2,137)	(2,125)
Net increase/(decrease) in cash and cash equivalents	1,072	260	310
Cash and cash equivalents at the beginning of the year	14,029	12,755	14,950
Cash and cash equivalents at the end of the year	15,101	13,015	15,260

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

1. Appropriation revenue	Actual 2016/17 \$000	Budget 2017/18 \$000	Budget 2018/19 \$000
Electricity industry governance and market operations	73,152	73,937	74,270
Managing the security of New Zealand's electricity supply*	-	-	-
Electricity litigation fund*	256	1,000	-
	73,408	74,937	74,270

Note:

* The Managing the security of New Zealand's electricity supply appropriation is contingent in nature and is not routinely used; for this reason, the Authority's prospective financial statements from 2016/17 onward have not included any budgeted revenue or expenditure in relation to the appropriation. From 2018/19 onward, this approach has also been adopted for the Electricity litigation fund appropriation, as this is contingent in nature.

2. Personnel costs	Actual 2016/17 \$000	Budget 2017/18 \$000	Budget 2018/19 \$000
Salaries and contractors	9,590	9,729	10,146
Contributions to defined contribution plans	352	423	432
Increase/(decrease) in leave provisions	(16)	-	-
	9,926	10,152	10,578

3. Other expenses	Actual 2016/17 \$000	Budget 2017/18 \$000	Budget 2018/19 \$000
Managing the security of New Zealand's electricity supply*	-	-	-
Litigation fund*	256	1,000	-
Facilitating consumer participation	2,493	2,500	2,450
External work programme support	4,745	4,767	4,156
Auditor fees	47	47	47
Advisory and working group fees	22	52	34
Board members' fees**	560	656	720
Rulings Panel fees	103	100	100
Operating lease expenses	514	515	515
Travel expenses	196	261	282
Other operating expenses	1,834	1,929	2,047
	10,770	11,827	10,351

Note:

* The Managing the security of New Zealand's electricity supply appropriation is contingent in nature and is not routinely used; for this reason, the Authority's prospective financial statements from 2016/17 onward have not included any budgeted revenue or expenditure in relation to the appropriation. From 2018/19 onward, this approach has also been adopted for the Electricity litigation fund appropriation.

** During 2016/17 there were significant changes to the composition of the Authority's Board with three of the existing members exiting and four new members appointed. The overall number of members increased from five to six. Following the resignation of a member, there were four members between October 2016 and April 2017.

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

4. Property, plant and equipment	Actual 2016/17 \$000	Budget 2017/18 \$000	Budget 2018/19 \$000
Computer hardware	169	293	151
Office equipment	18	9	38
Furniture and fittings	70	36	24
Leasehold improvements	95	80	64
Net book value at 30 June	352	418	277

5. Intangible assets	Actual 2016/17 \$000	Budget 2017/18 \$000	Budget 2018/19 \$000
Software	6,934	6,866	5,313
Net book value at 30 June	6,934	6,866	5,313

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.

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 the 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 has been made for income tax.

Changes in accounting policies

There have been no changes to accounting policies.

Appendix A: Our strategies and impact measures

This SPE amends our strategic framework. The impact measures for our four remaining strategies are tabled below.

Contribution to objective			Strategies	2017–2021 impact measures
Competition	Reliability	Efficiency		
✓			Reduce barriers	<ul style="list-style-type: none"> • More and varied participants providing new services to consumers, eg new retailers entering the market and new products being offered • Improved risk management, eg increased hedge market participation* • Improved participation in a range of electricity markets, eg demand-side participation in a range of markets** • Improved information availability, eg on the Electricity Authority's website and EMI
		✓	Improve consumer participation	<ul style="list-style-type: none"> • Improved consumer participation in markets beyond simply consuming electricity • Increased consumer awareness and understanding
		✓	Improve price signals	<ul style="list-style-type: none"> • Increased range of products or services that provide price signals, eg exchange-traded products*** • Reduced instances of inefficient prices, including during scarcity events • Increased accuracy of price forecasts**** • More cost-reflective price signals for residential and small to medium-sized business consumers
	✓		Increase flexibility and resilience	<ul style="list-style-type: none"> • The customer transfer process works effectively in the event of retailer default • Improving the cost and effectiveness of the frequency management regime***** • Market services are resilient to adverse events, as measured on a case-by-case analysis • Increased diversity of suppliers, supporting efficient power system resilience

Notes:

* The buying and selling of wholesale electricity is done via a 'pool' for each half-hour for each grid point of connection, where electricity generators offer electricity to the market and retailers and direct-connects bid to buy electricity. This market is called the spot market. This can expose buyers to very high (or very low) prices at times. Risk management is used to manage the risk of high and low prices, eg through futures/hedge contracts.

** Demand-side participant: 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.

Ancillary services: The system operator contracts individual participants to provide five ancillary services essential to maintaining the common quality of electricity supply. These services are black start, over-frequency reserve, frequency-keeping reserve, instantaneous reserve and voltage support. Improving the ability and willingness of participants to compete in these markets will improve reliability and efficiency.

- *** For example, the ASX New Zealand electricity futures market has a quarterly hedge product with prices listed for every quarter for 3.5–4 years in the future, which are traded and settled daily. We encourage the development of new products to meet consumer risk management needs, such as new hedge products on the futures market.
- **** The wholesale electricity market produces forecast electricity prices ahead of and during each half-hour trading period. Prices are typically finalised two days after the trading period. We seek to ensure that the design and operation of the wholesale electricity market encourages accurate forecast prices.
- ***** Frequency management services are ancillary services contracted by the system operator.

Appendix B: Glossary and abbreviations

A detailed glossary is available at www.ea.govt.nz/glossary/

Act	Electricity Industry Act 2010.
AUFLS	Automatic under-frequency load shedding, 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 limits set out in the Code.
Authority	Electricity Authority.
Code	Electricity Industry Participation Code 2010.
Consumer	Any person or enterprise supplied with electricity other than for resupply.
Demand-side participants	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.
Distributor	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'.
EDF	Electronic dispatch facility.
EECA	Energy Efficiency and Conservation Authority.
EMI	Electricity market information website: www.emi.ea.govt.nz
FTR	Financial transmission right.
Hedge market	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 (CFD). 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.
ICP	Installation control point, 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.
Instantaneous reserves	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.
MOSP	Market operation service provider.

Outcome, impact and output	<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"> • 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. • 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 our impact. These changes can usually only be assessed over the medium to long term. • Output: the goods or services we supply. We have called these 'our functions' in this SPE. These are measured and reported on annually.
Participant	<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>
Real-time price	<p>The price of wholesale electricity calculated for every five-minute period through each day.</p>
Service providers	<p>We contract third parties to manage the electricity system (system operator) and market services, as described in Part 3 of the Code.</p>
SPE	<p>Statement of performance expectations. Prepared in accordance with the Crown Entities Act 2004.</p>
SOI	<p>Statement of Intent. Prepared in accordance with the Crown Entities Act 2004.</p>