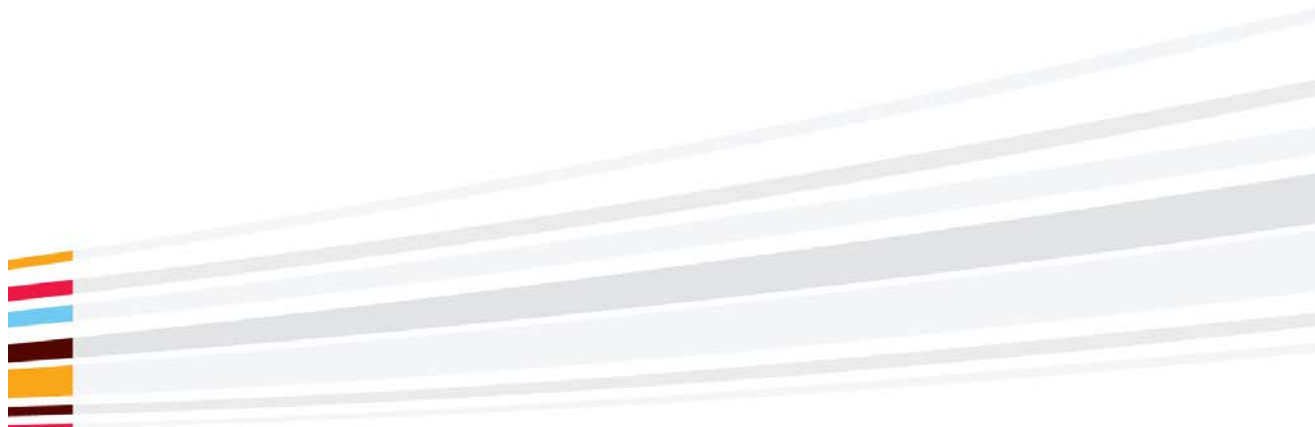




1 July 2020 – 30 June 2021

Statement of Performance Expectations



This Statement of Performance Expectations (SPE) is a partner document to the Statement of Intent 2020 - 2024 (SOI) published in June 2020.

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

© Copyright



This document is protected by copyright owned by the Electricity Authority. This copyright material is licensed for reuse under the Creative Commons Attribution (CC-BY) 3.0 New Zealand licence. In essence, you are free to copy, distribute and adapt the material, as long as you attribute it to the Electricity Authority and abide by the other licence terms.

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 of common electricity industry terms is on our website at www.ea.govt.nz/glossary/

Contents

Purpose	4
Introduction	5
Statement of Responsibility	7
Our strategic framework	8
The outcomes we seek.....	10
Strategic ambitions — where we focus impact.....	10
Impact measurement.....	11
Linking our strategy, functions and work programme.....	12
Our functions	13
Our appropriations	15
The Electricity industry governance and market operations appropriation	16
Managing the security of New Zealand’s electricity supply appropriation.....	22
Electricity litigation fund appropriation.....	25
Our organisational capability strategies	26
Financial information	27
Prospective financial statements	27
Notes to the prospective financial statements.....	32
Statement of significant accounting policies	33
Changes in accounting policies	37

Purpose

This Statement of Performance Expectations (SPE) outlines our plan for the 2020/21 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 2020 - 24 (SOI) published in June 2020. 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 2020/21 financial year.

The 2020/21 SPE has been informed by submissions we received on the consultation for our 2020/21 appropriations and key focus areas for our work programme, and as part of our strategy reset. 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 2020/21 year.

Introduction

While the Authority's statutory objective, powers and functions have remained the same since 2010, the environment in which we operate has changed.

Climate change, new economic drivers, consumer behaviours and external expectations have all shifted the way in which energy system development is considered. Impacts of COVID-19 also continue to affect our lives.

The Authority plays a critical role for all New Zealanders. The industry we steward provides an essential service. Electricity is a foundation for modern life, wellbeing and the economy.

We take our responsibility very seriously, incorporating a wider whole-of-system, lifecycle view of regulation, and a proactive, collaborative approach to monitoring and development.

Five key interrelated sector ambitions now focus us to ensure electricity regulation creates a platform for economic recovery, accelerating growth and wider long-term benefit for New Zealand.

We want *consumer centricity* to guide regulation and the industry

Consumer-centricity is a key enabler for innovation, and better services. We want consumers and the understanding of their varied perspectives and aspirations to be front and centre of industry development – whether they be individual, household, community, small, medium or large business, or industrial.

We want *low-emissions energy* to electrify the economy

Electrification will drive the transition to a low-emissions and productive economy. We want a stable investment environment with robust rules and clear price signals. This will ensure the transition is as efficient as possible while maintaining energy security, system adaptability, and affordable electricity for consumers.

We want to build *trust and confidence* in the industry for all stakeholders

Whether a regulator, participant or consumer, transparency and understanding and the behaviours of others play a critical role in decision making. We want participants to have regulatory confidence, stakeholders to trust in the system's reliability, to see better practice across industry, and for consumers to feel empowered to act and understand how regulation delivers benefit.

We want to see *thriving competition* delivering better outcomes for New Zealanders

Market competition is a key enabler – driving progress, affordability, efficiency and valuable outcomes for New Zealand. We want to see competition reinforced and expanded across new parts of the supply chain to drive innovation and technology adoption and place more downward pressure on price.

We want to see *innovation flourishing*

Innovation and new technology will affect how electricity is generated, distributed and consumed, and ultimately change the cost and competitive structure of our industry. We want to see the full benefits of innovation unlocked for consumers so diverse needs can be met, and new ways to participate enabled.

New Zealand's electricity industry is considered both domestically and internationally as world-leading. Regulation serves all New Zealanders, providing a stable investment framework and fair rules to ensure the industry delivers the right balance of reliability, sustainability and affordability to create collective benefit for the country for generations to come.

A handwritten signature in blue ink, appearing to be 'BL', with a long, sweeping underline.

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 2020 – 30 June 2021. 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 2021 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
4 June 2020



Mark Sandelin
Member
4 June 2020

Our strategic framework

We guide the nation's electricity system on behalf of all New Zealanders – promoting positive consumer outcomes today and ensuring continued enhancement and reliability for future generations.

Our work provides the platform from which electricity can be used to make things better.

We are the ***kaitiaki of electricity***. Our purpose is to ***enhance New Zealanders' lives, prosperity and environment through electricity***.

Electricity plays a critical role in the quality of our lives and businesses, the state of our environment, strength of our communities, performance of our economy and the nation as a whole.

Electricity is an enabler
– a mechanism for
change and progress.

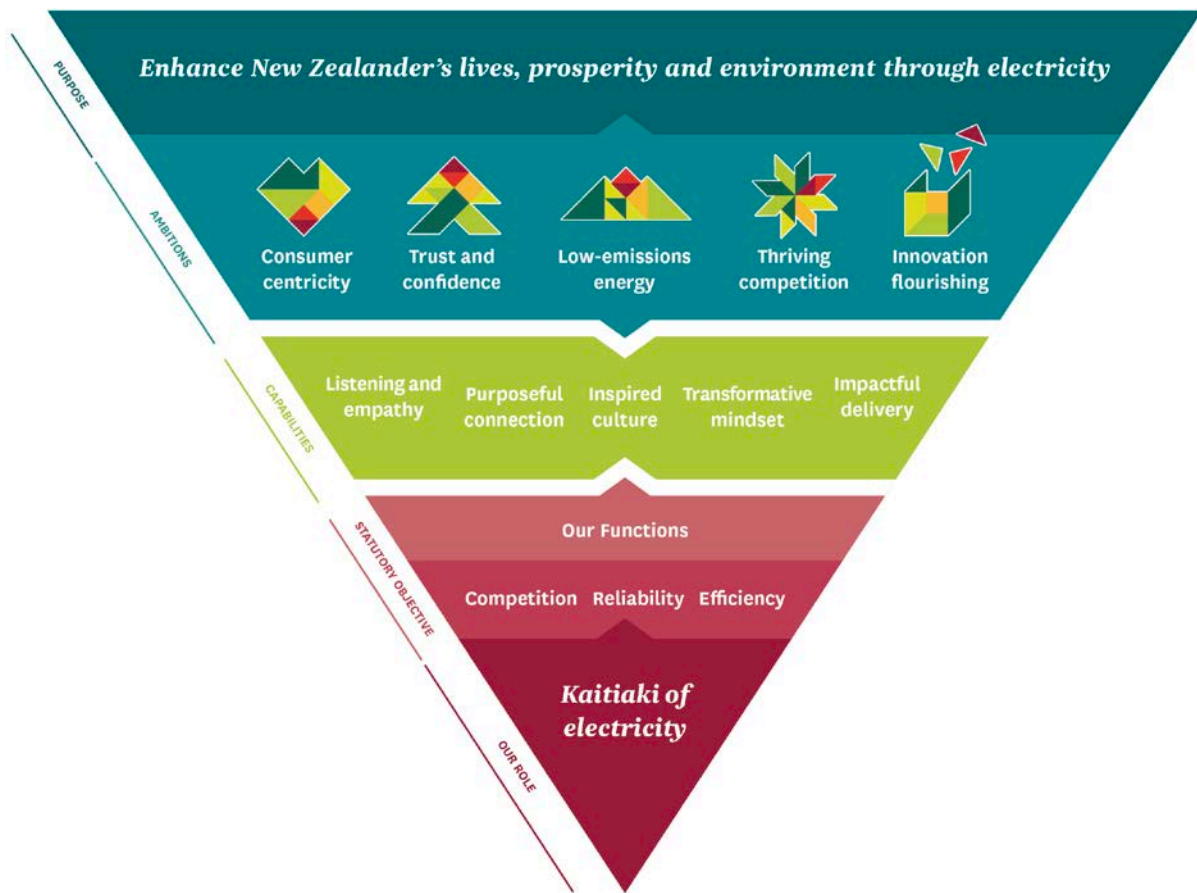
Electricity regulation is the tool through which we can contribute to wider outcomes. Electrification of the wider energy system will play a key role in the transition to a low-emissions economy.

Regulators are often now expected to think more broadly about the wider environment and the interaction of their sector with others – considering long-term economic, social, cultural and environmental implications together, and embed principles of the Treaty of Waitangi to ensure the right rules are in place that both enable and guide change.

As the regulator of New Zealand's electricity system, our work provides a platform for the country to achieve its aspirations for enhanced quality of life, growth and prosperity, the environment and the transition to a low-emissions economy.

Our integrated framework – aligned to the tikanga-based values of kaitiakitanga (long-term sustainability), manaakitanga (social responsibility), whanaungatanga (social connections) and whairawa (thriving whanau) – sets out five strategic ambitions for the sector that guide the prioritisation of our work. Our 2020 - 24 Statement of Intent (SOI) sets out our strategic framework, along with impact measures and targets reflecting our long-term strategic intentions for the next four years.

Figure 1: Integrated strategic framework



The outcomes we seek

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.

Competition

Competition helps ensure New Zealanders have plenty of choice about how they get and use electricity, and improves their access to competitive pricing. We encourage competition in all electricity-related markets, right across the supply chain, taking into account long-term opportunities that will lead to better outcomes for consumers.

Reliability

Reliability is important because homes and businesses depend on a continuous supply of electricity. We seek reliable day-to-day and long-term security of electricity supply for consumers. Our regulatory focus on reliability will become even more important as the country reduces emissions through increased electricity use.

Efficiency

When efficiency is high, electricity system resources and investments are focussed in the right areas, and costs to operate the system can reduce and become more flattened. Ongoing innovation and improvements help create greater efficiency. For a consumer, greater efficiency should translate into more affordable electricity and services.

We set out more detailed information about our statutory objective and **Competition**, **Reliability** and **Efficiency** outcome measures in our SOI.

Strategic ambitions — where we focus impact

Five strategic ambitions for the sector guide the prioritisation of our work. They provide focus in both the pursuit of our statutory objective and our purpose – ensuring we create wider long-term benefit for New Zealand.

Successful delivery of our functions and statutory objective are a fundamental part of all five ambitions – meaning continued focus on delivery of high-quality operational activities, increasing retail and wholesale market competition, enforcing compliance, and improving the regulatory, transmission and distribution systems.

Low-emissions energy

All forecasts for the energy sector's near future show the need to electrify New Zealand's heat and transport and increase low-carbon electricity generation. Making more use of Zealand's renewables advantage is essential in our transition to a low-emissions economy. The required level of investment in new generation will be significant.

We need to promote a stable investment environment with robust rules and clear price signals. This will ensure the transition is as efficient as possible while maintaining energy security, system adaptability, and affordable electricity for consumers.

Consumer centricity

Expectations of both regulator and industry have shifted – recognising a need to think more broadly about the wider environment we interact with, strengthen the consumer voice, and deeply consider how our decisions affect outcomes for all consumers – whether they be domestic, community, small, medium or large businesses, or industrial consumers.

We will put consumers and our understanding of their varied perspectives and aspirations front and centre of what we do and how we do it. Consumer-centricity in energy system development is a key enabler for innovation, and further improving consumers' access to better pricing, control, and ability to participate in energy markets.

Trust and confidence

Actively building trust and confidence in the industry and regulation through greater transparency, understanding and improved behaviours is increasingly important. Consumers expect participants to be held to account to rules designed in their favour. Participants require a stable investment framework and regulatory environment to enable decision-making that will deliver further benefit to consumers.

As regulator, we need to continue using markets and our compliance function to create the right incentives for progress, work with participants to ensure better practice by all of industry, and enhance consumers' and stakeholders' understanding of the electricity industry and how it delivers benefit.

Thriving competition

Increased disruption to traditional electricity business models and industry structure through competition improves choice, control and affordability for consumers. Competition and competitive pressure now need to expand across new parts of the supply chain to drive efficiency, reliability, innovation and integrate new technology.

We're committed to encouraging participation and reinforcing competition in traditional and emerging markets by putting in place the mechanisms needed to maintain a level playing field. Our regulatory environment needs to enable participants to better manage risk and provide consumers value for money through a growing range of innovative products, services and opportunities to participate.

Innovation flourishing

Innovation and new technology will affect how electricity is generated, distributed and consumed, and ultimately change the cost and competitive structure of our industry. Data transparency, insights and automation will act as key enablers for increased deployment of distributed energy resources, and support consumers' ability to control their energy use and participate in new ways.

Our role is to help unlock the full benefits of innovation for consumers by making sure the settings are conducive to innovation and industry success. This demands a proactive, agile and forward-looking regulatory approach to match the pace of change and help innovation flourish.

Impact measurement

Our impact measures allow us to measure the progress of our strategies towards promoting competition, reliability and efficiency in the electricity industry for the lives and prosperity of

all New Zealanders, and the environment we live in. We report the progress of our strategies every year in our *Annual Report*.

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.

Where relevant, we will provide commentary on these external influences in our *Annual Report*.

Linking our strategy, functions and work programme

To meet changes in our operating environment, we review 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 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.

As the impacts of COVID-19 become clearer, so too will the impacts on the industry, and the priorities to focus on in support of New Zealand's economic recovery. We will be flexible and responsive in our work programme to ensure the industry continues to deliver the benefits of competition, reliability, and efficiency to consumers and country.

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.

Our functions

Our statutory functions are set out in section 16 of the Act. 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 four major 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 strategic priorities				
	Low Emissions Energy	Consumer centricity	Trust and confidence	Thriving competition	Innovation flourishing
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 ¹	✓	✓	✓	✓	✓
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	✓		✓	✓	✓

¹ 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 functions	Links to our strategic priorities				
	Low Emissions Energy	Consumer centricity	Trust and confidence	Thriving competition	Innovation flourishing
<p>Enforce compliance We monitor, investigate and enforce compliance with the Act, relevant regulations and the Code</p>		✓	✓	✓	✓

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
- 2020/21 performance measures and targets
- the 2020/21 appropriation.

Performance measures used in the 2020/21 Estimates of Appropriations

Some performance measures we use in the SPE are also used in the 2020/21 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 and, 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.

2020/21 performance measures

1) Promote market development			
Measure	2018/19 result	2019/20 target	2020/21 target
Market development projects achieve planned deliverables for the year	Achieved: Four (80%) of our five top priority market development projects met their milestones for 2018/19.	80% of market development projects with published targets meet all of their milestones.	80% of market development projects with published targets meet all of their milestones*
Our market development decisions and processes** are lawful and appropriate	Achieved. There were zero successful challenges in 2018/19.	Zero (0) legal challenges that result in an Authority market development decision being overturned.	Zero (0) legal challenges that result in an Authority market development decision being overturned***

1) Promote market development

Measure	2018/19 result	2019/20 target	2020/21 target
Transparent, rigorous post-implementation reviews are conducted to establish whether Code amendments or market facilitation measures deliver intended benefits and impacts on market behaviour	<p>Partially achieved. Post-implementation reviews completed for the retail data project, the National Market for Instantaneous Reserves (NMIR) and the 2015 wholesale prudential changes.</p> <p>Retail data – partial NMIR – positive Prudential - positive</p>	<p>Post-implementation reviews show that market behaviour altered in intended direction identified when the Code or market facilitation measure was approved.</p> <p>In 2019/20 we plan to complete one to two post-implementation reviews.</p>	<p>In 2020/21 we plan to complete one post-implementation review.</p> <p>Post-implementation reviews show that market behaviour altered in intended direction identified when the Code or market facilitation measure was approved.</p>

Notes:

- * Our market development projects and milestones are identified in the Electricity Authority Work Programme, which is published on our website: <http://www.ea.govt.nz/about-us/strategic-planning-and-reporting/our-work-programme/>
- ** Includes market development decisions to implement Code amendments or market facilitation measures. These decisions can be disallowed, appealed or judicially reviewed — on the process used to reach the decision, and/or on the lawfulness, reasonableness or appropriateness of the decision itself.
- *** An appeal or judicial review can overturn a market development decision by directing us to reconsider a decision or re-run a process. The House may also overturn a market development decision if they accept a Regulations Review Committee recommendation for it to be 'disallowed' — meaning the decision will no longer have force.

2) Monitor, inform and educate

Measure	2018/19 result	2019/20 target	2020/21 target
---------	----------------	----------------	----------------

2) Monitor, inform and educate			
Measure	2018/19 result	2019/20 target	2020/21 target
Robust investigation, analysis and reporting on events	Achieved. Low storage and an unplanned outage of the Pohokura gas field led to high prices during October and November 2018. This period was the subject of an undesirable trading situation claim and a decision document was published in 2019. Prior to this a report on the same matter was completed and considered by the Board. A report into excessive constrained-on payments to ramping generators was completed and considered by the Board, and published in June 2018.	Minimum of two reports completed per annum	Two reports completed per annum
Reviews requested by the Minister under section 18 of the Act achieve positive ratings by independent peer review.	N/A — The Authority received no requests under section 18 in 2018/19.	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 to facilitate effective decision making within the system.	Achieved. 17 consumer friendly items on market performance were published in 2018/19. Achieved. The number of annual visits increased during 2018/19 from 107,843 to 144,626.	Publish 10 or more consumer focussed items on the New Zealand electricity system Maintain the number of annual visits (45,000) 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 (60,000) to the consumer section of the Authority website
Making data, insights and analytical tools available	Achieved. Six new reports were developed and made available on the EMI website in 2018/19.	Maintain the number of annual visits (35,000) to the EMI website.	Maintain the number of annual visits (35,000) to the EMI*** website

2) Monitor, inform and educate

Measure	2018/19 result	2019/20 target	2020/21 target
Notes: * Assessment was 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 Electricity Market Information website (EMI) is the Electricity Authority's avenue for publishing data, market performance metrics, and analytical tools to facilitate effective decision-making within the New Zealand electricity industry.			

3) Operate the electricity system and markets

Measure	2018/19 result	2019/20 target	2020/21 target
Electricity system and market operation performance will be assessed by monitoring service provider performance to ensure that contract requirements, including performance standards, are met	Achieved. During 2018/19 all relevant contract, Code and performance standards were met	Contract, and performance standards met	Performance levels met or remediation agreed.
	Achieved. During 2018/19 no significant issues were revealed by the annual audits of service providers	Audits of market operation service providers do not reveal any significant issues**	Any issues identified in audits of market operations service providers have a remedial plan agreed and actioned by the agreed date**
The Authority carries out its Code obligations in accordance with the Electricity Industry Participation Code 2010.	Achieved. During 2018/19 there were no significant breaches of the Authority's Code obligations.	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***
Notes: * This measure combines several different performance measures for the system operator and market service providers, including system operator annual performance assessment, regular monitoring and review ** 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. *** Including market administration and other obligations under the Code. Although the Authority is not a participant, the absence of breaches is an indicator that standards are met. Significant breaches are considered to be issues that have affected market confidence.			

4) Enforce compliance

Measure	2018/19 result	2019/20 target	2020/21 target
Percentage of investigations* decided within 12 months of the investigation being opened.	Achieved. 100%	100%	100%

4) Enforce compliance			
Measure	2018/19 result	2019/20 target	2020/21 target
Sound compliance processes followed.	Achieved. During 2018/19, all reports to the Compliance Committee complied 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.
<p>Notes:</p> <p>* Investigations in this context include all fact-finding enquiries as well as formal investigations of alleged breaches of the Code. This measure and target was introduced in the 2016/17 SPE, and excluded any cases on hand as at 1 July 2016 that were over six months old</p> <p>** The Compliance Committee makes decisions on alleged breaches of the Act, various regulations and the Code. The committee determines appropriate enforcement responses, whether settlements should be approved, or further investigation undertaken and makes recommendations to the Board regarding the laying of formal complaints with the Rulings Panel and instigating prosecutions.</p>			

2020/21 appropriation and cost breakdown

Electricity industry governance and market operations appropriation	Actual 2018/19 (\$000)	Budget* 2019/20 (\$000)	Budget* 2020/21 (\$000)
Revenue from the Crown**	68,971	74,936	76,936**
Expenditure***	68,971	74,936	76,936***

* The budget for 2019/20 corresponds to the Supplementary Estimates of Appropriations for the year ending 30 June 2020. The budget for 2020/21 corresponds to the Estimates of Appropriations for the year ending 30 June 2021.

** An in-principle expense transfer for \$1.000 million has been requested from 2019/20 to 2020/21. However, approval will not be confirmed until the October 2020 baseline update.

*** A breakdown of expenditure is provided in the table below.

Electricity industry governance and market operations expenditure breakdown	Actual 2018/19 (\$000)	Budget 2019/20** (\$000)	Budget 2020/21** (\$000)
System operator—operating expenses	25,759	26,550	26,480
System operator—capital-related expenses	14,450	17,411	16,025
System operator expenses	40,209	43,961	42,505
Service provider—clearing manager	2,318	2,410	2,478
Service provider—wholesale information and trading system	1,623	1,722	1,686
Service provider—pricing manager	739	770	767
Service provider—reconciliation manager	894	947	932
Service provider—registry	655	673	685
Service provider—FTR manager	762	944	810
Service provider—extended reserves manager*	-	350	-
Service provider—depreciation and amortisation	1,067	1,885	2,057
Service provider—IT costs	89	95	70
Other service provider expenses	8,147	9,796	9,485
Authority operating expenses	18,527	21,179	24,946
Total expenses	68,971	74,936	76,936

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

** An in-principle expense transfer for \$1.000 million has been requested from 2019/20 to 2020/21.

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

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 <https://www.transpower.co.nz/system-operator/security-supply>

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 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.

2020/21 Performance measures

Managing the security of New Zealand's electricity supply contributes to our reliability outcome (see page 28 of the 2020 – 2024 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	2018/19 result	2019/20 target	2020/21 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	Achieved. During 2018/19 there were no applications for funding under this appropriation. We have jointly made process improvements with the system operator that we expect will improve the speed and quality of any spending under this appropriation.	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.			

2020/21 Appropriation

Managing the security of New Zealand's electricity supply appropriation*	Actual 2018/19 (\$000)	Budget** 2019/20 (\$000)	Budget** 2020/21 (\$000)
Revenue from the Crown	-	1,200	1,200
Expenditure	-	1,200	1,200

Note:

* This is a multi-year appropriation of \$6.000 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 2019/20 budgets within the other prospective financial statements contained in this SPE.

** The budget for 2019/20 corresponds to the Supplementary Estimates of Appropriations for the year ending 30 June 2020. The budget for 2020/21 corresponds to the Estimates of Appropriations for the year ending 30 June 2021.

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.

2020/21 Performance measures

Measure	2018/19 result	2019/20 target	2020/21 target
The Electricity Authority uses the litigation fund in accordance with the criteria for use of the fund	Achieved. During 2018/19, the fund was used in accordance with agreed criteria for the costs and expenses the Authority incurred in participating in three cases of litigation.	Criteria met.	Criteria met*
Note: * The criteria are set out in our output agreement with the Minister of Energy and Resources.			

2020/21 Appropriation

Electricity litigation fund appropriation*	Actual 2018/19 (\$000)	Budget*** 2019/20 (\$000)	Budget*** 2020/21 (\$000)
Revenue from the Crown	240	1,000	444**
Expenditure	240	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 2019/20 budgets within the other prospective financial statements contained in this SPE. ** An in-principle expense transfer of \$0.700 million has been requested from under the Electricity litigation fund appropriation, from 2019/20 to 2020/21, to ensure sufficient funding is available to effectively manage litigation risks. This will increase the appropriation funding available in 2020/21 to \$1.144 million —however, approval will not be confirmed until the October 2020 baseline update. *** The budget for 2019/20 corresponds to the Supplementary Estimates of Appropriations for the year ending 30 June 2020. The budget for 2020/21 corresponds to the Estimates of Appropriations for the year ending 30 June 2021.			

Our organisational capability strategies

A critical component of our strategic framework is our strategic capability.

We have set out five key strategic capabilities we will rely on to deliver our strategy:

Listening and empathy

To deliver value and the best outcomes for the breadth of different electricity consumers, we need to understand who they are, their experiences, perspectives and needs. This understanding can only come from increased curiosity and genuine, open listening. We also need to exercise this capability with the regulated community. We will adopt a customer-centred approach to ensure the regulatory platform better serves people, businesses and the nation.

Purposeful connection

To grow trust and confidence, build knowledge and progress the electricity sector, we will deepen our connection to those we serve, Māori, the regulated community, and agencies we must collaborate with and can learn from. We also need to broaden our networks internationally. We will be clear about who we engage with and why, and actively build relationships. We need to listen and demonstrate we've heard, and better communicate sector success.

Inspired culture

To achieve great outcomes for New Zealand our internal talent needs to grow and thrive. We will invest in our culture, diversity and capability, and provide opportunities for collaboration and progression so our people feel fulfilled and are empowered to do their best work. Their valued experience and commitment are the foundation from which the Authority will change, grow its professional maturity and enhance the craft of our regulation.

Transformative mindset

To meet the pace of change and drive innovation we need to be creative, fast, bold, practical and flexible – choosing processes and methodologies that support responsiveness, agility, and better solutions. We will improve our governance, be more pragmatic, experiment, iterate and scan horizons – both within and outside energy, domestically and internationally.

Impactful delivery

To achieve our intended outcomes we need to be more efficient and strategic – prioritising and aligning our efforts, and using more streamlined, transparent processes. We will invest in systems and tools for success, better leverage internal knowledge, resources, data, technology, and apply a continuous improvement mindset to all our activities.

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 2018/19 year reflects the actual results as published in the Authority's 2018/19 Annual Report. The financial information presented for the 2019/20 year reflects the budget as published in the Authority's 2019/20 SPE. The financial information presented for the 2020/21 year reflects the Authority's intended budget for that year. Budgeted financial information does not include actual transactions and events.

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 2020/21 year, the Electricity litigation fund appropriation provides the Authority with funding of up to \$1.144 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 2020/21. As this appropriation is contingent in nature, no revenue or expenditure in relation to this appropriation has been included in the 2020/21 budgets in the prospective financial statements.
- security of supply emergency events. The Managing the security of New Zealand's electricity supply appropriation is available to fund the management of emergency events by the system operator. This is a multi-year appropriation of \$6.000 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 2020/21 budgets in the prospective financial statements.

Any economic impact of COVID-19 is unknown at this stage and therefore the numbers do not reflect the impact of COVID-19 on the Authority.

Prospective statement of comprehensive revenue and expense

	Note	Actual 2018/19 \$000	Budget 2019/20 \$000	Budget 2020/21 \$000
Funding from the Crown	1	69,211	74,936**	76,936**
Interest revenue		476	400	400
Total revenue		69,687	75,336	77,336
Personnel costs	2	11,026	11,987	11,592
Depreciation and amortisation		1,266	2,157	2,348
Service provider contracts		47,288	51,872	49,933
Other expenses	3	9,631	8,920	13,063
Total expenditure		69,211	74,936	76,936
Total comprehensive revenue and expense		476	400	400
Note:				
**An in-principle expense transfer for \$1.000 million has been requested from 2019/20 to 2020/21. However, approval will not be confirmed until the October 2020 baseline update.				

Prospective statement of changes in equity

	Actual 2018/19 \$000	Budget 2019/20 \$000	Budget 2020/21 \$000
Opening balance at 1 July	12,532	12,850	13,250
Total comprehensive revenue and expense	476	400	400
Closing balance at 30 June	13,008	13,250	13,650

Prospective statement of financial position

	Note	Actual 2018/19 \$000	Budget 2019/20 \$000	Budget 2020/21 \$000
Assets				
Current assets				
Cash and cash equivalents		16,679	15,532	16,346
Receivables and prepayments		15	200	200
GST receivable		248	-	-
Total current assets		16,942	15,732	16,546
Non-current assets				
Property, plant and equipment	4	327	363	432
Intangible assets	5	4,930	5,355	4,872
Total non-current assets		5,257	5,718	5,304
Total assets		22,199	21,450	21,850
Liabilities				
Current liabilities				
Payables and accruals		6,698	7,000	7,000
Employee entitlements		886	1,000	1,000
GST payable		-	200	200
Appropriation repayable to the Crown		1,581	-	-
Total current liabilities		9,165	8,200	8,200
Non-current liabilities				
Employee entitlements		26	-	-
Total liabilities		9,191	8,200	8,200
Net assets		13,008	13,250	13,650
Equity				
Contributed capital		9,011	9,011	9,011
Accumulated surplus/(deficit)		3,997	4,239	4,639
Total Equity		13,008	13,250	13,650

Prospective statement of cash flows

	Actual 2018/19 \$000	Budget 2019/20 \$000	Budget 2020/21 \$000
Cash flows from operating activities			
Receipts from the Crown	70,792	74,936	76,936
Interest from investments	476	400	400
Repayment of appropriations to the Crown	(1,811)	-	-
Payments to suppliers	(56,763)	(60,792)	(62,994)
Payments to personnel	(10,994)	(11,987)	(11,592)
Goods and services tax (net)	(3)	-	-
Net cash flows from operating activities	1,697	2,557	2,750
Cash flows from investing activities			
Receipts from the sale of fixed assets	1	-	-
Purchase of property, plant and equipment	(198)	(250)	(211)
Purchase of intangibles	(715)	(2,035)	(1,725)
Net cash flows from investing activities	(912)	(2,285)	(1,936)
Net increase/(decrease) in cash and cash equivalents	785	272	814
Cash and cash equivalents at the beginning of the year	15,894	15,260	15,532
Cash and cash equivalents at the end of the year	16,679	15,532	16,346

Notes to the prospective financial statements

1. Appropriation revenue	Actual 2018/19 \$000	Budget 2019/20 \$000	Budget 2020/21 \$000
Electricity industry governance and market operations	68,971	74,936**	76,936**
Managing the security of New Zealand's electricity supply*	-	-	-
Electricity litigation fund*	240	-	-
	69,211	74,936	76,936

Note:

* The Managing the security of New Zealand's electricity supply appropriation, and the Electricity litigation fund appropriation, are both contingent in nature and not routinely used. For this reason, the Authority's prospective financial statements do not include any budgeted revenue or expenditure in relation to these appropriations.

** An in-principle expense transfer of \$1.000 million has been requested from 2019/20 to 2020/21. However, approval will not be confirmed until the October 2020 baseline update.

2. Personnel costs	Actual 2018/19 \$000	Budget 2019/20 \$000	Budget 2020/21 \$000
Salaries and contractors	10,637	11,527	10,998
Contributions to defined contribution plans	386	460	594
Increase/(decrease) in leave provisions	3	-	-
	11,026	11,987	11,592

3. Other expenses	Actual 2018/19 \$000	Budget 2019/20 \$000	Budget 2020/21 \$000
Managing the security of New Zealand's electricity supply*	-	-	-
Litigation fund*	240	-	-
External work programme support	3,595	3,731	4,949
Auditor fees	49	47	50
Advisory and working group fees	67	88	155
Board members' fees	585	680	725
Rulings Panel fees	105	100	100
Operating lease expenses	513	515	595
Travel expenses	222	302	363
Other operating expenses	4,255	3,457	6,126
	9,631	8,920	13,063

Note:

* The Managing the security of New Zealand's electricity supply appropriation, and the Electricity litigation fund appropriation, are both contingent in nature and not routinely used. For this reason, the Authority's prospective financial statements do not include any budgeted revenue or expenditure in relation to these appropriations.

4. Property, plant and equipment	Actual 2018/19 \$000	Budget 2019/20 \$000	Budget 2020/21 \$000
Computer hardware	133	187	265
Office equipment	110	103	41
Furniture and fittings	26	24	75
Leasehold improvements	58	49	51
Net book value at 30 June	327	363	432

5. Intangible assets	Actual 2018/19 \$000	Budget 2019/20 \$000	Budget 2020/21 \$000
Software	4,930	5,355	4,872
Net book value at 30 June	4,930	5,355	4,872

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.

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%
-------------------	-----------	---------

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.