Four-monthly report to the Minister for Energy

1 July to 31 October 2023

ELECTRICITY AUTHORITY
TE MANA HIKO

Executive summary

The Electricity Authority Te Mana Hiko (Authority) provides the Minister for Energy with this four-monthly report in accordance with our output agreement. It provides a summary of the Authority's performance from 1 July 2023 to 31 October 2023.

The Authority focused on projects to make sure the transition to an electrified future is as efficient as possible, while maintaining energy security, system adaptability and affordability for consumers.

Points to note

1. The Authority continued to deliver against the Minister's Letter of Expectations 2023/24 and the activities outlined in our Annual Corporate Plan 2023/24, with 20 out of 23 activity areas on track. We expect to achieve all 23 activity areas by the end of 2023/24.
2. We worked with the Ministry of Business, Innovation and Employment and Sapere on a strategic baseline review to assess our operations and resourcing. The review found the Authority faces funding pressures and identified a number of areas for improvement. A separate business case details the need to increase the Authority's baseline funding to increase our capacity and capability. It found we need to scale up to keep pace with the rapid transformation of the industry and technological change so that we can enable an electrified economy at least cost and maximum benefit to consumers.
3. Highlights for this reporting period include:
    - We published a two-year indicative work programme for distribution reform with our key projects and a prioritisation framework, so that industry can understand when to expect regulatory change proposals.
    - We used new methods to engage stakeholders to broaden our reach and hear from a wider range of voices. We achieved a particularly high level of engagement in our Consumer Care Guidelines consultation, from both the public and industry participants.
    - We published an issues paper on distribution pricing reform to get sector feedback on key regulatory issues, including the impacts of the uptake of electric vehicles and electric vehicle charging.
4. Our Board and leadership team changed. Anna Kominik and Cristiano Marantes were appointed as Board Chair and Board member respectively. We also welcomed Sally Aitken as General Manager, Strategic Communications and Engagement and Mark Herring as General Manager, Corporate and Market Services.
5. We continued to actively record and manage risks and put in place mitigations that successfully reduced risk ratings, in some areas.
6. Financially, the Authority was tightly managed. Actual expenditure was marginally higher than budgeted for the year-to-date, reflecting increased pressures and the need to deliver more at a faster pace. This is being managed and we expect the full year expenses to be within our total funding.

Contacts

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1. Delivering on expectations

Introduction

This section provides an update on the Authority's progress towards achieving the priorities and expectations set out in the Letter of Expectations 2023/24. It is organised into the five key focus areas from our Annual Corporate Plan 2023/24:

1. System security and resilience
2. Enabling investment and innovation
3. Consumer protection
4. Monitoring, compliance, education and enforcement
5. Building trust and confidence through improved capability, transparency and engagement.

Further information on progress made against the Letter of Expectations can be found in Appendix A.

1. System security and resilience

Future security and resilience

Future security and resilience indicators

- **Progress made:** The Authority published a dashboard of future security and resilience indicators in May 2023. We actively monitored changes to these indicators to prioritise our projects to support a secure and resilient system for the low-emissions transition. Current indications are that changes to the power system are increasing due to the increasing connections of renewable resources, such as wind, solar panels and batteries. This means some of our projects need to be expediated, but this is dependent on resourcing.
- **Future delivery:** We will develop the indicators to collect and analyse more security data.

Review of Part 8 of the Electricity Industry Participation Code (Code)

- **Progress made:** In April 2023, the Authority consulted on priority common quality issues with new technology generation connecting to the power system. We received 23 submissions. Feedback strongly indicated the Authority needs to progress amendments to the Code to enable new technologies. The Code in its current format disadvantages some evolving technologies over others, particularly inverter-based resources. Many amendments to the Code are required, but current resourcing constrains how fast we can deliver these changes.
- **Future delivery:** We will publish an options paper in mid-2024.

Future system operation

- **Progress made:** We engaged with key agencies (Ministry of Business, Innovation and Employment (MBIE), Commerce Commission, Energy Efficiency and Conservation Agency and the system operator) on the technical and operational challenges expected for the power system as New Zealand transitions to a low-emissions economy. Distribution companies are becoming distribution system operators due to the increase in distributed energy resources and changes to system power flows. Also, consumers are increasingly participating in the power system with solar PV and batteries. The Code and regulations do not currently enable these operational changes.
- **Future delivery:** We will publish a consultation paper in early 2024 for this multi-year work programme. Feedback is expected to confirm changes to the Code and power system operation that need to be completed quickly to support innovation. The speed of these changes will depend on our resourcing.

Ensuring an orderly thermal transition

- **Progress made:** In June and July 2023, the Authority consulted on the potential risks associated with the early retirement of thermal power plants. We received 20 submissions.
- **Future delivery:** We will continue to work with the sector to determine an orderly transition and are actively monitoring risk levels and maintaining mitigation planning.

Market Development Advisory Group pricing project

- **Progress made:** The Market Development Advisory Group (MDAG) investigated how the wholesale market might operate with an electricity supply that is increasingly based on renewable forms of generation.

  MDAG considered 33 submissions on its options paper, engaged with stakeholders on specific issues and carried out further analysis on its preferred options. They set up working groups to test their preferred options and advise on practical implementation.

  The Authority started several projects that relate to options proposed by the MDAG. They align with our main statutory objective and are high priority as New Zealand transitions to a renewables-based system.
- **Future delivery:** MDAG will provide its final report and recommendations to the Authority on 11 December 2023 which we will publish soon after.

  The Authority has been working closely alongside the MDAG to minimise delay in considering the recommendations and how they fit with the Authority's programme of work. Most, if not all, of the recommendations will form part of our wholesale market work programme. Due to funding constraints, we expect there may be a delay in actioning a number of recommendations. This risks impeding the development of the wholesale market.

Managing winter peak demand

Winter 2023 review

- **Progress made:** In early 2023, the Authority implemented four options[1] to enable the system operator and industry participants to better coordinate resources during tight supply situations. We chose the following options as they would provide the most benefit for consumers and could be implemented before winter:

  1. Provide better information on headroom in the supply stack
  2. Provide forecast spot prices under demand sensitivity cases
  3. System operator review of wind offers based on an external forecast
  4. Clarify availability and use of 'discretionary demand' control.

  We reviewed the effectiveness of these four options through the winter period and have written a consultation paper to seek stakeholder feedback.

- **Future delivery:** We will publish our consultation paper in December 2023 to get feedback on the effectiveness of these options, how to improve them and whether they should be made permanent. Final decisions will be made in early 2024 ahead of winter 2025.

Standby ancillary service

- **Progress made:** The Authority reviewed options proposed by participants for a standby ancillary service - support functions that help grid operators maintain a reliable electricity service and support the wholesale market to address winter peak demand coordination issues. We also analysed overseas examples of standby ancillary services.
- **Future delivery:** An issues paper will be released in December 2023 for stakeholder feedback.

Improving hedge disclosure obligations

- **Progress made:** The Authority consulted on how to improve the hedge disclosure obligations in the Code in July 2023 and received 14 submissions. The contracts market has materially changed over the last few years and a growing number of risk management contracts are not captured by the hedge disclosure obligations requirements. The information specified in the Code for each contract type is insufficient to enable effective risk management.
- **Future delivery:** We will recommend preferred options for future consultation to our Board, including possible future workstreams.

[1] More background and relevant papers can be found on our website: 'Managing peak winter electricity demand'

2. Enabling investment and innovation

Connection charges and regulatory barriers for public electric vehicle chargers

Distribution pricing reform

- **Progress made:** The Authority published an issues paper on the targeted reform of distribution pricing in July 2023. The paper covered the background, challenges, and potential options for changes to the regulatory settings for distribution pricing to support the energy transition. This included the impacts of the uptake of electric vehicles and the importance of electric vehicle charging. It also explained why distributors should offer cost-reflective prices that signal the cost of using the network at peak and off-peak times – a key issue for the electrification of transport.
- **Future delivery:** The Authority will:
  1. Consult on measures to enhance distribution tariffs and connection pricing in early 2024, reflecting stakeholder feedback
  2. Investigate variation in charging approaches for load customers, including public electric vehicle chargers, and develop potential options to address identified issues
  3. Consider amending the Code to address any issues within the Authority's remit on connection charges (and refer issues outside our remit to the appropriate agency).

Distribution regulatory settings reform

- **Progress made:** The Authority published an indicative work programme of the projects we are prioritising to reform distribution regulatory settings, following consultation with industry participants.
- **Future delivery:** We will prioritise resolving the issues identified with Part 6 of the Code about how distributors can engage with distributed generation applications. This will help improve the time it takes to connect public electric vehicle chargers. We will also establish a Network Connection Technical Group to advise on future improvements. Distribution reform is a priority for us, but we are constrained by resourcing and expect progress will be slower than the sector would like.

Supporting the growth of renewable generation, firming capacity and demand-side participation

- **Progress made:** The Authority worked with Transpower and Infrastructure New Zealand on a project led by the Ministry of Business, Innovation and Employment (MBIE) into the incentivisation of offshore wind development.
- **Future delivery:** We will continue to work with the project lead, MBIE, to analyse and develop options for a regulatory framework for offshore renewable energy.

Dispatch notification enhancements

- **Progress made:** The final phase of our real-time pricing project went live in April 2023 with the introduction of 'dispatch notification' as a new form of market participation. Dispatch notification allows small scale generation and aggregators of demand side resources to signal their flexibility in the wholesale market.

During the reporting period, we worked with the system operator to assist solarZero and Ara Ake to implement a distributed battery system trial using the dispatch notification product.

- **Future delivery:** Through the trial, we realised that some areas of the Code could be enhanced to improve participant access to the dispatch notification product. We consulted on some amendments to the Code in September 2023 and will decide what improvements to implement in December 2023.

3. Consumer protection

Consumer Care Guidelines - Review of electricity retailers' self-assessed alignment

- **Progress made:** The Authority consulted on options to update and strengthen the Consumer Care Guidelines in September 2023, including whether to make parts, or all, of the guidelines mandatory. A different consultation process was used to broaden our reach and ensure a wide range of electricity consumers were able to input into the consultation. It was successful in generating around 1,000 survey responses and 100 submissions, as well as 13 submissions from consumer advocacy groups and 14 submissions from industry participants.
- **Future delivery:** We will decide which options to progress in early 2024.

Powerswitch

- **Progress made:** The Authority's contract with Powerswitch's energy price comparison service was extended to 30 June 2025.
- **Future delivery:** We will consult on how consumer comparison and switching should be supported (beyond Powerswitch's contract) in the coming months.

4. Monitoring, compliance, education and enforcement

Monitoring retailers' conduct

- **Progress made:** The Authority worked on how to improve the collection and publication of retail data. Existing retail market monitoring does not currently collect some important information, such as retail pricing, time-of-use plan uptake and outcomes for domestic and small business consumers. This information is necessary to create an environment of market transparency and raise consumer awareness about the operation of the electricity market. We aim to improve our retail monitoring to better inform evidence-based policy and regulatory decisions across the Authority and Government.
- **Future delivery:** The Authority will consult on improvements to our collection of retail data in December 2023.

Monitoring the wholesale market

Progress made: We continued to publish weekly trading conduct reports, quarterly reviews and trading periods for further analysis.

We started a review of independent retailers' activities in the over-the-counter (OTC) forward market to understand if they operate in a level playing field.

We created a voluntary Code of Conduct for over-the-counter participants. This was developed by an industry-led OTC market working group to support an efficient and competitive OTC market. All participants in the OTC market have been encouraged to sign up to the voluntary Code and 12 have done so, including all of the major generators and retailers.

Future delivery: We will continue to track and monitor all aspects of the sector.

Increasing our focus on compliance

- **Progress made:** The Authority continued to monitor compliance with electricity industry regulations and the Code. We met our target for all compliance cases to be closed within 345 days.
- **Future delivery:** The Authority will develop and implement a compliance education programme over the next two years to drive increased industry compliance.

  We will improve our Compliance Portal and Retail Audit Database to improve data security, efficiency, tracking and reporting of trends through the audit process.

5. Building trust and confidence through improved capability, transparency and engagement

Supporting broader sector initiatives and engaging with stakeholders, including consumers

- **Progress made:** The Authority worked to build strong cross-sector and agency relationships to enable an appropriately joined-up response to energy issues.

  We increased our engagement with stakeholders and consumers through our consultations and educational work. We re-instated our quarterly stakeholder updates and held a workshop on the future of the Authority's advisory groups.
- **Future delivery:** The Authority will continue to develop its relationships and identify ways to broaden our engagement.

Strategic baseline review

- **Progress made:** The Authority worked with MBIE and Sapere on the strategic baseline review of the Authority's operations. MBIE provided the final review to the Minister in September 2023.

  The review found that, while the Authority is currently meeting its statutory objectives, there are further opportunities to improve. It found that "*historically the organisation has been… run on a lean budget. A result of this may be that the Authority has been somewhat reactive in its role, which must change if it is to deliver on the significant changes ahead to guide the sector through the transition to greater electrification*."[2]

  Future funding levels were considered separate to the review in a business case by PwC. The final business case was provided to the Minister's office on 9 October 2023.

[2] Sapere, *Electricity Authority Strategic Baseline Review 2022/23 Final Report*, 29 August 2023, p. 20.

The baseline review sets out a strong need for the Authority to change its way of operating. The business case details the need to increase the Authority's baseline funding to scale up, so the Authority can keep pace with the rate of technological change required for an orderly transition to a net zero carbon future at least cost to consumers.

- **Future delivery:** The baseline review and business case informed the levy-funded appropriations 2024/25 for consultation in late 2023.

Section 44B backstop regulation power

The Electricity Industry Act 2010 (Act) was amended in 2022 to give the Authority clearer powers to protect the interests of small electricity consumers in relation to their electricity supply and to increase the Authority's ability to hold industry participants to account.

The amendments introduced section 44B, which is a backstop regulation power. It enables the Minister for Energy to amend the Code, if the Minister considers that certain Code provisions (largely those intended to implement the Electricity Price Review recommendations) are not satisfactory.

We published a report on Section 44B(2) matters on 31 August 2023 in response to the request for a report for the Minister's consideration in the Letter of Expectations 2023/24.

The report explains, for each of the matters specified in section 44B(2) of the Act, how the Code has been amended to address the matter and how this will further the Authority's statutory objectives.

The section 44B(2) matters relate to a selection of recommendations from the 2019 Electricity Price Review. The Authority has completed a comprehensive work programme to address these recommendations and, in some cases, is continuing to build on this work.

General governance and reporting expectations

The Authority continued to operate a 'no surprises' policy with the Minister's office and continued to notify if/when we receive substantive media enquiries.

We remained proactive in our engagement with the Ministry of Business, Innovation and Employment as our monitoring agency. This helped ensure we meet the expectations outlined in the *Monitoring arrangements for MBIE-monitored Crown entities*, in line with our enduring output agreement.

2. Delivering our Annual Corporate Plan

The Authority continued to build its capability and capacity to deliver the work programme outlined in the Annual Corporate Plan 2023/24. Twenty out of 23 activity areas were on track, and we achieved the following highlights:

- We supported the system operator's work with distributors to complete the transition to the 4-block automatic under-frequency load shedding scheme. The transition is on track, with the scheme starting in January 2024. This work makes sure our back-up systems, to keep the lights on following a major event, remain fit-for-purpose.
- We continued to support and evaluate the options implemented for winter 2023. These were designed to increase information to the market, allowing market participants to make more informed generation decisions, and underpinned by an assumption that a well-informed market will make better decisions.
- We amended the Code and benchmark agreement to include default terms for the grid owner to recover its settlement residual allocation methodology costs. We believe it is the simplest and most cost-effective way for Transpower to recover its implementation costs from the right people through existing contractual mechanisms.
- We trialled a different engagement and streamlined approach to broaden the reach of our Consumer Care Guidelines consultation and encourage electricity consumers to have their say. As a result, the September 2023 consultation successfully generated high levels of feedback, with around 1,000 survey responses and 100 submissions from both consumers and industry participants.
- We made material progress in our work to improve pricing efficiency across distribution network businesses:
    - We consulted on regulatory options for distribution pricing, generating 40 submissions and 12 cross-submissions, and held four industry forums to discuss the key regulatory issues.
    - We completed and published our 2023 distribution pricing scorecards. This year most distributors made significant improvements in both pricing methodologies and strategy roadmaps for the challenges of the future.

This report covers the period 1 July to 31 October and the commentary and risk ratings reflect the position at that time. In this reporting period, three of the activity areas in the Annual Corporate Plan 2023/24 were delayed and additional content has been provided to indicate where and why targets may slip in the next reporting period. We are working hard to avoid delays while at the same time trialling different ways of working to expedite the development and consultation of regulation while preserving the robustness of our decision making process. We will communicate any changes to delivery times early in 2024.

The Authority Board and management, the majority of whom are new to their positions in 2023, are committed to being an exemplar regulator, delivering more and faster to achieve electrification and greater resilience for New Zealand. In delivering the current work programme, there is a focus on increased transparency, certainty, engagement and practical approaches and solutions to regulatory issues. As part of this, there is a strong focus on learning and continuous improvement to ensure we can meet increased expectations from industry, from Government and from all consumers.

The Annual Corporate Plan is based on the policy priorities and funding and resources for the year. Before the 2023/24 financial year the appropriation for the Authority had not changed significantly since its establishment in 2010. The change in the Authority's operating funding from 2012 to 2023 represents a nominal increase of less than 1.5% per annum.

The Authority needs to be fit-for-purpose to keep pace with the transforming electricity market and better serve all consumers. The 23 activities reflect the work we can deliver, but there is much more that can be done to ensure regulation is keeping pace with market developments and not becoming a handbrake on innovation and the transition to a net zero carbon future. The Authority is constrained by the current budget and workload pressures and the current Annual Corporate Plan does not reflect the external pressures we're experiencing, including opportunity costs for 2023/24 prioritisation.

The full Annual Corporate Plan progress report can be found in Appendix B.

3. Output performance

This section provides an exceptions report against the performance measures in our Statement of Performance Expectations 2023/24.

The performance measures and targets set out in our Statement of Performance Expectations are reported in our Annual Report. In this four-monthly report, we report on our output performance on an exception basis, as per our output agreement.

Electricity industry governance and market operations

The Electricity industry governance and market operations appropriation funds the Authority's operations. This includes Board members' costs, the Rulings Panel, Security and Reliability Council, advisory groups, and the operation of the electricity system and markets. The appropriation enables us to exercise our five main operating functions, which are:

- **Monitor, inform and educate:** We monitor market behaviour and make data, information, and tools available to help improve understanding of the electricity markets by consumers and industry participants.
- **Operate the electricity system and market:** We are responsible for the efficient day-to-day operation of the electricity system and markets through contracted service providers.
- **Enforce compliance:** We monitor, investigate, and enforce compliance with the Act, its regulations, and the Code by industry participants to create a fair and competitive market.
- **Promote market development:** We propose and make amendments to the Code to deliver better outcomes for consumers today and in the future.
- **Protect the interests of consumers:** We are responsible for protecting the interests of domestic and small business consumers in relation to the dealings of industry participants with those consumers.

As at 31 October 2023, all of the Authority's output performance measures were on track. There are currently no exceptions to report.

Figure 2: Electricity industry governance and market operations appropriation, 1 July 2023 to 31 October 2023

Expense type	Oct 2023 Year to Date Actual	Oct 2023 Year to Date Budget	Jun 2024 Full year budget
System operator - operating expenses	10,095	9,812	29,638
System operator - capital-related expenses	6,074	6,227	18,682
System operator expenses	**16,169**	**16,039**	**48,320**
Service provider - market making	4,424	4,716	14,150
Service provider - clearing manager	994	973	2,919
Service provider - wholesale information and trading syste	670	647	1,941
Service provider - pricing manager	-	88	265
Service provider - reconciliation manager	340	330	989
Service provider - registry	297	263	787
Service provider - FTR manager	312	303	907
Service provider - Extended reserves manager	-	-	-
Service provider - depreciation and amortisation	587	896	3,032
Service provider - IT costs	-	-	
Other service provider expenses	**7,624**	**8,216**	**24,990**
Authority operations - work programme	1,945	1,660	3,904
Authority operations - personnel	5,768	5,632	15,363
Authority operations - other operating costs	1,971	1,738	106,418
Authority operating expenses	**9,684**	**9,030**	**27,503**
Total expenditure	**33,477**	**33,285**	**100,813**

Managing the security of New Zealand’s electricity supply

The Electricity Industry Governance and Market Operations appropriation is intended to enable enhanced security of supply in the electricity system during periods of emerging or actual security situations.

The system operator can request funding from this appropriation to manage actual or emerging emergency events on the security of New Zealand’s electricity supply, to:

a. increase monitoring and management responsibilities in the event of an emerging or actual security situation

b. plan and run an official conservation campaign.

The Authority’s role in respect to this appropriation is limited to addressing requests from the system operator to use these funds, which are subject to an agreed process and criteria.

There has been no expenditure in respect to this appropriation in 2023/24.

Electricity litigation fund

The Electricity litigation fund appropriation is intended to ensure the Authority can participate in litigation effectively and without delay.

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

The Authority's access to this appropriation must be consistent with the criteria of use documented in the output agreement.

The litigation fund performance measure is on track. At 31 October 2023, $0.127 million was spent in preparation of Authority's submission, interactions with court and other parties eg. solicitors, attendance at hearings and various meetings etc.

The Authority is waiting for a decision in two cases:

- an appeal brought by Haast Energy Trading Limited and Electric Kiwi Limited in relation to the Authority's decisions on a claim of an undesirable trading situation and a pricing error, arising from the 9 August 2021 event
- a judicial review application brought by Buller Electricity Limited in relation to the Authority's Transmission Pricing Methodology.

4. Organisational development

Operating model

For this reporting period, 1 July to 31 October 2023, the Authority's staff turnover rate was 5%, down from 9% for the same period last year.

Ongoing efficiencies and best practice are sought on an ongoing basis across our operating model. The organisation continues to focus on talent attraction and retention, learning and upskilling and ensuring we have the right capabilities to deliver against expectations.

Senior leadership and Board appointments

Following a formal recruitment process, the Authority appointed:

- Sally Aitken as General Manager, Strategic Communications and Engagement, from 14 August 2023
- Mark Herring as General Manager, Corporate and Market Services, from 30 October 2023.

For the Board:

- Anna Kominik was appointed as Chair for a five-year term from 13 July 2023
- Cristiano Marantes was appointed for a five-year term from 1 July 2023
- Allan Dawson and Lana Stockman were reappointed for one-year terms from 9 October 2023.

5. Audit and risk

This part provides information about audit and risk matters relating to the reporting period, as specified in the output agreement.

Audit issues

There were no internal audit reviews planned for the reporting period, as per the three-year audit plan.

Proposed contract service orders were issued for undertaking reviews prior to the year-end of 30 June 2024. The contract service orders are in the process of being selected by the auditees.

An external review in June 2022 (performed on behalf of Archives New Zealand) on Information Management highlighted eight findings for remedial actions. After discussions with Archives New Zealand, a two-year remediation plan was agreed to lift the maturity of the Authority on information management. Progress is reported to the Senior Leadership Team and the Audit and Finance Committee on a regular basis.

During the reporting period, several cyber security audit issues were worked through and resolved.

Risk management

No new strategic risks were identified during the reporting period.

We tightened our risk management identification and added a new risk category to the updated risk management framework for third-party risk for our market operation service providers.

A full list of critical and high open risks and our risk management methodology is available in Appendix C.

The mitigations for each of the risks have been compiled using the bowtie methodology. On a two-monthly basis (or as required), the owner of the risk updates the risk rating and the mitigations or treatments. We now have the strategic and operational risks associated with the Authority operations included within the risk management framework.

Table 1 Critical and high open risks by category

Category	30 June 2023		31 October 2023	
	Critical	High	Critical	High
Strategic	1	6	-	7
Operational	-	-	-	-
Political	-	-	-	-
Reputational	-	1	-	1
Legal/Regulatory	-	2	-	2
Workforce	-	-	-	-
Technical/Infrastructure	-	-	-	-
Market	-	-	-	-
Financial	-	1	-	1
Project Management	-	-	-	-
Health and Safety	-	1	-	1
Other	-	-	-	-
Total	**1**	**11**	**-**	**12**

6. Financial performance and position

This section provides information about the Authority's financial performance for 1 July 2023 to 31 October 2023 and financial position as at 31 October 2023.

Financially, the Authority is being tightly managed. Year-to-date expenditure is marginally higher than budget, reflecting increased pressures and the need to deliver more at a faster pace. This is being managed and we expect the full year expenses to be within our total funding.

Appropriations and expenditure

Expenditure incurred against the three appropriations available to the Authority is as follows:

Figure 3: Appropriations, 1 July 2023 to 31 October 2023

Appropriation	Oct 2023 Year to Date Actual $000	Oct 2023 Year to Date Budget $000	Oct 2023 Year to Date Variance $000
Electricity industry governance and market operations	33,477	33,285	(192)
Managing the security of New Zealand's electricity supply	-	-	-
Electricity litigation fund	127	145	18
Total	**33,604**	**33,430**	**(174)**

In the Electricity industry Governance and Market Operations appropriation, expenditure for the four months to 31 October 2023 was $0.2 million higher than budget, due to:

a. Higher than budgeted other expenses of $0.5 million, due largely to launching further projects that were needed for 2023/24

b. Higher than budgeted personnel costs of $0.1 million, due to additional roles and temporary contract backfill of permanent staff

c. Offset by lower than budgeted depreciation and service provider contract costs of $0.4 million largely attributed to lower depreciation, due to software being depreciated over a longer period.

This variance is due to timing differences between actual and budgeted expenditure, increased pressures and the need to deliver more at a faster pace. The full year expenditure is planned to remain within total funding.

Total Authority expenditure for the reporting period was $33.6 million funded by Crown appropriations.

Total revenue for the reporting period is detailed in the *Statement of comprehensive revenue and expense* (Figure 4) below.

For further information, see:

- Page 12 ***'Electricity industry governance and market operations appropriation***'
- Page 13 ***'Managing the security of New Zealand's electricity supply appropriation***'
- Page 14 ***'Electricity litigation fund appropriation'***

Figure 4: Statement of comprehensive revenue and expense, 1 July 2023 to 31 October 2023

2022/23 Full Year Actual $000		Oct 2023 Year to Date Actual $000	Oct 2023 Year to Date Budget $000
92,942	Crown appropriations	33,604	33,430
973	Interest income	597	44
-	Other income	-	-
93,915	**Total revenue**	**34,201**	**33,474**
16,162	Personnel costs	5,768	5,632
1,952	Depreciation and amortisation	797	1,047
62,242	Service provider contracts	23,205	23,360
12,586	Other expenses	3,834	3,391
92,942	**Total expenditure**	**33,604**	**33,430**
973	**Total comprehensive revenue and expense**	**597**	**44**

Total Authority equity increased by $0.6 million in the four months to 31 October 2023 being the value of non-appropriation revenue. Taxpayers' funds held by the Authority as at 31 October 2023 were $14.5 million and are detailed in the *Statement of changes in equity* (Figure 5).

Figure 5: Statement of changes in equity, 1 July 2023 to 31 October 2023

2022/23 Full Year Actual $000		Oct 2023 Year to Date Actual $000	Oct 2023 Year to Date Budget $000
12,968	Opening balance at 1 July	13,941	13,941
973	Total comprehensive revenue and expense	597	44
13,941	**Closing balance at 30 June**	**14,538**	**13,985**

Financial position

The Authority's assets and liabilities are detailed in the *Statement of financial position* (Figure 6). The movements during the year have largely been modest, but we note that the Authority is holding $0.7 million more in current assets (primarily prepayments) and $0.5 million less in fixed assets due to depreciation and amortisation. Payables and accruals have reduced by $0.9 million. This is due to the 2022/23 amount of $10.6 million where some substantial service provider costs fell due in June 2023 and were settled during 2023/24.

Figure 6: Statement of financial position – as at 31 October 2023

2022/23 Full Year Actual $000		Oct 2023 Year to Date Actual $000	Oct 2023 Year to Date Budget $000
	Assets		
	Current assets		
20,987	Cash and cash equivalents	21,150	11,434
160	Receivables and prepayments	715	185
-	GST receivable	-	479
21,147	**Total current assets**	**21,865**	**12,098**
	Non-current assets		
1,245	Property, plant and equipment	1,215	1,184
8,192	Intangible assets	7,727	7,093
9,437	**Total non-current assets**	**8,942**	**8,277**
30,584	**Total assets**	**30,807**	**20,375**
	Liabilities		
	Current liabilities		
10,581	Payables and accruals	9,652	5,177
1,550	Employee entitlements	1,073	1,000
38	GST payable	149	-
4,212	Appropriation repayable to the Crown	5,139	-
-	Other provisions	-	-
16,381	**Total current liabilities**	**16,013**	**6,177**
	Non-current liabilities		
71	Employee entitlements	71	-
191	Other provisions	185	213
262	**Total non-current liabilities**	**256**	**213**
16,643	**Total liabilities**	**16,269**	**6,390**
13,941	**Net assets**	**14,538**	**13,985**
	Equity		
9,011	Contributed capital	9,011	9,011
4,930	Accumulated surplus/(deficit)	5,527	4,974
13,941	**Taxpayers' funds**	**14,538**	**13,985**

Cash flow

The Authority experienced a positive cash flow of $0.2 million in the four months to 31 October 2023. This was a result of a $0.5 million net cash inflow from operating activities, partially offset by a $0.3 million investment in intangible assets.

Figure 7: Statement of cash flows, 1 July 2023 to 31 October 2023

2022/23 Full Year Actual $000		Oct 2023 Year to Date Actual $000	Oct 2023 Year to Date Budget $000
	Cash flows from operating activities		
97,154	Receipts from the Crown	34,474	33,430
973	Interest from investments	597	44
(5,670)	Repayment of appropriation to the Crown	-	-
0	Distribution of net spot revenue to levy payers	(6)	-
(70,884)	Payments to suppliers	(28,466)	(31,189)
(15,785)	Payments to personnel	(6,245)	(5,632)
(98)	Goods and services tax (net)	111	(579)
5,690	**Net cash flows from operating activities**	**465**	**(3,926)**
	Cash flows from investing activities		
(286)	Purchase of property, plant and equipment	(35)	(19)
(3,078)	Purchase of intangibles	(267)	(101)
(3,364)	**Net cash flows from investing activities**	**(302)**	**(120)**
2,326	**Net increase/(decrease) in cash and equivalents**	**163**	**(4,046)**
18,661	Cash and cash equivalents at beginning of year	20,987	15,480
20,987	**Cash and cash equivalents at end of period**	**21,150**	**11,434**

Appendix A Alignment between Letter of Expectations and Part 1 Delivering on expectations

The below tables show extracts of the Minister's Letter of Expectations 2023/24 and the Authority's approach.

Sector-related issues from the Letter of Expectations	Relevant section in part one of this report
The Government is focused on a just transition to net zero carbon emissions by 2050, and building a more productive, sustainable and inclusive economy. The Government has published the first Emissions Reduction Plan that incorporates sector specific policies to meet the first emissions budget for 2022 to 2025, including for the energy sector…we have set ambitious goals, including to transition to 50 per cent of all energy consumption to come from renewable sources by 2035 and an aspirational goal for 100 per cent renewable electricity by 2030.	System security and resilience
The Authority's role will require active engagement with the Ministry of Business, Innovation and Employment, Energy Efficiency and Conservation Authority, Gas Industry Company, and Commerce Commission to ensure the energy regulatory system supports service innovation and consumer choice.	Building trust and confidence through improved capability, transparency and engagement

Entity-specific expectations from the Letter of Expectations	Relevant section in part one of this report
Assist the backstop regulation power in section 44B of the Electricity Industry Act 2010 by publishing a report before 1 September 2023, explaining, for each of the matters specified in subsection 44B (2), how the Code addresses the matter and how it will further the Authority's statutory objectives.	Section 44B backstop regulation power
Address recommendations related to the 9 August 2021 event to maintain confidence in the market and ensure security of supply in winter 2023 and beyond.	System security and resilience/Market confidence and security of supply
Monitor for the exercise of market power in the wholesale electricity market and increase the focus on the Authority's compliance function.	Monitoring, compliance, education and enforcement • Monitoring the wholesale market • Increasing our focus on compliance
Continue to support the continued growth of renewable generation, sufficient firming capacity and demand-side participation.	Enabling investment and innovation/Supporting the growth of renewable generation, firming capacity and demand-side participation

Entity-specific expectations from the Letter of Expectations	Relevant section in part one of this report
Maintain focus on the regulatory settings for distribution networks, including how connection costs and pricing for public electric vehicle (EV) charges can facilitate the electrification of transport, and how access to metering information can better support demand flexibility. In particular, within the next four months, investigate and develop actions to address variation in EV connection charges for public EV charges across the country, as well as other regulatory barriers to the roll-out and adoption of EV technology.	Enabling investment and innovation/Connection charges and regulatory barriers for public electric vehicles (EV) chargers
Deliver improved outcomes for the Authority's additional objective to protect the interests of domestic and small business consumers, including the Electricity Price Review's recommendation to establish mandatory minimum standards for medically dependent domestic consumers.	Consumer protection/Review of electricity retailers' self-assessed alignment with the consumer Care Guidelines
Monitor retailers' conduct regarding vulnerable consumers and prompt payment discounts and late payment fees. Support broader sector initiative, such as Consumer Advocacy Council, Energy Hardship Expert Panel and the Energy Hardship Reference Group.	Consumer protection/Monitoring retailers conduct
Provide advice on the findings of the Strategic Baseline Review, and work constructively with officials at MBIE to implement recommendations as appropriate.	Strategic baseline review

Appendix B Annual Corporate Plan Progress Report 1 July to 31 October 2023

Appendix C Description and mitigation of critical and high risks

Here are the critical and high risks. Each of these risks has mitigations that have been identified and are regularly updated by the risk owners and reviewed by senior management.

Risk description	Prev. rating	Current rating
If there is underinvestment in infrastructure, or investment does not keep pace with the demand for new generation in the move toward decarbonisation and/or decentralisation, then this is likely to result in reduced reliability of the network, high prices, conservation campaigns, and market intervention.	High	High
If there is a short-term supply-side issue, (outage, dry year, fuel unavailability) this may lead to energy shortages.	High	High
If consumers lack engagement and trust in the electricity market (including consumer needs not being met) then this may result in reduced consumer confidence in the sector and in the effectiveness of competition to meet consumer needs, and a decreased willingness of consumers to increase their reliance on electricity for transport and heat.	High	High
If the Authority loses relevance to the public, industry and sector stakeholders, or if the marketplace and/or regulation fails and/or insufficiently responds to the needs of stakeholders (particularly our most vulnerable stakeholders) then this is likely to result in a loss of social licence for the conventional delivery model and the loss of political and sector confidence.	High	High
If there is market collusion, a supplier disrupts the wholesale market through deliberate behaviour or a breach of rules, or an absence of market rules, then this may result in a lack of confidence in the market and/or outcomes that do not reflect a competitive market.	High	High
If there is a reduction in staff capability (e.g., core and/or critical skill gaps), and/or capacity (decline in productivity due to health, safety, wellbeing, or a culture that is not conducive to organisational objectives), then this may result in the Authority's agility to respond to changes or ability to operate at full performance being compromised.	Critical	High
If there is a medium-term to permanent supply-side withholding or withdrawal of plant or fuel (e.g., thermal fuel) currently relied on by the system, either in a planned or unplanned manner, then this may lead to energy shortages.	High	High
If we have poor or inadequate review processes for audit and investigation reports, we risk making decisions and reporting inaccurate information resulting in reputational damage to the Authority (financial impacts to sector)	High	High

Risk description	Prev. rating	Current rating
The new compliance portal went live on 31 March 2023. As this is new technology, there may be hidden or unintended risks that could eventuate as participants and Authority staff use the portal for compliance breaches. One risk is exposure of confidential material to participants.	High	High
Due to complexities of employment legislation we may not be compliant resulting in incorrect payments to staff	High	High
'Project reporting - not tracking the current progress of a project against the original plan makes it difficult to identify risks and take corrective action. It is also difficult to tell if the project is on track, meeting it's key milestones and to manage costs and stakeholder expectations.	High	High
If staff wellbeing is not managed well we risk health and safety and capacity problems resulting in increased stress, reduced productivity, negative behaviours, disengagement and resignations	High	High

Risk management methodology

We have begun the journey to improve our risk maturity level by initially updating and revising our internal Risk Management Framework. The value underpinning this Risk Management Framework document is one of working together (mahi kotahitanga). Our objective is for all staff of the Electricity Authority to adopt the same language when discussing risk and to foster open and transparent communication when it comes to identifying, assessing, and managing risk across the whole of the Authority.

To achieve the above, the Authority has developed this framework which is consistent with the principles and processes in the ISO 31000: 2018 (E) Risk Management Guidelines. Aligning with the guidelines allows us to better ensure the risk owners are fully aware of and carry out their duties, follow a singular workflow process, link risks and issues, and escalate risks when there is a concern.

The framework encompasses utilising the Authority risk register which is accessible to all required to record their identified risks. By having the singular risk register, greater analysis of the risks can be performed, and linkages made when a risk becomes an issue.

Ultimately all parties will rate risks using a common qualitative approach according to their likelihood and consequence of occurring, resulting in an overall risk rating. The risk rating matrix has been updated to reflect a more practical approach. The overall rating is a current risk rating, which reflects the residual risk post mitigation, assuming the implemented mitigations are operating effectively. The framework formalises the risk tolerances, as set by the Board for each of the risk categories that can be applied at the operational management level.

In respect to each risk, there is a programme of mitigations/controls which are underway or planned. The mitigations are targeted to drive a reduction in the likelihood of the risk occurring and/or the consequences should the risk eventuate to a level determined by the mitigation strategy.

The risk registers will be formally reviewed and reported on to management regularly, including adding any new risks identified and closing any risks which have reached their mitigation level. Risks reviewed by management are then reported through to the Audit and Finance Committee and Board.