

Compliance Monitoring Framework

December 2022



Version control

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1.0	June 2022	Created
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Executive summary

This Compliance Monitoring Framework (Framework) sets out how the Electricity Authority (Authority) will proactively monitor participants' compliance with the Electricity Industry Participation Code 2010 (Code), the Electricity Industry Act 2010 (Act), and regulations made under the Act (regulations).

The Authority's statutory functions include monitoring, investigating and enforcing compliance with the Act, regulations and Code. This Framework uses a risk-based framework to help us decide where to focus our monitoring efforts and therefore effectively allocate our available monitoring resources.

This Framework aligns with the Authority's Strategy Reset 2020, the Statement of Intent 2021-2025, and the new Compliance Strategy. The areas the Authority monitored under the previous strategy have remained largely unchanged since 2013 and it is timely to update these to reflect changes to the Code, industry developments, stakeholder expectations, and the future focus areas of the Authority.

This Framework allows us to appropriately prioritise the areas we monitor, based on the level of harm from non-compliance and likelihood of undetected non-compliance occurring. The initial shortlist of high-priority areas for proactive compliance monitoring are set out in Table 5 of this paper. Our annual monitoring programme (which will be set out in our Compliance Monitoring Procedure) will be informed by this Framework.

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1 Purpose

- 1.1 Section 16(1)(c) of the Electricity Industry Act 2010 (Act) states that one of the functions of the Electricity Authority (Authority) is to monitor compliance with the Act, the Electricity Industry Participation Code 2010 (Code), and the regulations made under the Act (regulations). This Framework sets out how the Authority will monitor participants' compliance with those statutory obligations.
- 1.2 The Framework is based on a risk framework that prioritises monitoring of high-risk provisions in the Code, Act, and regulations.
- 1.3 This Framework sits under the Authority's Compliance Strategy¹ and will inform the annual monitoring programme (which will be set out in our Compliance Monitoring Procedure).
- 1.4 We will review this Framework every two years.

2 Background

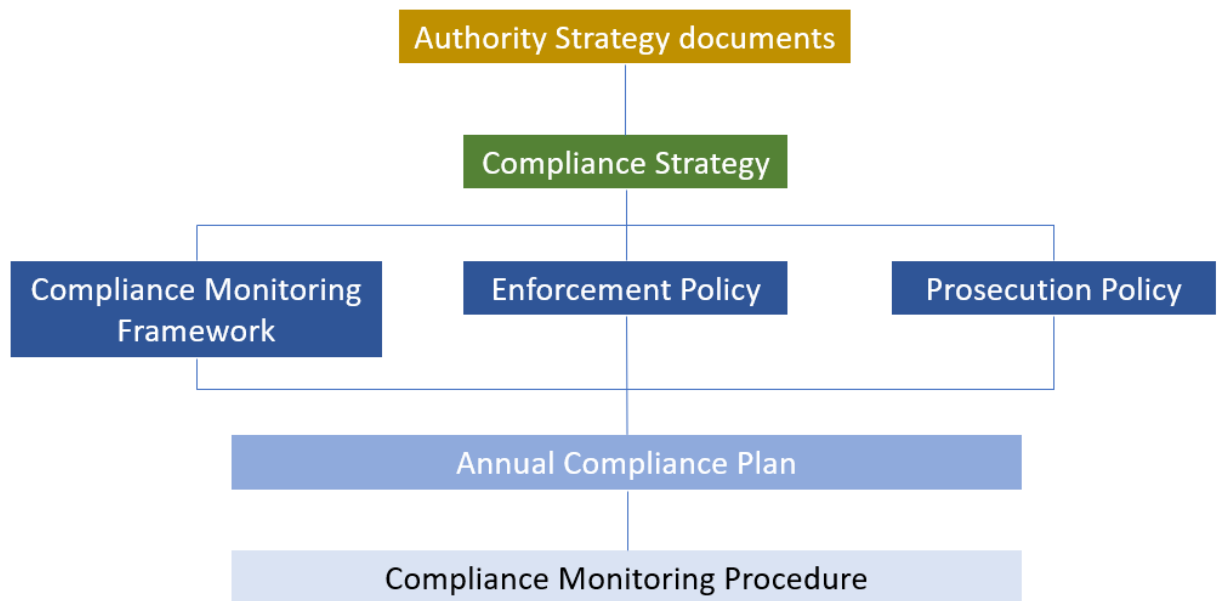
- 2.1 In 2022, the Authority published an updated Compliance Strategy to structure its compliance approach and focus its resources on the most serious and highest-priority risks. The Compliance Strategy establishes the guiding principles and objectives for our compliance activities, which are consistent with the Authority's objectives and functions. Policies and procedures will sit under the Compliance Strategy for specific compliance activities, such as participant registration, participant auditing, education, monitoring, investigation, domestic and small business consumer protection and enforcement.
- 2.2 This Framework is one of the documents that sits below the Compliance Strategy. It sets out our approach to proactive monitoring of participants' compliance with the Code, Act, and regulations² and includes:
 - (a) the risk-based framework we have used to determine the high-risk provisions in the Code, Act, and regulations
 - (b) our initial assessment of what the high-risk provisions are.
- 2.3 Every twelve months this Framework will be used to undertake a risk-based assessment of any new provisions in the Code and incorporate learnings.³ The assessment of both existing and new provisions (in the Code, Act, and regulations) using the risk-based framework will inform the Compliance Monitoring Procedure by identifying priorities for monitoring. The annual monitoring programme will be set out in the Compliance Monitoring Procedure.
- 2.4 Figure 1 sets out the relationship between the Compliance Strategy, Compliance Monitoring Framework, and Compliance Monitoring Procedure.

¹ Refer: <https://www.ea.govt.nz/code-and-compliance/compliance/compliance-strategy>

² The only regulations assessed in the initial risk-based assessment were the Electricity Industry (Levy of Industry Participants Regulations 2010 and the Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004. The other regulations do not have any obligations on participants.

³ In some cases we may assess a new provision of the Code before the annual assessment if we consider that the provision may be high risk for non-compliance and/or the new provision replaces a provision that was a high priority area for monitoring.

Figure 1 – Relationship between the Compliance Strategy, Compliance Monitoring Framework, and Compliance Monitoring Procedure



- 2.5 The Compliance Strategy and this Framework align with the Authority’s 2020 reset of our organisational strategy.⁴ We set out five key sector ambitions as part of this strategy reset – consumer centricity, low-emissions energy, trust and confidence, thriving competition, and innovation flourishing.
- 2.6 Our compliance functions (including compliance monitoring) support and are guided by these five strategic sector ambitions, with a focus on building **trust and confidence** in the industry for all stakeholders. Transparent and predictable enforcement of rules builds trust and confidence that all participants are held to the same standard, supporting regulatory confidence.
- 2.7 There are two further ambitions that are particularly relevant to compliance monitoring:
- (a) **Consumer centricity** – monitoring compliance enables us to support participants to comply, thereby reducing the potential outcomes from non-compliance that may lead to consumer detriment.
 - (b) **Thriving competition** – enforcement of the Code, Act and regulations supports competition, which drives progress, affordability, efficiency, and a better energy future for New Zealand.

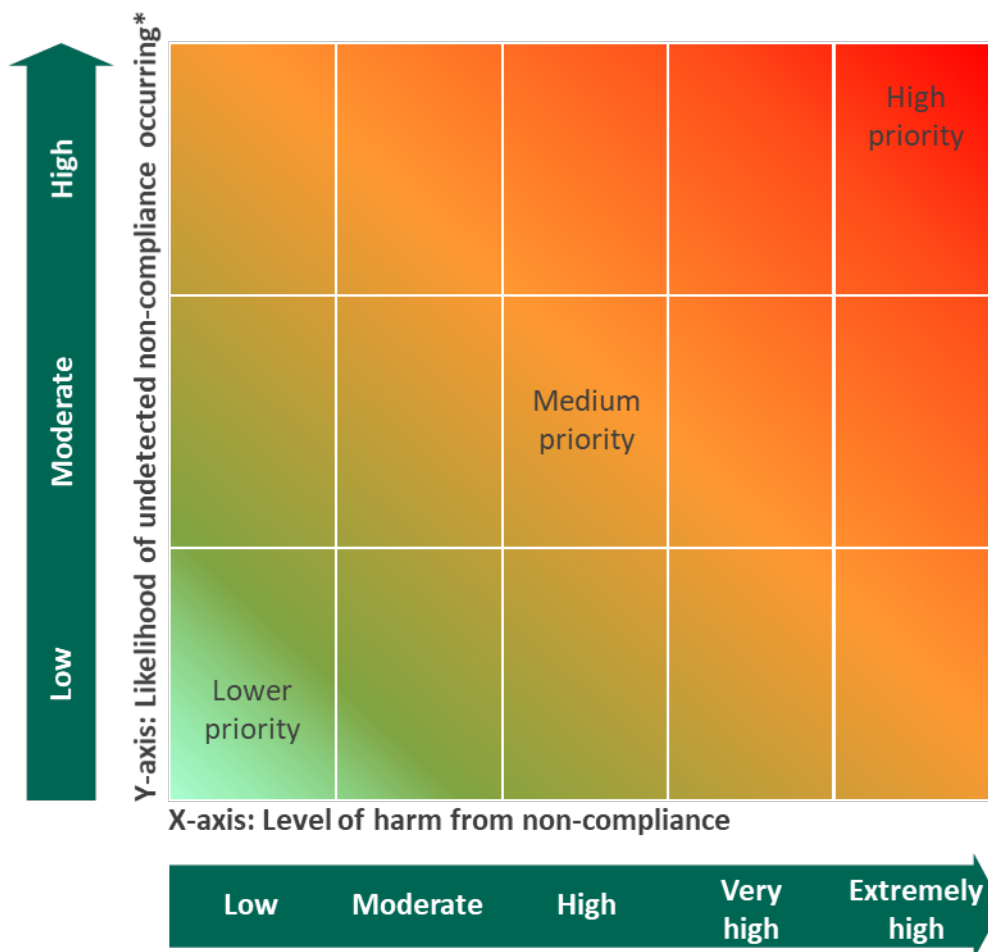
3 Our risk-based approach

- 3.1 The Authority has limited resources for monitoring and therefore needs to prioritise what provisions in the Code, Act, and regulations it proactively monitors. Key to this is using a risk-based framework to determine which provisions are highest risk and therefore should be prioritised for monitoring. Provisions that are high risk have both a high likelihood of undetected non-compliance occurring and a high level of harm from non-compliance.
- 3.2 The basis of this risk-based Compliance Monitoring Framework is that we will:

⁴ Refer: <https://www.ea.govt.nz/about-us/strategic-planning-and-reporting/strategy-reset-2020/>

- (a) prioritise monitoring of high-risk provisions
 - (b) consider whether there are other approaches to ensuring compliance of high-risk provisions (eg, amending the Code, educating participants).
- 3.3 The basis of the risk-based framework is the risk matrix (shown in Figure 2). The risk matrix allows us to assign to each provision a priority for monitoring by considering both the level of harm resulting from non-compliance (the x-axis) and the likelihood of undetected non-compliance occurring if there is no monitoring (the y-axis).
- 3.4 A provision that has an extremely high level of harm and a high likelihood of undetected non-compliance (ie, at the top-right of the matrix) will be a higher priority for monitoring than a provision that has both a low level of harm and a low likelihood of undetected non-compliance (ie, at the bottom-left of the matrix).

Figure 2 – Risk matrix



* Likelihood of undetected non-compliance occurring if there is no monitoring.

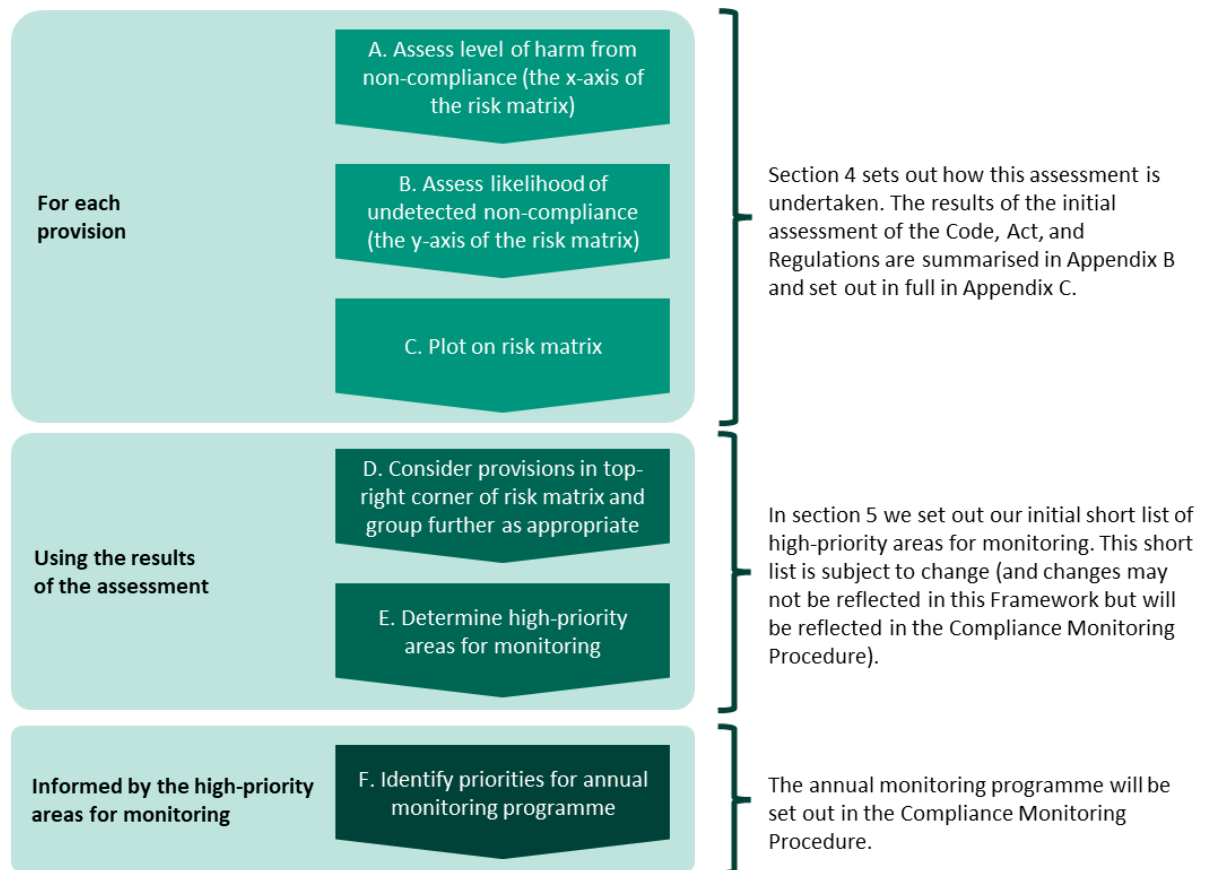
- 3.5 We have developed a framework for determining where each provision in the Code, Act and regulations sits on the risk matrix and therefore which provisions are a high priority for monitoring.⁵ For each provision:
- (a) the likely level of harm resulting from non-compliance is rated on a scale from one (low) to five (extremely high); and

⁵ Note that provisions that do not include any obligations on participants are not assessed.

- (b) the likelihood of undetected non-compliance occurring (where there is no monitoring) is rated from one (low) to three (high) as shown in the risk matrix in Figure 2.

3.6 Figure 3 sets out the different steps involved in developing the risk-based compliance monitoring approach.

Figure 3 – Steps in the risk-based compliance monitoring approach



4 The Authority’s framework for determining high-risk provisions

4.1 We have assessed each provision in the Code, Act, and regulations to determine the level of harm from non-compliance (Step A in Figure 3) and the likelihood of undetected non-compliance if there is no monitoring (Step B in Figure 3). This requires a subjective assessment, but key is ensuring that the relative risk between different provisions is appropriately captured (rather than focusing on the absolute position on the risk matrix).

Step A: Level of harm from non-compliance (the x-axis of the risk matrix)

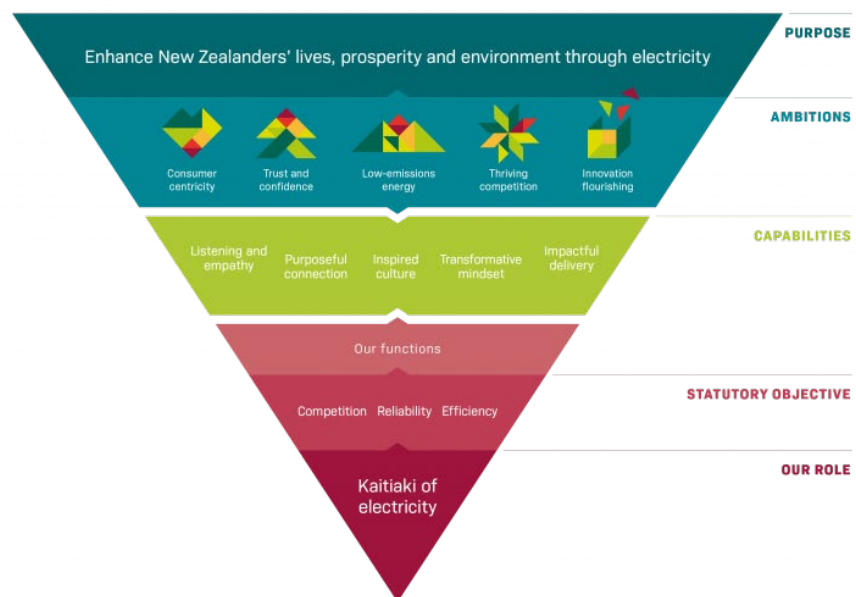
Types of harm

4.2 To assess the level of harm from non-compliance we first consider the different types of harm that could arise. Our strategic framework (shown in Figure 4) helps set out what “harm” means to the Authority. We consider ‘harm’ to include things that prevent us from:

- (a) successfully carrying out our **purpose** to enhance New Zealanders’ lives, prosperity, and environment through electricity

- (b) achieving our **ambitions** of consumer centricity, trust and confidence, low-emissions energy, thriving competition, and innovation flourishing
- (c) achieving our **main statutory objective** “to promote *competition* in, *reliable supply* by, and the *efficient operation* of, the electricity industry for the long-term benefit of consumers”⁶
- (d) achieving our **additional statutory objective** “to protect the interests of domestic consumers and small business consumers in relation to the supply of electricity to those consumers”⁷
- (e) fulfilling our **role** as the regulator/kaitiaki of electricity.

Figure 4 – Authority’s strategic framework



4.3 In our assessment of the level of harm from non-compliance we focus on the harms that prevent the Authority from fulfilling our statutory objectives – specifically competition, reliability, efficiency and the protection of domestic and small business consumer interests. However, these limbs are informed by the other components of the strategic framework.

4.4 Some types of harm fall outside the scope of the Authority’s statutory functions, so we do not directly consider them under this framework. These include:

- (a) lack of fairness – considered only when it is consistent with economic efficiency. Other forms of unfairness, in billing for example, is managed under the Utilities Disputes process and is subject to consumer law
- (b) environmental harm – this tends to be a broader issue that is dealt with by other regulation (eg, the Resource Management Act)

⁶ Emphasis added.

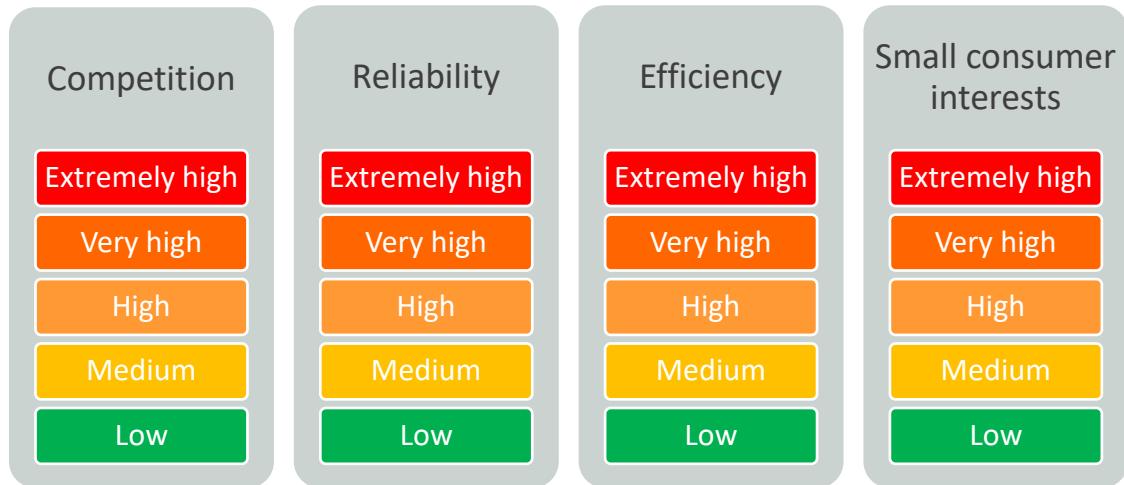
⁷ This was introduced by the Electricity Industry Amendment Act 2022 and took effect on 31 December 2022. Referred to subsequently in this document as “domestic and small business consumers”.

- (c) potential harm to the Authority’s reputation, which could prevent us from effectively fulfilling our role as regulator/kaitiaki of electricity.

Level of harm assessment

4.5 We assess the level of harm for each provision under the competition, reliability, efficiency and protection of domestic and small business consumer interest limbs of the statutory objectives. Each provision is given a harm rating on a scale from “low” to “extremely high” as shown in Figure 5.

Figure 5 – Level of harm



- 4.6 The level of harm assessment splits the upper end of the ratings scale into three categories – “high”, “very high”, and “extremely high”. At first glance, many provisions can appear to have potentially serious consequences if they are not complied with. However, if too many provisions rank too highly in the risk assessment it becomes difficult to prioritise them. By providing more options to rate a high level of harm, we can better identify and prioritise the most harmful provisions without detracting from the seriousness of non-compliance with other provisions.
- 4.7 Regarding the competition, reliability and efficiency limbs of the main statutory objective, we assessed the level of harm from non-compliance for all provisions where there is an obligation on a participant.
- 4.8 Regarding the additional statutory objective of protecting domestic and small business consumer interests, we assessed the level of harm from non-compliance for all provisions where an obligation on a participant relates to a direct dealing between the participant and a domestic or small business consumer. A direct dealing includes a direct relationship, direct interaction, or direct conduct towards, the consumer.

4.9 Table 1 (below) sets out some factors we consider when assessing the level of harm from non-compliance. In addition, we can use benchmark provisions (provided in Appendix A) to help determine the appropriate level of harm rating for each provision.

Table 1 – Factors considered when determining the level of harm

Type of harm	Question	Factors considered ⁸
Competition	How much would non-compliance reduce competitiveness in the market?	<ul style="list-style-type: none"> • Barriers to entry • Barriers to growth • Change in number of suppliers in the market • Type of behaviour • Information asymmetry • Procedural fairness • Scale of potential impacts
Reliability	How much would non-compliance reduce reliability?	<ul style="list-style-type: none"> • Likelihood of outage occurring • Number of people affected by outage • Timing and duration of outage • Length of warning • Participant and consumer confidence in system reliability • Impact on quality factors (frequency, voltage)
Efficiency	How much would non-compliance reduce efficiency in the market?	<ul style="list-style-type: none"> • Allocative efficiency • Productive efficiency • Dynamic efficiency
Domestic and small business consumer interests	How much would non-compliance impair the interests of domestic and small business consumers in relation to the supply of electricity to those consumers?	<ul style="list-style-type: none"> • Retailer supply terms for domestic and small business consumers • Disconnection of domestic and small business consumers for non-payment • Management of domestic and small business consumers' debt • Access by domestic and small business consumers to useful information provided by the retailer or distributor • Compensation of domestic and small business consumers for incidents or events that negatively affect them • Processes for acquiring retail customers • Processes for arranging a point of connection for a domestic and small business consumer • Any discriminatory behaviour by a participant towards a domestic and small business consumer.

⁸ The lists of factors are not exhaustive.

Step B: Likelihood of undetected non-compliance occurring (the y-axis of the risk matrix)

- 4.10 The likelihood of undetected non-compliance is broken down into two key components:
- the likelihood of non-compliance occurring, and
 - the likelihood of non-compliance going undetected.
- 4.11 These likelihoods assume that that the provision in the Code, Act, or regulations are not specifically monitored.
- 4.12 To assess the likelihood of undetected non-compliance occurring, each component is considered individually and then a combined score determines whether the likelihood of undetected non-compliance is low, moderate, or high.

Component one: Likelihood of non-compliance occurring

- 4.13 Often non-compliance is unintentional, but some non-compliance can be intentional:
- Intentional* non-compliance involves a participant failing to take the required action or choosing to take non-compliant action in order to gain some benefit or advantage.
 - Unintentional* non-compliance may result from a participant being unaware of an obligation, unsure of how to comply with the obligation, or unable to comply for another reason (for example, where compliance depends on a third party or process and/or human errors prevent compliance).
- 4.14 The likelihood of each of type of non-compliance (intentional and unintentional) is assessed and scored separately for each provision in the Code, Act, or regulations using three rating categories – “low”, “moderate”, and “high”. The ratings are based on several factors that could affect the likelihood of non-compliance occurring.
- 4.15 Table 2 sets out factors we consider when determining the likelihood of unintentional or intentional non-compliance occurring and how the likelihood of the two types of non-compliance are scored. The response to the question on *intentional* non-compliance is given a greater weighting than the response to the question on *unintentional* non-compliance because the Authority is concerned about participants who are deliberately not complying.

Table 2 – How to assess the likelihood of intentional and unintentional non-compliance occurring

Questions	Factors to consider	Scoring
1a. If the provision isn't specifically monitored, is there likely to be <i>intentional</i> non-compliance?	<ul style="list-style-type: none"> Is there some benefit to a participant of not complying with this provision (eg, increased revenue from increased market share)? Is it difficult or costly for participants to comply with this provision (eg, does it require substantial resource to comply)? Is the penalty to a participant if non-compliance is caught relatively low (relative to any benefit of not complying and/or the cost of complying)? 	Low (0)
		Moderate (2)

	<ul style="list-style-type: none"> • Are participants likely to think they won't get caught if they don't comply? • Is a participant unlikely to suffer substantial reputational damage if they don't comply with this provision? <p><i>If we answer "yes" to some (or all) of these questions this suggests a higher likelihood of intentional non-compliance.</i></p>	High (3)
1b. If the provision isn't specifically monitored, is there likely to be unintentional non-compliance?	<ul style="list-style-type: none"> • Is the provision poorly known? • Is the provision difficult to interpret? • Are there complex actions required by a participant to comply with the provision? • Does compliance rely on the actions of a third party? <p><i>If we answer "yes" to some (or all) of these questions this suggests a higher likelihood of unintentional non-compliance.</i></p>	Low (0)
		Moderate (1)
		High (2)

Component two: Likelihood of non-compliance being undetected

4.16 To assess the likelihood of non-compliance with a provision being undetected we question *"If the provision isn't specifically monitored, is it likely that non-compliance won't be detected?"*. To assist in answering this, we consider whether:

- other safeguards exist that help detect non-compliance (such as regular auditing)
- non-compliance is likely to be observable by the Authority and/or other industry participants
- participants would be incentivised to report any non-compliance by another participant.

4.17 Table 3 sets out how we determine a score for the likelihood that any non-compliance would not be detected.

Table 3 – How to assess the likelihood that non-compliance won't be detected

Questions	Factors to consider	Scoring
2. If the provision isn't specifically monitored, is it likely that non-compliance won't be detected?	<ul style="list-style-type: none"> • Do other safeguards exist that help detect non-compliance with this provision (eg, auditing requirements)? • Is it likely to be obvious to the Authority when a participant doesn't comply with this provision? • Is it likely to be obvious to other industry participants when a participant doesn't comply with this provision? • Are there disincentives to other participants reporting non-compliance (eg potential harm to industry relationships, inequality or undue influence)? <p><i>If we answer "no" to some (or all) of these questions this suggests a higher likelihood that non-compliance won't be detected.</i></p>	Low (0)
		Moderate (1)
		High (2)

Combining components one and two to determine the likelihood of undetected non-compliance

4.18 After assessing component one (the likelihood of intentional or unintentional non-compliance occurring) and component two (the likelihood that non-compliance would not

be detected), the combined scores of the two components are used to determine an overall score for the likelihood of undetected non-compliance occurring. To combine the scores, the maximum score from questions 1a and 1b (component one in Table 2) are added to the score for question 2 (component two in Table 3).

- 4.19 The scores are then categorised into a “low”, “moderate”, or “high” likelihood of undetected non-compliance occurring as shown in Table 4.

Table 4 – Rating the likelihood of undetected non-compliance occurring

	Low	Moderate	High
Likelihood of <i>undetected non-compliance</i> occurring	0-2	3	4-5

5 Initial short list of high-priority areas for monitoring

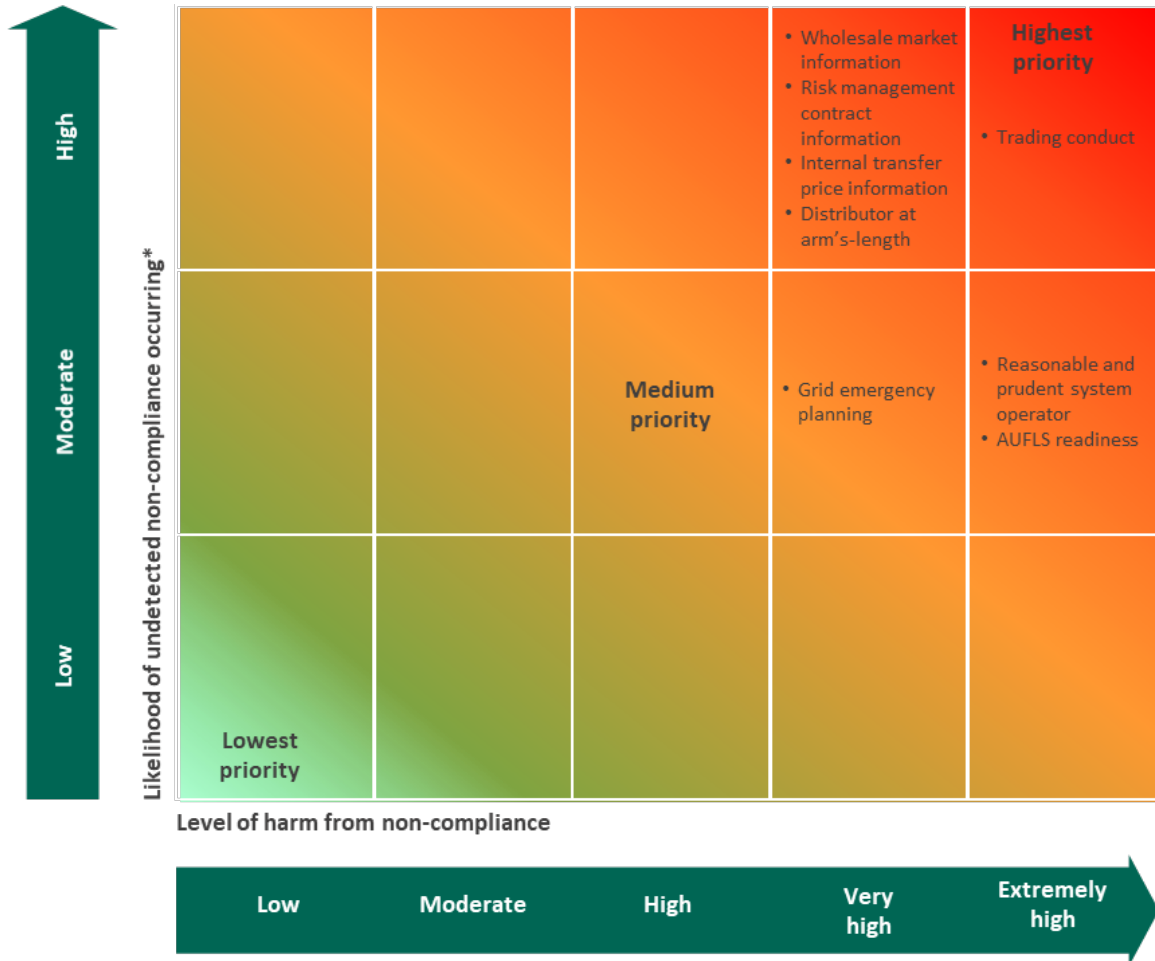
- 5.1 Each provision in the Code, Act, and regulations is assessed using the risk-based compliance monitoring framework described above. The assessment of each provision is set out in Appendix B.
- 5.2 From this assessment we have identified an initial short list of areas of the Code, Act, and regulations that are a high priority for monitoring. This short list may change over time and these changes may not be reflected in this Framework. Therefore, our current monitoring priorities may differ to this initial high-priority short list.
- 5.3 These high-priority areas may combine more than one provision from the Code, Act, and/or regulations.⁹ Areas that are a high priority for monitoring meet all of the following criteria:
- (a) they have an “extremely high” or “very high” harm from non-compliance
 - (b) there is a “high” or “moderate” likelihood of undetected non-compliance (if there is no monitoring)
 - (c) they can be monitored on an ongoing basis (because they require ongoing compliance activity by participants rather than event-based compliance).
- 5.4 Excluded from the short list of high priority areas for compliance monitoring are provisions where participants are only required to comply during certain conditions, rather than on an ongoing basis.¹⁰ Compliance with these types of provisions can be assessed in post-event reviews.
- 5.5 Figure 6 shows our initial short list of the highest-priority areas for the compliance monitoring. It indicates that the highest priority for monitoring is trading conduct, followed by the seven other areas with a slightly lower priority. Table 5 provides more detail on the obligations in each of these areas, including:

⁹ For example, in our assessment of the Code using the risk-based framework we assessed clauses 13.2 (misleading, deceptive, or incorrect information) and 13.2A (disclosure information must be made readily available) separately, but they have been considered together when determining areas of the Code that are a high priority for monitoring.

¹⁰ For example, non-compliance with obligations to act during a grid emergency can only be assessed following a grid emergency. Trading conduct can be monitored on an ongoing basis, but may also be assessed in a post-event review.

- (a) where the provisions are in the Code, Act, or regulations
- (b) what obligations there are
- (c) who the obligations are on
- (d) the greatest type(s) of harm.

Figure 6 – Initial short list of high-priority areas for compliance monitoring



* Likelihood of undetected non-compliance occurring if there is no monitoring.

Table 5 – Initial shortlist of high-priority areas for compliance monitoring

	Priority area	Clauses	Description	Obligations on	Greatest type(s) of harm	Risk matrix position		Comment
						X-axis (level of harm)	Y-axis (likelihood of undetected non-compliance)	
1	Trading conduct	Code: <ul style="list-style-type: none"> Part 13 – cl 13.5A 	Conduct in relation to generators' offers and ancillary service agents' reserve offers.	Generators, ancillary service agents	Competition, Efficiency	5	3	
2	Reasonable and prudent system operator	Code: <ul style="list-style-type: none"> Part 7 – cl 7.1A 	System operator must carry out obligations to reasonable and prudent standard.	System operator	Reliability	5	2	Difficult to monitor in its entirety as it relates to all obligations on system operator.
3	AUFLS readiness	Code: <ul style="list-style-type: none"> Part 8 – cl 8.19(5) Schedule 8.3 – Technical Code A – cl 8, App B Schedule 8.3 – Technical Code B – cl 7 AUFLS Technical Requirements Report¹¹ 	North Island connected asset owners must ensure AUFLS readiness and systems in place; South Island grid owner must ensure AUFLS readiness; Asset owners must test AUFLS systems.	Connected asset owner, grid owner	Reliability	5	2	Only relates to AUFLS provisions related to preparedness. Provisions that require participants to act during an event are best assessed on a post-event basis. Connected asset owners are required to report some information on AUFLS readiness to the system operator.

¹¹ A document incorporated by reference into the Code.

	Priority area	Clauses	Description	Obligations on	Greatest type(s) of harm	Risk matrix position		Comment
						X-axis (level of harm)	Y-axis (likelihood of undetected non-compliance)	
4	Wholesale market information disclosure	Code: <ul style="list-style-type: none"> Part 13 – cl 13.2, 13.2A 	Wholesale market information disclosure; disclosure of misleading, deceptive, or incorrect information; requirement to provide complete and accurate information.	All participants	Competition	4	3	
5	Risk management contract information disclosure	Code: <ul style="list-style-type: none"> Part 13 – cl 13.218, 13.219, 13.220, 13.222, 13.223, 13.225 	Parties to risk management contracts required to submit information and must annually certify that information submitted was correct.	Buyers and sellers (of risk management contracts)	Competition	4	3	
6	Provision of internal transfer price information	Code: <ul style="list-style-type: none"> Part 13 – cl 13.256, 13.257, 13.266 	Provision of internal transfer price information to Authority.	Generator-retailers	Competition	4	3	Partial non-compliance may be difficult to detect if not closely monitored.
7	Distributor arm’s-length requirements	Code: <ul style="list-style-type: none"> Part 6 – cl 6.11 Act: <ul style="list-style-type: none"> Section 76 Schedule 3 	Distributors must act at arm’s length in relation to distributed generation and retail that it owns.	Distributors	Competition	4	3	

	Priority area	Clauses	Description	Obligations on	Greatest type(s) of harm	Risk matrix position		Comment
						X-axis (level of harm)	Y-axis (likelihood of undetected non-compliance)	
8	Grid emergency planning	Code: <ul style="list-style-type: none"> Schedule 8.3 – Technical Code B – cl 3 	Participants must plan for a grid emergency.	All participants	Reliability	4	2	Only relates to grid emergency planning, not actions during a grid emergency. Provisions that require participants to act during an event are best assessed on a post-event basis.

Appendix A Benchmark provisions

A.1 To assist in assessing each provision in the Code, Act, and regulations against the risk-based framework (set out in Section 4) a set of benchmark provisions was developed to provide guidance on scoring.

A.2 These benchmark provisions are provided here for information purposes.

Table 6 – Scoring of benchmark provisions

Clause (s)	Description	Level of harm (x-axis)					Likelihood of undetected non-compliance (y-axis)			
		Competition	Reliability	Efficiency	Small consumer interests	Overall score ¹²	Intentional non-compliance	Unintentional non-compliance	Likelihood of being undetected	Overall score ¹³
7.11	System operator must self-review performance annually	1	2	2	N/A	2	mod	mod	low	low
8.7, Sch 8.3	System operator must not contract contrary to Code requirements	3	3	3	N/A	3	low	mod	mod	low
9.20, 9.21, 9.24, 9.29(1) (a)	Retailer must have customer compensation scheme (CCS) for qualifying customers	3	3	2	3	3	mod	mod	mod	mod
12.77, 12.102 (2)	Designated transmission customers must pay TPM charges	3	3	3	N/A	3	mod	low	low	low
13.2A	Requirement to make disclosure information readily available	3	2	4	N/A	4	high	mod	mod	high
13.5A	Trading conduct	5	1	5	N/A	5	high	mod	mod	high
15.2	Providing information for reconciliation	3	1	3	N/A	3	mod	mod	mod	mod

¹² Maximum of competition, reliability, and efficiency scores.

¹³ Based on maximum score for intentional and unintentional plus score for likelihood of being undetected.

Appendix B Summary of initial risk-based assessment of Code, Act, and regulations

- B.1 This appendix provides a summary of the results of the initial risk-based assessment of the Code, Act, and regulations. It sets out the type of obligation in each Part of the Code, Act, or regulations and the risk associated with those obligations (ie, the position on the risk matrix).
- B.2 Some key points to note in regard to this summary:
- (a) the list of obligations is not exhaustive, but is intended to capture the main obligations
 - (b) the ratings for each level of harm and likelihood of undetected non-compliance are the highest ratings of any clause that fits within that type of obligation (some clauses will rate lower)
 - (c) within each type of obligation, the highest level of harm may not coincide with the highest likelihood of undetected non-compliance (eg, in Part 14 of the Code, the procedures for events of default scores '5' for the level of harm, and the likelihood of undetected non-compliance scores '2', however the clauses that have a level of harm of '5' only have a likelihood of undetected non-compliance of '1')
 - (d) the key types of harm relevant for each obligation are indicated, where C = competition, R = reliability, E = efficiency and SCI = small consumer interests.
- B.3 The only regulations assessed in the initial risk-based assessment were the Electricity Industry (Levy of Industry Participants Regulations 2010 and the Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004. The other regulations do not place obligations on participants that entail dealings with domestic and small business consumers.

Table 7 – Risk profile for each Part of the Code

Part	Heading	Types of obligations	Key type(s) of harm	Level of harm	Likelihood of undetected non-compliance
1	Preliminary provisions	No obligations	N/A	N/A	N/A
2	Availability of Code information	Responding to requests for Code information	C, R, E	1	2
3	Market operation service providers	Market operation service providers to assist Authority to give effect to statutory objective	C, R, E ¹⁴	3	1
		Other market operation service provider obligations (includes force majeure and performance standards)	C, R, E ¹⁵	2	2
4	Force majeure provisions relating to ancillary service agents	Ancillary service agent must provide details of force majeure event	C, R, E	2	1
5	Regime for dealing with undesirable trading situations	Participants must comply with directions by Authority when there is a UTS	C, R, E	4	1
6	Connection of distributed generation	Distributors must act at arm's length	C, E, SCI	4	3
		Applications for distributed generation	C, R, SCI	3	2
		Access to and testing and inspection of distributed generation equipment	R	2	1
6A	Separation of distribution from certain generation and retailing	Ownership separation of distribution from certain generation	C	4	1
		Corporate separation, arm's-length rules, and related rules	C	4	2
7	System operator	System operator must act reasonably and prudently	R	5	2

¹⁴ Key type of harm depends on which market operation service provider breaches the Code.

¹⁵ Key type of harm depends on which market operation service provider breaches the Code.

Part	Heading	Types of obligations	Key type(s) of harm	Level of harm	Likelihood of undetected non-compliance
		System operator's role in maintaining frequency	R	4	1
		System operator must self-review performance	R, E	2	1
8	Common quality	Operation during normal conditions	C, R, E	5	2
		Grid emergencies	C, R, E	5	2
		Under-frequency, under-voltage and ride-through	R	5	2
		AUFLS and AUVLS	R, E	5	2
		Asset owner performance obligations	C, R	5	2
		Policy statement	C, R, E	5	1
		System security forecast	R	5	1
		Restoration	R, E	5	1
		Communications and data	R, E	4	2
		Planned outages	C, R, E	4	2
		Asset commissioning	R, E	3	2
		Generator visibility and offers	C, R, E	3	2
		Equivalence, dispensations, and alternative arrangements	C, R, E	3	2
		Interruptible load	R, E	3	2
		SO procurement	C, R, E	3	1

Part	Heading	Types of obligations	Key type(s) of harm	Level of harm	Likelihood of undetected non-compliance
		SO reasonableness	C, E	3	1
		Cost recovery	E	2	1
9	Security of supply	SO rolling outage plan	R	5	1
		Supply shortage situation	R, E	5	1
		Temporary grid reconfiguration	C, R, E	4	1
		Official conservation campaigns	R, E	4	1
		Participant rolling outage plans	R	3	2
		Customer compensation schemes	C, R, E, SCI	3	2
		SO information gathering	C, R, E	3	1
10	Metering	General requirements under Part 10 (including use of contractors, provision of accurate information, use of metering installations to measure electricity conveyed)	R, E, SCI	3	2
		Obligations on participants other than metering equipment providers and ATHs in relation to metering installations	R, E	2	3
		Metering equipment provider obligations in relation to metering installations ¹⁶	R, E	2	1
		Electrical connection	R, E, SCI	3	1

¹⁶ Note that metering equipment providers' compliance with Part 10 is required to be audited.

Part	Heading	Types of obligations	Key type(s) of harm	Level of harm	Likelihood of undetected non-compliance
		ATH obligations in relation to metering installations ¹⁷	R, E	2	1
11	Registry information management	General requirements under Part 11 (including use of contractors, provision of complete and accurate information)	C, SCI	3	2
		Provision of information about available retail tariff plans (including on electricity plan comparison site)	C, SCI	3	2
		Ensuring contracts with consumers allow for event of default	R	3	1
		Restrictions on retailers during and prior to switch protected period	C, SCI	3	1
		Use and creation of ICP identifiers; participant responsibilities for changes to ICPs and NSPs; management of ICP status	C, R, E	2	2
		Maintaining shared unmetered load	C, R, E	2	2
		Embedded generator switching	C, R, E	2	2
		Providing a consumer access to information about their own electricity consumption	C, SCI	2	2
		Provision of information to consumers on dispute resolution scheme	C, E, SCI	3	1
		Metering equipment provider switching	C, E	2	1
		Registry manager obligations (including availability of registry and information processes)	E	2	1

¹⁷ Note that ATHs' compliance with Part 10 is required to be audited.

Part	Heading	Types of obligations	Key type(s) of harm	Level of harm	Likelihood of undetected non-compliance
		Obligations to not harass customers	C, SCI	3	1
		Participant obligations when a trader has committed an event of default	R, E, SCI	2	1
12	Transport	Grid configuration	R, E	4	1
		Good electricity industry practice (GEIP)	C, R, E	4	1
		Transmission agreements	C, R, E	3	2
		Transmission pricing methodology	C, R, E	3	1
		Grid reliability standard	R, E	3	1
		Economic grid investments	C, E	3	1
		Grid outage coordination	C, R, E	3	1
12A	Distributor agreements and arrangements	Default agreements	C, E	4	1
		Information exchange protocols	C, E	3	1
		Retailers must enter agreements	C, E	2	2
13	Trading arrangements	Trading conduct	C, E	5	3
		Preparation of and compliance with dispatch instructions	R	5	1
		Bids and offers during a grid emergency	R	5	1 ¹⁸

¹⁸ Note that preparation for grid emergencies is dealt with in Part 8 where the likelihood of undetected non-compliance is higher.

Part	Heading	Types of obligations	Key type(s) of harm	Level of harm	Likelihood of undetected non-compliance
		Disclosure of wholesale market information	C	4	3
		Hedge arrangement disclosure	C	4	3
		Provision of internal transfer pricing information and gross margin reports	C	4	3
		Pricing processes	R, E	4	2
		Preparation of bids and offers	R, E	4 ¹⁹	1
		Provision of data and information on grid, HVDC and transformer capability	R	4	1
		Allowing for interrelationship between reserve and energy offers	R	4	1
		Financial transmission rights (FTRs) – allocation, creation, auction, and assignment of	C	3	1
		Must-run dispatch auction obligations	E	2	1
14	Clearing and settlement	Procedures for an event of default ²⁰	R	5	2
		Requirements for sale and purchase of electricity	R	5	1
		Notice of amounts owing and payable	R	5	1
		Requirements for amounts owing	R	4	1

¹⁹ Highest harm is in relation to information.

²⁰ None of the clauses in this area (event of default) are in the list of high-risk areas that should be prioritised for monitoring. This is because the clauses that have the highest level of harm are unlikely to have undetected non-compliance (ie, the clauses that score '5' for 'level of harm' also score '1' for 'likelihood of undetected non-compliance').

Part	Heading	Types of obligations	Key type(s) of harm	Level of harm	Likelihood of undetected non-compliance
		Payments of amounts payable	R	4	1
		Administrative obligations of clearing manager	R	4	1
		Requirements for lodging and cancelling of hedge settlement agreements	R	3	2
		Payments in event of settlement default	C, R	3	1
		Washup obligations	C, R, E	2	1
14A	Prudential requirements	Participants required to meet prudential requirements	R, E	3	2
		Clearing manager obligations to manage prudential requirements	R, E	3	1
		System operator to provide clearing manager information of likely significant changes in an allocation to a participant	R	3	1
15	Reconciliation	Participant requirements to provide information under Part 15	C	3	2
		Retailers must maintain a distributed unmetered load database	R	3	1
		Requirements for production of profiles to be use for electricity trading	C, R, E	2	2
		Reconciliation information produced by reconciliation manager	C, R, E	2	1
		Revision obligations	E	2	1
		Requirement for reconciliation participants and dispatchable load purchasers to obtain and maintain certification	C, R, E	2	1
		Calculation and allocation of unaccounted for energy (UFE)	C, R, E	2	1

Part	Heading	Types of obligations	Key type(s) of harm	Level of harm	Likelihood of undetected non-compliance
		Processing of dispatchable load information	C, R, E	1	1
16	Special provisions relating to Rio Tinto agreements	Revoked	N/A	N/A	N/A
16A	Audits	Requirements for audits including timeframes, how audits must be processed, and who bears cost of audit	C, R, E	2	1
17	Transitional provisions	Retention of records	C, R, E	1	1

Table 8 – Risk profile for each Part of the Act

Part	Heading	Types of obligations	Key type(s) of harm	Level of harm	Likelihood of undetected non-compliance
	Contents	No obligations	N/A	N/A	N/A
1	Preliminary provisions	No obligations	N/A	N/A	N/A
2	Electricity industry governance	Industry participants to register and comply with Code	C, R, E	4	2
		Industry participants must supply updated information for registration	R, E	2	2
		Obligations related to Authority's monitoring, investigation, and enforcement powers	C, R, E	3	1
		Generator or trader must continue to meet its common quality obligations under the Code even if suspended	R	3	2

Part	Heading	Types of obligations	Key type(s) of harm	Level of harm	Likelihood of undetected non-compliance
3	Separation of distribution from certain generation and retailing	Payment of rebates or dividends	C, SCI	4	1
4	Industry participants and consumers	Membership of dispute resolution scheme	C, R, E	2	2
		Consumer and community trust obligations	E	2	1
		Continuance of distributors' supply obligation	R, SCI	3	2
5	Miscellaneous	Industry participants to pay levies	C, R, E	3	1
Sch 1	Material incorporated by reference	No obligations	N/A	N/A	N/A
Sch 2	When person is involved in distributor, generator, or retailer for purposes of Part 3	No obligations	N/A	N/A	N/A
Sch 3	Arm's-length rules	Refer to Part 3	N/A	N/A	N/A
Sch 4	Dispute resolution scheme	Rules and obligations of approved dispute resolution scheme	C, R, E	2	2
Sch 5	Existing agreements in respect of Waitaki Power Scheme	No longer relevant	N/A	N/A	N/A
Sch 6	Amendments to other enactments				

Table 9 – Risk profile for Electricity Industry (Levy of Industry Participants) Regulations 2010

Part	Heading	Types of obligations	Key type(s) of harm	Level of harm	Likelihood of undetected non-compliance
	Contents	No obligations	N/A	N/A	N/A
1	Interpretation and general rules	Each generator, purchaser, and distributor is liable to pay a levy to the Authority in monthly instalments	C, R, E	3	1
2	Calculations, adjustments, and reconciliations	No obligations	N/A	N/A	N/A
3	Revocation and transitional provisions	No longer relevant	N/A	N/A	N/A
Sch 1	Transitional, savings, and related provisions	No longer relevant	N/A	N/A	N/A

Table 10 – Risk profile for Electricity (Low Fixed Charge Tariff Option for Domestic Customers) Regulations 2004

Types of obligations	Key type(s) of harm	Level of harm	Likelihood of undetected non-compliance
Retailers must make low fixed charge (LFC) tariff options available and they must meet certain requirements	C, SCI	2	2
Requirements for regulated distributor tariff options	C	2	2
Advertisement and promotion of LFC tariff options	C, SCI	2	2
Retailers and distributors must provide information on LFC tariffs available in each supply area	C, R, E	1	1
If retailer is granted an exemption in particular area it must publish the exemption on its website	C, R, E	1	1