

**Four-monthly report to the  
Minister of Energy and  
Resources  
1 March to 30 June 2023**

1 September 2023

## Executive summary

The Electricity Authority (Authority) provides you with a four-monthly report in accordance with the output agreement. This report gives an overall summary of performance, and includes information on exceptions, where necessary.

This report covers 1 March to 30 June 2023. Where milestones have occurred outside of the period, these have been included to provide further information and context to our work.

### Update on Ministerial priorities

This section updates you on specific priorities and expectations laid out in the annual Letter of Expectations for 2022/23.

To contribute to the Emissions Reduction Plan and Energy Strategy (including progressing regulatory settings for distribution networks, transmission, and distribution pricing reform), the Authority:

- set up a technical group to support the review of Part 8 of the Electricity Industry Participation Code (Code).
- published a dashboard of Future Security and Resilience indicators.
- published a consultation paper on *Ensuring an orderly thermal transition*.
- went live with Real-time pricing (RTP) on 27 April 2023.
- brought into effect the new Transmission Pricing Methodology (TPM) on 1 April 2023.
- analysed submissions on our *Updating Regulatory Settings for Distribution Networks* paper.
- assessed pricing methodologies for distributors (scorecards will be published in September 2023).

To enable confidence in the market, the Authority:

- took a case to the Rulings Panel alleging that Ecotricity Limited Partnership (Ecotricity) breached the Code by deliberately withholding consumer consumption data. The Rulings Panel released its decision that Ecotricity breached the Code.

To address the recommendations from the reviews of the events of 9 August 2021, the Authority:

- ran a simulation exercise, alongside the system operator, to test the industry's response to a situation where available supply is insufficient to meet winter peak demand.

To prioritise actions to strengthen competition in the wholesale market, the Authority:

- completed the wholesale market review and focused on implementing its recommendations.
- made a permanent amendment to the Code to address the potential for inefficient price discrimination in very large contracts.
- published its decision paper on *Promoting competition in the electricity market towards a renewable-based electricity system*.

To implement the Electricity Industry Amendment Act 2022, the Authority:

- amended its Statement of Intent 2021-2025 to include measures on consumer protection.

### **Other interests and emerging issues**

In addition to your expectations, the Authority:

- implemented the four options it decided to progress to better manage potential supply issues during periods of peak electricity demand during Winter 2023.
- approved two exemptions to the Code to facilitate an energy sharing trial led by Kāinga Ora and Ara Ake.
- released a summary of electricity retail brands' self-reported alignment with the Consumer Care Guidelines.
- progressed our review of the Consumer Care Guidelines.
- replaced the security of supply forecasting information policy (SOSFIP) with a new version to ensure that the system operator's security of supply forecasts more accurately reflect the underlying generator fuel and expected power system conditions.
- is undertaking enhanced monitoring of reduced access to the ASX futures market and increased use of FTR and OTC markets.
- initiated a review of forecasting provisions for intermittent generators in the spot market and is considering options for forecasting arrangements to support security of supply.
- reviewed its consultation charter to make it more accessible and to specifically include non-industry participants such as small businesses and domestic consumers.
- implemented a new Communications and Engagement Strategy to enable a more cohesive and deliberate response to stakeholder feedback.
- launched a new more user-friendly website.
- is developing a Memorandum of Understanding with the Consumer Advocacy Council.

The Authority is also undergoing a strategic baseline review to inform our future funding. The Authority has indicated a need for an increase to our baseline funding to support us to progress some of our key programmes of work to respond to New Zealand's renewable energy transition.

### **Progress against our Annual Corporate Plan**

Progress against the Authority's *Annual Corporate Plan 2022/23* is reported in section 3 of this report. The Authority achieved its desired outcome for eight of the nine activity areas published in the *Annual Corporate Plan 2022/23*.

The Authority did not achieve its desired outcome in the activity area "Confidence in the Authority's role as regulator". This was because we did not establish an education programme to implement the VADE (Voluntary, Assisted, Directed, Enforced) compliance model within our planned timeframe. The education programme has been constrained by available resourcing while the team focused on reducing the backlog of compliance and enforcement cases. The education project will continue into the 2023/24 year.

### **Output performance**

Output performance measures are in the *Electricity Authority Annual Report 2022/23*.

## **Organisational development**

Section five of this report includes an update on how our organisational development and capability strategies are progressing.

## **Financial performance**

Draft financial performance information for the period 1 July 2022 to 30 June 2023 is included as section six of this report.

## **Audit and risk**

Section seven of this report provides information about audit and risk matters relating to the period 1 November 2022 to 30 June 2023, as specified in the output agreement. The Authority's risk approach considers changes to the operating environment, new and emerging technology, broader climate change response and the changing needs of our stakeholders. These are long-term risks which remain relatively constant over time.

Only one risk rating has changed and that is the "Staff capability and capacity" which has reduced from "Critical" to "High". This rating has been revised down since the last reporting period due to the employment market being more buoyant. The high-level risks are all being managed and monitored through proactive management action. There were no material audit issues to report.

## **Contacts**

If you have questions about this report, please contact either:

Sarah Gillies, Chief Executive: Sarah.Gillies@ea.govt.nz 027 306 5250

Shaun Ferris, Chief Operating Officer (Acting): Shaun.Ferris@ea.govt.nz 027 776 3007

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# 1. Update on Ministerial priorities

This section updates you on the specific priorities and expectations laid out in your annual Letter of Expectations for 2022/23. That letter focuses on:

- workstreams contributing to the Emissions Reduction Plan and Energy Strategy.
- monitoring and compliance activities to continue to enable confidence in the market.
- addressing the recommendations from the reviews of the events of 9 August 2021.
- prioritising actions to strengthen competition in the wholesale market.
- implementation of the Electricity Industry Amendment Act 2022.
- progressing regulatory settings for distribution networks, transmission, and distribution pricing reform.

## Energy sector strategic planning/readiness for change

The Authority published its Energy Transition Roadmap in late 2021. The roadmap provides the basis for the Authority's support for the first Emissions Reduction Plan and development of the Energy Strategy. The roadmap is a living document, which we will update as necessary to support the Emissions Reduction Plan and Energy Strategy.

### Emissions Reduction Plan

The Authority is responsible for leading a number of actions in the Government's Emissions Reduction Plan, some of which are multi-year workstreams and will result in major regulatory reform. This report outlines progress in the following workstreams:

- Future Security and Resilience.
- Market Development Advisory Group's investigation into a renewables-based electricity system.
- Real-time pricing.
- Transmission Pricing Methodology.
- Regulatory settings in the distribution sector.
- Distribution pricing.

### Future Security and Resilience (FSR)

New Zealand's transition to a low-emissions energy system will involve many changes including emerging technologies for generation, consumers, and supporting services. The Authority's FSR workstream will ensure that, through the transition, our power system remains secure, resilient, and promotes long-term benefits for consumers.

Phase three of the project is underway to implement the activities in the Energy Transition Roadmap. This involves three workstreams:

- a. **FSR indicators:** Indicators to monitor changes that could affect security and resilience – this is to ensure we have correctly prioritised FSR activities.
- b. **Review of Part 8 of the Code:** Review the extent to which common quality obligations in Part 8 of the Code appropriately accommodate and facilitate technologies.

- c. **Future system operation:** The problems or opportunities with current system operation arrangements that will need to be managed given the expected changes to the electricity system. The Authority is analysing future system operation and developing a plan to progress this workstream.

### **FSR indicators**

A dashboard of indicators was published on the Authority's website in May 2023 and includes things like the number of electric vehicles registered, the electricity generation pipeline based on applications to connect to the grid, the generation pipeline by energy type, and job vacancies for a subset of the skills required to maintain a secure and resilient power system. Based on these indicators and ongoing stakeholder feedback from both within and external to the electricity industry, we may adjust prioritisation of the FSR activities, or consider new activities.

### **Review of Part 8 of the Code**

Currently, the common quality requirements of Part 8 of the Code may disadvantage some evolving technologies over others, particularly inverter-based resources such as battery storage. As a result, this may not best promote competition in, reliable supply by, and the efficient operation of the electricity industry.

The objective of the review is to ensure Part 8 accommodates and facilitates technologies (particularly inverter-based resources) in a way that promotes the Authority's statutory objectives.

We released an issues paper on Part 8 of the Code's common quality requirements as part of our future security and resilience project in April 2023. Submissions on this paper closed on 30 May 2023.

Common quality is an inherently technical and complex subject and requires a breadth of knowledge across the operation of transmission and distribution networks, as well as the operation of generation and demand-side management technologies.

To support the review of the common quality requirements in Part 8 of the Code, the Authority has set up the FSR Common Quality Technical Group.

This technical group brings together people with different expertise and experience relevant to the review to share their knowledge and contribute to a well-informed process. It has been established solely for the purpose of this review and is not an advisory group under the Electricity Industry Act 2010.

We will use feedback from submissions and ongoing engagement with the FSR technical group to progress the challenges and opportunities affecting security and resilience of the power system in its low-emissions transition.

### **Future System Operations**

The increase in distributed energy resources (DER) is going to create a number of challenges in balancing supply and demand, and how the system operator meets its obligations under the Code.

The purpose of this workstream is to ensure a system operation model that best promotes the long-term benefit of consumers, by providing a stable, secure, and resilient power system.

It will cover the operation of the whole system, including transmission and distribution system operation and is envisaged to be a multi-year programme of work given the complexity and importance of system operations.

The Authority plans to publish a discussion paper for consultation in the latter half of 2023.

### **Ensuring an orderly thermal transition**

The transition of the electricity system to 100 percent renewable generation involves a declining role for thermal baseload generation, but the intermittency of renewable generation means the flexible supply from thermal generators may still be needed during the transition, for peaking and firming purposes.

The Authority identified some risks that could prevent an orderly thermal transition:

- The commitment risk that slow-start, combined-cycle thermal generators might not be offered to the market when their capacity is needed, because they cannot be started in time, and their start-up costs are not recovered if they are not dispatched.
- The investment risk that existing thermal units are retired prematurely when they are still required by the market.
- The investment risk that if new open-cycle thermal generators are required during the transition, there are insufficient incentives to invest in them.

The commitment risk has been addressed through our Winter 2023 work (covered later in this report).

Evaluation of the investment risks drew on the results of quantitative modelling as well as some engagement with thermal generation businesses. The quantitative analysis and modelling indicates thermal transition risks are low. The work examined the likely generation mix in two separate years (2025 and 2032), based on a range of assumptions about (for example) the extent of new generation, battery technology, and electrification. Of note in the analysis is the assumption that the aluminium smelter at Tiwai will remain operating for the foreseeable future.

A consultation paper seeking feedback on the Authority's analysis of the risks was open from 13 July to 25 July 2023.

### **Market Development Advisory Group (MDAG) investigation into a renewables-based electricity system**

The Authority's MDAG is investigating potential changes to the wholesale electricity market to ensure economically efficient price signals assuming 100 per cent renewable electricity supply.

MDAG released a consultation paper in December 2022 proposing five areas for future action:

- Ensuring reliable and efficient operational co-ordination
- Ensuring effective risk management and efficient investment
- Lifting demand-side participation
- Strengthening competition and
- Increasing market confidence

Each area proposed multiple options for consideration and was accompanied by substantive case studies and option analysis.

Consultation on MDAG's proposed changes received broad support, particularly the options that increase public confidence in the market. Several submitters also commented on the difficulties with ensuring reliable and efficient operational coordination as we transition to a system with more intermittent generation and were pleased to see options to address this being considered.



Further, the consultation paper acknowledged the work the Authority already has underway in all of these areas, as described in this four-monthly report. The Authority continues to progress these other workstreams as the New Zealand power system transitions to a low-carbon energy future (the future envisioned by the MDAG project). The MDAG final recommendations are intended to provide a view of the desired state of market settings to work towards through the transition.

The MDAG initially proposed to deliver its advice to the Authority in June 2023. However, the MDAG is now considering the form, scope, and timeline of the advice. This may also include an implementation plan alongside several of its recommendations. The Authority expects this work to be completed before the end of 2023. Given the early stage of the transition issues that the Authority is currently working through, this delay does not impact our current work program.

### **Real-time Pricing (RTP)**

The final phase of RTP went live on 27 April 2023 with the dispatchable demand and dispatch notification being released. Participants are now able to bid and offer their demand flexibility and Distributed Energy Resources (DER) into the wholesale market.

The introduction of the dispatch notification product and dispatchable demand enhancements will pave the way for increased renewable generation as New Zealand transitions to a low-emissions economy.

#### *Dispatch notification*

The dispatch notification product opens up a low-cost path for small-scale providers (such as residential solar and battery system aggregators) to bid and offer their resources into the wholesale market.

Allowing these distributed resources to interact with the market will contribute to displacing gas-powered peaking plants, replacing them with more renewable sources of energy.

#### *Dispatchable demand*

Enhancements to dispatchable demand will allow large industrial consumers to bid in demand management in a way that better suits the physical constraints of their plant and processes.

Large industrial consumers can manage their exposure by having part of their load based on fixed price and the other part on demand response and bidding that demand response into the wholesale market. This will enable:

- better management of spot price volatility.
- an alternative to financial hedges to manage spot price exposure.
- better outcomes for large industrial participants bidding dispatchable demand and/or offering interruptible load to the instantaneous reserves.

These initiatives only went live in late April, however, there have already been a number of participant enquiries with the system operator regarding the technical requirements for participation.

SolarZero have started a pilot project, using the dispatch notification product, to investigate the feasibility of offering aggregated domestic solar and battery resources as a peak demand security product. In-market trials of their system have taken place and their performance is being evaluated. Additionally, Infratec have registered their new 35MW grid-scale battery system in the Waikato as a dispatchable demand participant. As well as providing network

support service to WEL networks, Infratec are also providing demand side flexibility through dispatchable demand and instantaneous reserve services through the wholesale market. Further engagement with large industrial users will be held in the coming months to promote dispatchable demand use to support their demand side flexibility management.

### **Transmission Pricing Methodology (TPM)**

On 1 April 2023, the new TPM came into effect. The new approach to transmission pricing will benefit consumers through lower prices and more energy consumption at the times when it is most valued. Better price signals will lead to the right generation, transmission and other investments being made in the right place at the right time to support New Zealand's efficient transition to a low-emissions economy.

In June 2023, following consultation, the Authority decided to amend Part 12 of the Code to correct several technical issues in the new TPM identified by stakeholders. The amendments will ensure that the new TPM continues to be fit for purpose and provides long-term benefits for consumers. The amendments were made in consultation with Transpower.

Transpower is required to pay settlement residual rebates to its customers using the new Settlement Residual Allocation Methodology (SRAM) from May 2023 and in doing so will incur some implementation costs. In May 2023 the Authority published a consultation paper proposing amendments to the benchmark agreement and the Code to enable Transpower to recover these implementation costs from its customers. In May 2023 the Authority also provided guidance for distributors on how to pass rebates through to their customers.

In June 2022, the High Court dismissed Manawa Energy's (formerly Trustpower) application for judicial review of the Authority's 2020 TPM Guidelines decision. The decision was appealed to the Court of Appeal by Nova Energy Limited. The Court of Appeal released its decision on 3 July 2023, finding in the Authority's favour. Nova Energy has until 2 August 2023 to apply for leave to appeal to the Supreme Court, which has now passed.

The hearing of Buller Electricity's judicial review proceedings against both Transpower and the Authority in relation to the new TPM took place between 31 July to 2 August 2023. We are now awaiting the Court's decision.

We do not expect either of these appeals will affect Transpower's implementation of the TPM, which is ongoing (but they may have an effect on the TPM going forward, depending on the Court's findings).

### **Regulatory settings in the distribution sector**

The Authority is working to ensure consumers benefit from new technologies introduced as part of the transition to a low-emissions economy. We are progressing work on possible issues regarding distribution networks and potential regulatory options that may be needed to support this.

Following the July 2021 discussion consultation and the March 2022 industry survey of the issues raised in submission, the Authority released an issues paper *Updating the Regulatory Setting for Distribution Networks* in December 2022, consultation closed on 28 February 2023. This issues paper combined the results of all previous work and tested the Authority's understanding of the scope and urgency of the issues raised. This was considered necessary given the range and conflicting nature of the views expressed by participants in the earlier consultation and survey work.

The December 2022 consultation tested our understanding of two key themes:

- The Authority's vision for distribution networks through the transition to a low carbon power system
- The regulatory settings necessary to maximise the value of new technology.

The consultation drew on both domestic and international examples of work undertaken in the areas of data provision and access and the integration of demand response and distributed energy resources. We are planning to release the summary of submissions along with the full non-confidential submissions in August 2023. The Authority Board is considering the forward work programme looking at regulatory settings in the distribution sector in September 2023.

## **Distribution Pricing**

The Authority continues to encourage distributors to reform their pricing structures to promote a more efficient transition to a low-emissions future. Encouraging efficient investment will help prevent consumers' electricity prices from rising higher than consumers will be willing to pay during the transition.

The Authority's scorecards of distributors' 2023/24 pricing methodologies have been centred around the five focus areas set out in its open letter to distributors of September 2022 (which include, for example, planning for future network congestion, including congestion expected due to increasing charging of electric vehicles). The Authority's assessment has been informed by its October 2022 update to its *Distribution Pricing Practice Note* to incorporate new guidance for distributors on how to pass transmission charges through under the new TPM.

The Authority has met with all 29 distributors and discussed their 2023/24 pricing methodologies informally and produced draft scorecards that will be shared with distributors in August 2023. The final scorecards are expected to be published on the Authority's website in late September.

The Authority released an issues paper on targeted distribution pricing reform on 5 July 2023 for public consultation. We're seeking industry and stakeholder feedback on the following issues:

- prices that signal the cost of network use at periods of high demand.
- prices that do not distort network use during off-peak periods.
- efficient allocation of shared costs between consumer groups.
- consistent and efficient connection pricing (capital contributions).
- retailers' response to distribution pricing signals.

After reviewing submissions from stakeholders in response to the issues paper, the Authority will consider the options and whether to propose any amendments to the Code. Any proposed Code amendments could be released for consultation in late 2023 and will come into effect by the distribution pricing year starting 1 April 2025.

## **Confidence in the market**

### **Rulings Panel decision on withholding consumption data**

On 1 June 2023, the Rulings Panel released its decision that Ecotricity breached the Code by deliberately withholding consumer consumption data, lawfully requested by an agent on behalf of some consumers.

The Rulings Panel found that Ecotricity held the mistaken belief that it could refuse to provide the consumption data and ordered Ecotricity to pay the Crown a pecuniary penalty of \$57,000; and costs to the Authority of \$3,820.

## **Market monitoring**

The Authority is actively monitoring trading conduct as part of the trading conduct provision which came into effect on 30 June 2021. The Authority publishes weekly reports on its website, which identify trading periods of interest, and form the basis for further enquiries.

We follow up on trading periods that are of interest, firstly by using our internal data and analytical tools, and if we cannot resolve the issue, we talk to generators.

We have also reviewed the trading conduct provisions to assess their effectiveness. We repeat this analysis every six months and publish this analysis in our quarterly reviews.

## **Responding to the events of 9 August 2021**

All recommendations from reviews into the electricity cut of 9 August 2021 are complete and/or are part of business-as-usual operations.

### **Undesirable trading situation**

The Authority is awaiting the High Court's decision on the appeal by Haast Energy Trading Limited and Electric Kiwi Limited on the Authority's decision of June 2022 that there was no Undesirable Trading Situation (UTS) on 9 August 2021.

### **Retailer and distributor industry exercise**

One of the recommendations for the 9 August 2021 reviews was that the system operator run an annual industry preparedness exercise. Following feedback from the 2022 exercise the Authority decided to include a second day that focused on communications from the system operator through distributors to retailers and ultimately consumers.

On 24 and 31 May 2023 the Authority and the system operator ran a simulation exercise to test the industry's response to a situation where available supply is insufficient to meet winter peak demand.

The exercise was similar to the one organised last May, however this year's exercise was spread across two days:

- 24 May (led by the system operator) focused on testing processes and interactions between the system operator and distributors. This ensured everyone is clear on what to expect and their required actions.
- 31 May (led by the Authority) focused on testing communications and interactions between distributors and retailers to ensure all parties are well rehearsed in their respective roles.

The Authority will review the results of the exercise and begin preparations for the next exercise. Observations will be shared with those who attended the exercise and with the system operator.

## **Competition in the wholesale market**

### **Wholesale market review**

The Authority concluded its review of wholesale market competition in May 2023. The Authority is now strengthening wholesale market competition in the transition to a renewables-based electricity system based on the review's recommendations.

### **Inefficient price discrimination**

In August 2022, the Authority released a consultation paper in response to the prior year's Issues Paper – *Inefficient price discrimination in the wholesale electricity market – Issues and options*.

At the same time the Authority made urgent changes to the Code to prohibit some forms of very large contracts for the physical supply of electricity, subject to a clearance regime.

The Authority decided to make a permanent Code amendment to address the potential for inefficient price discrimination in very large contracts. The Code amendment came into force on 19 May 2023.

The Code amendment prohibits generators giving effect to materially large contracts unless the net value from the contract to the generator is positive relative to the generator's best alternative, or the buyer can on-sell unused electricity under the contract without the buyer being subject to any worse terms than if they had consumed the electricity themselves.

The Code amendment provides us with greater visibility of contracts for monitoring and compliance purposes through the disclosure obligations.

The Code amendment sets out a voluntary clearance process which gives generators the option to gain assurance that the contract is not in breach of the Code and that we will not investigate a contract at a later date where the clearance remains valid.

On 8 June 2023, the Authority approved a clearance application relating to a new demand response agreement between Meridian Energy and New Zealand's Aluminium Smelter.

### **Promoting competition in the wholesale electricity market in the 100% renewable energy transition**

The Authority published its decision paper: *Promoting competition in the wholesale electricity market in the transition toward a renewables-based electricity system* on 12 May 2023. This confirmed the actions it will take to constrain the exercise of market power and encourage investment in renewable generation to promote competition in the wholesale electricity market. It also invited actions from other Government entities to facilitate investment in renewable electricity generation.

In addition to these actions, the Authority will continue to monitor and investigate competition and trading conduct in the wholesale electricity market, to promote competition for the long-term benefit of consumers.

### **Implementing the Electricity Industry Amendment Act 2022**

The Authority developed an implementation programme to address changes required because of the Electricity Industry Amendment Act 2022. This included training of staff on the changes and updating policies, procedures and website content.

### **Statement of intent updated to incorporate consumer protection measures**

The Authority has published an amended Statement of Intent 2021-2025 containing interim outcome measures covering the additional statutory objective "to protect the interests of small domestic consumers and small business consumers" introduced through the Electricity Industry Amendment Act 2022.

The Authority has also published its Statement of Performance Expectations 2023/24 with one interim measure related to the additional statutory objective.

The measures will be reviewed and may change when the Authority produces its Statement of Intent 2024-2028.

The interim measures may also be reviewed as the Authority increases its focus in the area of protecting the interests of small domestic and business consumers. The Authority will be expanding the monitoring of the retail market to ensure consumer interests are protected and will establish new baselines to measure its performance against.

## **General expectations**

We continue to operate a 'no surprises' policy with your office that meets your requirements. We will continue to notify your office when we receive substantive media enquiries.

We remain proactive in our engagement with MBIE as our monitoring agency. This helps ensure we are meeting the expectations outlined in the *Monitoring arrangements for MBIE-monitored Crown entities*, in line with our enduring output agreement.

## 2. Other interests and emerging issues

### Winter 2023

The Authority consulted on options to better manage potential supply issues during periods of peak electricity demand this winter and beyond in late 2022.

The Authority has implemented the following options:

- Option A: Provide better information headroom in supply stack.
- Option B: Provide forecast spot prices under demand sensitivity cases.
- Option D: System operator review of wind offers based on external forecast.
- Option E: Clarify availability and use of 'discretionary demand' control.

The Authority will assess their impact with the option of making changes permanent ahead of winter 2024.

Based on the advice of the system operator, it was also decided not to implement one option

- Option G: Selectively increase existing ancillary service cover at times to offset increased uncertainty in net demand.

### Solar energy sharing for social housing trial

The Authority has approved two exemptions and technical and non-controversial amendments to the Code to facilitate an energy sharing trial led by Kāinga Ora and Ara Ake.

The trial will take place in Wellington over five years and test energy sharing across selected Kāinga Ora housing.

The exemptions will enable Wellington Electricity Lines Limited, as the distributor, and Intellihub Limited, as the metering equipment provider, to form part of a multiple trading model which could demonstrate the potential for energy hardship reduction from solar installations.

The aim of multiple trading relationships is to give consumers more choice about how to use the electricity they produce and consume. The separation of the import and export retailers is one option to support multiple trading relationships.

The electricity industry is changing significantly. New technology and the pace of change are testing market rules that were designed for different circumstances years ago. It is important for regulation to evolve to foster innovation and variations on the traditional single buyer and seller electricity models.

The Authority's decision enables the trial to happen and gives the Authority adequate time to assess and learn more about this model of multiple trading relationships, alongside industry. This can be used to develop a more enduring solution alongside industry. In addition, we can also ensure changes do not have unintended consequences for consumers and industry.

### Protecting the interests of small consumers

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

The Authority has conducted its first review of electricity retailers' self-assessed alignment with the Consumer Care Guidelines (the Guidelines). Electricity retailers are expected to use the

Guidelines to provide a consistent and supportive standard of service to domestic consumers. We view the Guidelines as a critical part of delivering on our additional statutory objective to protect the interests of domestic consumers.

The Authority released its report on 15 May 2023, but subsequently withdrew and republished it to address feedback from Meridian, Mercury and Nova. On 1 June 2023 the Authority released the final summary of electricity retail brands' self-reported alignment with the Guidelines for FY 2021/22.

The self-assessments demonstrate retailers' alignment with the Guidelines is variable and implementation has not been as consistent as expected.

Five of the six large retail brands stated that they were fully aligned to the Guidelines (Contact, Mercury, Trustpower, Meridian and Powershop) with Genesis reporting partial alignment. Six out of eight medium-sized retailers responded to the request to self-assess, with four of those reporting full alignment. The remaining two reported partial alignment. 17 of the 24 small retailers provided a self-assessment, with 11 stating full alignment and the others reporting partial alignment.

We are currently reviewing the Guidelines. As part of this review, we will consider the most appropriate options to give us confidence all retailers take their responsibilities to their consumers seriously, including their most vulnerable consumers.

We expect to release an options paper for public consultation in September 2023.

### **Powerswitch**

New Zealand has a competitive retail sector, but the benefits of this are only fully realised by consumers making sure they are on the best plan for them. The Authority funds Consumer NZ to deliver the Powerswitch comparison and switching website. There are two developments currently underway:

The contract with Consumer NZ was renewed on 1 July 2023 for a further 24 months. and includes an inflation-based increase in funding. The annual level of funding will increase from \$1.2 million to just under \$1.4 million. The Authority took the opportunity to seek a number of enhancements to the site, with the primary one being more accurate modelling of time of use plans.

s9(2)(b)(ii)

### **Security of Supply Forecasting and Information Policy (SOSFIP)**

The Authority has decided to replace the security of supply forecasting and information policy (SOSFIP) in its entirety with the draft SOSFIP proposed by the system operator. The SOSFIP was reviewed in response to sustained low hydro inflows and reduction in gas production in 2021. The SOSFIP plays a key role in the set of Code provisions, contracts and other arrangements that collectively deliver common quality, power system stability and security, and orderly system operation.

The SOSFIP sets out the range of security of supply information the system operator must determine and publish to assist the industry to manage generation fuel and generation supply over the short, medium and long term. This includes determining the electricity risk curves, and the electricity risk status meter. Ensuring this assessment is based on information that



accurately reflect the underlying power system conditions is key to ensuring that the report outputs are credible and can be relied on by industry participants when determining their response to them. This results in more efficient security of supply outcomes for the power system and more reliable power supply at a reasonable cost for consumers.

We declined to approve the draft originally submitted in August 2022 and consulted on changes the system operator wanted. The Authority received two submissions and the system operator's cross submission. After considering those, further changes to the draft SOSFIP were shared with the system operator.

The system operator revised its draft SOSFIP and presented it to the Authority in March 2023 for approval. The Authority approved the replacement SOSFIP, and it came into effect on 1 June 2023.

## **Hedge market enhancements: Further update on ASX access**

The ASX futures market provides a tool for New Zealand electricity market participants to manage risk. On 28 October 2022, a Ministerial briefing [BR-22-0051] was provided to you with an update on access restrictions to the ASX futures market.

Access for some New Zealand electricity market participants to New Zealand exchange traded futures on the ASX futures market was restricted from 31 October 2022, due to the ASX clearing participant Bell Potter exiting a service agreement with Jarden. Jarden provides access to the ASX for approximately 20 percent of New Zealand electricity market participants, who are predominately smaller scale.

The ASX futures market is one of a suite of contract markets that electricity market participants can use to undertake risk management activities. Alternative markets include the financial transmission rights (FTR) market and bilateral trading of risk management products (also known as the over-the-counter or OTC market). With reduced access to ASX futures, it is likely that affected participants will increase their use of the FTR and OTC markets. The Authority is committed to ensuring that these markets continue to function efficiently and is undertaking enhanced monitoring of the situation.

The Authority is facilitating an industry-led working group to consider whether the efficiency of the OTC market could be improved, and the benefits of making appropriate expectations of the performance of the market and its participants more transparent.

The working group is expecting to deliver a voluntary code of conduct for participants in the OTC market. There have been additional observations on trade information transparency that will further inform the Authority's future work to review the Hedge Disclosure Obligation, which requires market participants to provide details of the range of hedge arrangements they have.

The Authority continues to hold the view that re-instating access to the ASX platform is best facilitated by the ASX, considering the ASX faces strong incentives to maintain an effective market for New Zealand electricity futures. Potential solutions involve the onboarding of new clearing participants and diversifying the existing pool of clearing participants.

## **Review of the forecasting provisions for intermittent generators in the spot market**

The Authority has initiated a project to review the forecasting provisions for intermittent generators in the spot market, as indicated in the Authority's forward work programme.

The Authority is concerned that uncertainty in forecasts ahead of real time affects other participants' trust and confidence to make consumption and generation decisions in response to forecast schedules. Adverse consequences for consumers include risks to security of supply, inefficient use of resources, and limited benefits of demand-side participation.

Over the next decade, the number of intermittent generators entering the New Zealand market is expected to increase considerably. Therefore, the Authority considers it an appropriate time to review the forecasting arrangements for intermittent generators. This work also aligns with suggestions in MDAG's options paper and recommendations following the 9 August 2021 grid emergency.

On 31 May 2023, the Authority provided your office with an Issues and Options Paper (BR-23-0019 refers), which seeks feedback on proposed solutions to improve the accuracy of intermittent generation forecasts. This paper was published for consultation on 14 June 2023 for a six-week period. The Authority is currently analysing submissions.

## **Review of the Authority's consultation charter and feedback processes**

The Authority is reviewing its consultation charter to make the charter more accessible and to specifically include non-industry participants such as small businesses and domestic consumers. The latter is in response to the Authority's additional statutory objective which came into effect in 2022.

While the consultation charter was being reviewed, the Authority has taken the opportunity to review and streamline the Code amendment request process, establish a new advisory group, update the charter and terms of reference for the advisory groups, and review the amendment processes for the documents incorporated by reference. Consultation on these closed on 21 March 2023 but was extended to 4 April 2023 for submitters affected by Cyclone Gabrielle.

There were various levels of submitter engagement with each of the four sections in the consultation. To ensure timely decisions, the Authority has decided to progress each section separately. A decision on the first section (review of the amendment processes for the documents incorporated into the Code by reference) was made in late June 2023. The other sections will be progressed to decisions over the coming six to nine months.

## **2022/23 and 2023/24 levy-funded appropriations consultation**

On 9 March 2023 you agreed to a permanent baseline increase of \$0.500 million for 2022/23 and \$4.600 million for 2023/24 and outyears. The Ministerial Briefing for our levy-funded appropriation request was proactively released on our website on 23 May 2023.

The Annual Levy Rates for 2023/24 were gazetted on 16 June 2023.

## **Strategic baseline review**

The Authority has indicated a need for additional funding to support its ability to meet its obligations as a regulator, to respond to the current and future challenges of the energy transition. The Authority is undergoing a strategic baseline review in relation to this request, led

by MBIE. The review will support advice to Ministers on its ongoing funding needs and any potential trade-offs required. The review is due to be completed in October 2023.

## **Engaging with stakeholders and consumers**

The Authority is implementing a new Communications and Engagement Strategy to enable a cohesive and deliberate response to stakeholder feedback captured in the 2022 Electricity Authority Stakeholder Perception Survey.

As part of this strategy the Authority has implemented an engagement plan for our Board and Senior Leadership Team, supporting the introduction of our new Chief Executive and (as at the date of this report) four new Board members while giving existing and emerging stakeholders the opportunity to discuss current issues and how we can work together to address them.

The Authority actively engages with industry stakeholders, participants, and consumers. Between 1 March to 30 June 2023, the Authority consulted on issues including options to promote consumer interest through Winter 2023, updating the regulatory settings for distribution networks, review of the Authority's consultation and feedback processes, review of common quality requirements in Part 8 of the Code, ensuring an orderly thermal transition, Code amendments relating to TPM and SRAM, and the review of forecasting provisions for intermittent generators in the spot market.

Multiple consultations were open for feedback over this period. These formal consultations are complemented with additional ways for participants to engage, such as online information sessions and in-person meetings. Allowing greater opportunities to engage will increase transparency and improve participants' trust and confidence in the Authority and the work we do.

The Authority is taking the opportunity to develop and mature our relationships with other agencies. A Memorandum of Understanding is being developed with the Consumer Advocacy Council to ensure we capture diverse voices in decision making process and share our insights and information with the Council to support their role.

The Authority has increased engagement activities with Consumer Advocacy groups such as FinCap, Anglican Advocacy, Christian Action Aotearoa, Sustainability Trust and Utilities Disputes to inform our policy development in the consumer care area.

The Authority collaborated with Consumer NZ and EECA to deliver the Winter 23 public awareness and education programme [www.save500.org.nz](http://www.save500.org.nz).

The Authority launched a new website on 31 March 2023 with user-friendly content, improved navigation, and functionality. Our old website was no longer fit for purpose and had storage and usability issues as a result of 4,500 pages and 16,000 documents.

The new website has a dedicated section for consumers with, for example, information on how electricity works, ways to save energy and how to understand power bills. It also has industry-specific information including on the Code, guidelines and advice for meeting Code obligations and information on our compliance function and processes. The user interface is a significant improvement on our last website and supports increased access, navigation, engagement and understanding.

Metrics are being established to measure the success of the new Communications and Engagement strategy.

### 3. Annual Corporate Plan 2022/23

Our Annual Corporate Plan communicates our intended activities for 2022/23 that will promote our strategic priorities, address regulatory risks and harms, and deliver sector outcomes. It includes the key development projects we have committed to for the 2022/23 financial year.

The Annual Corporate Plan demonstrates how our work supports delivery against our sector ambitions, thriving competition; low-emissions energy; and innovation flourishing.

At the centre of everything we do, and implicit within these activities, are the associated ambitions of consumer centricity and trust and confidence.

The Annual Corporate Plan represents our public commitment to activities for the coming year that we consider will have the most impact and benefit to New Zealanders. It does not represent everything we will do, given the need to respond to emerging risks throughout the year, but serves as a channel to articulate our current priorities and intended targets. The Annual Corporate Plan 2022/23 is available on our website: <https://www.ea.govt.nz/about-us/corporate-documents/>

#### Summary of progress against our Annual Corporate Plan 2022/23

##### Low-emissions energy

As the regulator of New Zealand's electricity system, our work provides an important platform for the Government's aspirations to achieve 50 percent of all final energy consumption coming from renewable sources by 2035, and net zero emissions by 2050. We are working to ensure the transition is as efficient as possible while maintaining energy security, system adaptability, and affordable electricity for consumers.

Our activity areas for 2022/23 focused on promoting a stable investment environment with robust rules and clear price signals.

We have successfully achieved our desired progress in our ***preparing for a low-carbon future /supporting New Zealand's transition to low-emissions energy activity area***. In 2022/23 we focused on ensuring the Code supported the new technology required for transition through our Future Security and Resilience (FSR) workstream; ensuring an orderly transition from thermal power sources; and supporting the Market Development Advisory Group (MDAG) in its investigation into wholesale market operation under 100% renewables and responding to their advice.

Having decided on a new Transmission Pricing Methodology (TPM), we continued to improve the efficiency of ***price signals***. We progressed the relevant Code amendments required for Transpower to successfully implement the new TPM on 1 April 2023. The Authority has also increased its focus on achieving faster reform of distribution pricing. We released an issues paper on targeted distribution pricing reform on 5 July 2023 for public consultation.

We continued our work to ensure the electricity sector manages ***security of supply*** effectively, by adopting the system operator's updated security of supply policy and by supporting the system operator to implement the North Island transition to a 4-block automatic under-frequency load shedding (AUFLS) scheme.

##### Thriving competition

Market competition is a key enabler to deliver a better energy future – driving progress, affordability, efficiency and valuable outcomes for New Zealand. Competition helps ensure New

Zealanders have plenty of choice about how they get and use electricity and improves their access to competitive pricing.

We encourage participation and reinforce competition in traditional and emerging markets by putting in place the mechanisms needed to maintain a level playing field – while also considering the long-term opportunities that will lead to better outcomes for consumers.

Our 2022/23 activity areas sought to support and strengthen competition and confidence in electricity markets. Strengthening competition in the wholesale market is a key priority for the Authority.

The activity area **ensuring competition in electricity markets** focused on continuing the review of competition in the wholesale market. This review is complete, and the Authority is working on implementing decisions arising from it. The current commercial market making contract was extended to the end of the 2023/24 year, and a registration of interest was released for a provider for 2024/25 year onwards.

The Authority continues to **monitor market activities and outcomes** to proactively monitor the market, lifting the level of transparency for participants through reporting improvements, and broadening the scope of our monitoring following a strong focus on the wholesale market. Examples of how we have improved the transparency of our monitoring include publishing 23 ‘eye on electricity’ reports, for a non-expert audience. The reports give our view on what’s happening in the market and explain aspects of the electricity market. We are broadening the scope of our monitoring from the wholesale market to include the retail and distribution markets.

A stable regulatory environment where participants are held to account is needed to support thriving competition. We have actively worked on increasing the **confidence in the Authority’s role as a regulator** through the implementation of our *Compliance Strategy* and education to the Authority’s approach to compliance through it. We also introduced our *Compliance and Monitoring Framework*, to drive more timely and robust decision-making on enforcement cases. Our new compliance portal is also supporting our effort to make more timely decisions.

Our *Compliance Strategy* is underpinned by the VADE (Voluntary, Assisted, Directed and Enforced) operating model. The Authority did not deliver the planned education programme to implement the VADE compliance operating model in 2022/23 but will do so in 2023/24. As noted above, this was due to resourcing constraints while the Authority focused on reducing the backlog of compliance and enforcement cases.

## **Innovation flourishing**

Decarbonising the electricity sector involves drastically reducing our use of fossil fuels whilst increasing our use of electricity for transportation and process heat. Distributed energy resources (DER), solar photovoltaics, smart appliances, and Energy Storage Systems will be widespread in homes and businesses throughout New Zealand in coming years. This will result in more digitisation and increase the volume of digital tools required to manage energy resources and the resulting system complexity.

Innovation and new technology will affect how electricity is generated, distributed and consumed, and how consumers integrate with the power system – through more DER for instance.

We want to empower consumers to benefit from new and emerging technologies in distributed energy by focusing on enabling healthy investment and increased innovation to ensure distribution networks are fit for the future and supportive of competition. This will lead to more choice, lower electricity prices, and better value for consumers in the long term.

The transition to low-emissions energy will require large scale and high paced innovation changes. The Authority aims to be proactive, agile, and forward-looking in our regulatory approach to enable this.

Through the activity area **settings are conducive to innovation and industry success**, we continued our work to update the regulatory settings for distribution networks to enable innovation and competition to support the transition, and following consultation, we are developing an 18 to 24 month work programme to update the settings for distribution networks to support innovation and the transition to a low-emissions economy.

We have improved the availability of data to deliver sophisticated and transparent insights in a timely manner, so we can make evidence-based decisions. Over the course of 2022/23 we have reformed our data models and improved our data governance, structures, and oversight to improve **data transparency, insights, and automation**. We have focused on the wholesale market but are now shifting our focus towards retail and distribution policy areas to align with new policy development. We are strengthening our data governance by updating policies and procedures, improving compliance with the Public Records Act 2005 and reducing the cost of managing our data.




The **Electricity Industry Amendment Act 2022** was enacted on 31 August 2022. The Amendment Act ensures the Electricity Industry Act 2010 provides an effective regulatory framework for the electricity industry in view of rapidly evolving technologies and business models. The Authority developed an implementation programme to address changes required because of the Amendment Act. Many aspects of this programme are now complete, with longer term work now part of the Authority's business-as-usual activities.

## How we show progress

This following section provides a progress update on how the 'annual focus' is tracking to achieve the 'desired outcome' for each activity area identified in the Annual Corporate Plan, for the four-month period 1 March 2023 to 30 June 2023.

For each activity area, we have provided a summary of the activity's progress to date against the desired annual outcome. This activity-based reporting provides a greater level of transparency and the opportunity for the Authority to clearly articulate our priorities, their contribution to supporting the Authority to deliver against the sector ambitions, and their intended impact. Where milestones have occurred outside of the four-month period, these have been included for context.

A traffic light system indicates the status of each activity area in terms of achieving the overall 2022/23 desired outcomes of the activity area.

	The activity area is on track to achieve the annual outcomes.
	The activity area is delayed and/or at risk of not achieving the annual outcomes.
	The activity area has/will not achieve the annual outcomes.

## 2022/23 Activities | *Low-emissions energy*

Activity Area	Annual focus	22/23 desired outcome	Progress at 30 June 2023
<p><b>Preparing for a low-carbon future / Supporting New Zealand's transition to low-emissions energy:</b> The power system is expected to undergo significant change in the future as new technology is introduced / existing technology retires. More generation capacity will be needed as part of the electrification of the economy – meaning more investment, predominantly in renewable energy, such as wind, solar, hydro and geothermal, and new technologies such as batteries.</p>	<ul style="list-style-type: none"> <li>▪ Future Security and Resilience (FSR) phase 3 year 1:               <ul style="list-style-type: none"> <li>○ Review Part 8 of the Code to ensure relevance for new technology, including identifying the standards new technology needs to support the reliability of the power system.</li> </ul> </li> <li>▪ Managing risks of thermal transition:               <ul style="list-style-type: none"> <li>○ Identify key triggers when thermal retirement might occur and options to address.</li> </ul> </li> <li>▪ Examining wholesale market operation under 100% renewables (MDAG):               <ul style="list-style-type: none"> <li>○ Support MDAG's delivery and publication of options paper and recommendations to the Authority.</li> <li>○ Begin considering MDAG's recommendations.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Implementation of phase 3 of the FSR programme underway, with initial policy decisions made.</li> <li>▪ Complete identification of options to address thermal retirement risks.</li> <li>▪ Consideration of MDAG recommendations underway.</li> </ul>	<ul style="list-style-type: none"> <li>▪ The Authority is progressing implementation of phase 3 of the FSR project through three workstreams:               <ul style="list-style-type: none"> <li>○ FSR indicators – Dashboard of indicators published in May 2023.</li> <li>○ Review Part 8 of the Code – consultation on issues paper took place through April and May 2023. Common Quality Technical Group established and first meeting complete.</li> <li>○ Future system operation – A discussion document will be published in late 2023.</li> </ul> </li> <li>▪ Ensuring an orderly thermal transition:               <ul style="list-style-type: none"> <li>○ Consultation took place June-July 2023.</li> </ul> </li> <li>▪ MDAG Price discovery in a renewables-based electricity system:               <ul style="list-style-type: none"> <li>○ The MDAG are reviewing submissions on recent consultation and revising its draft recommendations. The final report is due by the end of 2023.</li> </ul> </li> </ul>

Activity Area	Annual focus	22/23 desired outcome	Progress at 30 June 2023
<p><b>Price signals:</b> Improving the efficiency of transmission and distribution pricing to send better signals to consumers about the cost of using these networks and promote more efficient investment in DER and networks.</p>	<ul style="list-style-type: none"> <li>▪ Transmission Pricing Methodology (TPM):               <ul style="list-style-type: none"> <li>○ Support Transpower's implementation of the new TPM on 1 April 2023.</li> <li>○ Ensure necessary TPM-related Code amendments are in place by 1 April 2023.</li> </ul> </li> <li>▪ Real-time pricing (RTP) ready to go live in Q1-2 2022/23.</li> <li>▪ Distribution pricing reform:               <ul style="list-style-type: none"> <li>○ Assess and address any pricing issues for new and expanded connections.</li> <li>○ Support distributors with pass-through of new transmission pricing to distribution pricing.</li> <li>○ Progress analysis of possible regulatory options to drive faster reform.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ The new TPM and related Code amendments implemented by 1 April 2023.</li> <li>▪ RTP live by Q2 2022/23.</li> <li>▪ Pass-through of new transmission pricing is consistent with incentives in the TPM.</li> </ul>	<ul style="list-style-type: none"> <li>▪ TPM:               <ul style="list-style-type: none"> <li>○ The new TPM came into effect on schedule, on 1 April 2023.</li> <li>○ In May 2023 the Authority opened consultation on its proposed Code amendment to allow for funding for the development of a new Settlement Residual Pricing Methodology.</li> <li>○ The Authority published a decision paper in June 2023 on detailed amendments to the Code to address various technical issues in the TPM identified by stakeholders.</li> </ul> </li> <li>▪ RTP:               <ul style="list-style-type: none"> <li>○ RTP dispatch notification successfully went live in April 2023.</li> </ul> </li> <li>▪ Distribution pricing reform:               <ul style="list-style-type: none"> <li>○ During April to May 2023 Authority staff held scorecard meetings with all 29 distributors and prepared draft scorecards for distributors' 2023 pricing methodologies. The Authority expects to publish final 2023 scorecard assessments in September 2023.</li> <li>○ The Authority published an issues paper on distribution pricing on 5 July 2023. The paper progresses analysis of possible regulatory options to drive faster reform in respect of five targeted issues.</li> </ul> </li> </ul>



Activity Area	Annual focus	22/23 desired outcome	Progress at 30 June 2023
<p><b>Security of supply:</b> Ensuring the electricity sector manages security of supply effectively.</p>	<ul style="list-style-type: none"> <li>▪ Extended reserves:               <ul style="list-style-type: none"> <li>○ Agree the analysis and implementation work to be undertaken by the system operator.</li> <li>○ Support system operator with the management and coordination plan for the automatic under-frequency load shedding (AUFLS) providers' transition to the 4-block AUFLS scheme.</li> </ul> </li> <li>▪ Security of supply settings:               <ul style="list-style-type: none"> <li>○ Progress the Code amendment to adopt the system operator's updated security of supply policy.</li> </ul> </li> </ul>	<p>Policy decisions made and implementation underway.</p>	<ul style="list-style-type: none"> <li>● ▪ Extended Reserves:               <ul style="list-style-type: none"> <li>○ The system operator has completed the system security analysis of the North Island distributors and will be presenting the final results to distributors before December 2023. Transition work is scheduled to start in January 2024 and all distributors are scheduled to complete transition by the end of June 2025.</li> </ul> </li> <li>▪ Security of supply settings:               <ul style="list-style-type: none"> <li>○ The Authority has approved both security of supply documents. The Emergency Management Policy came into effect on 1 December 2022 and the Security of supply forecasting and information policy (SOSFIP) came into effect on 1 June 2023.</li> </ul> </li> </ul>

## 2022/23 Activities | *Thriving competition*

Activity Area	Annual focus	22/23 desired outcome	Progress at 30 June 2023
<p><b>Ensuring competition in electricity markets:</b> Market competition is a key enabler to deliver a better energy future. We're committed to supporting and strengthening competition in electricity markets.</p>	<ul style="list-style-type: none"> <li>▪ Wholesale market competition review:               <ul style="list-style-type: none"> <li>○ Complete implementation of possible remedies to inefficient price discrimination.</li> <li>○ Continued prioritisation and initiation of workstreams to address focus areas identified in the Monitoring Review of structure, conduct, and performance in the wholesale electricity market review paper.</li> </ul> </li> <li>▪ Improve risk management settings:               <ul style="list-style-type: none"> <li>○ Implement commercial market making – commercial 'go live' of market making by Q2 2022/23.</li> <li>○ Consult on potential enhancements to FTR markets.</li> </ul> </li> </ul>	<p>Policy decisions are made and implemented, with the next prioritised Wholesale Market Review workstream underway.</p>	<p>●</p> <ul style="list-style-type: none"> <li>▪ Wholesale market competition review:               <ul style="list-style-type: none"> <li>○ The decision paper on wholesale market competition was published in May 2023. We are now forming the transition workplan with those actions for the year ahead.</li> </ul> </li> <li>▪ Improve risk management settings:               <ul style="list-style-type: none"> <li>○ The current commercial market making contract was extended to the end of FY23/24. A Registration of interest was released for a commercial market making provider for FY24/25 onwards and it is anticipated a review of market making settings will be done at the end of CY24.</li> <li>○ We published a decision paper on the FTR market review. Additional visuals for FTR pricing information have gone live. The potential for conduct issues is being considered.</li> <li>○ An issues paper has been released for forecasting provisions for intermittent generators. This work will reinforce some of the winter 2023 outcomes as well as support the transition to 100% renewable energy.</li> </ul> </li> </ul>

Activity Area	Annual focus	22/23 desired outcome	Progress at 30 June 2023
<p><b>Increasing monitoring of market activities and outcomes:</b> Proactively monitor market activities to ensure the market is appropriately responding to challenges such as dry years, fuel shortages and major outages, enabling new technology and innovation, and increased investment in renewables.</p>	<ul style="list-style-type: none"> <li>▪ Continue to improve our trading conduct monitoring and improving the level of transparency of this work by including commentary in our quarterly monitoring report.</li> <li>▪ Broaden the scope of our monitoring after a recent focus on the wholesale market.</li> <li>▪ Undertake initial work on the Consumer Care Guidelines information disclosure which is due to be provided to the Authority by 31 July 2022.</li> </ul>	<p>Monitoring of market activities is continuously improved, increasing transparency, trust and confidence.</p>	<p>●</p> <ul style="list-style-type: none"> <li>▪ The Authority has published reviews of the wholesale market information disclosure provisions and wind offers. We continue to regularly assess the trading conduct provisions. We have published 23 ‘eye on electricity’ reports since July 2022 as part of our efforts to improve the transparency of our monitoring work.</li> <li>▪ Planning is underway to collect a new retail dataset. Subject to this work being approved, subsequent steps will follow..</li> <li>▪ We conducted our first review of electricity retailers’ self-assessed alignment with the Consumer Care Guidelines.</li> </ul>
<p><b>Confidence in the Authority’s role as regulator:</b> Ensuring confidence in the Authority’s role as regulator, through education, monitoring, intervention, and enforcement.</p>	<ul style="list-style-type: none"> <li>▪ Complete implementation of the <i>Compliance Strategy</i>.</li> <li>▪ Continued implementation of the <i>Compliance Monitoring Framework</i>, including initiating proactive monitoring and compliance activities.</li> <li>▪ Drive more timely and robust decision-making on enforcement cases through process improvements and raising capability.</li> <li>▪ Publish recent case studies and reports to industry on trends and outcomes from compliance processes.</li> </ul>	<ul style="list-style-type: none"> <li>▪ The <i>Compliance Strategy</i> and <i>Compliance Monitoring Framework</i> are fully implemented.</li> <li>▪ The Authority’s education programme is established to implement the VADE (Voluntary, Assisted, Directed and Enforced) compliance operating model.</li> </ul>	<p>●</p> <p>Although overall the outcome is not met, good progress was made in several aspects of the desired outcome:</p> <ul style="list-style-type: none"> <li>▪ All compliance cases are being processed through the new compliance portal with reports being designed to help improve timeliness. Implementation of the <i>Compliance Strategy</i> is complete.</li> <li>▪ Implementation of the <i>Compliance Monitoring Framework</i> will continue into 2023/24.</li> <li>▪ Implementation is underway for several of the high-risk areas for proactive monitoring. Some areas require further methodology to be developed, and this work is underway.</li> <li>▪ The education programme is being developed to implement the VADE compliance operating model. The education programme has been constrained by available resourcing while the team focused on reducing the backlog of compliance and enforcement cases.</li> </ul>

## 2022/23 Activities | *Innovation flourishing*

Activity Area	Annual focus	22/23 desired outcome	Progress at 30 June 2023
<p><b>Settings are conducive to innovation and industry success:</b> Ensuring market settings are conducive to innovation and industry success through a proactive, agile, and forward-looking regulatory approach.</p>	<ul style="list-style-type: none"> <li>▪ Updating the regulatory settings for distribution networks:               <ul style="list-style-type: none"> <li>○ Continue programme to identify issues affecting the distribution sector and options to address the issues.</li> <li>○ Identify preferred options based on urgency, value, ability to implement and net benefit to consumers.</li> <li>○ Progress the open networks development programme.</li> </ul> </li> </ul>	<p>A package of preferred options is ready for implementation.</p>	<ul style="list-style-type: none"> <li>▪ The Authority has reviewed and summarised the submissions we received on its issues paper <i>Updating the Regulatory Settings for Distribution Networks</i>.</li> <li>▪ The Authority is preparing to release the summary of submissions and the full submissions. We are also prioritising issues to address as part of an 18-24 month programme of work.</li> </ul>
<p><b>Data transparency, insights, and automation:</b> Continuously improving the availability of data to deliver sophisticated and transparent insights in a timely manner.</p>	<ul style="list-style-type: none"> <li>▪ Reformulate data models to apply and deliver insights in a timely manner:               <ul style="list-style-type: none"> <li>○ Automate the Jade model to update data monthly.</li> <li>○ Update the vSPD model for RTP implementation, to support alignment with the increased number of datasets in system operator's SPD.</li> </ul> </li> <li>▪ Continued cost optimisation and process improvements:               <ul style="list-style-type: none"> <li>○ Improving data governance, structures and oversight through data cataloguing, documentation, and awareness across the Authority.</li> </ul> </li> </ul>	<p>Models and processes will be continuously improved to deliver increased automation, more timely insights, and greater transparency.</p>	<ul style="list-style-type: none"> <li>▪ New tables have been created in our data store for use by our Policy, Monitoring and Compliance teams. We have focused on the wholesale and hedge markets but will be shifting our focus to retail and distribution markets, as data requirements are identified.</li> <li>▪ Information and data governance activities have gathered pace in recent months. Policy and procedure documents are being updated. Compliance with the Public Records Act 2005 requirements is being strengthened.</li> <li>▪ Ongoing cost optimisation and process improvements have seen monthly Azure costs reduce from over \$30,000 per month to about \$24,000. Costs have reduced while processing more data and bringing on board more analysts.</li> </ul>

Activity Area	Annual focus	22/23 desired outcome	Progress at 30 June 2023
<p><b>Electricity Industry Amendment Bill:</b>            Ensuring the Authority meets our obligations under the Electricity Industry Amendment Bill when it comes into effect.</p>	<ul style="list-style-type: none"> <li>▪ Identify the changes required for the Authority to comply with the Electricity Industry Amendment Bill when it comes into effect.</li> <li>▪ Establish an implementation plan to address required changes.</li> </ul>	<p>Implementation of required changes is underway.</p>	<ul style="list-style-type: none"> <li>▪ The Electricity Industry Amendment Act 2022 was enacted on 31 August 2022.</li> <li>▪ The Authority developed an implementation programme to address changes required because of it. Many aspects of this are now complete such as legal analysis of how the changes affect the Authority; incorporating the new Part 6A into the Code; and updates to policies, procedures, guidelines, and web content to ensure alignment with the Act.</li> <li>▪ Longer-term work, such as considering updates of the arms-length rules and implementing changes to the <i>Compliance Monitoring Framework</i>, is being transferred from the implementation project team into business-as-usual for the relevant business units.</li> </ul>

## 4. Output performance

Output performance measures are reported on in the *Electricity Authority Annual Report 2022/23*.

## 5. Organisational development

### Recruitment and retention

Following robust recruitment processes including extensive research into suitable candidates, the Authority appointed Airihi Mahuika as General Manager, Legal, Monitoring and Compliance from 22 May 2023 and Andrew Millar as General Manager, Market Policy, from 26 June 2023. Recruitment is underway to fill the General Manager, Strategic Communications and Engagement position.

The Authority's annual turnover rate fell from 39% in 2021/22 to 29% in 2022/23. For the four-month period 1 March to 30 June 2023, the Authority had a turnover rate of ten percent, which is up slightly from the last four-month period (9%) but largely consistent and, as a small organisation these numbers can be influenced by a small number of departures. The Authority works hard to manage staff retention and attract the right talent to our team. Staff engagement and participation continues to remain positive (with 81% of staff saying in our Ask our Teams survey that they enjoy working for our organisation and 78% of staff saying that the Authority is a great place to work).

During the four-month period, the Authority:

- ran two leadership workshops, with 28 staff completing the training, increasing leadership capabilities across the organisation.
- developed a culture support module with external facilitators, Updraft, based on a set of behaviours linked to the Authority's values and designed to embed these in a meaningful way into a strong, engaged culture.

Recruitment and retention have improved, however recruitment is still difficult particularly where the Authority competes for candidates in specialist roles.

The Authority continues to review and refine initiatives associated with its Employee Value Proposition, increasing its visibility as an employer of choice. Over the last four months, this has included sharing our culture via social media and updating our careers page with staff profiles to showcase working at the Authority from a staff perspective.

Strategies such as internal promotion, progression pathways, and movement across disciplines, prove to be successful with promotion for four staff. The Authority has progressed over the last four months with the development of career pathways for specific job families.

### Staff engagement

The Authority prioritises continuous improvement in staff wellness as integral to its health, safety, and wellness strategy. The Health, Safety and Wellbeing Committee includes representation from the Senior Leadership Team and employee representation from across the organisation. Online safety training is available to maintain current understanding of the Health and Safety at Work Act and key responsibilities.

Wellness initiatives over the last four months include Rainbow 101 training, Samoan Language week, NZ Sign Language week and International Women's Day. The Authority acknowledged Easter and ran activities for staff from a social impact perspective for Pink Shirt Day and Pink

Ribbon. These events have promoted diversity and inclusion and provided opportunities to raise awareness and give back to the community.

The Authority ran the Ask Your Team engagement survey for the third consecutive year during this period. Staff participation increased from 85% to 89% (compared to 63% across all public sector surveys), indicating that staff appreciate the chance to have a voice and contribute to improvements across the organisation. Overall results (66%) in 2022/23 remain positive and above the public sector average (62%).

The Authority is using insights from the survey to identify opportunities for further improvements at Senior Leadership and individual team levels.

### **Kia Toipoto**

Kia Toipoto - Pay Equity is a Public Service Commission initiative and is the successor to the Public Service Gender Pay Gap Action Plan 2018-2020. This is the first year that Crown Entities have been required to participate and produce a plan. The Authority's initial plan captures the actions and initiatives the Authority has taken to improve pay equity in our workplace, and which support the six focus areas of Kia Toipoto. These are transparency; leadership and representation; eliminating all forms of discrimination; flexible working by default; equitable pay outcomes; and effective career and leadership development.

### **Board membership**

In July 2023, the Authority welcomed the appointment of two new Board members, Anna Kominik (five-year term starting on 13 July 2023) and Dr Cristiano Marantes (five-year term starting on 1 July 2023).

Anna Kominik replaces Nicki Crauford as the Authority's Board Chair. We are grateful for Nicki's leadership of the Authority during her time as Chair over the last three years.

## 6. Financial performance and position

This section provides information about the Authority's financial performance for the period 1 July 2022 to 30 June 2023 and financial position as at 30 June 2023. It is noted that the financial information presented is subject to year-end finalisation and to audit review and as such may not match final year-end reporting.

### Appropriations and expenditure

The following table details expenditure incurred against the three appropriations available to the Authority:

Appropriation	Jun 2023	Jun 2023	Jun 2023
	Year to Date	Year to Date	Year to Date
	Actual	Budget	Variance
	\$000	\$000	\$000
Electricity industry Governance and Market Operations	92,073	95,452	3,379
Managing the security of New Zealand's electricity supply	-	-	-
Electricity litigation fund	869	-	(869)
<b>Total</b>	<b>92,942</b>	<b>95,452</b>	<b>2,510</b>

In the **Electricity industry Governance and Market Operations appropriation**, which is the Authority's principal appropriation, expenditure for the year ended 30 June 2023 was \$3.38 million lower than budget, due to:

- Lower than budgeted costs for service provider contracts \$2.4 million including market-making costs being lower than budget by \$5.0 million offset by higher system operator and provider costs of \$2.6 million.
- Other expenses, including depreciation and amortisation being \$1.7m below budget due to changes in the timing and scope of planned projects since the budget was set.
- Personnel costs being \$0.8 million higher than budget due to the higher than anticipated contract staff costs stemming from difficulties recruiting permanent staff in a tight labour market plus increased annual, long service and sick leave provisions.

The **Managing the Security of New Zealand's electricity supply appropriation** is contingent in nature and not routinely used. Its use is limited to the management by the system operator (Transpower) of actual or emerging events relating to the security of New Zealand's electricity supply.

The Authority has not received any requests for funding from the system operator to use the Managing the Security of New Zealand's electricity supply appropriation in the 2022/23 financial year.

The **Electricity Litigation Fund appropriation** is also contingent in nature and is only utilised where certain events or situations arise. For the year ended 30 June 2023, \$0.869 million has been spent, primarily on the Transmission Pricing Methodology litigation and the Undesirable Trading Situation claims that arose from the 9 August 2021 event. The Electricity Litigation Fund has a contingent appropriation of \$1.500 million.

Total revenue for the year ended 30 June 2023 is detailed in the Statement of comprehensive revenue and expense (Figure 1) below. Total Authority expenditure for the year is \$92.942 million funded by Crown appropriations.



**Figure 1: Statement of comprehensive revenue and expense – year ended 30 June 2023**

2021/22 Full Year Actual \$000		Jun 2023 Year to Date Actual \$000	Jun 2023 Year to Date Budget \$000
77,504	Crown appropriations	92,942	95,452
154	Interest income	973	130
<b>77,657</b>	<b>Total revenue</b>	<b>93,915</b>	<b>95,582</b>
14,800	Personnel costs	16,162	15,363
1,351	Depreciation and amortisation	1,954	2,459
48,096	Service provider contracts	62,242	64,664
13,256	Other expenses	12,584	12,966
<b>77,504</b>	<b>Total expenditure</b>	<b>92,942</b>	<b>95,452</b>
<b>154</b>	<b>Total comprehensive revenue</b>	<b>973</b>	<b>130</b>

Total Authority equity increased by \$0.97m in 2022/23 being the value of non-appropriation revenue, and equity at 30 June 2023 is \$13.941m. Total taxpayers' funds held by the Authority as at 30 June 2023 is detailed in the Statement of changes in equity (Figure 2) below.

**Figure 2: Statement of changes in equity – year ended 30 June 2023**

2021/22 Full Year Actual \$000		Jun 2023 Year to Date Actual \$000	Jun 2023 Year to Date Budget \$000
12,814	Opening balance	12,968	13,950
154	Total comprehensive revenue	973	130
<b>12,968</b>	<b>Closing balance</b>	<b>13,941</b>	<b>14,080</b>

## Financial position

The Authority's assets and liabilities are detailed in the Statement of Financial Position (Figure 3). Significant movements during the year have largely been modest but we note that the Authority is holding \$1.5m more in current assets (primarily cash and cash equivalents) and has \$1.4m more invested in fixed assets and intangible assets. Payables and accruals have risen by \$3.6 million due to some substantial service provider costs falling due in the last month plus the Authority now holds a \$1.12 million security bond related to market making operations.

**Figure 3: Statement of financial position – as at 30 June 2023**

2021/22 Full Year Actual \$000		Jun 2023 Year to Date Actual \$000	Jun 2023 Year to Date Budget \$000
<b>Assets</b>			
<b>Current assets</b>			
18,661	Cash and cash equivalents	20,987	15,959
944	Receivables and prepayments	160	80
<b>19,605</b>	<b>Total current assets</b>	<b>21,147</b>	<b>16,039</b>
<b>Non-current assets</b>			
1,136	Property, plant and equipment	1,245	1,478
6,901	Intangible assets	8,192	4,481
<b>8,037</b>	<b>Total non-current assets</b>	<b>9,437</b>	<b>5,959</b>
<b>27,642</b>	<b>Total assets</b>	<b>30,584</b>	<b>21,998</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
6,911	Payables and accruals	10,524	6,800
1,224	Employee entitlements	1,550	1,000
442	GST payable	38	100
5,670	Appropriation repayable to the Crown	4,269	-
305	Other provisions	-	-
<b>14,552</b>	<b>Total current liabilities</b>	<b>16,381</b>	<b>7,900</b>
<b>Non-current liabilities</b>			
20	Employee entitlements	71	18
102	Other provisions	191	-
<b>122</b>	<b>Total non-current liabilities</b>	<b>262</b>	<b>18</b>
<b>14,674</b>	<b>Total liabilities</b>	<b>16,643</b>	<b>7,918</b>
<b>12,968</b>	<b>Net assets</b>	<b>13,941</b>	<b>14,080</b>
<b>Equity</b>			
9,011	Contributed capital	9,011	9,011
3,957	Accumulated surplus/(deficit)	4,930	5,069
<b>12,968</b>	<b>Taxpayers' funds</b>	<b>13,941</b>	<b>14,080</b>

## Cash flow

The Authority has experienced a positive cash flow in 2022/23 of \$2.3m as a result of a \$5.69m net cash inflow from operating activities partially offset by the investment of \$3.36m in property, plant and equipment and intangible assets.

**Figure 4: Statement of cash flows – year ended 30 June 2023**

2021/22 Full Year Actual \$000		Jun 2023 Year to Date Actual \$000	Jun 2023 Year to Date Budget \$000
<b>Cash flows from operating activities</b>			
83,174	Receipts from the Crown	97,154	95,452
154	Interest from investments	973	130
(644)	Repayment of appropriation to the Crown	(5,670)	-
(63,487)	Payments to suppliers	(70,579)	(76,811)
(14,386)	Payments to personnel	(15,785)	(15,345)
501	Goods and services tax (net)	(403)	-
<b>5,312</b>	<b>Net cash flows from operating activities</b>	<b>5,690</b>	<b>3,426</b>
<b>Cash flows from investing activities</b>			
(1,078)	Purchase of property, plant and equipment	(285)	(1,408)
(2,656)	Purchase of intangibles	(3,079)	(1,539)
<b>(3,734)</b>	<b>Net cash flows from investing activities</b>	<b>(3,364)</b>	<b>(2,947)</b>
<b>1,578</b>	<b>Net increase/(decrease) in cash and equivalents</b>	<b>2,326</b>	<b>479</b>
17,083	Cash and cash equivalents at beginning of year	18,661	15,480
<b>18,661</b>	<b>Cash and cash equivalents at end of period</b>	<b>20,987</b>	<b>15,959</b>

## 7. Audit and Risk

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

### Audit issues

One internal audit review was completed during the four-month period in the area of Major Suppliers of Contracted Services. No material findings were reported, and remedial action plans have been formulated where needed.

The Information Management Action Plan for eight findings has been submitted to Archives New Zealand following the review in 2022. The plan outlines the actions that will be taken over the next two years to resolve the findings and to lift the maturity of the Authority in respect to information management. The progress is reported back to the Senior Leadership Team on a regular basis.

### Risk management

The risks identified in this report reflect wider strategic or market risks, in which we have a key role to monitor and mitigate as kaitiaki of the electricity sector. New Zealand is grappling with the goal to reduce carbon emissions, and the Climate Change Commission's final advice points to increased reliance by consumers and the economy on electricity.

Strategy and risk operate in unison, hence there is strong alignment between the components of our strategy and the key risks we have identified. We have indicated the linkages to our strategy in connection with each of the strategic risks reported. No new strategic risks have been identified during the period.

Risks have been rated using a qualitative approach, according to their current state in terms of likelihood and consequence, resulting in an overall rating. The overall rating therefore reflects the residual risk, post mitigation, and assuming the implemented mitigations are operating effectively.

In relation 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.

Only one risk rating has changed and that is the "Staff capability and capacity" which has reduced from "Critical" to "High". This rating has been revised down since the last reporting period due to the employment market being more buoyant. The Authority has an ongoing recruitment programme to ensure we have the capability and capacity to operate at full performance. There are eighteen positions that have been authorised to be recruited for during the current financial year. We are also focusing on retention by investing in our people leadership and management capabilities and improving our workplace culture.

Risk Level	Management Approach
<b>Critical</b> Risk score: >13.5 – 25.0	Immediate action required; risk escalated as appropriate. Action plans and management responsibility specified with close scrutiny required. Only the Board and the Chief Executive can accept this level of risk.
<b>High</b> Risk score: >7.0 – 13.5	Senior leadership team advised. Action plans and management responsibility specified with periodic scrutiny required. The Chief Executive and General Manager or programme/project sponsor can accept this level of risk.
<b>Medium</b> Risk score: >3.0 – 7.0	Management responsibility specified. Managed by specific monitoring and procedures. The relevant project/programme or third tier manager or business manager can accept this level of risk.
<b>Low</b> Risk score: 0.25 – 3.0	Manage by routine procedures. Unlikely to require specific application of resources. The relevant team leader or fourth tier manager can accept this level of risk.

Risk description and mitigations	Previous rating	Current rating
<b>Infrastructure investment:</b> <b>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.</b>	High	High

Mitigations:

- Monitoring and regular reporting to management, Board, and Security and Reliability Council.
- Regular inter-agency meetings between the Authority, MBIE and Transpower to discuss the current status and any change to reporting/monitoring needed.
- Range of security of supply measures, triggered from the energy risk curves (ERCs), including official conservation campaigns, customer compensation scheme and planned load shedding.
- Regularly review market settings to ensure supply and investment is encouraged.
- Recommendations from the reviews of the event of 9 August 2021 have been completed, and recommendations have been implemented or form part of business as usual.
- Implementing measures to promote more and faster generation investment, as identified through the Wholesale Market Review. These measures include undertaking regular monitoring of progress on generation investment proposals, improving the Hedge disclosure system, investigate further developments for longer term products on the ASX and analyse and mitigate thermal transition issues.
- Explore options to reduce dependency on voluntary disclosure of gas positions and conditions by non-participants in the electricity sector.
- Integration of management of security of supply risks in transition to 100 percent renewables.
- At the time a medium-term supply reduction is signalled, undertake market facilitation through direct stakeholder interaction.
- Consider what actions are open to the Authority, including changes to the wholesale market (either Code amendments or market facilitation) to encourage more investment in the long term.
- Consider if short-term changes are needed to incentivise/increase current supply.
- Policy settings for an enhanced automatic under-frequency load shedding scheme have been published. Monitoring the system operator's implementation progress with North Island distributors through to July 2025 deadline.
- Improve settings and support more demand side participation and ensure demand side response is a feature of security of supply settings.
- Consider industry-led proposals for additional ancillary products.
- Understand and as appropriate ensure correct settings to encourage commercial arrangements to provide for demand-side response, with a focus on large industrial load.

Strategic linkage(s):

*Ambitions:* Low-emissions energy; Trust and confidence; Innovation flourishing

*Capabilities:* Purposeful connection; Transformative mindset; Impactful delivery

Risk description and mitigations	Previous rating	Current rating
<b>Short-term supply-side issue:</b> <b>If there is a short-term supply-side issue, (outage, dry year, fuel unavailability) this may lead to energy shortages.</b>	High	High

Mitigations:

- Monitoring and regular reporting to management, Board, and Security and Reliability Council.
- Regular inter-agency meetings between the Authority, MBIE and Transpower to discuss the current status and any change to reporting/monitoring needed.
- Range of security of supply measures, triggered from the energy risk curves (ERCs), including official conservation campaigns, customer compensation scheme and planned load shedding.
- Regularly review market settings to ensure supply and investment is encouraged.
- Recommendations from the reviews of the event of 9 August 2021 have been completed, and recommendations have been implemented or form part of business as usual.
- Explore options to reduce dependency on voluntary disclosure of gas positions and conditions by non-participants in the electricity sector.
- Integration of management of security of supply risks in transition to 100 percent renewables.
- At the time a medium-term supply reduction is signalled, undertake market facilitation through direct stakeholder interaction.
- Consider what actions are open to the Authority, including changes to the wholesale market (either Code amendments or market facilitation) to encourage more investment in the long term.
- Review the security of supply options implemented for Winter 2023 and consider further options for enhancing market indicators and security products with a view to supporting the power system through the transition.
- Policy settings for an enhanced automatic under-frequency load shedding scheme have been published. Monitoring the system operator's implementation progress with North Island distributors through to July 2025 deadline.
- Improve settings and support more demand side participation and ensure demand side response is a feature of security of supply settings.
- Understand and as appropriate ensure correct settings to encourage commercial arrangements to provide for demand-side response, with a focus on large industrial load.
- Regularly review and update security of supply settings with the system operators.

Strategic linkage(s):

*Ambitions:* Low-emissions energy; Trust and confidence

Risk description and mitigations	Previous rating	Current rating
<b>System resilience:</b> <b>If a major event or a natural disaster occurred and the system is not sufficiently resilient, then this may lead to unplanned supply interruption or cascade failure.</b>	Medium	Medium

Mitigations:

- Regular monitoring by the Security and Reliability Council and the Compliance Committee. The major mitigant in relation to networks is price/quality regulation by the Commerce Commission. If there is an event NEMA (on a national basis) or the regional Civil Defence organisation (for a regional event) take on the monitoring task for lifeline services including electricity.
- Current automatic under-frequency load shedding systems (AUFLS) arrangements, protection, and other technical requirements. The Authority's Extended Reserves Project will enhance the system resilience to sudden loss of supply. Policy work is complete and Transpower is working through implementation with AUFLS providers, completion expected June 2025.
- Increase the range of technologies that can provide ancillary services.
- The future security and resilience programme is considering what changes are required to ensure the electricity system is secure and resilient given technology and other changes.
- Asset capability compliance obligations including reporting and monitoring requirements.

Strategic linkage(s):

*Ambitions:* Trust and confidence

*Capabilities:* Purposeful connection



Risk description and mitigations	Previous rating	Current rating
<b>Consumer facing sector participants are underprepared: If distribution and/or retailers lifeline services are underprepared, then this may cause injury/death and/or unacceptable delays in supply restoration.</b>	Medium	Medium

Mitigations:

- Clear regulatory framework including thresholds of how/when the Authority regulates.
- Six monthly testing of market operations service providers and the system operator’s system disaster recovery capability. To date, all parties have demonstrated mature system disaster recovery capability.
- There is an expectation that emergency services providers will anticipate loss of supply and have alternative arrangements in place.
- Review of industry response to COVID-19 and learnings shared across the sector.
- Reporting during the COVID-19 alert level 4 lockdown indicated that generator and distributor control rooms (personnel and systems) have strong resilience and the participants are prepared for maintaining lifeline services during a declared emergency.
- The Authority’s enduring expectations regarding COVID-19 pandemic related lockdowns and retailers not making disconnections for non-payment continues to influence a more general cautious approach to disconnection.
- Review the consumer care guidelines with a view to determining the need to make some of the guidelines mandatory under the Code to ensure that retailers provide a consistent and supportive consumer experience – especially in instances where there is greater risk of harm such as disconnection of medically dependent consumers.
- Monitoring of retailer alignment to consumer care guidelines.
- Recommendations from the reviews of the event of 9 August 2021 have been completed, and recommendations have been implemented or form part of business as usual.
- Additional provisions to enhance the interfaces and procedures between the system operator and electricity distribution businesses.

Strategic linkage(s):

*Ambitions:* Trust and confidence

Risk description and mitigations	Previous rating	Current rating
<p><b>Consumer trust in the market:</b></p> <p><b>If consumers lack engagement and trust in the electricity market (including consumer needs not being met) then this may result in a reduced confidence in the sector and in the effectiveness of competition to meet consumer needs, and a decreased willingness to increase their reliance on electricity for transport and heat.</b></p>	High	High

**Mitigations:**

- Build trust and confidence through transparent and accessible information and engage directly with consumers.
- Publish reports and analysis of the electricity market and push through multiple channels to reassure stakeholders of the Authority’s role and the sector’s performance, including international comparison with other household necessities.
- Reviewing the efficacy of the consumer care guidelines, and monitoring retailer alignment to the guidelines. The guidelines aim to ensure retailers provide a consistent and supportive consumer experience, especially in instances where there is greater risk of harm such as disconnection of medically dependent consumers.
- Working with Utilities Disputes and the Consumer Advocacy Council, to better understand consumers, their challenges and needs.
- The Authority provides the majority of funds for Consumer NZ’s Powerswitch website and promotion to enable consumers to understand the benefits of checking and switching their power providers; compare offers in the retail market; check for potential savings; and make more informed switching decisions.
- The Authority’s Energy Transition Roadmap has been published and sets a clear pathway for how the Authority and markets will support an efficient transition to a low-emissions energy system that provides “abundant, affordable and reliable” electricity into the future.
- Implement the Wholesale Market Review recommendations regarding enhancing competition in the wholesale market to deliver beneficial outcomes to consumers now and through the transition to a low emissions environment and enhance consumers’ trust in the market.

**Strategic linkage(s):**

*Ambitions:* Low-emissions energy; Consumer centricity; Trust and confidence

*Capabilities:* Listening and empathy; Purposeful connection

Risk description and mitigations	Previous rating	Current rating
<p><b>Authority loss of social licence:</b>  <b>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.</b></p>	High	High

**Mitigations:**

- Ensure the Authority’s strategic objectives and activities are relevant, impactful, and well tested with stakeholders, and demonstrate clear linkages to wider objectives.
- Ensure decision-making processes are robust and capture diverse voices.
- Ensure timely and plain language communication on our activities to broaden understanding.
- Increase transparency of our activities and decision-making processes to build trust.
- Conduct a programme of continuous improvement through regular review of strategic objectives, stakeholder perception and organisation capability and performance.
- Provide leadership for, and collaboration with, other agencies (MBIE, Commerce Commission, EECA, Climate Change Commission, Gas Industry Company, Utilities Disputes Limited, Consumer Advocacy Council, Consumer NZ, Transpower and other market operation service providers) on energy sector strategies, issues, and emerging consumer energy generation (in particular carbon reduction or zero carbon initiatives) and disruptive technology trends.
- Active stakeholder and consumer engagement planning and increasing the transparency of the Authority’s work programme.

**Strategic linkage(s):**

*Ambitions:* Low-emissions energy; Consumer centricity; Trust and confidence

*Capabilities:* Purposeful connection

Risk description and mitigations	Previous rating	Current rating
<b>System future proofing:</b> <b>If the system is not able to adapt to future innovations/technology, then this may result in investment/progress being held back.</b>	Medium	Medium

Mitigations:

- Educate consumers and stakeholders about the system, the rules in place to support its evolution and the proactive role of the Authority.
- Review system settings for their ability to support and integrate uptake of new technology and emerging business models.
- Review the system’s ability to maintain security and resilience in the face of technology and other changes.
- Investigate the problems or opportunities with current system operation arrangements that will need to be managed given the expected changes to the electricity system from the transition to a low emissions economy.
- Investigate the capability and capacity of the distribution sector to support the uptake of new technology and new business models.
- The Authority’s *Energy Transition Roadmap* has been published and sets a clear pathway for how the Authority and markets will support an efficient transition to a low-emissions energy system that provides “abundant, affordable and reliable” electricity into the future.
- The future security and resilience programme will address issues and opportunities in relation to security and resilience of electricity supply arising from technology and other changes.
- The price discovery under the 100 percent renewables project, currently being undertaken by the MDAG, is considering whether changes to the wholesale market design are required to ensure efficient investment and operation under 100 percent renewables.
- The Authority is investigating whether any changes are required to ensure a smooth transition to a low emissions electricity system.

Strategic linkage(s):

*Ambitions:* Low-emissions energy; Consumer centricity; Trust and confidence; Innovation flourishing

*Capabilities:* Listening and empathy; Transformative mindset

Risk description and mitigations	Previous rating	Current rating
<p><b>Participant behaviour impacts on wholesale market:</b>  <b>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.</b></p>	High	High

Mitigations:

- Market reviews if behaviour indicating potential harmful activity, for example: competition in the spot market, whether prices are being determined competitively, the structure, conduct and performance of the spot market.
- Proactive compliance monitoring:
  - Trading conduct
  - Wholesale market information disclosure
  - Risk management contract information disclosure
  - Internal transfer price information
- Increased resources in monitoring and compliance areas.
- Ensure Authority is making full/appropriate use of existing levers (including other agencies).
- Develop and run industry education.
- Legislative and Code changes if identified as missing in regulatory framework/tools.
- Market monitoring will investigate any unusual market results and will refer any suspicious behaviour for further consideration including in relation to a suspected Pricing error claim, Undesirable Trading Situation, or to the compliance team to be investigated.
- Conduct compliance deep dives to demonstrate, reinforce and incentivise good behaviour of market participants, act rapidly and highlight bad behaviour of market participants (reputation regulation), use Rulings Panel, enforce compliance.
- Each week a report on the previous week’s trading conduct is published. Monitoring staff identify and investigate any trading periods where the prices are not obviously aligned with underlying supply and demand.
- Reviewing monitoring and compliance strategy, processes, and tools. The Authority has released a new compliance strategy (which has been informed by participant feedback).
- The penalty regime in the Electricity Industry Act has been updated to ensure that penalties better incentivise compliance with the Code. The Authority will continue to work with MBIE to ensure the regulatory framework continues to support our work through appropriate penalties and efficient processes.

Strategic linkage(s):

*Ambitions:* Consumer centricity; Trust and confidence; Thriving competition

*Capabilities:* Purposeful connection

Risk description and mitigations	Previous rating	Current rating
<p><b>Staff capability and capacity:</b> 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.</p>	Critical	High

Mitigations:

- The Authority has an ongoing recruitment programme to ensure we have the staff capability and capacity to operate at full performance and respond to changes.
- 12 behaviours that support our organisational values have been developed in consultation with staff and confirmed by senior management included as part of our induction process and embedded in the Authority’s culture. The Authority actively recognises staff for demonstrating the 12 behaviours.
- The Authority’s Workforce Strategy is continually evolving and is periodically presented to and approved by the Senior Leadership Team.
- The Health, Safety, and Wellbeing Committee (includes Senior Leadership Team representative) meets periodically, and findings/recommendations are presented to the Senior Leadership Team on a monthly basis. Health, Safety, and Wellbeing is reported to the Board quarterly with monthly updates provided as required.
- Investment in people leadership and people management capabilities and talent management approaches.
- Formal performance conversations occur quarterly.
- Conduct workforce analysis and planning to address capability and capacity gaps to ensure the Authority’s strategy can be delivered.
- Conduct regular staff surveys to measure staff engagement levels and the Authority’s culture, and address areas for improvement.
- Mental Health First Responder training has been rolled out to all people managers and a select group of Authority volunteers.
- High level themes regarding recruitment and staff exits are shared with the Senior Leadership Team.

Strategic linkage(s):

*Ambitions:* Trust and confidence; Innovation flourishing

*Capabilities:* Inspired culture; Transformative mindset; Impactful delivery

Risk description and mitigations	Previous rating	Current rating
<p><b>Medium to long-term supply-side issues:</b></p> <p><b>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.</b></p>	High	High

**Mitigations:**

- Integration of management of security of supply risks in transition to 100 percent renewables.
- Monitoring and regular reporting to management, Board and Security and Reliability Council.
- Investigate price discovery in the wholesale market in a world of 100 percent renewables, and the flow-on impacts for incentivising infrastructure investment.
- At the time a medium-term supply reduction is signalled or occurs: market facilitation through direct stakeholder interaction.
- Regularly review market settings to ensure supply and investment is encouraged.
- Monitor and enforce compliance with wholesale market information disclosure rules.
- Monitor developments in the gas industry.
- Regular stakeholder engagement.
- System operator publishes annual security assessments which include appropriate sensitivities and receives feedback on this assessment from stakeholders.
- Consider changes to the wholesale market (either Code amendments or market facilitation) to encourage more investment in the long term.
- Consider if short-term changes are needed to incentivise/increase current supply.
- The Authority is investigating whether any changes are required to ensure a smooth transition to a low emissions electricity system.

**Strategic linkage(s):**

*Ambitions:* Trust and confidence; Low-emissions energy

*Capabilities:* Transformative action, Impactful delivery, Purposeful connection

**Key to the risk matrix**

			Consequence									
			Insignificant		Minor		Moderate		Major		Severe	
			0.5	1	1.5	2	2.5	3	3.5	4	4.5	5
Likelihood	Certain	5	2.5	5	7.5	10	12.5	15	17.5	20	22.5	25
		4.5	2.25	4.5	6.75	9	11.25	13.5	15.75	18	20.25	22.5
	Likely	4	2	4	6	8	10	12	14	16	18	20
		3.5	1.75	3.5	5.25	7	8.75	10.5	12.25	14	15.75	17.5
	Possible	3	1.5	3	4.5	6	7.5	9	10.5	12	13.5	15
		2.5	1.25	2.5	3.75	5	6.25	7.5	8.75	10	11.25	12.5
	Unlikely	2	1	2	3	4	5	6	7	8	9	10
		1.5	0.75	1.5	2.25	3	3.75	4.5	5.25	6	6.75	7.5
	Rare	1	0.5	1	1.5	2	2.5	3	3.5	4	4.5	5
		0.5	0.25	0.5	0.75	1	1.25	1.5	1.75	2	2.25	2.5



## Glossary of abbreviations and terms

<b>Abbreviation or term</b>	<b>Definition</b>
<b>Act</b>	Electricity Industry Act 2010 (as amended)
<b>Authority</b>	Electricity Authority.
<b>Code</b>	Electricity Industry Participation Code 2010.
<b>Consumer</b>	Any person who is supplied with electricity other than for resupply.
<b>Participant</b>	A person, or a person belonging to a class of persons, identified in section 7 of the Electricity Industry Act 2010 as being a participant in the electricity industry. These include generators, Transpower, distributors, retailers, other lines owners, consumers directly connected to the national grid, buyers of electricity from the clearing manager and service providers.
<b>Service providers</b>	Parties contracted by the Authority to manage the electricity system (system operator) and market services set out in section 5 of the Act.
<b>System operator</b>	The system operator (currently Transpower) is the market operation service provider responsible for scheduling and dispatching electricity in a manner that avoids fluctuations in frequency or disruption of supply.

