

ANNUAL
CORPORATE PLAN

2022/23

CHIEF EXECUTIVE FOREWORD

Electricity plays a critical role in the lives of individuals and communities nationwide. The Electricity Authority (Authority) is the regulator of the electricity system – we oversee the operation of the electricity system and markets by developing, setting, and enforcing the rules the market must follow, and holding industry to account by actively monitoring the market’s behaviour and performance.

The Authority is part of a wider regulatory system which serves the New Zealand. Our purpose reflects the broader social and economic environment in which we operate and our stewardship of the sector:

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

Stewardship of the sector is even more critical as we steer through the next few years. Mass electrification, retirement of thermal generation, a volatile climate, and a pandemic puts an unprecedented level of pressure on the system. There will be more challenges during the next few years that require a system-wide response – preparedness and clarity of expectations are critical. The Authority’s focus is on providing stability and certainty through activities which benefit consumers for years to come. This is a long-term focus, and our decisions will benefit our children and our children’s children.

The Authority’s strategy seeks to align our role with five ambitions for the sector: low-emissions energy, consumer centricity, trust and confidence, thriving competition, and innovation flourishing. The strategy will guide our work into the future. With sector input, we commit to activities that support delivery against the ambitions. This ensures that, as a regulator, everything we invest time and resource in will have maximum impact for consumers.

This Annual Corporate Plan communicates our intended activities for 2022/23 and provides an opportunity to demonstrate how our work supports delivery against the sector ambitions, specifically low-emissions energy, thriving competition and innovation flourishing. 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.

Implicit within these activities are the associated ambitions of consumer centricity, and trust and confidence. Consumer outcomes are at the centre of our decision-making, and everything we do seeks to build trust and confidence. We know these are areas in which we can improve – that is why they are ambitions and are central to everything we do. The Authority will continue to capture the diverse perspectives and aspirations of consumers as we develop and enforce rules. We will also continue to build trust and confidence in the Authority and the electricity sector through greater transparency, understanding, and improved behaviours.

The Electricity Industry Amendment Bill 2021 will further embed the Authority’s consumer centricity and trust and confidence ambitions by providing clearer powers to protect the interests of small electricity consumers and increasing our ability to hold participants to account through improved enforcement provisions.

This 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.

INTRODUCTION

Our purpose

Enhance New Zealanders' lives, prosperity and environment through electricity

The Authority was established as an independent Crown entity to regulate the electricity industry for the long-term benefit of consumers. Our independence is valuable for promoting high-performing electricity markets – reducing the risk of intervention and increasing predictability in the way regulatory regimes operate. This is important for sectors like electricity that are technically complex and rely on long-lived capital-intensive investments.

While this means we give advice, rather than take direction, we are attuned to the external environment in which we operate and the Government's priorities. Our work needs to meet the requirements of legislation and best practice guidance provided by central agencies, the Office of the Controller and Auditor-General (OAG) and Audit New Zealand.

Acting as kaitiaki, our regulatory stewardship aims to both protect the progress and strengths of New Zealand's electricity system for generations to come. We aim to ensure industry participation continually builds new strengths and adds value as it delivers the outcomes for consumers that Parliament expects of us.

In this plan

This Annual Corporate Plan sets out our activities for 2022/23 that will promote our strategic priorities, address regulatory risks and harms, and deliver sector outcomes.

This plan should be read alongside:

- our Statement of Intent 2021-2025, which outlines our long-term strategic intentions for the period of 1 July 2021 to 30 June 2025.¹
- our Statement of Performance Expectations 2022/23, which outlines our forecast financial statements and business-as-usual functions for the 2022/23 year.²
- our Energy Transition Roadmap, which details how we are supporting an efficient transition to a low-emissions energy system.³ The work set out in the Energy Transition Roadmap provides the basis for the Authority's support for the first Emissions Reduction Plan and development of the Government's Energy Strategy. The Roadmap is a living document, which we will update at regular intervals and as necessary to further support the Emissions Reduction Plan and Energy Strategy.

The Annual Corporate Plan does not represent every piece of work the Authority expects to undertake during the 2022/23 year, but rather serves to highlight our current priorities and intentions. We remain agile to address any other risks that may emerge during the year, especially as New Zealand enters a period of transition to a low-emissions energy system.

¹ <https://www.ea.govt.nz/about-us/strategic-planning-and-reporting/statement-of-intent/>

² <https://www.ea.govt.nz/about-us/strategic-planning-and-reporting/statement-of-performance-expectations/>

³ <https://www.ea.govt.nz/development/why-we-work-on-developing-the-electricity-market/roadmap-transition-to-low-emissions-energy-system/>

STRATEGIC AMBITIONS

In our Statement of Intent 2021-2025, we identified the following strategic ambitions. These ambitions guide and reflect the initiatives and activities outlined in this plan.

Low-Emissions Energy



Unlocking the potential for more renewable generation is a focus for the Authority. We work hard maintaining, developing and implementing market rules that give investors' confidence and signal where additional generation is required.

Consumer Centricity



We are focused on creating long-term benefits for consumers through development of market-oriented solutions to place downward pressure on price, embrace new technology and enhance consumers' choice of plans, packages, and retailers.

Trust and Confidence



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

Thriving Competition



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

Innovation Flourishing



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

SUMMARY CORPORATE PLAN 2022/23

Purpose

Enhance New Zealanders' lives, prosperity and environment through electricity

Strategic ambitions

Low-Emissions Energy



Thriving Competition



Innovation Flourishing



Strategic impacts

Electrification is a key enabler in the transition to a low-emissions economy.

- Our electricity market settings enable an efficient transition to reliable low-emissions energy in New Zealand.
- Network and market price signals support the lowest overall cost to consumers.

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

- New entrants can compete on a level playing field with established participants.
- Market settings enable competition between distributed energy resources (DER's) and established technology solutions.

Evolution of the electricity system will be achieved through innovation and disruption, with both participants and the Authority thinking beyond the status quo.

- The regulatory system accommodates new business models.
- The availability and transparency of industry data is continuously improved.

Consumer Centricity

When decision-making is centred around consumer outcomes more diverse needs can be met, and expectations exceeded.

- Our decisions improve the way the sector meets consumers' needs.
- Consumers are engaged with through our decision-making processes.



Trust and Confidence

High levels of trust and confidence drive action, acceptance, and reduce intervention.

- The Electricity Authority and our actions promote trust and confidence.
- We are active regulators who enhance operational efficiency and reliability.
- We improve compliance and sector conduct.



Statutory objective

To promote **competition in, reliable supply by, and the efficient operation of**, the electricity industry for the long-term benefit of consumers



Low-emissions energy

- Our electricity market settings enable an efficient transition to reliable low-emissions energy in New Zealand.
- Network and market price signals support the lowest overall cost to consumers.

Preparing for a low-carbon future; improving the efficiency of price signals; and ensuring security of supply.

New Zealand has committed to achieving net zero emissions by 2050, with the Government aspiring to achieve 100% renewable electricity by 2030. Heating and transportation in New Zealand will need to be electrified. The significant increase in demand for electricity will require large quantities of new renewable electricity generation, increased use of distributed energy resources, new ways to participate and more participants – changing the dynamics of the electricity system and markets.

As the regulator of New Zealand’s electricity system, our work provides an important platform for the country’s aspirations. 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 remain focused on promoting a stable investment environment with robust rules and clear price signals.⁴

Our ***Preparing for a low-carbon future / Supporting New Zealand’s transition to low-emissions energy*** activity area is targeted towards ensuring the Code supports the new technology required for transition; management of the risks surrounding transition, such as the exit of existing technology; and supporting the Market Development Advisory Group (MDAG) in their investigation into wholesale market operation under 100% renewables and responding to their advice.

Having decided on a new Transmission Pricing Methodology (TPM), we will continue our work to improve the efficiency of ***Price signals***. We will progress the relevant Code amendments required for the successful implementation of the new TPM (by Transpower) in April 2023, and provide support to, and management of, Transpower’s implementation. The Authority has also increased its focus on achieving faster reform of distribution pricing.

We will also continue our work to ensure the electricity sector manages ***Security of supply*** effectively, by progressing Code amendments to adopt 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.

⁴ Details of the activity areas related to this strategic ambition are set out in the table below.

2022/23 Activities | *Low-emissions energy*

Activity Area	Annual focus	22/23 desired outcome
<p>Preparing for a low-carbon future / Supporting New Zealand's transition to low-emissions energy: The power system is expected to undergo significant change in 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"> ▪ Future security and resilience phase 3 year 1 <ul style="list-style-type: none"> ○ Review Part 8 of the Code to ensure relevance for new technology, including identification of the standards new technology needs to meet to support the reliability of the power system. ▪ Managing risks of transition <ul style="list-style-type: none"> ○ Identify key triggers when thermal retirement might occur and options to address. ▪ Examining wholesale market operation under 100% renewables (MDAG): <ul style="list-style-type: none"> ○ Support MDAG's delivery and publication of options paper and recommendations to the Authority. ○ Begin consideration of MDAG's recommendations. 	<ul style="list-style-type: none"> ▪ Implementation of phase 3 of the FSR programme underway, with initial policy decisions made. ▪ Complete identification of options to address thermal retirement risks. ▪ Consideration of MDAG recommendations underway.
<p>Price signals: 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 DER and networks.</p>	<ul style="list-style-type: none"> ▪ Transmission pricing methodology (TPM) <ul style="list-style-type: none"> ○ Support Transpower's implementation of the new TPM on 1 April 2023. ○ Ensure necessary TPM-related Code amendments are in place by 1 April 2023. ▪ Real-time pricing (RTP) ready to go live in Q1-2 2022/23. ▪ Distribution pricing reform <ul style="list-style-type: none"> ○ Assess and address any pricing issues for new and expanded connections. ○ Support distributors with pass-through of new transmission pricing to distribution pricing. ○ Progress analysis of possible regulatory options to drive faster reform. 	<ul style="list-style-type: none"> ▪ The new TPM and related Code amendments implemented by 1 April 2023. ▪ RTP live by Q2 2022/23. ▪ Pass-through of new transmission pricing is consistent with incentives in the TPM.
<p>Security of supply: Ensuring the electricity sector manages security of supply effectively.</p>	<ul style="list-style-type: none"> ▪ Extended reserves <ul style="list-style-type: none"> ○ Agree the analysis and implementation work to be undertaken by the system operator. ○ Support system operator with the management and coordination plan for the AUFLS providers' transition to the 4-block AUFLS scheme. ▪ Security of supply settings <ul style="list-style-type: none"> ○ Progress the Code amendment to adopt the system operator's updated security of supply policy. 	<p>Policy decisions made and implementation underway.</p>



Thriving competition

- New entrants can compete on a level playing field with established participants.
- Market settings enable competition between distributed energy resources (DER's) and established technology solutions.

Ensuring competition in electricity markets; monitoring market activities; ensuring confidence through monitoring, intervention and enforcement; and reducing energy hardship through improved consumer care.

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 seek 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*** focuses on continuing the Review of competition in the wholesale market, and the workstreams and policy decisions arising from the review; and the implementation of a commercial market making scheme.

We will also continue our work ***Monitoring 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.

Supporting thriving competition, is the need for a stable regulatory environment where participants are held to account to rules designed to provide long term benefit. Our activity area ***Confidence in the Authority's role as a regulator*** continues the implementation of our Compliance Strategy and Compliance and Monitoring Framework to drive more timely and robust decision-making on enforcement cases.

2022/23 Activities | *Thriving competition*

Activity Area	Annual focus	22/23 desired outcome
<p>Ensuring competition in electricity markets: 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"> ▪ Wholesale market competition review <ul style="list-style-type: none"> ○ Complete implementation of possible remedies to inefficient price discrimination. ○ 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. ▪ Improve risk management settings <ul style="list-style-type: none"> ○ Implement commercial market making – commercial 'go live' of market making by Q2 2022/23 ○ Consult on potential enhancements to FTR markets 	<p>Policy decisions are made and implemented, with the next prioritised Wholesale Market Review workstream underway.</p>
<p>Increasing monitoring of market activities and outcomes: Proactively monitoring 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 renewables.</p>	<ul style="list-style-type: none"> ▪ Continue to improve our trading conduct monitoring and improving the level of transparency of this work by including commentary in our quarterly monitoring report. ▪ Broaden the scope of our monitoring after a recent strong focus on the wholesale market <ul style="list-style-type: none"> ○ Undertake initial work on the consumer care guidelines information disclosure which is due to be provided to the Authority by 31 July 2022. 	<p>Monitoring of market activities is continuously improved, increasing transparency, trust and confidence.</p>
<p>Confidence in the Authority's role as regulator: Ensuring confidence in the Authority's role as regulator, through education, monitoring, intervention, and enforcement.</p>	<ul style="list-style-type: none"> ▪ Complete implementation of the Compliance Strategy. ▪ Continued implementation of the Compliance and Monitoring Framework, including initiating proactive monitoring and compliance activities. ▪ Drive more timely and robust decision-making on enforcement cases through process improvements and raising capability. ▪ Publish recent case studies and reports to industry on trends and outcomes from compliance processes. 	<ul style="list-style-type: none"> ▪ The Compliance Strategy and Compliance and Monitoring Framework are fully implemented. ▪ The Authority's education programme is established to implement the VADE compliance operating model.



Innovation flourishing

- The regulatory system accommodates new business models.
- The availability and transparency of industry data is continuously improved.

Ensuring market setting are conducive to innovation and industry success; utilising data transparency, insights and automation; meeting our obligations under the Electricity Industry Amendment Bill.

Decarbonising the electricity sector involves drastically reducing our use of fossil fuels whilst increasing our use of electrification of transportation and process heat. Distributed energy resources (DER), solar photovoltaics, smart appliances, and Energy Storage Systems will see widespread adoption in homes and workplaces. This will result in a rise in the level of 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. This will ultimately change the cost and competitive structure of our industry. Increasing investment in DER will give rise to an increase in consumer integration with the power system. 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 that 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. We will match this by being proactive, agile, and forward-looking in our regulatory approach. Through the activity area **Settings are conducive to innovation and industry success**, we will continue our work to update the regulatory settings for distribution networks to enable innovation and competition to support the transition.

Supporting this, **Data transparency, insights, and automation** will continuously improve the availability of data to deliver sophisticated and transparent insights in a timely manner. This enables increased deployment of distributed energy resources and supports consumers' ability to control their energy use and participate in new ways.

The **Electricity Industry Amendment Bill** will ensure the Act, which governs the Authority and the Code, provides an effective regulatory framework for the electricity industry in view of rapidly evolving technologies and business models. In 2022/23 we will work to identify the changes required under the Bill and develop a prioritised plan to implement these changes.

2022/23 Activities | *Innovation flourishing*

Activity Area	Annual focus	22/23 desired outcome
<p>Settings are conducive to innovation and industry success: 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"> ▪ Updating the regulatory settings for distribution networks <ul style="list-style-type: none"> ○ Continue programme to clearly identify issues affecting the distribution sector and options to address the issues. ○ Identify preferred options based on urgency, value, ability to implement and net benefit to consumers. ○ Progress the open networks development programme. 	<p>A package of preferred options is ready for implementation.</p>
<p>Data transparency, insights, and automation: Continuously improving the availability of data to deliver sophisticated and transparent insights in a timely manner.</p>	<ul style="list-style-type: none"> ▪ Reformulate data models to apply and deliver insights in a timely manner <ul style="list-style-type: none"> ○ Automate the Jade model to update data monthly. ○ Update the vectorised Scheduling Pricing and Dispatch (vSPD) model for RTP implementation, to support alignment with the increased number of datasets in system operator's SPD. ▪ Continued cost optimisation and process improvements <ul style="list-style-type: none"> ○ Improving data governance, structures and oversight through data cataloguing, documentation, and awareness across the Authority. 	<p>Models and processes will be continuously improved to deliver increased automation, more timely insights, and greater transparency.</p>
<p>Electricity Industry Amendment Bill: Ensuring the Authority meets our obligations under the Electricity Industry Amendment Bill when it comes into effect.</p>	<ul style="list-style-type: none"> ▪ Identify the changes required for the Authority to comply with the Electricity Industry Amendment Bill when it comes into effect. ▪ Establish an implementation plan to address required changes. 	<p>Implementation of required changes is underway.</p>