



STATEMENT
of PERFORMANCE
EXPECTATIONS

1 JULY 2021 – 30 JUNE 2022



This Statement of Performance Expectations (SPE) is a partner document to the Statement of Intent 2021 - 2025 (SOI) published in June 2021.

The SOI sets out our long-term strategic intentions for a four-year period. It is published at least every three years.

The SPE is published annually. It details our planned work and financial forecasts for one year.

The SOI is available at: <http://www.ea.govt.nz/about-us/strategic-planning-and-reporting/statement-of-intent/>

For further information about the Electricity Authority's work, visit www.ea.govt.nz

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Glossary and abbreviations

There are many technical terms used in the electricity sector, and some of these occur in this document. To assist readers, a glossary of common electricity industry terms is on our website at www.ea.govt.nz/glossary/

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Purpose

This Statement of Performance Expectations (SPE) outlines our plan for the 2021/22 financial year. It includes information about our programmes and business-as-usual functions, as well as our forecast financial statements.

The SPE is a partner document to our Statement of Intent 2021-2025 (SOI), published in June 2021. The SOI sets out our long-term strategic intentions for a four-year period, while this SPE details our planned work and financial forecasts for the 2021/22 financial year.

The 2021/22 SPE has been informed by:

- submissions we received on the consultation for our 2021/22 appropriations
- our key market development projects
- our refreshed strategy.

It outlines how we plan to use each of our appropriations and what we aim to achieve.

We also publish our key market development projects on our website, setting out our targets, milestones and deliverables for the 2021/22 year.

Introduction

Over the last 50 years, New Zealand's electricity system has evolved to one that balances security, equity, and environmental sustainability. It should be a real source of pride for all New Zealand that we benefit from such a stable, reliable system delivered from an increasingly cleaner mix of generation.

The electricity system is a quiet achiever, powering essential services in the background as we go about our lives. That reliability will be critical as New Zealand transitions to a low-emissions economy. This is an exciting time to be taking up the reins as new Chair of the Electricity Authority during a period of energy transition for New Zealand. Supporting the potential of increased renewable generation is a primary focus for the Authority. This will support environmental and climate outcomes, and we need to ensure a secure and efficient electricity supply for consumers in the long term.

As the kaitiaki of electricity, the Authority's purpose is to enhance New Zealanders' lives, prosperity, and environment through electricity. We use our position to make positive changes that enable investment in the sector, all the while ensuring a level playing field. We also provide a stable regulatory regime and allow the market to grow with minimal reactionary interventions.

The Authority is a strategy-led organisation that takes a proactive, forward-looking regulatory approach to match the pace of change and help innovation flourish. Our strategic goals are intentionally ambitious as they represent our aspirations for the sector in the future. They include:

- consumer centricity that guides regulation and the industry
- supporting low-emissions energy to electrify the economy
- building all stakeholders trust and confidence in the industry
- fostering competition across the system
- supporting innovation.

We see our role as broader than electricity – we are part of the wider energy discussion. However, we must evolve with the times, particularly to help unlock the full benefits for consumers by making sure regulatory settings are conducive to innovation and industry success. This year we will continue to progress relevant recommendations from the Electricity Price Review, work closely with MBIE on the NZ Battery Project and monitor the energy market.

The Climate Change report is a watershed moment for New Zealand.

Transformation of the energy sector is critical to the transition to a low emissions economy. The electricity sector has a significant role to play.

Our interest is to ensure the transition happens efficiently and, critically, that security of supply is maintained as New Zealand's energy system evolves.

The Authority will support electricity networks to be as ready as possible to transition to a low carbon economy, including by enabling efficient investment and operation of distributed resources, like batteries and electric vehicles. The work on transmission and distribution pricing reform and open networks is well-aligned with this objective.

We will also look to provide the right settings to facilitate investment in renewable generation, empowering consumers to reap the benefits of new and emerging technologies.

It is also important for the Authority to build trust and confidence in the industry, and the electricity system more broadly. A key part of this is taking a robust regulatory approach which enhances transparency, promotes good market behaviour, and demonstrates suitable compliance and enforcement when required. The Board is committed to achieving this.

For the benefits of consumers, the Authority will continue to actively consult across all its regulatory work and programmes, and work collaboratively and openly across the sector. This approach is particularly evidenced by the customer-centred approach to revising the guidelines for medically dependent and vulnerable consumers, working alongside stakeholders to ensure fit for purpose guidelines that protect all consumers.

As the pace of change escalates, the Authority will step up to be more responsive and clear, effectively communicating, engaging, and consulting on how the Authority's decisions benefit or affect customers - even if some of the decisions are unpopular.

I would like to acknowledge my predecessor, Dr Brent Layton who was with the Authority since 2010. In particular, I would like to highlight his extensive involvement with the industry dating back to the 1990s and the success of developing an electricity market. The sector and consumers are better off because of his hard work. With Brent's help, there has been a smooth transition to a new Chair.

Electricity is a vital economic enabler and our market is well-regarded internationally. As the Authority looks to the future, I look forward to working with the Board, Authority staff and stakeholders to continue to keep consumers at the heart of our decisions.



Dr Nicola (Nicki) Crauford
Electricity Authority Chair
15 June 2021

Statement of Responsibility

The Crown Entities Act 2004 requires the Electricity Authority to prepare a Statement of Performance Expectations, including prospective financial and non-financial information, before the start of each year, to promote our accountability to the public. The prospective financial and non-financial information may not be appropriate for any other purpose and is unaudited.

We acknowledge responsibility for the preparation of the prospective financial and non-financial performance statements included in this Statement of Performance Expectations for 1 July 2021 – 30 June 2022. This includes the appropriateness of the assumptions underlying the prospective financial statements and all other required disclosures, pursuant to the Crown Entities Act 2004.

We acknowledge the responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of our performance and financial reporting.

In our opinion, the prospective statements fairly reflect our forecast financial position at 30 June 2022 and the results of our financial and service performance for the period ending on that date. We therefore authorise the issue of the prospective statements.



Dr Nicola (Nicki) Crauford
Chair
15 June 2021



Mark Sandelin
Member
15 June 2021

Our strategic framework

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

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

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

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

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

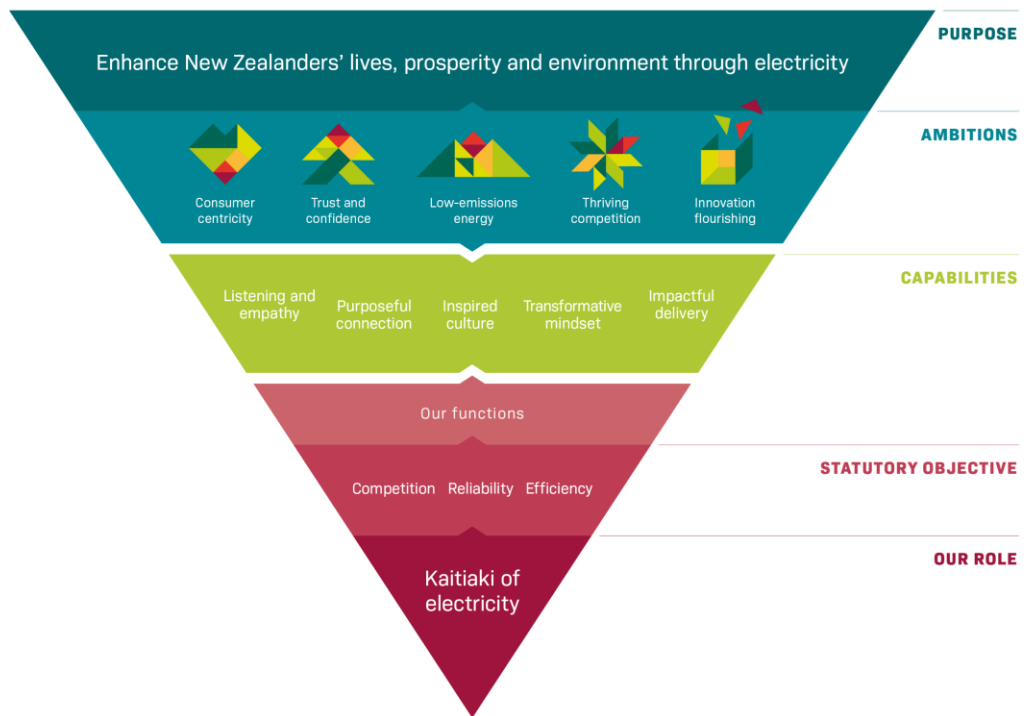
Electricity regulation is the tool through which we can contribute to wider outcomes. Electrification of the wider energy system will play a key role in the transition to a low-emissions economy.

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

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

Our integrated framework – aligned to the tikanga-based values of kaitiakitanga (long-term sustainability), manaakitanga (social responsibility), whanaungatanga (social connections) and whairawa (thriving whanau) – sets out five strategic ambitions for the sector that guide the prioritisation of our work. Our 2021-25 Statement of Intent (SOI) sets out our strategic framework, along with impact measures and targets reflecting our long-term strategic intentions for the next four years.

Integrated strategic framework



The outcomes we seek

Section 15 of the Act sets out our statutory objective:

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

Competition

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

Reliability

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

Efficiency

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

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

Strategic ambitions — where we focus impact

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

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

Low-emissions energy

The Climate Change Commission's advice shows the need to electrify New Zealand's heat and transport and increase low-carbon electricity generation. Making more use of Zealand's renewables advantage is essential in our transition to a low-emissions economy. The required level of investment in new generation will be significant.

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

Consumer centricity

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

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

Trust and confidence

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

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

Thriving competition

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

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

Innovation flourishing

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

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

Measuring our strategic ambitions and statutory objective

We report the progress of our strategic ambitions and statutory objective every year in our *Annual Report*.

Strategic ambitions...

Each *strategic ambition* has a series of *impact measures* that relate to it. Our impact measures are designed to measure the contribution our work makes towards achieving our strategy.

Statutory objective...

Each part of our *statutory objective* (competition, reliability, efficiency) has a series of *outcome measures* that relate to it. Our outcome measures are designed to measure the contribution our work makes towards achieving our statutory objective.

Further details on our impact and outcome measures can be found in our Statement of Intent 2021-2025.

Linking our strategy, functions and work programme

To meet changes in our operating environment, we review our work programme and the exercise of our functions each year to ensure alignment with our strategy.

The strategy-led approach in our work programme includes a short-term focus on delivery of the EPR recommendations aligned to our sector ambition.

In this SPE, we describe how our work for the coming year is expected to contribute to achieving our strategic ambitions, the links between our strategy and functions, as well as the performance measures and targets we intend to achieve through the exercise of our functions.

As the impacts of COVID-19 continue to affect the country, we remain flexible and responsive to ensure the industry continues to deliver the benefits of competition, reliability, and efficiency to New Zealand.

In developing this SPE, we have engaged with the Minister of Energy and Resources (Minister), the Ministry of Business, Innovation and Employment (MBIE) and Audit New Zealand.

Our functions

Our statutory functions are set out in section 16 of the Act. Alongside implementing our work programme, the exercise of our functions also makes a valuable contribution to our strategic priorities. The SPE sets out these functions, along with the measures and targets used to report our performance over the coming year.

We have four operating functions covering the business we carry out from day to day, including our work programme. We also have two contingent functions, which are only expected to be carried out if certain events or situations occur.

Our four major functions and their contribution to our strategic priorities are summarised in the table below, where tick size indicates the relative importance of contributions.

Table 1: The strategic impact of Electricity Authority functions

Our functions	Links to our strategic ambitions				
	Low-emissions energy	Consumer centricity	Trust and confidence	Thriving competition	Innovation flourishing
Promote market development We promote development of the electricity markets by making amendments to the Electricity Participation Code 2010 (Code) and through market facilitation measures. ¹	✓	✓	✓	✓	
Monitor, inform and educate We monitor market behaviour, make data, information and tools available, and educate consumers and participants	✓	✓	✓	✓	✓
Operate the electricity system and markets We are responsible for the day-to-day operation of the electricity system and markets, delivered through contracts with service providers	✓		✓	✓	✓
Enforce compliance We monitor, investigate and enforce compliance with the Act, relevant regulations and the Code		✓	✓	✓	✓

¹ Market facilitation measures are actions we can take short of amending the Code or recommending changes to regulations. This can include working directly with participants to develop desired results, education programmes, publication of guidelines and publication of model agreements.

Our appropriations

We receive funding from the Crown each financial year through appropriations of public money. The Crown recovers the cost of this funding, up to the level of actual expenditure incurred, through a levy on industry participants. Any over-recovery of levy revenue is refunded to participants.

To obtain these funds, we prepare an appropriations request for the Minister, outlining the costs of performing our functions and exercising our powers and duties under the Act. Before making this request, we consult on the proposed appropriation levels with those affected by the levy, and the outcome of this consultation is reported to the Minister at the time the appropriations request is submitted.

We are funded by the Crown from three appropriations within Vote Business, Science and Innovation:

Table 2: Electricity Authority functions per appropriation

Our appropriations	Our functions
Operating appropriation:	
1) The 'Electricity Industry Governance and Market Operations' appropriation	Promote market development
	Monitor, inform and educate
	Operate the electricity system and markets
	Enforce compliance
Contingent appropriations:	
2) The 'Managing the Security of New Zealand's Electricity Supply' appropriation	Addressing funding requests from the system operator for the management of security of supply events
3) The 'Electricity Litigation Fund' appropriation	Defending cases against the Authority and taking enforcement action

Under each appropriation, the following sections of the SPE will describe:

- what is intended to be achieved
- the scope of appropriation
- functions provided under this appropriation
- 2021/22 performance measures and targets
- the 2021/22 appropriation.

Performance measures used in the 2021/22 Estimates of Appropriations

Some performance measures we use in the SPE are also used in the 2021/22 Estimates of Appropriations. These performance measures are shown in **bold**.

Electricity Industry Governance and Market Operations appropriation

The Electricity industry governance and market operations appropriation is the operational appropriation. Over 65 percent of this appropriation is used to fund the service providers that operate the electricity system and markets, with the remainder funding the Authority's own operating costs.

What is intended to be achieved

This appropriation is intended to achieve effective promotion of competition in, reliable supply by, and the efficient operation of the electricity industry for the long-term benefit of consumers.

Scope of appropriation

This appropriation is limited to formulating, monitoring and enforcing compliance with the regulations and rules governing the electricity industry and other functions in accordance with the statutory functions under the Electricity Industry Act 2010 (the Act); and delivery of core electricity system and market operation functions carried out under service provider contracts.

Functions provided under this appropriation

This appropriation funds our operations, including Board members' costs, the Rulings Panel, the Security and Reliability Council and advisory groups. It also funds the operation of the electricity system and market operations and the exercise of our four operating functions, including:

- 1) Promote market development
- 2) Monitor, inform and educate
- 3) Operate the electricity system and markets
- 4) Enforce compliance.

2021/22 performance measures

1) Promote market development			
Measure	2019/20 result	2020/21 target	2021/22 target
Market development projects achieve planned deliverables for the year.	Not achieved. Seven (78%) of our nine market development projects met their milestones for 2019/20. Further details are available in the 2019/20 work programme report.	80% of market development projects with published targets meet all of their milestones	80% of market development projects with published targets meet all of their milestones*
Our market development decisions and processes are lawful and appropriate**	Achieved. There were zero successful challenges in 2019/20.	Zero (0) legal challenges that result in an Authority market development decision being overturned.	Zero (0) legal challenges that result in an Authority market development decision being overturned***
Transparent, rigorous post-implementation reviews are conducted to establish whether Code amendments or market facilitation measures deliver intended benefits and impacts on market behaviour	Achieved. A post-implementation review was completed for the Financial Transmission Rights (FTRs) market changes, with a positive finding.	In 2020/21 we plan to complete one post-implementation review. Post-implementation reviews show that market behaviour altered in intended direction identified when the Code or market facilitation measure was approved.	In 2021/22 we plan to complete one post-implementation review. Post-implementation reviews show that market behaviour altered in intended direction identified when the Code or market facilitation measure was approved.

Notes:

* Our market development projects and milestones are identified and published annually. Details of the 2021/22 market development projects are included in our Annual Corporate Plan, available on our website: <https://www.ea.govt.nz/about-us/strategic-planning-and-reporting/>

** Includes market development decisions to implement Code amendments or market facilitation measures. These decisions can be disallowed, appealed or judicially reviewed — on the process used to reach the decision, and/or on the lawfulness, reasonableness or appropriateness of the decision itself.

*** An appeal or judicial review can overturn a market development decision by directing us to reconsider a decision or re-run a process. The House may also overturn a market development decision if they accept a Regulations Review Committee recommendation for it to be 'disallowed' — meaning the decision will no longer have force. As at March 2021, there is litigation underway following a challenge to the Authority's June 2020 Transmission Pricing Methodology guidelines decisions.

2) Monitor, inform and educate			
Measure	2019/20 result	2020/21 target	2021/22 target
Robust investigation, analysis and reporting on events	Achieved. Spilling while prices remained high led to an Undesirable Trading Situation claim and a preliminary decision was published in June 2020. Prior to this a report on high prices over 2019/20 was initiated, but put on hold as the UTS preliminary decision was worked on. Three Quarterly Reviews were published throughout the year and a review of distributors — aimed at understanding how distributors are responding to technological change — was published in October 2019.	Two reports completed per annum	Two reports completed per annum
Reviews requested by the Minister under section 18 of the Act achieve positive ratings by independent peer review	N/A. The Authority received no requests under section 18 in 2019/20.	Reports under section 18 of the Act rated as good or very good by independent peer review	Reports under section 18 of the Act rated as good or very good by independent peer review*
Making information available to enable public understanding of the electricity system in New Zealand.	Achieved. 13 consumer friendly items on market performance were published in 2019/20.	Publish 10 or more consumer focused items on the New Zealand electricity system	Publish 10 or more consumer focused items on the New Zealand electricity system**
	Achieved. The number of annual visits increased during 2019/20 from 144,626 to 153,653.	Maintain the number of annual visits (60,000) to the consumer section of the Authority website	Maintain the number of annual visits (60,000) to the consumer section of the Authority website
Making data, insights and analytical tools available	Achieved: The number of annual visits increased during 2019/20 from 29,590 to 36,283.	Maintain the number of annual visits (35,000) to the EMI website	Maintain the number of annual visits (35,000) to the EMI website***
Notes:			
* Assessment was by external expert reviewers using a 5-point scale of: very poor, poor, average, good, very good.			
** Reporting to date has been based on new or updated content placed on the 'Consumers' section of the website during the year. It may also include social media posts designed to enable public understanding.			
*** The Electricity Market Information website (EMI) is the Electricity Authority's avenue for publishing data, market performance metrics, and analytical tools to facilitate effective decision-making within the New Zealand electricity industry.			

3) Operate the electricity system and markets			
Measure	2019/20 result	2020/21 target	2021/22 target
Electricity system and market operation performance will be assessed by monitoring service provider performance to ensure that contract requirements, including performance standards, are met*	Achieved. During 2019/20 all relevant contract, Code and performance standards were met.	Performance levels met or remediation agreed	Performance levels met or remediation agreed
	Achieved. During 2019/20 no significant issues were revealed by the annual audits of service providers.	Any issues identified in audits of market operations service providers have a remedial plan agreed and actioned by the agreed date	Any issues identified in audits of market operations service providers have a remedial plan agreed and actioned by the agreed date**
The Authority carries out its Code obligations in accordance with the Electricity Industry Participation Code 2010	Achieved. During 2019/20 there were no significant breaches of the Authority's Code obligations.	No significant breaches as a result of the Authority carrying out its Code obligations	No significant breaches as a result of the Authority carrying out its Code obligations***
Notes: * This measure combines several different performance measures for the system operator and market service providers, including system operator annual performance assessment, regular monitoring and review ** For example, significant service provision issues may include breaches of the Code and/or issues that have affected market confidence, and/or issues that have resulted in multiple complaints and/or a warning letter to the CEO. *** Including market administration and other obligations under the Code. Although the Authority is not a participant, the absence of breaches is an indicator that standards are met. Significant breaches are considered to be issues that have affected market confidence.			

4) Enforce compliance			
Measure	2019/20 result	2020/21 target	2021/22 target
Percentage of investigations* decided within 12 months of the investigation being opened	Not achieved. During 2019/20, 99.1% of investigations were decided within 12 months of the investigation being opened	100%	100%
Sound compliance processes followed	Achieved. During 2019/20, all reports to the Compliance Committee complied with the Authority's quality standards and case management procedures.	All reports to the Compliance Committee comply with the Authority's quality standards and case management procedures	All reports to the Compliance Committee** comply with the Authority's quality standards and case management procedures
Notes: * Investigations in this context include all fact-finding enquiries as well as formal investigations of alleged breaches of the Code. ** The Compliance Committee makes decisions on alleged breaches of the Act, various regulations and the Code. The committee determines appropriate enforcement responses, whether settlements should be approved, or further investigation undertaken and makes recommendations to the Board regarding the laying of formal complaints with the Rulings Panel and instigating prosecutions with the Courts.			

2021/22 appropriation and cost breakdown

Electricity industry Governance and Market Operations appropriation	Actual 2019/20 (\$000)	Budget* 2020/21 (\$000)	Budget* 2021/22 (\$000)
Revenue from the Crown	73,457	78,415**	78,157
Expenditure***	73,457	78,415	78,157***
<p>* The budget for 2020/21 corresponds to the Supplementary Estimates of Appropriations for the year ending 30 June 2021. The budget for 2021/22 corresponds to the Estimates of Appropriations for the year ending 30 June 2022.</p> <p>** An in-principle expense transfer from 2019/20 to 2020/21 for \$1.479 million was confirmed in the October 2020 baseline update.</p> <p>*** A breakdown of expenditure is provided in the table below.</p>			

Electricity industry Governance and Market Operations expenditure breakdown	Actual 2019/20 (\$000)	Budget 2020/21* (\$000)	Budget 2021/22 (\$000)
System operator—operating expenses	25,950	26,480	27,388
System operator—capital-related expenses	15,258	16,025	15,033
System operator expenses	41,208	42,505	42,421
Service provider—clearing manager	2,348	2,478	2,454
Service provider—wholesale information and trading system	1,647	1,686	1,764
Service provider—pricing manager	746	767	776
Service provider—reconciliation manager	908	932	963
Service provider—registry	662	685	725
Service provider—FTR manager	794	810	1,001
Service provider—depreciation and amortisation	1,208	2,057	1,200
Service provider—IT costs	24	70	50
Other service provider expenses	8,337	9,485	8,933
Authority operating expenses	23,912	26,425	26,803
Total expenses	73,457	78,415	78,157
<p>* An in-principle expense transfer from 2019/20 to 2020/21 for \$1.479 million was confirmed in the October 2020 baseline update.</p>			

Managing the Security of New Zealand's Electricity Supply appropriation

What is intended to be achieved

This appropriation is intended to achieve enhanced security of supply in the electricity system during periods of emerging or actual security situations. These situations are expected to be rare and the appropriation is not drawn on in the normal course of events.

Note – at the time of writing, New Zealand is experiencing lower than normal levels of hydro storage and a constrained gas supply as we move into winter 2021. The market continues to respond appropriately to the associated price signals by generating more electricity using thermal generation plant.

Scope of appropriation

This appropriation is limited to the management by the system operator (Transpower) of actual or emerging emergency events relating to the security of New Zealand's electricity supply. The system operator can request funding from this appropriation to:

- increase monitoring and management responsibilities in the event of an emerging or actual security situation
- plan and run an official conservation campaign.

Managing the security of New Zealand's electricity supply is a multi-year appropriation for the period 2017/18 to 2021/22. Expenses under this appropriation can only be incurred by the system operator—we cannot incur any expenses of our own under this appropriation.

Functions provided under this appropriation

The system operator is responsible for ongoing security monitoring and emergency management.² The security management functions of the system operator include the preparation of the emergency management policy, which is incorporated into the Code by reference following our review and approval. The policy sets out the steps the system operator will take and encourage industry participants to undertake during an extended emergency.

Our primary role in respect to security of electricity supply is to ensure the Code promotes an efficient level of supply reliability. This includes specifying the functions of the system operator, how the functions are to be performed, and setting the requirements for transparency and performance. We also monitor the system operator's performance. This work is covered under the promoting market development and operating the electricity

² Section 8(2) of the Electricity Industry Act 2010 states that as well as acting as system operator for the electricity industry, the system operator must (a) provide information and short- to medium-term forecasting on all aspects of security of supply; and (b) manage supply emergencies. Information about the system operator's security management role is available on its website at <https://www.transpower.co.nz/system-operator/security-supply>

system and markets functions, respectively, of the electricity industry governance and market operations appropriation.

Our role in respect to this appropriation is limited to addressing requests from the system operator to use these funds. Our approval of any request is subject to an agreed process and criteria. The process requires the system operator to provide evidence of an actual or emerging security event, and to describe the actions it intends to take using the funds and how the use of these funds will be monitored. Agreeing this information in advance can help us to assess the effectiveness of the actions and the funding during and after the event.

The system operator would seek our approval for funding from this appropriation on a case-by-case basis, when it considers increased monitoring or security management actions are justified. However, the system operator can, acting on a 'good faith' basis, incur up to \$300,000 of costs in this area without prior approval if it is not reasonably practicable to seek that approval.

2021/22 Performance measures

Managing the Security of New Zealand's Electricity Supply contributes to our reliability outcome (see page 30 of the 2021-2025 Statement of Intent). The effective management of dry years and emergency events, as measured by case-by-case-analysis, is one of a suite of statistics we use to measure whether there are efficient levels of reliable electricity supply. Should the system operator seek funding under this appropriation to manage a dry-year or emergency event, how it uses the funding would be reviewed as part of the subsequent analysis. The results of the review would be published on our website and a summary reported in our Annual Report.

Given that the relevant outcome and function performance measures are already captured elsewhere, the measures below are limited to those that demonstrate we have fulfilled our obligations for this appropriation.

Measure	2019/20 result	2020/21 target	2021/22 target
Electricity Authority decisions in relation to managing the security of New Zealand's electricity supply appropriation are made in accordance with the agreed process and criteria	During 2019/20 there were no applications for funding under this appropriation. We have jointly made process improvements with the system operator that we expect will improve the speed and quality of any spending under this appropriation.	Process and criteria met	Process and criteria met*
Note:			
* We have an agreed process and criteria for the system operator to follow. For example, correct documentation is provided; appropriate signoff by system operator management; evidence that there is an actual or emerging security event; intended actions are clearly described; and monitoring and reporting are specified.			

2021/22 Appropriation

Managing the Security of New Zealand's Electricity Supply appropriation*	Actual 2019/20 (\$000)	Budget** 2020/21 (\$000)	Budget** 2021/22 (\$000)
Revenue from the Crown	-	1,200	1,200
Expenditure	-	1,200	1,200

Note:

* This is a multi-year appropriation of \$6.000 million over five years. Following the expiry of the previous appropriation, a new appropriation has been established, starting on 1 July 2017 and expiring on 30 June 2022. This appropriation is contingent in nature and is not routinely used. For consistency with the appropriations contained in the Government's Estimates documents for Vote Business, Science and Innovation, annual budgeted amounts have been included in the above appropriation table. However, as it is not routinely used, no amounts in relation to this appropriation have been included in the budgets within the other prospective financial statements contained in this SPE.

** The budget for 2020/21 corresponds to the Supplementary Estimates of Appropriations for the year ending 30 June 2021. The budget for 2021/22 corresponds to the Estimates of Appropriations for the year ending 30 June 2022.

Electricity Litigation Fund appropriation

What is intended to be achieved

This appropriation is intended to ensure that we are able to participate in litigation effectively and without delay.

Scope of appropriation

This appropriation is limited to the costs and expenses we incur in participating in litigation.

Functions provided under this appropriation

Our functions under this appropriation include defending judicial review and appeal cases taken against us and taking enforcement action against participants under our compliance function.

2021/22 Performance measures

Measure	2019/20 result	2020/21 target	2021/22 target
The Electricity Authority uses the litigation fund in accordance with the criteria for use of the fund	Achieved. During 2019/20, the fund was used in accordance with agreed criteria for the costs and expenses the Authority incurred in participating in five cases of litigation.	Criteria met.	Criteria met*
Note: * The criteria are set out in our output agreement with the Minister of Energy and Resources.			

2021/22 Appropriation

Electricity Litigation Fund appropriation*	Actual 2019/20 (\$000)	Budget** 2020/21 (\$000)	Budget** 2021/22 (\$000)
Revenue from the Crown	187	1,144***	500
Expenditure	187	1,144***	500
Note: * As this appropriation is contingent in nature, and is only used where certain events or situations arise, no amounts in relation to this appropriation have been included in the budgets within the other prospective financial statements contained in this SPE. ** The budget for 2020/21 corresponds to the Supplementary Estimates of Appropriations for the year ending 30 June 2021. The budget for 2021/22 corresponds to the Estimates of Appropriations for the year ending 30 June 2022. *** An in-principle expense transfer of \$0.700 million was requested from 2019/20 to 2020/21 under the Electricity litigation fund appropriation, to ensure sufficient funding was available to effectively manage litigation risks. This increased the appropriation funding available in 2020/21 to \$1.144 million and was confirmed in the October 2020 baseline update.			

Our strategic organisational capabilities

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

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

Listening and empathy

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

Purposeful connection

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

Inspired culture

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

Transformative mindset

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

Impactful delivery

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

Financial information

This part of the SPE is the forecast financial statements required by section 149G of the Crown Entities Act 2004.

Prospective financial statements

The purpose of these prospective financial statements is to provide a base against which the Authority's actual financial performance can be assessed to promote public accountability.

These prospective financial statements are prepared for the purpose described above, and the information may not be appropriate for any other purpose. Actual financial results achieved for the period covered may vary from the information presented, and the variations may be material. The information in the prospective financial statements is unaudited.

These prospective financial statements have been prepared to comply with the Public Benefit Entity Financial Reporting Standard 42 *Prospective Financial Statements*.

There is no intention to update the prospective financial statements subsequent to presentation.

Reporting entity

The reporting entity is the Electricity Authority, which is an independent Crown entity in terms of the Crown Entities Act 2004 and the Public Finance Act 1989. The Authority was established under the Electricity Industry Act 2010.

The Authority is a Tier 1 public benefit entity, as defined under the *External Reporting Board Accounting Standards Framework*, and a reporting entity for the purposes of the Financial Reporting Act 1993, Public Finance Act 1989 and Crown Entities Act 2004.

Statement of compliance and basis of preparation

These prospective financial statements have been prepared on a going-concern basis in accordance with the requirements of the applicable *International Public Sector Accounting Standards*.

The financial statements are presented in New Zealand dollars rounded to the nearest thousand.

The accounting policies below have been applied consistently to all periods presented in the financial statements.

The financial information presented for the 2019/20 year reflects the actual results as published in the Authority's 2019/20 Annual Report. The financial information presented for the 2020/21 year reflects the budget as published in the Authority's 2020/21 SPE. The financial information presented for the 2021/22 year reflects the Authority's intended budget for that year. Budgeted financial information does not include actual transactions and events.

Statement of significant assumptions

These prospective financial statements have been compiled on the basis of government policies and legislation at the time the statements were finalised.

The prospective financial statements are consistent with the delivery of strategies and impacts disclosed in this SPE and the programme of work the Authority expects to undertake during the forecast period.

A conservative view has been adopted, with the assumption that funding will remain at the currently appropriated levels over the forecast period of these statements.

Budget expenditure is based on the assumption that the cost of certain inputs will increase in line with general inflation, while others will decrease as cost-saving measures are implemented.

The prospective financial statements have been prepared using the most appropriate assumptions at the time the statements were prepared. As the statements are prospective in nature, actual results will vary from those presented in this SPE.

Factors that may lead to material differences between the prospective financial statements and the subsequent actual financial results reported include:

- the level of litigation activity. In the 2021/22 year, the Electricity litigation fund appropriation provides the Authority with funding of up to \$0.500 million to ensure that it can participate in litigation effectively and without delay. The actual amount of expenditure incurred will primarily be driven by the number and complexity of legal challenges the Authority is a party to, if any, during 2021/22. As this appropriation is contingent in nature, no revenue or expenditure in relation to this appropriation has been included in the 2021/22 budgets in the prospective financial statements.
- security of supply emergency events. The Managing the security of New Zealand's electricity supply appropriation is available to fund the management of emergency events by the system operator. This is a multi-year appropriation of \$6.000 million over five years (starting on 1 July 2017 and expiring on 30 June 2022). As this appropriation is contingent in nature and is not routinely used, no revenue or expenditure in relation to this appropriation has been included in the 2021/22 budgets in the prospective financial statements.

Prospective statement of comprehensive revenue and expense

	Note	Actual 2019/20 \$000	Budget 2020/21 \$000	Budget 2021/22 \$000
Funding from the Crown	1	73,644	78,415**	78,157
Interest revenue		340	400	300
Total revenue		73,984	78,815	78,457
Personnel costs	2	13,844	13,020	13,620
Depreciation and amortisation		1,436	2,348	1,430
Service provider contracts		48,337	49,933	50,154
Other expenses	3	10,027	13,114	12,953
Total expenditure		73,644	78,415	78,157
Total comprehensive revenue and expense		340	400	300

Note:
 ** An in-principle expense transfer from 2019/20 to 2020/21 for \$1.479 million was confirmed in the October 2020 baseline update.

Prospective statement of changes in equity

	Actual 2019/20 \$000	Budget 2020/21 \$000	Budget 2021/22 \$000
Opening balance at 1 July	13,008	13,250	13,650
Total comprehensive revenue and expense	340	400	300
Closing balance at 30 June	13,348	13,650	13,950

Prospective statement of financial position

	Note	Actual 2019/20 \$000	Budget 2020/21 \$000	Budget 2021/22 \$000
Assets				
Current assets				
Cash and cash equivalents		16,631	16,346	15,480
Receivables and prepayments		54	200	100
GST receivable		-	-	-
Total current assets		16,685	16,546	15,580
Non-current assets				
Property, plant and equipment	4	332	432	417
Intangible assets	5	4,270	4,872	5,053
Total non-current assets		4,602	5,304	5,470
Total assets		21,287	21,850	21,050
Liabilities				
Current liabilities				
Payables and accruals		5,694	7,000	6,000
Employee entitlements		819	1,000	1,000
GST payable		116	200	100
Appropriation repayable to the Crown		1,292	-	-
Total current liabilities		7,921	8,200	7,100
Non-current liabilities				
Employee entitlements		18	-	-
Total liabilities		7,939	8,200	7,100
Net assets		13,348	13,650	13,950
Equity				
Contributed capital		9,011	9,011	9,011
Accumulated surplus/(deficit)		4,337	4,639	4,939
Total Equity		13,348	13,650	13,950

Prospective statement of cash flows

	Actual 2019/20 \$000	Budget 2020/21 \$000	Budget 2021/22 \$000
Cash flows from operating activities			
Receipts from the Crown	74,936	78,415	78,157
Interest from investments	340	400	300
Repayment of appropriations to the Crown	(1,581)	-	-
Payments to suppliers	(59,407)	(63,045)	(64,008)
Payments to personnel	(13,919)	(13,020)	(13,620)
Goods and services tax (net)	364	-	(100)
Net cash flows from operating activities	733	2,750	729
Cash flows from investing activities			
Receipts from the sale of fixed assets	-	-	-
Purchase of property, plant and equipment	(173)	(211)	(155)
Purchase of intangibles	(608)	(1,725)	(1,440)
Net cash flows from investing activities	(781)	(1,936)	(1,595)
Net increase/(decrease) in cash and cash equivalents	(48)	814	(866)
Cash and cash equivalents at the beginning of the year	16,679	15,532	16,346
Cash and cash equivalents at the end of the year	16,631	16,346	15,480

Notes to the prospective financial statements

1. Appropriation revenue	Actual 2019/20 \$000	Budget 2020/21 \$000	Budget 2021/22 \$000
Electricity industry governance and market operations	73,457	78,415**	78,157
Managing the security of New Zealand's electricity supply*	-	-	-
Electricity litigation fund*	187	-	-
	73,644	78,415	78,157
Note:			
* The Managing the security of New Zealand's electricity supply appropriation, and the Electricity litigation fund appropriation, are both contingent in nature and not routinely used. For this reason, the Authority's prospective financial statements do not include any budgeted revenue or expenditure in relation to these appropriations.			
** An in-principle expense transfer from 2019/20 to 2020/21 for \$1.479 million was confirmed in the October 2020 baseline update.			

2. Personnel costs	Actual 2019/20 \$000	Budget 2020/21 \$000	Budget 2021/22 \$000
Salaries and contractors	13,375	12,376	13,014
Contributions to defined contribution plans	404	594	606
Increase/(decrease) in leave provisions	65	50	-
	13,844	13,020	13,620

3. Other expenses	Actual 2019/20 \$000	Budget 2020/21 \$000	Budget 2021/22 \$000
Managing the security of New Zealand's electricity supply*	-	-	-
Electricity litigation fund*	187	-	-
Consultants	4,834	4,949	5,000
Auditor fees	49	50	50
Advisory and working group fees	71	155	155
Board members' fees	654	725	750
Rulings Panel fees	88	100	100
Operating lease expenses	580	595	595
Travel expenses	181	368	275
Other operating expenses	3,383	6,172	6,028
	10,027	13,114	12,953
Note:			
* The Managing the security of New Zealand's electricity supply appropriation, and the Electricity litigation fund appropriation, are both contingent in nature and not routinely used. For this reason, the Authority's prospective financial statements do not include any budgeted revenue or expenditure in relation to these appropriations.			

4. Property, plant and equipment	Actual 2019/20 \$000	Budget 2020/21 \$000	Budget 2021/22 \$000
Computer hardware	131	265	260
Office equipment	103	41	36
Furniture and fittings	59	75	70
Leasehold improvements	39	51	51
Net book value at 30 June	332	432	417

5. Intangible assets	Actual 2019/20 \$000	Budget 2020/21 \$000	Budget 2021/22 \$000
Software	4,270	4,872	5,053
Net book value at 30 June	4,270	4,872	5,053

Statement of significant accounting policies

Revenue

The specific accounting policies for significant revenue items are explained below.

Funding from the Crown

The Authority is primarily funded from the Crown. This funding is restricted in its use for the purpose of the Authority meeting the objectives specified in its founding legislation and the scope of the relevant appropriations of the funder.

The Authority considers there are no conditions attached to the funding and it is recognised as non-exchange revenue at the point of entitlement. Appropriations received from the Crown are recognised as revenue to the extent that expenditure has been incurred. Appropriations received but not spent are treated as a Crown creditor and shown in the statement of financial position as a provision for refund of appropriations to the Crown.

Levies

The Authority administers a levy on industry participants under the Electricity Industry (Levy of Industry Participants) Regulations 2010. Levies are paid directly to the Crown for reimbursement of funding provided to the Authority. Levies are not recognised as revenue in the Authority's financial statements.

Interest

Interest is earned on bank deposits and is recognised in the period to which it relates.

Leases

Operating leases

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset to the lessee.

Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held on call with banks and other short-term highly liquid investments with original maturities of normally three months or less.

Receivables and prepayments

Short-term receivables and prepayments are recorded at their face value, less any provision for impairment.

A receivable is considered impaired when there is evidence that the Authority will not be able to collect the amount due. The amount of the impairment is the difference between the carrying amount of the receivable and the present value of the amounts expected to be collected.

Property, plant and equipment

Property, plant and equipment consists of the following asset classes: computer hardware, furniture and fittings, office equipment and leasehold improvements.

Property, plant and equipment are shown at cost or valuation, less any accumulated depreciation and impairment losses.

Operational fixed assets costing \$1,000 (excluding GST) or more are capitalised and recorded at historical cost.

Market Operation fixed assets costing \$5,000 (excluding GST) or more are capitalised and recorded at historical cost.

Additions

The cost of an item of property, plant and equipment is recognised as an asset only when it is probable that future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably.

Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are reported net in the surplus or deficit.

Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment at rates that will write off the cost (or valuation) of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of each asset class have been estimated as follows:

Computer hardware	3–5 years	20%–33%
Furniture and fittings	5 years	20%
Office equipment	5 years	20%
Leasehold improvements	Unexpired period of the lease	

Intangible assets

Software acquisition and development

Acquired software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs that are directly associated with the development of software are recognised as an intangible asset when the software becomes operational. Work in progress is recognised at cost less impairment.

Staff training costs are recognised as an expense when incurred.

Costs associated with maintaining software are recognised as an expense when incurred.

Costs associated with development and maintenance of the Authority's corporate websites are recognised as an expense when incurred.

Amortisation

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each financial year is recognised in the surplus or deficit. The value of additions made to an existing asset are amortised over the remaining useful life of the existing asset.

The useful lives and associated amortisation rates of each asset class are estimated as follows:

Computer software	3–9 years	11%–33%
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Impairment of capital assets

The Authority does not hold any cash-generating assets. Assets are considered cash-generating where their primary objective is to generate a commercial return.

Property, plant and equipment and intangible assets that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss would be recognised for the amount by

which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Payables and accruals

Short-term payables and accruals are recorded as exchange transactions at their face value.

Employee entitlements

Short-term employee entitlements

Employee benefits that are due to be settled within 12 months after the end of the period in which the employee renders the related service are measured based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date, annual leave earned but not yet taken at balance date, and sick leave.

Annual leave earned but not yet taken is recognised as it accrues to employees at current rates of pay.

Sick leave is recognised to the extent that compensated absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent that the Authority anticipates it likely to be used by staff to cover those future absences.

A liability and an expense are recognised for bonuses where there is a contractual obligation or where there is a past practice that has created a constructive obligation and a reliable estimate of the obligation can be made.

Long-term employee entitlements

Employee benefits that are due to be settled beyond 12 months after the end of the period in which the employee renders the related service, such as long service leave, are calculated on an actuarial basis. The calculations are based on:

- likely future entitlements accruing to staff, based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement, and contractual entitlement information
- the present value of the estimated future cash flows.

Presentation of employee entitlements

Sick leave, annual leave and vested long service leave are classified as a current liability. Non-vested long service leave and retirement gratuities expected to be settled within 12 months of balance date are classified as a current liability. All other employee entitlements are classified as a non-current liability.

Superannuation schemes

Defined contribution schemes

Obligations for contributions to KiwiSaver and the State Sector Retirement Savings Scheme are accounted for as defined contribution superannuation schemes and are recognised as an expense in the surplus or deficit as incurred.

Provisions

A provision is recognised for future expenditure of uncertain timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that expenditure will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Equity

Equity is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified into the following components:

- contributed capital
- accumulated surplus/(deficit).

Goods and services tax (GST)

All items in the financial statements are presented exclusive of GST, except for receivables and payables, which are presented on a GST-inclusive basis. Where GST is not recoverable as input tax, it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the IRD is included as part of receivables or payables in the statement of financial position.

The net GST paid to or received from the IRD, including the GST relating to investing and financing activities, is classified as a net operating cash flow in the statement of cash flows.

Income tax

The Authority is a public authority and consequently is exempt from the payment of income tax. Accordingly, no provision has been made for income tax.

Changes in accounting policies

There have been no changes to accounting policies.