



**Report of the
Controller
and Auditor-General**

Tumuaki o te Mana Arotake

on

**An assurance audit
of the Annual Performance Report
of the Electricity Commission
for the period ended 30 June 2004**

**Presented to the House of Representatives
pursuant to section 172ZO of the Electricity Act 1992**

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AUDIT REPORT

TO THE READERS OF
THE ELECTRICITY COMMISSION'S
ANNUAL PERFORMANCE REPORT
FOR THE PERIOD 15 SEPTEMBER 2003 TO 30 JUNE 2004

The Auditor-General is the auditor of the Electricity Commission (the Commission). The Auditor-General has appointed me, John O'Connell, using the staff and resources of Audit New Zealand, to carry out the audit of the annual performance report of the Commission, on his behalf, for the period 15 September 2003 to 30 June 2004.

Opinion

We are required to express an opinion on the appropriateness, adequacy and accuracy of the information contained in the annual performance report and whether the annual performance report enables an informed assessment to be made of the performance of the Commission against the Government Policy Statement objectives and outcomes and against the performance standards for the period 15 September 2003 to 30 June 2004.

As stated in notes 2, 3 and 5 on page 2 of the annual performance report, the Commission was established on 15 September 2003 and was not required to establish performance standards against which the Commission would be assessed until the year commencing 1 July 2004. Instead the Board has reported its service performance achievement against the Statement of Corporate Intent for the period 15 September 2003 to 30 June 2004. We have therefore expressed our opinion on the service performance achievements reported by the Commission.

In our opinion the service performance achievements reported on pages 4 to 7 of the annual performance report fairly reflect the Commission's service performance achievements as measured against the performance targets adopted in the Commission's Statement of Intent for the period 15 September 2003 to 30 June 2004.

The audit was completed on 20 December 2004, and is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board and the Auditor, and explain our independence.

Basis of Opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the annual performance report did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the annual performance report. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the annual performance report. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Board; and
- determining whether all required disclosures are adequate.

We do not guarantee complete accuracy of the measures contained in the annual performance report.

We evaluated the overall adequacy of the presentation of information in the annual performance report. We obtained all the information and explanations we required to support our opinion above.

Responsibilities of the Board and the Auditor

The Board is responsible for preparing the annual performance report. The annual performance report must contain the information that is necessary to enable an informed assessment to be made of the performance of the Commission against the Government Policy Statement objectives and outcomes and against the performance standards. The Board's responsibilities arise from the Electricity Act 1992.

We are responsible for expressing an independent opinion, and reporting that opinion to you, on:

- the appropriateness, adequacy and accuracy of the information contained, or to be contained, in the annual performance report; and
- whether the annual performance report enables, or is likely to enable, an informed assessment to be made of the performance of the Commission against the

Government Policy Statement objectives and outcomes and against the performance standards.

This responsibility arises from section 15 of the Public Audit Act 2001 and section 172ZO of the Electricity Act 1992.

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

In addition to the audit of the annual performance report we audited the Commission's annual report (including the financial statements and performance information) for the period 15 September 2003 to 30 June 2004. Other than the audit of the annual report and this audit of the annual performance report, we have no relationship with or interests in the Commission.

John O'Connell
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand



**ANNUAL PERFORMANCE REPORT
TO THE MINISTER OF
ENERGY**

15 SEPTEMBER 2003
Electricity Commission Establishment

- TO -

30 JUNE 2004

INTRODUCTION

1. Section 172ZM of the Electricity Act 1992 (the "Act") requires that the Electricity Commission deliver a report to the Minister on its operations during the past year. The report must then be submitted to the Auditor-General for an assurance audit under section 172ZO.
2. The requirement that performance measures be agreed with the Auditor-General at the start of each year was amended in the Electricity Amendment Act 2004, and only applies from 30 June 2004. As such, no performance measures were agreed with the Auditor-General covering the 2003/04 reporting period.
3. Therefore in preparing this report the Commission has focussed on providing an overview of the Commission's establishment and reported against the performance measures in the 2003/04 Statement of Intent.

TIMING

4. Under the Electricity Act 1992 (as amended by the Electricity Amendment Act 2004) the Commission was required to provide this report to the Minister by 30 September 2004. As the Amendment Act was not passed until 17 October 2004 it was not possible to meet this deadline.

ESTABLISHMENT OF THE COMMISSION

5. The Electricity Commission was established in September 2003 and its first major focus was on taking over responsibility for electricity market governance.
6. A major task was building the team. Many staff, including the General Manager, started in February 2004 and new appointments have been ongoing.
7. A key focus has been work plan development. The draft GPS requirements were comprehensive and turning these into an operationalised work plan was a substantial task. During this process it became apparent there was a misalignment between the initial budget and the required work. A revised budget bid was subsequently successful.
8. Parallel with work programme development was advisory groups' establishment. The Retail and Wholesale advisory groups were first as work was transferred from previous groups under NZEM and MARIA. The Common Quality, Transmission Pricing and Transmission advisory groups also met for the first time during this period.
9. To build momentum as quickly as possible, the Electricity Commission Board met for two days each fortnight. This placed high demands on both Commissioners and staff. However, such an approach was essential if the

“stretch” timeline that has been set for many tasks had any chance of being achieved.

10. A considerable effort was also required by many people, including participants, both leading up to and after 1 March 2004 when the new Electricity Governance Rules (EGRs) took effect.
11. Some of the work undertaken by the Commission during this period included:
 - a) A reserve generation decision for 2005.
 - b) Draft discussion documents to propose a transmission pricing methodology, who the counter parties for transmission contracts should be, and a grid investment test were sent to advisory groups.
 - c) Rules, including some exceptions to facilitate Intermittent Generation (IG), were developed. These support bringing the new Te Apiti wind farm on-line.
 - d) The Electricity Commission reviewed and assessed two Undesirable Trading Situations (UTS) relating to the wholesale market.
 - e) The Commission assumed a coordination role in developing a plan to minimise the prospect of involuntary power cuts in the Upper South Island over the winter period.
12. As discussed in the introduction to this report, the appendix covers progress against the performance targets contained in the 2003/2004 Statement of Intent.

Mervyn English
General Manager
Electricity Commission

Roy Hemmingway
Chair
Electricity Commission

APPENDIX: PERFORMANCE AGAINST 2003/04 STATEMENT OF INTENT

This section reports on actual achievement against the performance target contained in the 2003-2006 Statement of Intent as published in the Commission's 2003/04 Annual Report.

a) Commission establishment

Quantity, quality and timeliness

<i>Performance measures</i>	<i>Target</i>	<i>Performance achieved</i>
Development of a Commission work programme by 31 January 2004. Memoranda of understanding with the Energy Efficiency and Conservation Authority (EECA) and Commerce Commission initiated.	Meet target.	<ul style="list-style-type: none"> • Target met. • Core document with EECA is largely complete. • Commerce Commission document is work in progress.

b) Recommendations on electricity governance rules

Quantity

<i>Performance measures</i>	<i>Target</i>	<i>Performance achieved</i>
Rule-changes are processed in response to issues raised by participants	Five rule changes processed.	<ul style="list-style-type: none"> • Initial rule change process effective. • Four rule changes completed. • 23 exemptions considered. • 12 exemptions granted.

Quality

<i>Performance measures</i>	<i>Target</i>	<i>Performance achieved</i>
Rule change process complies with requirements in legislation and Government Policy Statement on electricity governance.	In all cases.	<ul style="list-style-type: none"> • Rule-change procedures are robust and meet legislative and policy requirements. • Requirements of the Electricity and Gas Industries Act, which came into law in October 2004, are ready to be incorporated. • Procedures will be constantly reviewed.

Timeliness

Performance measures

Rule changes are processed within timetables set to reflect the relative importance and urgency of the issue.

Target

In all cases.

Performance achieved

- Rule change timing is driven by the requirements of the Electricity Act and Regulations, including the requirement for consultation on all but urgent issues.
- Regular reporting to Electricity Governance Rules Committee ensures that the Commission remains confident that all rule change processes are progressing according to internally agreed timelines.

c) Monitoring and enforcement

Quantity, quality and timeliness

Performance measures

Alleged breaches reviewed and decisions made as to whether or not they should be investigated in accordance with agreed standards and timeframes

Target

In all cases.

Performance achieved

- The Commission has been notified of, and reviewed, 123 alleged breaches.
- The EGR Committee has referred nine of these breaches for further investigation.
- Of the remainder, 82 have been resolved (the majority by written warning).

d) Monitoring and enforcement - Rulings Panel

Quantity, quality and timeliness

Performance measures

Rulings Panel established by 30 April 2004 in accordance with requirements in regulations

Target

Meet target.

Performance achieved

- Target met.
- The Rulings Panel has not yet been requested to consider a formal complaint.

e) Market operations

Quantity

Performance measures

Service provider contracts required under the EGRs are in place by 31 December 2004.

Market begins operating under EGRs on 1 March 2004.

Target

Meet target.

Meet target.

Performance achieved

- Target met

- Target met

Quality

Performance measures

Service providers meet quality requirements that are set out in their agreements.

Target

Meet quality requirements in all cases.

Performance achieved

- System operations – the system operator is meeting the quality targets of the principal performance obligations.
- Retail operations - the registry and the reconciliation manager are meeting the quality requirements.
- Wholesale operations - the performance standards for the clearing manager, the pricing manager and the information system were not set for the reporting period to 30 June 2004. However, their performance has been satisfactory.
- Market administration - the performance standards for the market administrator were not set for the reporting period to June 2004. However, their performance in supporting advisory groups has been good. They have been flexible in addressing ad hoc requirements and satisfactory in supporting the EGR Committee as well as the rule-breach process.

Timeliness

Performance measures

Service providers meet timeframe requirements that are set out in their contracts

Target

- Meet timeframe in all cases.

Performance achieved

- The system operator has met the timeframe requirements.
- The registry and switching manager and the reconciliation manager have met the timeframe requirements.
- The clearing manager, the pricing manager and the information system have met the timeframe requirements.
- The market administrator has met the timeframe requirements.