

VOTE *Energy*

Energy

Overview

Appropriations sought in Vote Energy in 2007/08 total \$160.858 million and are to be applied as follows:

Departmental Appropriations

Appropriations for departmental output expenses in 2007/08 total \$24.557 million (15.3% of the Vote) purchasing services from the Ministry of Economic Development, including:

- \$5.759 million (3.6% of the Vote) for policy advice on the operation of energy and resource markets.
- \$8.831 million (5.5% of the Vote) for the management of the Crown mineral estate.
- \$5.607 million (3.5% of the Vote) for advice on, and the administration of, the gas and electrical safety, supply quality and measurement regimes; a fuel quality monitoring regime; and the administration of gas information disclosure regulations.
- \$1.456 million (0.9% of the Vote) for the development and implementation of a national unit register to enable the allocation and trading of climate change units under the Climate Change Response Act 2002.
- \$2.904 million (1.8% of the Vote) for the provision of information on energy and minerals sectors.

Non-Departmental Appropriations

Appropriations for non-departmental output expenses in 2007/08 total \$135.493 million (84.2% of the Vote) will be used as follows:

- \$49.043 million (30.5% of the Vote) for the Electricity Commission to undertake electricity governance functions.
- \$29.981 million (18.6% of the Vote) for the Electricity Commission to undertake tendering and to contract for reserve energy from the Whirinaki reserve electricity generation station as part of the security of supply functions.
- \$16.000 million (9.9% of the Vote) for the maintenance and operation of the Whirinaki Reserve Generation Plant, for generating reserve electricity.
- \$3.317 million (2.1% of the Vote) for the Commerce Commission to undertake electricity regulation through monitoring and price control of electricity lines businesses.
- \$13.074 million (8.1% of the Vote) for the Electricity Commission to undertake performance of electricity efficiency functions.
- \$22.000 million (13.7% of the Vote) to meet International Energy Agency obligations relating to oil stocks.
- \$1.778 million (1.1% of the Vote) for the acquisition of seismic data in New Zealand's offshore petroleum basins.
- \$300,000 (0.2% of the Vote) to enable the Commerce Commission to administer the Commerce Act 1986, Part 5 control regime over gas pipeline services.

Appropriations sought for non-departmental other expenses total \$808,000 (0.5% of the Vote). These relate to the Crown contribution to, or membership of, various organisations associated with activities within Vote Energy, the payment of residual liabilities of the former Ministry of Energy (MOE), and the establishment of a litigation fund to ensure the Electricity Commission is able to participate in litigation effectively and without delay.

In addition, two multi-year appropriations totalling \$54.045 million over a five year term from 2004/05 to 2008/09 provide for non-operating and maintenance security of supply costs relating to the Whirinaki reserve generation station, and purchase of demand side management and reserve energy production.

A further multi-year appropriation totalling \$8.000 million over the four year term from 2007/08 to 2010/11 provides for a contestable fund for the deployment of marine energy devices.

Crown Revenue and Receipts

The Crown is forecast to collect \$110.475 million in 2007/08 with the major portion coming from petroleum licence/permit levies and royalties.

In addition \$92.542 million is forecast to be recovered through a levy on electricity industry participants under section 172ZC of the Electricity Act 1992 for the costs of operating the Electricity Commission.

A further \$29.000 million is forecast to be recovered from the Electricity Commission in relation to the availability and operation of the Whirinaki reserve electricity generation station.

More specific details of how the appropriations are to be applied appear in Parts B1, B2 and C of this Vote. Details of Crown revenue appear in Part F.

Terms and Definitions Used

GPS	Government Policy Statement
IEA	International Energy Agency
LPG	Liquefied Petroleum Gas
MED	Ministry of Economic Development
MYA	Multi-year Appropriation
RMA	Resource Management Act 1991
UNFCCC	United Nations Framework Convention on Climate Change

Footnotes

Note 1	Note that these totals do not include the impact of new policy initiatives funded through Multi-year Appropriations. Details for those can be found in Part B2.
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Minister Portfolio Table

28	Minister of Energy
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Energy

ADMINISTERING DEPARTMENT: Ministry of Economic Development

The Minister for Economic Development is the Responsible Minister for the Ministry of Economic Development

Part A - Statement of Objectives and Trends

Part A1 - Objectives for Vote

Related Government Outcomes

A priority for the Government is working to progress New Zealand's economic transformation to a high income, knowledge based market economy, which is both innovative and creative, and provides a unique quality of life to all New Zealanders.

Within the economic transformation agenda there are the following sub-themes:

- Growing globally competitive firms.
- World class infrastructure.
- Innovative and productive workplaces, underpinned by high standards in education, skills and research.
- An internationally competitive city - Auckland.
- Environmental sustainability.

Access to reliable and affordable energy, within a world class infrastructure, is vital to New Zealand's economy and our way of life. Supply disruptions and constraints impact heavily on business confidence and erode New Zealand's reputation as an attractive place to invest and live.

The government has a number of roles in relation to the energy sector. These include:

- leading the process for moving New Zealand progressively towards a more sustainable energy future
- promoting effective and efficient energy markets for the best long-term interests of users
- ensuring social objectives are met, such as the requirement to provide low fixed charges for electricity and requirements for using energy safely, and
- ensuring that natural resources such as those in the Crown mineral estate are allocated and used efficiently.

Strategic Issues

The Energy portfolio covers both policy and operational functions:

- Policy advice on the regulatory regime for the supply of electricity, gas, and petroleum (including oversight of the enforcement regime for electricity provided by the Electricity Commission and the industry/government co-regulatory model - Gas Industry Company).
- Enforcement and service delivery for the Crown mineral estate (including oil and gas) and the safety of energy services.

Key challenges in the sector include:

- responding to climate change and tackling carbon emissions from our energy production, and
- delivering secure, clean energy at affordable prices to support economic development, while being environmentally responsible.

These challenges take place in an international landscape where there is a heightened awareness of climate change, and concerns about international oil price volatility.

The Government's Economic Transformation agenda includes a particular focus on Auckland electricity security infrastructure issues. Monitoring and addressing any issues arising in the upgrade of the transmission network into Auckland will be critical to security of electricity supply for Auckland.

The Ministry of Economic Development (MED) provides advice to the Government on the design, regulation and governance of electricity and gas markets, with a view to ensuring that energy is supplied reliably, securely, safely, sustainably and at reasonable cost. In particular, the Ministry will:

- lead the development and implementation of the New Zealand Energy Strategy (NZES), in collaboration with relevant government departments and agencies. The NZES will provide an overall strategy and direction for the energy sector and better communicate energy policies, as well as identifying, developing and, where appropriate implementing, options for new initiatives or changes to current settings. The New Zealand Energy Efficiency and Conservation Strategy (NZECS) sits under the overall framework of the NZES and will provide sector-based action plans to support energy efficiency and renewable energy objectives
- review Parts 4, 4A and 5 of the Commerce Act to ensure the right balance between maintaining incentives for investment and protecting consumers from excessive prices
- pursue a range of enhancements to improve electricity market performance including in relation to security of supply and role clarity in market governance. The draft NZES has also identified a number of electricity issues that need to be tackled to maximise the potential delivery of renewable generation (including system operation with increased intermittent generation, aspects of network pricing, aspects of wholesale market rules)
- continue to work with the gas sector, in particular with the Gas Industry Company to ensure delivery of the Government's gas objectives as set out in the Government Policy Statement on Gas, to improve the functioning of the market and ensure a smooth transition to the post-Maui environment
- advise the government on biofuels policy and implement the Biofuels Sales Obligation, and
- ensure that New Zealand maintains adequate oil stocks in order to meet its international obligations. MED will also ensure that petroleum specification regulations support sustainability by enabling the adoption of a range of new fuels, and that petroleum prices are efficient.

The Ministry will continue to work with the Electricity Commission to ensure that electricity supply arrangements are working well and that the market is delivering competitive outcomes including sufficient investment to ensure security of supply. The Ministry will also be focusing on implementing the key elements of the new petroleum exploration strategy, including improved data on prospectivity, with the aim being to attract foreign companies with the resources to accelerate exploration in New Zealand.

Work will also continue to deliver the Government's *EnergySafe* outcomes in particular providing consumers with greater confidence that safety is being maintained and enhanced. Work will be progressed on amending the Electricity Regulations 1997 and the Gas Regulations 1997 following from amendments to energy safety legislation enacted in 2006.

Appropriations Linkages to the Government's Outcomes

Departmental output expenses

The services to be purchased under Vote Energy will allow the Ministry of Economic Development and other agencies to deliver outputs that contribute to the Government's economic transformation agenda, to provide a world class infrastructure.

Given the wide range of the Ministry of Economic Development's activities, one of the main challenges has been to identify areas of work that the Ministry can do within this Vote to make the biggest contribution to improving growth in New Zealand. The Ministry has identified five strategic priorities (SPs) that are considered to be the most important areas for the Ministry to focus on over the next three to five years. Of these, activities undertaken in Vote Energy will, in particular, contribute to the Auckland SP: Working to make Auckland world-class; Investment SP: Improving the investment environment for New Zealand firms; and Infrastructure SP: Improving the quality and reliability of key infrastructure services.

A sound and reliable energy infrastructure is critical to a thriving business environment and consumer welfare. A particular focus is ensuring that there is adequate investment to meet New Zealand's growing needs, balanced by the need for enhanced efficiency in energy use.

The Ministry's strategic priorities describe the things it will put particular emphasis on in order to best promote growth. However the Ministry's work goes beyond the priorities to include a large number of activities that may make a less significant contribution to growth but are nevertheless important in maintaining an effective environment for business. The entirety of the Ministry's work, including work on the strategic priorities, is captured by the Ministry's Business Environment outcomes. The table below summarises the contribution that different outputs make to the Ministry's Business Environment outcomes.

Outcome	Contribution of Appropriations to Outcomes
<p>Securing Our Energy Future</p> <p>New Zealanders have reliable access to the energy they need, at reasonable and efficient cost, and with acceptable impact on the environment.</p>	<p>Implementing New Zealand Energy Strategy.</p> <p>Provision of information on the energy sector, including the performance of energy and resource markets and supply and demand scenarios.</p> <p>Policy advice on the administration of the gas and electricity safety, supply quality and measurement regimes; fuel quality monitoring regime; electrical workers' licensing; and information disclosure regime for the gas industry.</p> <p>Policy advice on environmental regulation with significant economic and energy implications, eg, climate change, and the Resource Management Act 1991. This work is done in conjunction with the Ministry for the Environment.</p> <p>Monitor and advise the Government on effective governance and operation of the electricity and gas markets and the effective operation of the oil market.</p>
<p>Managing our natural resources - Government enables business to generate economic benefits sustainably from New Zealand's natural resources.</p>	<p>Administration of the Crown's mineral estate, including allocation and permitting issues and the promotion of opportunities for investment in exploration and prospecting, especially for oil and gas.</p> <p>Policy advice on Treaty of Waitangi issues relating to natural resources.</p>

Non-departmental output expenses

In addition, appropriations are sought in this Vote to purchase outputs from the:

- Commerce Commission for:
 - comparing the performance of electricity lines against thresholds
 - reviewing asset valuation methodologies
 - collecting and disclosing information and implementing controls as necessary in relation to electricity lines businesses and to Transpower
 - authorising the prices, revenue and services quality of any lines company placed under regulatory control by the Commission, and
 - administering control of gas pipeline services provided by Vector and Powerco.

These outputs contribute to the government's goals by ensuring as far as possible that network companies invest appropriately and share efficiency savings with consumers.

- Electricity Commission for:
 - governance and operation of New Zealand's electricity market
 - formulating and making recommendations concerning electricity governance recommendations and rules
 - administration, monitoring and enforcement of compliance with the electricity governance regulations and rules
 - recommending supply security needs and procuring reserve energy as necessary
 - the implementation of programmes to promote the efficient use and conservation of electricity, and
 - giving effect to the Government Policy Statement on Electricity Governance.

The Electricity Commission's principal objectives, which support the Government's goal, as set out in the Electricity Act, are:

- to ensure that electricity is produced and delivered to all classes of consumers in an efficient, fair, reliable and environmentally sustainable manner, and
- to promote and facilitate the efficient use of electricity.

Part A2 - Trends in Vote

Classes of Outputs to be Supplied

Output trends from 2002/03 to 2006/07

Significant increases in 2003/04 reflect the establishment of the Electricity Commission part way through 2003/04 and its role in the performance of Electricity Governance Functions.

In addition, funding was provided to support the implementation and coordination of a project to enhance the security of electricity supply, and for the maintenance, operation and generating reserve for the Whirinaki reserve electricity generation plant.

Expenditure for classes of outputs increased in 2004/05 mainly due to the full year impact of the Electricity Commission's operations and for the maintenance, operation and generating reserve for the Whirinaki reserve electricity generation plant.

In 2006/07, expenditure increased for the management of IEA oil stocks obligations.

Capital flows

In 2003/04, funding was provided for the Development of Reserve Electricity Generation Capacity at Whirinaki. In addition, funding has been provided across 2003/04 and 2004/05 for establishing the Electricity Commission.

Crown revenue and receipts

Significant revenue fluctuations have occurred over this period primarily owing to variations in the levels of petroleum royalties and energy resource levies (related to changes in crude oil prices and fluctuation in demand for gas for power generation).

The anticipated run-down in gas offtake from the Maui field will result in reduced Energy Resource Levies receipts and Royalties on condensate production (petroleum).

From 2003/04, electricity industry participants paid a levy under section 172ZC of the Electricity Act 1992 to cover the full cost of performing the Electricity Commission's functions, powers and duties.

Appropriation Changes from 2007/08

The main reasons for appropriation changes are incremental increases for the management of IEA obligations relating to oil stocks and continuation and expansion of electricity efficiency programmes.

These are offset by changes that have occurred within the multi-year appropriations reflecting their reconfiguration (and extension to their effective terms) relating to the Whirinaki reserve electricity generation station, due to the Crown's continued ownership interest in the station.

For further details of new initiatives agreed, refer to the "New Policy Initiatives by Appropriation" following.

Other expenses

The main change between 2004/05 and 2007/08 relates to the recognition of costs associated with a Crown indemnity to Solid Energy, for liabilities arising out of mining operations by State Coal Mines prior to 1 April 1987.

New Policy Initiatives by Appropriation

Initiative	Appropriation as shown in Part B	\$000 increase/(decrease)				
		2006/07	2007/08	2008/09	2009/10	2010/11
Oil security of supply - meeting International Energy Agency obligations	Departmental Output Expense - Energy and Resource Information Services	540	340	300	180	180
	Non-Departmental Output Expense - Management of IEA Oil Stocks	18,000	22,000	10,000	3,000	3,000
Implementation of the Biofuels Sales Obligation and fuel quality legislation	Departmental Output Expense - Policy Advice on Energy and Resource Issues	175	900	900	1,000	1,000
	Departmental Output Expense - Energy and Resource Information Services	-	400	150	150	150
Contestable fund for the deployment of marine generation devices as part of the NZ Energy Strategy release	Other Expenses to be Incurred by the Crown - Multi-year Appropriation Contestable Fund for Deployment of Marine Energy Devices	-	2,000	2,000	2,000	2,000
Continuation and expansion of electricity efficiency programmes	Non-Departmental Output Expense - Electricity Efficiency	-	12,407	15,801	15,595	17,519
Development of the NZ Energy Strategy and associated action plans	Departmental Output Expense - Policy Advice on Energy and Resource Issues	100	900	900	900	750
Energy information and modelling necessary for monitoring and reporting energy sector activities	Departmental Output Expense - Energy and Resource Information Services	550	630	370	310	255
Total Initiatives		19,365	39,577	30,421	23,135	24,854

Part B - Statement of Appropriations

Summary of Financial Activity

	2002/03	2003/04	2004/05	2005/06	2006/07		2007/08 Appropriations to be Used				2008/09	2009/10	2010/11	
	Actual \$000	Actual \$000	Actual \$000	Actual \$000	Budget \$000	Estimated Actual \$000	By the Department Administering the Vote		For Non-Departmental Transactions		Total \$000	Estimated \$000	Estimated \$000	Estimated \$000
							Annual \$000	Other \$000	Annual \$000	Other \$000				
Appropriations														
Output Expenses	21,625	43,001	77,145	122,772	150,310	150,310	23,530	1,027	135,493	-	160,050	147,697	137,591	139,010
Benefits and Other Unrequited Expenses	-	-	-	-	-	-	N/A	N/A	-	-	-	-	-	-
Borrowing Expenses	-	-	-	-	-	-	N/A	N/A	-	-	-	-	-	-
Other Expenses	258	329	40,347	521	808	808	-	-	808	-	808	808	808	808
Capital Expenditure	-	169,682	367	111	225	225	N/A	N/A	-	-	-	-	-	-
Intelligence and Security Department Expenses and Capital Expenditure	-	-	-	-	-	-	-	-	N/A	N/A	-	-	-	-
Total Appropriations	21,883	213,012	117,859	123,404	151,343	151,343	23,530	1,027	136,301	-	160,858	148,505	138,399	139,818
Crown Revenue and Receipts														
Tax Revenue	93,912	74,591	72,686	73,137	48,700	48,700	N/A	N/A	N/A	N/A	33,780	33,710	33,670	64,400
Non-Tax Revenue	48,515	63,608	108,259	166,327	199,275	199,275	N/A	N/A	N/A	N/A	198,237	203,788	203,755	162,477
Capital Receipts	-	8,300	-	-	-	-	N/A	N/A	N/A	N/A	-	-	-	-
Total Crown Revenue and Receipts	142,427	146,499	180,945	239,464	247,975	247,975	N/A	N/A	N/A	N/A	232,017	237,498	237,425	226,877

Part B1 - Details of Appropriations

Appropriations	2006/07				2007/08		Scope of 2007/08 Appropriations
	Budget		Estimated Actual		Vote		
	Annual \$000	Other \$000	Annual \$000	Other \$000	Annual \$000	Other \$000	
Departmental Output Expenses (General)							
Administration of Gas and Electricity Regulations (M28)	5,485	-	5,485	-	5,607	-	- Advice on the administration of the gas and electricity safety and associated policy work and administration of regimes on supply, quality and measurement for gas and electricity safety; petroleum quality monitoring; electrical worker licensing; and information disclosure for the gas industry.
Management of the Crown Mineral Estate (M28)	8,204	-	8,204	-	8,831	-	- Allocation and management of Crown-owned petroleum, coal and mineral resources under the Crown Minerals Act 1991 and minerals programmes issued under the Act.
Policy Advice on Energy and Resource Issues (M28)	4,944	-	4,944	-	5,759	-	- Policy advice on the operation of energy and resource markets (electricity, oil, gas, geothermal, coal, minerals and related natural resources) including Treaty of Waitangi issues in relation to natural resources in particular mineral and energy resources.
Provision of Climate Change Unit Register and Information (M28)	756	-	756	-	1,456	-	- Services relating to the implementation and operation of a register to enable the allocation and trading of climate change units under the Climate Change Response Act 2002.
Total Departmental Output Expenses (General)	19,389	-	19,389	-	21,653	-	
Departmental Output Expenses (Restricted by Revenue)							
Energy and Resource Information Services (M28)	1,863	1,027	1,863	1,027	1,877	1,027	Provision of information and technical advice on energy and resources, the management of the response to any international disruption in oil supplies, and the management of New Zealand's energy-related international relations.
Total Departmental Output Expenses (Restricted by Revenue)	1,863	1,027	1,863	1,027	1,877	1,027	
Non-Departmental Output Expenses							
Acquisition of Petroleum Exploration Data - Extension (M28)	-	-	-	-	1,778	-	- To fund the acquisition of seismic data in New Zealand's offshore petroleum basins.
Control of Natural Gas Services (M28)	1,630	-	1,630	-	300	-	- For the costs of administering the Commerce Act 1986 Part 5 control regime over the gas pipeline services of Powerco and Vector.

Appropriations	2006/07				2007/08		Scope of 2007/08 Appropriations
	Budget		Estimated Actual		Vote		
	Annual \$000	Other \$000	Annual \$000	Other \$000	Annual \$000	Other \$000	
Electricity Efficiency (M28)	9,111	-	9,111	-	13,074	-	- The performance of electricity efficiency functions appropriation covers: 1. conducting electricity efficiency research, and 2. development and administration of programmes that provide incentives for cost-effective energy efficiency and conservation, aimed at changing market behaviours.
Electricity Governance and Market Operations (M28)	49,043	-	49,043	-	49,043	-	- Funds the Electricity Commission's major functions as the regulator for the electricity system. It also covers core electricity system and market operation functions, carried out under service provider contracts.
Enforcement of Electricity Sector Regulation (M28)	4,267	-	4,267	-	3,317	-	- For the provision of the review of asset valuation methodologies, collecting and disclosing information, assessing performance against thresholds and implementing price controls as necessary in relation to electricity lines businesses and Transpower.
Maintenance and Operation of Whirinaki (M28)	15,999	-	15,999	-	16,000	-	- Largely fixed operating and maintenance costs for Whirinaki power station including the Contact Operating and Maintenance contract, depreciation on the plant and obligations arising under the Reserve Generation Capacity Agreement.
Management of IEA Oil Stocks (M28)	18,000	-	18,000	-	22,000	-	- For the cost of managing and funding of oil stocks to meet International Energy Agency obligations.
Reserve Energy and Emergency Measures - Availability Costs (M28)	29,981	-	29,981	-	29,981	-	- Funds the cost of having reserve electricity capacity and capability available, including: 1. tendering for reserve energy and emergency options, and 2. ensuring availability of reserve energy capacity. Does not include cost of supply of reserve energy (fuel) or implementation of emergency measures.
Total Non-Departmental Output Expenses	128,031	-	128,031	-	135,493	-	
Other Expenses to be Incurred by the Crown							
Electricity Commission Litigation Fund (M28)	444	-	444	-	444	-	- Funding to ensure that the Electricity Commission is able to participate in litigation effectively and without delay.
International Energy Agency Contribution (M28)	50	-	50	-	50	-	- Payment of contributions towards the cost of energy-related research undertaken by the International Energy Agency.
International Energy Agency Subscription (M28)	115	-	115	-	115	-	- Payment of annual subscription for membership of the International Energy Agency.
Ministry of Energy Residual Liabilities (M28)	199	-	199	-	199	-	- Payment of residual liabilities of the former Ministry of Energy and to meet urgent mine restoration and rehabilitation relating to the operations of the state coal mines prior to 1987.
Total Other Expenses to be Incurred by the Crown	808	-	808	-	808	-	

	2006/07				2007/08		
	Budget		Estimated Actual		Vote		
Appropriations	Annual \$000	Other \$000	Annual \$000	Other \$000	Annual \$000	Other \$000	Scope of 2007/08 Appropriations
Capital Expenditure							
Development of Reserve Electricity Generation Capacity (M28)	200	-	200	-	-	-	- To provide funding for the purchase of a reserve electricity generation plant.
GST and Customs Excise on Construction Costs (M28)	25	-	25	-	-	-	- GST and customs excise on funding for the purchase of a reserve electricity generation plant.
Total Capital Expenditure	225	-	225	-	-	-	
Total Appropriations	150,316	1,027	150,316	1,027	159,831	1,027	

Part B2 - Details of Multi-Year Appropriations

Appropriations	Current Appropriation \$000	Scope of Appropriations
Non-Departmental Output Expenses		
Acquisition of Petroleum Exploration Data (M28)		To fund the acquisition of seismic data in New Zealand's offshore petroleum basins.
Original Appropriation	15,000	
Commences	1 October 2004	
Expires	30 June 2007	
Adjustments 2006/07	(2,000)	
Appropriation	19,000	
Estimated Actual to 2006/07 Year End	19,000	
Estimated Actual to 2007/08 Year End	19,000	
Generating Reserve Electricity At Whirinaki (M28)		To cover Whirinaki non-operating and maintenance security of supply costs; predominantly expected to cover fuel supply in the event that the plant is required to generate reserve electricity.
Original Appropriation	16,000	Reason for Change: The Appropriation (2006/07 Supplementary Estimates) Bill provides for this appropriation to be revoked with effect from the close of 30 June 2007. It is being replaced by the 2007 - 2012 appropriation of the same name.
Commences	1 July 2004	
Expires	30 June 2009	
Adjustments 2006/07	(40,712)	
Appropriation	42,191	
Estimated Actual to 2006/07 Year End	13,102	
Estimated Actual to 2007/08 Year End	42,191	
Generating Reserve Electricity At Whirinaki (M28)		To cover Whirinaki Reserve Energy Plant security of supply costs, excluding those covered by the annual appropriation entitled Maintenance and Operation of Whirinaki. Predominantly expected to cover purchase of fuel against the event that the plant is required to generate reserve electricity.
Original Appropriation	49,045	
Commences	1 July 2007	
Expires	30 June 2012	
Adjustments 2006/07	-	
Appropriation	49,045	
Estimated Actual to 2006/07 Year End	-	
Estimated Actual to 2007/08 Year End	10,000	
Reserve Energy and Emergency Measures - Variable (M28)		To cover Electricity Commission costs relating to the 1) net variable operating costs of the Whirinaki Reserve Energy Plant when used to provide reserve energy, and 2) implementation of emergency measures.
Original Appropriation	5,000	
Commences	1 July 2007	
Expires	30 June 2012	
Adjustments 2006/07	-	
Appropriation	5,000	
Estimated Actual to 2006/07 Year End	-	
Estimated Actual to 2007/08 Year End	1,000	

Appropriations	Current Appropriation \$000	Scope of Appropriations
Security of Supply - Procurement Costs (M28) Original Appropriation Commences Expires Adjustments 2006/07 Appropriation Estimated Actual to 2006/07 Year End Estimated Actual to 2007/08 Year End	 16,000 1 July 2004 30 June 2009 (13,333) 2,667 1,000 1,111	To implement emergency options if needed, including the purchase of demand side management and reserve energy production (fuel for the Whirinaki Plant). Reason for Change: The Appropriation (2006/07 Supplementary Estimates) Bill provides for this appropriation to be revoked with effect from the close of 30 June 2007. It is being replaced by the 2007 - 2012 appropriation entitled Reserve Energy and Emergency Measures - Variable.
Other Expenses to be Incurred by the Crown		
Contestable Fund for Deployment of Marine Energy Devices (M25) Original Appropriation Commences Expires Adjustments 2006/07 Appropriation Estimated Actual to 2006/07 Year End Estimated Actual to 2007/08 Year End	 8,000 1 July 2007 30 June 2011 - 8,000 - 2,000	Contestable fund for marine energy generation and associated administration costs.

Part C - Explanation of Appropriations for Output Expenses

Part C1 - Departmental Output Expenses

Policy Advice on Energy and Resource Issues

This appropriation provides policy advice on the effective operation of energy and resource markets (electricity, oil, gas, geothermal, coal, minerals and other natural resources).

Outputs in this appropriation include:

- implementation of the New Zealand Energy Strategy
- monitoring and advice to the Government on effective governance and operation of the electricity market (in particular, ensuring electricity market arrangements promote electricity supply security, promote energy efficiency, and promote investment and retail competition)
- monitoring and advice to the Government on the effective operation of gas and oil markets, including biofuels, fuel quality and implementation of regulations as required
- providing advice on the allocation and management of natural resources, particularly Crown-owned resources, and on Treaty of Waitangi claims in respect of natural resources
- contributing to policy advice on the development of a response to New Zealand's climate change obligations under the Kyoto Protocol, and
- contributing to the interdepartmental process relating to the development of the sustainable development programme of action for freshwater; monitoring and providing advice on policies and plans under the Resource Management Act (RMA) (in particular on their potential impact on significant energy developments, infrastructure and renewable energy sources).

Management of the Crown Mineral Estate

This appropriation provides services relating to the management of Crown owned minerals under the Crown Minerals Act 1991 and minerals programmes issued under this Act. The Crown owns all in-ground petroleum, gold and silver in New Zealand and approximately half of the coal and other mineral resources. It also has jurisdiction of the petroleum and minerals in New Zealand's exclusive economic zone and continental shelf.

Outputs provided in this appropriation include:

- maintenance of an efficient and effective management regime for the exploration of petroleum, mineral and coal resources and allocating and managing prospecting exploration and mining permits
- promotion of investment opportunities in exploration and development of petroleum and minerals
- policy and strategic advice on the Crown minerals sector
- management of the geoscience resource data library, and
- collection of royalties, levies and fees related to petroleum and minerals extraction and permits.

Administration of Gas and Electricity Regulations

This appropriation provides advice on the administration of gas and electricity safety and associated policy work and administration of regimes on supply, quality and measurement for gas and electricity safety; petroleum quality monitoring; and information disclosure for the gas industry.

Outputs in this appropriation include:

- managing legislation, regulation, codes of practice and standards
- managing international relationships
- operating effective compliance, investigation, enforcement and communication programmes
- providing for advice on energy safety issues associated with the safe supply and use of gas and electricity
- administering a petroleum monitoring programme, and
- contributing to a good understanding of the energy sector performance by administering the gas information disclosure regulations.

Provision of Climate Change Unit Register and Information

This appropriation provides services relating to the development and implementation of a register to enable the allocation and trading of climate change units under the Climate Change Response Act 2002.

Outputs in this appropriation include:

- input into the international registry administrators group co-ordinated by the Secretariat of the United Nations Framework Convention on Climate Change (UNFCCC), and
- implementation of the register.

Energy and Resource Information Services

This appropriation provides information and technical advice on energy and resources, the management of the response to any international disruption in oil supplies, and the management of New Zealand's energy-related international relations.

Outputs in this appropriation include:

- updating and publishing Energy Data files, the Energy Sector Greenhouse Gas Inventory Report, and the Energy Outlook
- updating and publishing crude oil, petrol and diesel prices
- managing New Zealand's response to any international disruption to oil supplies, including ensuring that New Zealand maintains access to sufficient oil stocks, and
- managing New Zealand's international energy relations.

Part C2 - Non-Departmental Output Expenses

Control of Natural Gas Services

Description

The Minister of Energy will purchase services from the Commerce Commission to authorise or accept undertakings under Part 5 of the Commerce Act 1986 from 25 August 2005 to 1 September 2016 in relation to price, revenue and quality of the gas pipeline services provided by Vector and Powerco.

Quantity, quality, timeliness and cost

Significant changes were made to the Commerce Commission's output framework for the 2007/08 financial year. The changes mean that a direct comparison of performance standards against all outputs is not possible for this year, however, where meaningful comparative standards exist for the previous year, these are shown in parentheses.

Performance Measures	2007/08 Performance Standards
Quantity	
Determinations, including provisional and final authorisations	2-5 (N/A)
Assessments of compliance statements with terms of Authorisations/Undertakings	0-2 (N/A)
Framework development, including contributing to policy advice and liaison with international agencies	1-3 (N/A)
Public information/education, including publications and media releases	3-15 (N/A)
Quality	
Successful legal challenges of the Commission's processes during course of Authorisations/Undertakings	Nil (Nil)
Judgments with adverse comments about the Commission	Nil (N/A)
Media releases are consistent with Media Release Protocol	100% (N/A)
Publications conform to brand guidelines/standards	100% (N/A)
Timeliness	
Average elapsed time for assessments of compliance statements, filing of proceedings, trial or pre-trial resolution are consistent with the standards set out in the 2007/08 Output Agreement	Meet or exceed agreed standards
Final Authorisations completed by 30 November 2007	100% (N/A)

Cost

	2006/07 \$000	2007/08 \$000
Total output class expenses	1,630	300

Provider

Commerce Commission.

Enforcement of Electricity Sector Regulation

The Minister of Energy will purchase services for:

- assessments of compliance with performance thresholds and the conduct of inquiries into large electricity lines businesses (including Transpower) identified as likely to be in breach of the thresholds, which may result in administrative resolutions, declarations of control or no further action
- the conduct of adjudication services, namely authorisation of price, revenue and/or quality of the services of large electricity lines businesses the Commerce Commission has declared to be under regulatory control
- the disclosure of reliable and timely information about the operation and performance of each lines business, and the summary and analysis of that information, and
- the provision of information to businesses and consumers promoting greater understanding of the parties' statutory rights and obligations under Part 4A of the Commerce Act.

Quantity, quality, timeliness and cost

Significant changes were made to the Commerce Commission's output framework for the 2007/08 financial year. The changes mean that a direct comparison of performance standards against all outputs is not possible for this year, however, where meaningful comparative standards exist for the previous year, these are shown in parentheses.

Performance Measures	2007/08 Performance Standards
Quantity	
Assessments of performance threshold compliance statements	29 (29)
Threshold inquiries, including post-breach inquiries, authorisations and determinations to declare control	1-11 (N/A)
Framework development, including contributing to policy advice, liaison with international agencies and threshold resetting	3-6 (N/A)
Public Information/Education, including publications and media releases	26-46 (N/A)
Quality	
Successful legal challenges of the Commission's processes during course of post breach inquiries / determinations / authorisations	Nil (N/A)
Judgments with adverse comments about the Commission	Nil (N/A)
Media releases are consistent with Media Release Protocol	100% (N/A)
Publications conform to brand guidelines/standards	100%(N/A)

Performance Measures	2007/08 Performance Standards
Timeliness Average time elapsed for assessments of compliance statement, determinations, authorisations, filing of proceedings, trial or pre-trial resolution and publication of industry information are consistent with the standards set out in the Output Agreement	Meet or exceed agreed standards
Threshold Reset	Decisions in place before 1 April 2009

Cost

	2006/07 \$000	2007/08 \$000
Total output class expenses	4,267	3,317

Provider

Commerce Commission.

Governance and Market Operations

Description

This appropriation covers the cost of purchasing services from the Electricity Commission for:

- formulating and making recommendations concerning electricity governance regulations and rules in accordance with the Electricity Act
- administering, monitoring compliance with, investigating, enforcing, and applying penalties or other remedies for contraventions of electricity governance regulations and rules
- establishing, overseeing and facilitating the operation of markets for industry participants and consumers
- undertaking forecasting and modelling of future electricity supply and demand
- managing emergency conservation campaigns to avoid material risk of supply shortages
- approving one or more complaints resolution systems for the purpose of section 158G of the Electricity Act 1992
- development of the framework for grid investment and consideration of grid investment proposals
- developing best practice methodologies and other standards and model agreements for use by industry participants
- giving effect to GPS objectives and outcomes, and
- providing advice to the Minister on matters concerning the electricity industry.

Quantity, quality, timeliness and cost

Performance Measures	2007/08 Performance Standards
Deliver the work programme as documented in the Statement of Intent (SOI). Programme workstreams are:	Quality
Transmission	All consultation papers, reports to the Minister, and published information reports meet the Commission's quality standard (as specified in the SOI).
Developing transmission contracting arrangements and grid investment decision-making.	Compliance with the <i>Electricity Governance Regulations 2003</i> and <i>Electricity Governance Rules 2003</i> is monitored and enforced.
Market Governance	Timeliness
Assess or investigate notified breaches of electricity governance rules and regulations	Percentage of projects that achieve the expected progress, consistent with the Commission's timeliness measure (as specified in the SOI).
Common Quality	Ministerial briefing reports, oral advice, Ministerials, and Parliamentary Questions are delivered within the agreed timeframes.
Ensuring the efficient and effective real-time operation of the national grid.	
Retail	
Addressing consumer protection and overseeing the physical settlement process and retail market operations.	
Wholesale	
Initiate a market design programme	
Modelling	
Collating and publishing information on the electricity system and carrying out modelling and forecasting, including in support of other workstream's operations.	
Security of Supply Governance	
Monitoring and providing advice on achieving security of supply, while minimising distortion to the ordinary operation of the market.	
Ensure the effective day to day operation of the electricity system and markets through the operation of core system and market services in accordance with the Rules. Delivery is managed through the following Service Providers contracted to the Commission (as described in the SOI):	Quality
<ul style="list-style-type: none"> • System Operator • Registry • Reconciliation Manager • Pricing Manager • Information System, and • Clearing Manager. 	Electricity system and market operations comply with the Electricity Governance Rules 2003.
	Timeliness
	Monitoring reports are delivered within the contractual timeframe.

Cost

	2006/07 \$000	2007/08 \$000
Total output class expenses	49,043	49,043

Provider

Electricity Commission.

*Electricity Efficiency***Description**

The performance of electricity efficiency functions appropriation covers:

- conducting electricity efficiency research, and
- investment in the development and management of electricity efficiency programmes through a range of interventions, including incentives and consumer education that will realise sustained electricity efficiency and conservation gains.

Quantity, quality, timeliness and cost

Performance Measures	2007/08 Performance Standards
Conduct research on electricity efficiency Manage programmes for electricity efficiency: expand the uptake of compact fluorescent lamps (CFLs); enhancement of compressed air system efficiency; increasing electricity efficiency in industry through high-efficiency motors and improved practice throughout the life cycle of motor-driven systems; implementation of a national efficient lighting strategy; and enhancement of the electricity efficiency in commercial buildings.	<p>Quality Published research reports meet the Commission's quality standard (as specified in the SOI).</p> <p>Timeliness Percentage of projects that achieve the expected progress, consistent with the Commission's timeliness measure (as specified in the SOI).</p>

Cost

	2006/07 \$000	2007/08 \$000
Total output class expenses	9,111	13,074

Provider

Electricity Commission.

*Reserve Energy and Emergency Measures - Availability Costs***Description**

The appropriation covers the cost of having capacity and capability available, whether or not it is used. Functions under this appropriation include:

- tendering for reserve energy and emergency options, and
- the costs associated with ensuring availability of reserve energy capacity (currently the Whirinaki reserve energy plant).

This appropriation **does not** include cost of supply of reserve energy (fuel) or implementation of emergency measures.

Quantity, quality, timeliness and cost

Performance Measures	2007/08 Performance Standards
Develop contingency plans for emergency situations	Conduct tendering of reserve energy generation and emergency options for demand reduction as required.
Tendering for generation and emergency options as required	Completion of tender design, preparation of tender documents, administration of tender process, and conclusion of procurement contracts as needed (will only be implemented if needed for procurement of reserve energy or emergency measures).
Contracting for the availability of the Whirinaki power station for the generation of reserve energy as required	Whirinaki reserve energy plant availability is delivered in accordance with the contract.

Cost

	2006/07 \$000	2007/08 \$000
Total output class expenses	29,981	29,981

Provider

Electricity Commission.

*Maintenance and Operation of Whirinaki***Description**

This appropriation covers the cost of purchasing services associated with the maintenance and operation of the Whirinaki Reserve generating plant to ensure that it is available to generate electricity when called upon including obligations arising under the Reserve Generation Capacity Agreement between the Crown and the Electricity Commission.

Quantity, quality, timeliness and cost

Performance will be provided in accordance with the Operations and Maintenance Agreements established with providers.

Cost

	2006/07 \$000	2007/08 \$000
Total output class expenses	15,999	16,000

Provider

Contact Energy and other providers.

Part E - Explanation of Capital Flows

Part E2 - Statement of Estimated and Forecast Net Worth of Entities Owned

	Balance Date	Estimated Net Worth 2007 \$000	Forecast Net Worth 2008 \$000
Crown Entities:			
Electricity Commission	30 June	2,982	2,982

Part F - Crown Revenue and Receipts

Part F1 - Current and Capital Revenue and Capital Receipts

	2006/07		2007/08	Description of 2007/08 Crown Revenue
	Budgeted \$000	Estimated Actual \$000	Budget \$000	
Tax Revenue				
Energy Resource Levies - Coal	8,700	8,700	8,780	Levy payable on opencast coal.
Energy Resource Levies - Gas	40,000	40,000	25,000	Levy payable on natural gas produced on discoveries made prior to 1 January 1986.
Total Tax Revenue	48,700	48,700	33,780	
Non-Tax Revenue				
Control of Natural Gas Services	1,630	1,630	300	Levies recovering costs relating to the Commerce Act 1986 Part 5 control regime over the gas pipeline services of Powerco and Vector.
Ironsands Royalties	63	63	63	Royalties obtained from ironsand operations licensed by the Crown.
Levy on Electricity Industry Participants	88,579	88,579	92,542	Recovery of the costs of the Electricity Commission through a levy on electricity industry participants under section 172ZC of the Electricity Act 1992.
Levy on Electricity Line Businesses	4,267	4,267	3,317	Levy payable associated with the Commerce Commission regulation activities.
Residual Ministry of Energy Commitments	80	80	80	Proceeds from property rentals previously owned by State Coal.
Royalties - Coal	2,000	2,000	1,980	Royalties obtained from coal mining operations licensed by the Crown.
Royalties - Minerals	2,000	2,000	1,855	Royalties obtained from mineral mining operations licensed by the Crown.
Royalties - Petroleum	62,000	62,000	69,000	Royalties obtained from petroleum mining operations licensed by the Crown.
Whirinaki Availability	25,000	25,000	25,000	Payments by the Electricity Commission in return for the exclusive access to and right to give instructions to operate the Whirinaki reserve generation electricity station, calculated to cover the Crown's original investment in and holding costs of the plant over the course of its life.
Whirinaki Electricity Generation	9,656	9,656	100	Spot market sales of electricity generated from the operation of the Whirinaki reserve generation station.
Whirinaki Operating and Maintenance Recoveries	4,000	4,000	4,000	Payments by the Electricity Commission to cover fixed and variable operating and maintenance costs in relation to the Whirinaki reserve generation electricity station.
Total Non-Tax Revenue	199,275	199,275	198,237	
Total Crown Revenue and Receipts	247,975	247,975	232,017	