



## Office of Hon Simon Bridges

**MP for Tauranga**

Minister of Energy and Resources

Minister of Transport

Deputy Leader of the House

Associate Minister for Climate Change  
Issues

Associate Minister of Justice

16 DEC 2015

Dr Brent Layton  
Chair  
Electricity Authority  
PO Box 10041  
Wellington 6143

Dear Brent

### **ANNUAL LETTER OF EXPECTATIONS FOR 2016/17**

I am writing to convey my expectations for the 2016/17 financial year. My expectations supplement the expectations expressed by the Minister of Finance and Minister of State Services in the July 2012 Enduring Letter of Expectations.

#### **Contributing to Government Priorities**

The Government's four priorities are to: responsibly manage the Government's finances, build a more competitive and productive economy, deliver better public services and rebuild Christchurch. These priorities are reflected in the Ministry of Business, Innovation and Employment's (the Ministry) strategic intentions and I expect the Electricity Authority to look for opportunities to align its work to these priorities.

I also expect the Electricity Authority to continue its contribution to securing our energy future, which is an important element of the infrastructure component of the Government's Business Growth Agenda (BGA). The BGA aims to build a more effective and productive economy for New Zealand by supporting businesses to be more competitive and productive. It focuses on six key input areas: export markets, capital markets, innovation, skilled and safe workplaces, natural resources, and infrastructure.

The following paragraphs set out my specific expectations for the Electricity Authority, followed by general expectations for all entities in my portfolio.

#### **Implementing entity-specific agreed strategy and priorities**

Economic indicators show an increase in electricity retail market competition; however I expect the Electricity Authority to continue its focus on promoting retail competition.

As well as putting downward pressure on prices, competition is the key driver of innovation that benefits consumers. New technology is already giving consumers greater choices to meet their energy needs and use energy more efficiently. The Smart Grid Forum has found that New Zealand is well positioned to adapt to new, smart technology that will benefit consumers. It also notes that risks presented by smart technology (such as cyber threats to power system security) must be understood and managed.

I am looking to the Electricity Authority to have regard to the work of the Smart Grid Forum in capturing for consumers the benefits of technological advances, while managing the risks. I also note the work that the Electricity Authority currently has underway on the implications of evolving technologies on the pricing of distribution services. This review of distribution pricing is also focussed to ensure that consumers face efficient price signals. I expect continuation of this work as a high priority. I also support the Authority's focus on ensuring its market systems and participant rules do not present unwarranted barriers to new business models and technological innovation in the sector.

There has been speculation from energy commentators that the possible retirement of coal-fired capacity at Huntly, following the closure of plant at Southdown and Otahuhu, threatens security of supply after 2018. Of particular concern is whether the potential closure of the Tiwai Point smelter creates investment uncertainty that deters the market from maintaining the existing capacity at Huntly or constructing sufficient replacement capacity. It is of utmost importance that the electricity sector market arrangements are well placed to respond to security of supply challenges and I expect the Electricity Authority to make this a priority.

These priorities should be reflected in the Authority's work programme and in the level of resource dedicated to this work.

I also ask that you remain mindful of stakeholders' ability to contribute to the Authority's extensive work programme. You should ensure that the work programme is focussed on projects that will make the greatest difference for consumers.

### ***General expectations for all entities***

#### **Performance improvement**

The board is the primary monitor of organisational performance and I expect you to use the best tools and mechanisms to constructively raise organisational performance. These tools include a Performance Improvement Framework (PIF) Review, which I am aware the Electricity Authority has completed, and is now implementing an improvement plan. Follow up reviews are a recent innovation intended to enable agencies to take stock of their progress 12-18 months after a formal PIF review.

#### **Delivery of better public services and value adding**

The Ministry is leading *Better Public Services Result 9: Better for Business*, which focuses on increasing public service efficiency and reducing compliance costs for business. Progress has been positive as the latest survey results showed a 16 per cent drop in reported effort by businesses when dealing with government since a baseline was set in 2012. This is well over halfway towards the target of reducing effort by 25 per cent by 2017. We must maintain our momentum of making it easier for businesses and the public to interact with the government online.

## **New Zealand Business Number (NZBN)**

As you may be aware, earlier this year the Ministry consulted on a proposed set of whole of government directions in relation to implementation of the New Zealand Business Number (NZBN). Cabinet decisions are expected on this in early 2016. If approved by Cabinet, reporting on implementation progress will be required to form part of your Annual Report starting from the 2015/16 financial year.

The implementation of the NZBN is a priority for this government and I encourage you to consider how your organisation can incorporate it into your business-facing systems.

## **Working with other agencies**

I encourage you to look at working with other agencies or sector stakeholders to share ideas on how government services can operate more effectively and efficiently and consider options on syndicated procurement where appropriate, especially where this is needed to deliver results.

## **Transparency of performance**

I encourage you to enhance transparency and openness wherever appropriate, including the publishing of non-sensitive performance information on your website.

## **Strategy and performance information**

All Crown entities have an obligation to prepare a Statement of Performance Expectations (SPE) and Statement of Intent (SOI). These documents should provide a clear performance framework and support improved reporting to Parliament and the public on results. I am not expecting a new SOI as the current version is robust and can stay in place for at least another year. A draft SPE must be provided to me by 1 May 2016, at the latest.

## **Operate under a “no surprises” policy**

I expect the Electricity Authority to maintain the “no surprises” policy and to inform me well in advance of any material or significant events, transactions and other issues that could be considered contentious or attract wide public interest, whether positive or negative.

In undertaking your governance role, I expect the Electricity Authority to constructively work with Ministry officials through regular meetings and discussions.

Finally, I thank your Board, management and staff for your efforts over the 2014/15 year and I look forward to working with you in the coming year.

Yours sincerely



Hon Simon Bridges  
**Minister of Energy and Resources**