

10 April 2017

Hon Judith Collins
Minister of Energy and Resources
Private Bag 18041
Parliament Buildings
WELLINGTON 6160

Dear Minister

LETTER OF OWNER'S EXPECTATIONS

Thank you for your letter dated 8 March 2017 setting out your strategic and performance expectations for the Electricity Authority in relation to 2017/18 and future years.

As per your request, we set out below how we propose to respond to the expectations in your letter. This approach has been discussed and agreed with MBIE.

Contributing to Government priorities and the business growth agenda

The Authority is committed to contributing to the Government's priorities and the business growth agenda. Supporting businesses to become more productive and competitive requires coordinated action across government. We will continue to work with MBIE and other agencies to deliver functions that are central to strong economic performance.

Work with MBIE to improve Crown entity relationships

We will continue to work with MBIE in delivering on our statutory objective. We have ongoing dialogue with MBIE, including regular monthly meetings which provide an opportunity for us to discuss and address any issues. From our perspective the relationship with MBIE is strong and we will continue to build on that good foundation.

Work with other agencies

We recognise that the Electricity Authority is only one of several agencies with distinct roles in the electricity market. We recognise the importance of us working effectively together to achieve results for New Zealanders. We are currently working with MBIE, the Commerce Commission and the Gas Industry Company (GIC) to identify and address regulatory overlaps and gaps.

We have recently developed, from Commission sources, a comprehensive database of distribution company performance metrics, which we have shared with the Commission.

Particular expectations

In 2016/17 the Authority's strategic focus shifted to potential security of supply issues and rapidly advancing improvements in new technology and rapidly falling prices for many of those technologies. As a result of the new strategic direction, we decided to re-orient the structure and presentation of our work programme. We also decided to re-orient our advisory groups,

because new technology and business models are increasingly blurring the traditional demarcation between retail, distribution, transmission and wholesale market activities.

We are focused on removing any unwarranted barriers to market entry, expansion, exit, innovation and technological change. This includes increasing the scope for competitive provision of support services to distribution and transmission businesses, such as demand management via the installation and control of household and grid-scale batteries. We believe advances in battery technology and rapid price reductions for batteries is opening up a potentially competitive market for provision of those services to distributors. Likewise, we want to improve consumers' access to and participation in markets, and remove unwarranted barriers to consumers and their agents (eg, energy services companies) obtaining accurate information when they want it.

The Authority agrees it cannot be complacent about security of supply. For that reason we decided in late 2015 to initiate a review of the customer compensation scheme and the stress testing regime. These reviews will be completed and published this financial year. The Authority is also liaising closely with Transpower to lift the quality of its security of supply assessments, to better inform the market of security of supply risks.

We are focused on further developing the hedge market to provide better price signals about future security of supply risks and more options for parties to respond in ways that address those risks. To that end the Authority is expecting the ASX to list two new cap products on the electricity futures market by 30 June this year. Over the subsequent months we will be observing whether hedge market participants take the initiative to set competitive prices and trade the new products, and we will likely take further action if the pricing and trading behaviour is inadequate.

Similarly, we are focused on making it easier for the market and participants to respond to changing market conditions or adverse events. We have recently made final decisions on a new extended reserve regime for the North Island, which will be implemented by the end of 2019. The new regime is expected to better protect the North Island electricity system from large adverse events, such as the sudden and unexpected loss of large amounts of generation from the market.

As your letter indicates, the Authority may introduce new transmission pricing guidelines shortly. We intend to work closely with Transpower to assist it to develop and implement a new transmission pricing methodology (TPM) based on our guidelines. The Authority has consulted extensively on its proposed guidelines to-date, and intends to offer a further briefing to all submitters, including Members of Parliament and local authorities, once a final decision on the guidelines has been published (currently scheduled for 2 May 2017). The Authority also expects Transpower to consult extensively in the process of developing its TPM, although it is unlikely to be in a position to do this until late this year or next. We are focused on creating the conditions for more efficient prices in the market, and ensuring price-related information is readily available. In particular, we will continue to support and encourage Transpower and distributors to implement changes to their pricing structures.

You will see our commitment to these key areas of focus in our draft SOI (1 July 2017 – 30 June 2021), which will be provided to you in mid-April.

Our strategy is enduring and will continue to evolve as our operating environment changes and develops. All the while, we are continually focussed on section 15 of the Electricity Industry Act, which requires the Authority to promote competition in, reliable supply by, and the efficient operation of the electricity industry for the long-term benefit of consumers.

High performing Board

Our vision for the Authority is to be a world class electricity regulator for the long term benefit of consumers and New Zealand. We are not able to achieve this vision if we as a Board are not focused on our own performance. The Board has an annual discussion on its own performance as do the respective Board sub-committees. We also have a comprehensive governance manual and a thorough induction process for new Board members.

We have been in discussions with MBIE on the skills required to maintain a strong Board and have been actively involved in the recruitment process to identify candidates to replace the vacancy left on the departure of Elena Trout in late 2016.

Agency performance improvement

We constantly work towards achieving our vision of being a world class electricity regulator. To guide this work, we conducted an organisational Performance Improvement Framework self-review in 2014/15.¹ This helped us define the areas of focus for our organisational development programme. We have identified eight improvement goals that we aspire to:

1. We have capable leaders at all levels that communicate consistent messages to all staff, reinforced by leaders' actions.
2. We're a values-based organisation with leadership that inspires staff to achieve high performance while maintaining healthy sustainable workloads.
3. Our focus on excellence supports and encourages our people to work together to consistently and boldly 'find a better way'.
4. Our organisation effectively measures and reports its progress towards achieving world class.
5. We strategically use information and communications technology (ICT) and knowledge management (KM) to integrate and enable our business to deliver excellent and sustainable outcomes.
6. Our leaders work to achieve a balance across strategic, operational, financial, market and staff outcomes.
7. We use fit-for-purpose project management practices, business cases, cost benefit analyses and budget management to ensure we accurately deliver on identified project deliverables, on time and within budget.
8. We are focused on meeting the current and future needs of our various Stakeholders.

A progress review is scheduled to take place in the 2016/17 financial year and ongoing monitoring will continue against our improvement goals.

Contribution to delivery of Better Public Services Result 9

We have an on-going commitment to contributing to all-of-government initiatives. We also keep up to date with, and ensure we follow, best practice guidance and requirements where appropriate. We use the government's preferred suppliers where cost effective and appropriate.

¹ State Services Commission organisational improvement model see: www.ssc.govt.nz/pif.

We have a strong focus on the value-for-money of all expenditure and constantly look for ways to reduce costs. The Authority continues to pursue service improvements and efficiencies within its operating cost base, as it has done since its formation. We have a shared service arrangement with the Commerce Commission for IT services and we have also shared with them how the Authority makes its live market data publicly available, which should assist the Commission to fulfil that function more effectively in regard to their own market data.

In respect of our progress with implementing the New Zealand Business Number, we have completed an assessment of actions required to meet the New Zealand Business Number (NZBN) expectations. Recognition of the NZBN is being progressively implemented where appropriate within our business-facing systems. In most cases this will be incorporated into system development or enhancement projects where appropriate. We will respond to progress updates as required by NZBN Registrar.

Strategy and performance information

Our planning process includes strong elements of stakeholder consultation and strategic prioritisation so that resources are applied appropriately to our business-as-usual and market development work. We are transparent about our work programme, consulting during its development, publishing the work programme itself, and publishing regular progress reports.

The draft 2017-2021 Statement of Intent (SOI) and the draft 2017/18 Statement of Performance Expectations (SPE) will be provided to you in mid-April 2017. These documents provide specific performance metrics which we report against in our annual reports. We have consulted with MBIE and Audit NZ on the draft SOI and SPE documents.

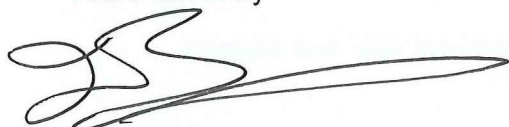
Risks, opportunities and no surprises

We operate a “no surprises” policy with your office that meets the requirements of the enduring letter of expectations dated 26 July 2012, namely we provide briefing notes:

- on any issue that may have wider government policy implications
- where an issue may be discussed in the public arena or may require a ministerial response
- to inform you in advance of any major strategic initiative.

We also provide notification to your office each time we have a media query. This practice has worked well in the past and we plan to continue to operate in this way. We are open to feedback if your expectations are not being met in this area.

Yours sincerely



Brent Layton
Chair

cc: James Stevenson-Wallace
GM Energy and Resource Markets
MBIE