



Office of Hon Judith Collins

MP for Papakura
Minister of Revenue
Minister of Energy and Resources
Minister for Ethnic Communities

Dr Brent Layton
Chair
Electricity Authority
PO Box 10041
Wellington 6143

08 MAR 2017

Dear Brent

LETTER OF OWNER'S EXPECTATIONS

I am writing to convey my strategic and performance expectations for the Electricity Authority in relation to 2017/18 and future years. My expectations build on previous letters, and supplement those set out by the Ministers of Finance and State Services in the July 2012 Enduring Letter of Expectations, attached as an Annex to this letter.

These expectations are set out in the context that while the Electricity Authority is established as an Independent Crown entity and your operational decisions are rightly made at arm's length from the government, the Crown (through me as the Minister of Energy and Resources) is still your 'owner'. As the representative of your owner, I expect the Board to:

- contribute to the Government's priorities and Business Growth Agenda
- work with the Ministry of Business, Innovation and Employment (MBIE) to improve the Crown entity relationship regime
- consider working with other agencies to achieve objectives in line with your legislation
- ensure high performance and self-review
- be the primary monitor of the Electricity Authority's performance and use effective mechanisms to monitor and continuously improve performance
- contribute to delivery of Better Public Services Result 9
- ensure there is effective reporting and that the Electricity Authority operates in a financially responsible manner, and
- operate under a 'no surprises' regime.

Contributing to Government Priorities and the Business Growth Agenda

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.

As you know, the Business Growth Agenda (BGA) is the Government's programme of work to build a more productive, confident and competitive economy that will deliver higher

incomes and higher living standards for New Zealanders. The Towards 2025 Report marks a full refresh of the BGA. The BGA continues to focus on the six key ingredients; export markets, investment, innovation, skilled and safe workplaces, natural resources, and infrastructure. It captures three cross-cutting areas: Māori economic development, regional economic development and regulation. I expect you to continue to consider how you can contribute to these focus areas.

The following paragraphs set out my specific expectations for the Electricity Authority.

Work with MBIE to improve Crown entity relationships

MBIE is responding to the 2014 Performance Information Framework (PIF) Review of its Crown entity monitoring, which recommended that more sophisticated 'strategic partner' relationships and regimes should be developed. MBIE is developing a different approach to its work with Crown entities and statutory boards, to add value for Ministers while managing an appropriate relationship.

I expect you to work well with MBIE on steps to improve the Crown entity relationships regime.

Work with other agencies

Few agencies operate entirely independently – most are part of a system and need to work with other organisations in that system to be effective in achieving results for New Zealanders, both now and in the future. Results matter, not agency boundaries, processes, or unquestioned continuation of existing programmes.

Particular expectations

I have the following particular expectations for the Electricity Authority. I expect to see these reflected in your work programme for 2017/18, with the appropriate level of resource dedicated to these areas.

I also look forward to your continued work to improve competition in the electricity market, and the smooth and effective implementation of decisions on the transmission pricing methodology. This is an issue that affects all New Zealanders and is the subject of considerable stakeholder concern. I expect you to engage in a meaningful way with the sector as well as local communities and their representatives, such as through briefings to Members of Parliament and to local authorities on the expected impacts and outcomes of any proposed changes.

Security of supply and resilience

I reiterate the importance placed on having market arrangements that are well placed to respond to any challenges to the secure supply of electricity. This encompasses both the physical supply of electricity (including the changing mix of generation), as well as the potential impact that emerging technologies could have on system resilience.

Reforms of the market arrangements have reduced the risks associated with potential and actual dry-year events, but we cannot be complacent. I welcome your continued focus in

this area to ensure particular settings (such as the consumer compensation scheme) are delivering the right outcome.

I see projects relating to pricing and cost allocation having a role in ensuring continued and improved resilience in the electricity system in the face of emerging technologies. The pricing of services supplied by long-lived assets should send the right signals to the market, and to consumers in particular, so that efficient investment decisions are made. The review of distribution pricing underway presents challenges in terms of balancing this with the impact on consumers as they transition to potentially quite different pricing models. I expect the Electricity Authority to be cognisant of the impact of price shocks on consumers while progressing this work.

The threat of cyber-attacks on electricity systems is ever-present, and your inter-agency work underway in this area (alongside Transpower) is also welcome.

Technology and innovation

Emerging technologies offer consumers greater control over where their energy comes from and how and when they use it. As you know, distributed generation, smart meters, batteries and new product offerings mean consumers can and will increasingly become more engaged in the energy sector.

I want to encourage such innovation, and where it makes sense it should not face any barriers in the policy and regulatory settings. I want consumers to receive the benefits of these opportunities, without an undue effect on their electricity prices. This means that MBIE, Electricity Authority, and other key regulators in the sector need to work together.

To enable this, and as part of MBIE's regulatory stewardship role, work is underway to develop more formal channels for collaboration between energy regulators, including the establishment of the Council of Energy Regulators and the drafting of a new Energy Charter.

I encourage you to continue to actively engage on these initiatives and with other regulators, particularly the Commerce Commission.

High Performing Board

It is essential that the Board is, and remains, high-performing. A high-performing and visionary board focuses on the long term while overseeing the present, anticipates disruption by looking for 'weak signals' as well as big patterns, and encourages and monitors a culture of innovation and empowerment (see <http://www.womencorporatedirectors.com/>).

There are many tools to help Boards assess and improve performance. I expect you to use a robust process, and advise me and MBIE that the annual self-review has been done and what steps the Board is taking to respond to the findings. MBIE can provide support for the Board in undertaking this work.

Your input into succession planning for the Board is also sought. Please discuss your thoughts with MBIE on maintaining a strong Board for the Electricity Authority.



Agency performance improvement

The Board is the primary monitor of agency performance and I expect you to be identifying indicators that address your impact and support real achievement, and use effective mechanisms to monitor and continuously improve performance. Potential tools to help identify areas to focus on include commissioning a Performance Improvement Framework (PIF) Review, or an alternative review if there are good reasons to do this. Please let me and MBIE know of your plans in your response to this LOE.

Contribution to delivery of Better Public Services Result 9

MBIE is leading *Better Public Services Result 9: Better for Business*. This focuses on increasing public service efficiency and reducing compliance costs for business. We must maintain our momentum in making it easier for businesses and the public to engage online with the government and with government agencies.

As part of this programme, a whole of government direction on implementation of the New Zealand Business Number (NZBN) came into force on 8 July 2016. This is a priority for the Government and I expect you to incorporate this into your business-facing systems, in accordance with the obligations for your agency as set out in the direction here:

<http://www.mbie.govt.nz/info-services/business/better-for-business/nzbn/document-image-library/signed-s107-ministerial-direction-nzbn.pdf>

Please ensure that your reports on progress under requirement 10, and on any emerging issues that could delay or frustrate implementation, are provided to both the NZBN Registrar at NZBN@mbie.govt.nz, and your usual contacts at MBIE.

Strategy and performance information

All Crown entities must prepare an annual Statement of Performance Expectations (SPE) and have an approved Statement of Intent (Sol) in place. The annual SPE should provide a clear performance framework and support excellent reporting to Parliament and the public on results.

I want to ensure there are effective reporting arrangements to provide me and MBIE with the right kind of information about your progress against your strategies, and your management of risks and issues, at the right times. This may not be the same schedule that has applied in the past. As you can see in the Annex, the Government also expects publication of non-sensitive performance information throughout the year via your website.

I expect to see a new draft Sol by 1 May 2017, as required by the Crown Entities Act 2004.

The Government continues to focus its balance sheet strategy on improving capital investment decisions and getting the best value possible from the Crown's existing assets. I expect the Board to ensure that the Electricity Authority operates in a financially responsible manner by prudently managing the Electricity Authority's assets and liabilities, at the same time as working towards ensuring the long term financial viability of the entity and act as a successful going concern.

Risks, opportunities, and no surprises

As noted in the Annex, please ensure that an effective “no surprises” regime is in place. I expect to hear immediately about emerging issues and what actions the Board is considering. Please avoid ‘pre-judging’ my potential response. My reactions will be based on a range of factors, including the benefits of new initiatives and of taking different approaches to achieve our goals.

Response

Your advice by 10 April 2017 on how you propose to respond to the expectations set out in this letter and its Annex would be appreciated. The appropriate response may vary between entities and I would be happy to consider approaches that best achieve our collective aims and work well for the Electricity Authority. In the first instance, please discuss your proposed response with MBIE.

Finally, I thank you, and the Board, management, and staff, for your efforts in 2016/17 and I look forward to working with you in the coming year.

Yours sincerely



Hon Judith Collins
Minister of Energy and Resources

Copy to: Carl Hansen
Chief Executive, Electricity Authority

James Stevenson-Wallace
GM Energy and Resource Markets, MBIE

Annex: Enduring letter from the Ministers of Finance and State Services



Office of Hon Bill English

Deputy Prime Minister
Minister of Finance
MP for Clutha-Southland

26 July 2012

Enduring Letter of Expectations

This letter replaces the previous letter of expectations that was sent on 22 December 2008 to the chairs of boards of statutory Crown entities. The "no surprises" policy remains in place. No surprises means that the Government expects a board to:

- be aware of any possible implications of their decisions and actions for wider government policy issues
- advise the responsible Minister of issues that may be discussed in the public arena or that may require a ministerial response, preferably ahead of time or otherwise as soon as possible, and
- inform the Minister in advance of any major strategic initiative.

Crown entities must comply with the good employer provisions set out in the Crown Entities Act and maintain standards of integrity and conduct set out in the code of conduct for the State Services at www.ssc.govt.nz/code. We also expect entities to take account of the Government's expectations for Pay and Employment Conditions in the State Sector.

This Government requires effective self monitoring by boards

Your board is the most important monitor of entity performance. We expect boards to provide to responsible Ministers high quality information and analysis on entity performance against plan, implications for future performance, and risks and opportunities facing the entity. We also expect you to have a constructive working relationship with your monitoring department.

.... increased transparency of performance

We want to see boards operate transparently by disclosing non-sensitive entity performance information throughout the year via your websites, following discussion with your responsible Minister.

...and expects State agencies to deliver Better Public Services

The Better Public Services programme (www.ssc.govt.nz/better-public-services) focuses on delivering better results and improved services for New Zealanders. In that context, we expect boards to:

- maintain a thorough understanding of the business and cost drivers of your entities, and look for service improvements within tight fiscal constraints
- take opportunities to work with other agencies on joint procurement, shared services and delivering key results to maximise system-wide efficiency and effectiveness
- look for opportunities to share your ideas on how the State Services can operate more effectively and efficiently.

Yours sincerely

Hon Bill English
Minister of Finance

Hon Dr Jonathan Coleman
Minister of State Services