



## MP for Wigram

Minister of Energy and Resources

Minister Responsible for the Earthquake Commission

Minister for Greater Christchurch Regeneration

Minister of Research, Science and Innovation

1 MAR 2018

Dr Brent Layton  
Chair  
Electricity Authority  
PO Box 10041  
Wellington 6143

Dear Brent

### **ANNUAL LETTER OF EXPECTATIONS FOR 2018/19**

I am writing to convey my portfolio priorities and your role in achieving these priorities, along with my strategic and performance expectations for the Electricity Authority in relation to the 2018/19 financial year.

The goal of this government's economic strategy is to improve the well-being and living standards of New Zealanders through sustainable and inclusive growth. This means moving beyond narrow economic indicators and measures of success, and instead puts the well-being of our people and the environment at the centre.

### **Energy and Resources priorities and what this means for the Electricity Authority**

My objective for the Energy and Resources portfolio over the next three years is to ensure secure, affordable and sustainable energy that supports the transition to a low emissions economy.

For 2018/19, I expect the review into electricity pricing and the inquiry into the recent Marsden Point fuel pipeline disruption incident to continue to be priority areas of work. Strengthening energy resilience is another priority.

I also expect a continued focus on delivering action on a just transition to a low emissions economy, including building an understanding of what the opportunities are for consumers – an emissions and equity focus go hand in hand.

Work will need to be done to address any barriers to innovation in the energy sector, and to exploit the opportunities new technology brings for the benefit of all New Zealanders.

This government's priorities extend beyond agency boundaries – many will involve you playing an effective role within an integrated and coherent system. I expect you to focus on working together with the range of agencies and parties that have a stake in achieving these priorities.

An example is the Interim Climate Change Committee that is now being established ahead of the establishment of a Climate Change Commission (expected in mid-2019 following the passage of legislation). I anticipate that you will collaborate with this Committee as it

prepares evidence and analysis on the priority matter of transitioning to 100 per cent renewable electricity.

I welcome your continued engagement with other regulators on the Council of Energy Regulators.

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

### **Specific expectations for the Electricity Authority**

#### *Review of electricity pricing*

The Electricity Authority has a key role in the review of electricity prices that I have commenced given its statutory objective and functions. Work on the review will continue into 2018/19. I am expecting a final report early in 2019, and work to implement any agreed recommendations to begin in the latter part of 2018/19.

I expect that you will continue to work closely with the Ministry of Business, Innovation and Employment (the Ministry) on aspects of this review that have been identified as sitting most appropriately with you.

It is proposed that the review will consider the role of emerging technology in the electricity sector and its ability to respond. I expect the work programme of the Electricity Authority to complement, not duplicate this work.

#### *Energy resilience*

The resilience of New Zealand's electricity system has again been tested, with a dry winter and then lower than average inflows later in 2017, and localised weather events affecting supply. I note that the system has performed extremely well, and delivered 81 per cent renewables in the September quarter (higher than the same quarter in previous dry winters).

You have a key role in ensuring the market settings deliver a secure supply of electricity, and I expect this to become an increasingly important role as New Zealand plans the transition to a 100 per cent renewable electricity system. The market arrangements will need to continue to evolve to accommodate the new technology and increased flexibility in the system that will support this transition. I expect your work programme to reflect this.

### **General expectations and good governance**

As part of your role in governing a high performing Electricity Authority, I expect you to:

- maintain an effective board
- be the primary monitor of the entity's performance and maintain effective relationships with my advisors in the Ministry
- operate a no surprises policy.

These expectations are set out in more detail in the Annex to this letter.

For this year I do not expect to see a new draft Statement of Intent (SOI), as the current SOI can remain in place until further notice. However, please advise me as soon as is practicable if your work on the future of the Electricity Authority indicates that a new SOI should be developed.

## **Response**

Your advice by 23 March 2018 on how you propose to respond to the expectations set out in this letter and its Annex would be appreciated. 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 the Ministry.

I look forward to developing an effective working relationship with you over the coming year.

Yours sincerely

A handwritten signature in black ink, appearing to read 'M. Wood', with a large, sweeping flourish at the end.

Hon Megan Wood

**Minister of Energy and Resources**

Copy to: Carl Hansen  
Chief Executive, Electricity Authority

James Stevenson-Wallace  
GM Energy and Resource Markets, MBIE

## **Annex 1: General expectations and good governance**

### *Effective boards*

Ensuring the board is, and remains, high-performing is essential. There are many tools to help boards self-assess and improve performance. I expect you to use a robust process, and advise me and the Ministry of the result of this self-assessment by 30 September 2018, including what steps the board is taking to respond to the findings of your annual self-review. The Ministry can provide support for the board in undertaking this work.

Your input into succession planning for the board is also sought. I expect you to provide the Ministry with your view of the competency mix you need to work well as a board, along with your thoughts on upcoming appointments and any candidate attributes to target.

### *Effective monitoring of entity performance by boards and relationship with the Ministry*

In addition to setting and driving a strategy that takes account of government priorities, your board is the most important monitor of entity performance. I expect the board to provide me with high quality information and analysis on entity performance against plan, implications for future performance, and risks and opportunities facing the entity.

I also expect you to have a constructive working relationship with your monitor within the Ministry.

### *No surprises*

The Government has a 'no surprises' policy. 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 initiatives.

I also ask you to avoid 'pre-judging' my potential responses to risks and opportunities. I expect to hear about emerging issues and what major actions the board is considering. 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.