

Hon Dr Megan Woods



MP for Wigram

Minister of Energy and Resources

Minister for Greater Christchurch Regeneration

Minister of Housing

Minister of Research, Science and Innovation

Dr Brent Layton
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Dear Brent

LETTER OF MINISTER'S EXPECTATIONS 2020/21

I write to convey my strategic and performance expectations for the Electricity Authority (the Authority) in relation to the 2020/21 financial year and beyond. I have also included in this letter my specific expectations in relation to the Electricity Price Review, which I expect the Board is already considering.

I would like to take the opportunity to thank the Board for its ongoing work in ensuring the Authority strives to be a high-performing organisation.

Priorities for the year beginning July 2020

New Zealand has a legislated target of net zero greenhouse gas emissions, other than biogenic methane, by 2050. The Government also has an aspirational goal that renewable electricity generation resources meet 100 per cent of electricity demand, in a normal hydrological year, by 2035. The electricity sector plays a key role in helping New Zealand transition to a low-carbon and climate-resilient economy. As you develop your strategy for the 2020/21 year I encourage you to maintain your focus on reliable, affordable and sustainable electricity supply while also ensuring the electricity industry plays its part in the economic transformation that is needed for New Zealand to meet its ambitious emission-reduction targets. I also note that in a time of change, the Board should ensure it focuses on maintaining a strong organisational culture, open lines of communication with its stakeholders, and a focus on delivery.

Adapt market for impact of technology, including renewable generation

The electricity sector is expected to significantly change in response to the emergence of new technologies and consumers' interaction with these technologies. Effective functioning of the electricity industry is the core of the Authority's work. I expect the Authority to ensure that the industry is well-prepared to adapt to make the best of new technologies and to reduce barriers to the development and use of evolving technologies, particularly where they will enable greater choice, lower prices and better services for all consumers. Reforming distribution pricing methodologies will be critical to enabling efficient investment in distributed energy and consumer demand management.

Working across government

I expect the Authority to work collaboratively with industry bodies and government agencies,

including the Climate Change Commission, the Energy Efficiency Conservation Authority, the Gas Industry Company, and the Commerce Commission, to achieve outcomes such as the electrification of transport and industrial heat and improvements in energy efficiency, which can help New Zealand achieve its emission-reduction targets. I expect that you will maintain constructive working relationship with others in the system for example, Transpower. I also look to the Authority to support agencies and help the industry adapt to the Government's decisions and actions resulting from the Electricity Price Review, including efforts to reduce energy hardship, give households and small business consumers a stronger voice, and explore alternative institutional arrangements for energy policy and regulation.

In addition, I expect you to follow general and good governance expectations (Annex One) and the advice provided in the State Services Commission's updated *Letter of Enduring Expectations*.

Specific expectations regarding the Electricity Price Review

As you will be aware, the Government's Electricity Price Review's (the Review) final report has been published along with the Government's response. The final report makes 32 recommendations for improving the electricity sector, with a focus on outcomes for consumers, especially those in energy hardship.

The recommendations are directed at a range of parties, including Government, industry and regulators. Many of them fall within the Electricity Authority's mandate and I request that the Authority develop its work programme to ensure those recommendations are thoroughly considered. For completeness, I have annexed to this letter a list of the Review's recommendations that fall to the Authority (Annex 2).

While all of the Review's recommendations are important, I want to signal my view that the wholesale electricity market warrants priority attention. I note the persistence of elevated wholesale electricity prices this year and I am concerned about the impact of that on retail market competition and ultimately on consumer prices. The Review's recommendations on market-making, wholesale market information, wholesale prices and new generation costs, and retail profitability are particularly relevant.

I understand the Ministry of Business, Innovation and Employment (MBIE) has already discussed the Review's recommendations with the Authority's staff, and that many of them are already being actioned or are under consideration by the Authority. Some are new initiatives for the Authority to consider and will require consideration around their scaling, sequencing, and linkages with existing work programmes. The Government's response to the Review also signals legislative changes to the Authority's powers and functions which may have implications for its future resourcing.

Any financial implications for the Authority may be addressed by amending the relevant appropriations, if necessary, noting that the Authority's costs are recovered by levies on the electricity industry. I expect any impact on levies to be managed to some extent through prioritisation and phasing of the Authority's work programme.


I want to highlight that some of the regulatory changes the Review recommended are long-standing issues for the electricity industry that have proven challenging to progress. While I am confident the Authority will focus its full attention on all of the matters recommended by the Review, I intend to strengthen the incentives on the industry and the Authority to implement specific matters in a timely manner, by amending the Electricity Industry Act to enable the Minister of Energy and Resources to amend the Code. I note there is precedent for this approach as it mimics what was done with the establishment of the Electricity Authority in 2010.

Response

I would appreciate your response to this letter by 28 February 2020, outlining how you propose to address the key priorities above, including timeframes. I would like to understand how the Review's recommendations will be incorporated in the Authority's work programme, including any implications for other planned work, and any impact on the Authority's budget and industry levies.

I look forward to hearing about your progress and may give further guidance to you as your work evolves next year.

Yours sincerely

A handwritten signature in black ink, appearing to read 'J.S.W.', with a stylized flourish at the end.

Hon Dr Megan Woods
Minister of Energy and Resources

Copy to:

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Phillippa Fox, General Manager Energy & Resources Markets, phillippa.fox@mbie.govt.nz

Annex One: General and good governance expectations

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 carry out an assessment, using a robust process. Please provide me and the Ministry of Business, Innovation and Employment (MBIE) with a summary of the results of your self-assessment, including the steps the board is taking to respond to the results.

Your input into succession planning for the board is also sought. I expect you to provide MBIE 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.

Deliver responsible governance with a broader measure of success

I ask you to be part of a public sector that builds a New Zealand we can all be proud of; a public sector that recognises the value of every New Zealander and backs all our people. To do this I expect you to think holistically about the impact of your organisation's plans and programmes prioritising interventions that make the biggest difference to lifting the current and future wellbeing of New Zealanders. In particular, I ask you to strengthen your effort to partner with Māori organisations to improve services and outcomes for Māori.

I expect you to actively promote and develop the diversity of your workforce for the long term to encompass a broad spread of experience, culture, perspective and lifestyle of those who live in New Zealand.

Effective monitoring of entity performance by boards and relationship with MBIE

In addition to setting and driving a strategy that delivers on 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 expect you to have a constructive working relationship with your monitor within MBIE. This relationship should include active participation and engagement with my officials in the process of setting your organisation's strategic direction and in any review of existing strategies, priorities and plans, and data systems.

I also expect you to work with and across government to integrate the work of your organisation with the role and work of other agencies, and to support the state sector stewardship of government departments.

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
- 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.

Annex Two: Electricity Price Review recommendations relating to the Electricity Authority

- Ensure regulators listen to consumers
- Merge the Electricity Authority and consumer NZ price comparison websites
- Improve consumer awareness of Powerswitch and Utilities Disputes
- Develop a streamlined way to process customer requests for consumption data
- Make distributors offer retailers standard default terms for network access
- Prohibit saves and win backs
- Establish a pilot scheme to help non-switching consumers find better deals
- Improve the availability of wholesale market information
- Introduce mandatory market-making unless the sector develops an effective incentive-based scheme
- Monitor contract prices and new generation costs more closely
- Make generator-retailers release information about the profitability of their retailing activities
- Ensure distributors have access to smart meter data on reasonable terms
- The Government should encourage more innovation in the energy sector
- Examine the security and resilience of the electricity sector