

28 February 2020

Hon Dr Megan Woods
Minister of Energy and Resources
Private Bag 18041
Parliament Buildings
Wellington 6160

Dear Minister

ANNUAL LETTER OF EXPECTATIONS FOR 20/21

Thank you for your letter of 8 December 2019 conveying the Government's strategic and performance expectations for the Electricity Authority (Authority) for 2020/21. We note that these are outlined in the context of agencies collaborating to support the Government response to the Electricity Pricing Review (EPR), and at a time when the Government is exploring opportunities to accelerate renewable generation.

The Authority is well placed to align with these priorities. In 2020/21, we will deliver further pricing reform and address several market settings that underpin electricity sector performance and efficient investment in generation and transmission infrastructure. We anticipate that these actions will help refocus industry attention on opportunities to promote efficiency, emissions-reduction, and economic transformation for the long-term benefit of New Zealanders.

Strategy Development

The Authority is currently consulting with stakeholders on our organisational strategy which will be formalised with you through our upcoming Statement of Intent for 2020 - 2024. The early and sustained engagement on the draft strategy reflects our commitment to work constructively with stakeholders and to demonstrate the focus we place on achieving improved outcomes for consumers. This engagement also emphasises the role of the Authority as an active and confident regulator of the electricity markets and how that interrelates with our ongoing market development activities.

The finalised strategy will influence how we engage with household, small business and industrial consumers as well as all industry participants. The strategy reset recognises that the expectations of the regulator have changed, requiring regulators to think broadly about the wider environment and how they interact with industry, to look for opportunities for improved coordination across regulators, and places a new emphasis on effective engagement, facilitation, and collaboration to ensure consumer-centric regulation. We will work collaboratively with the Commerce Commission to introduce more effective engagement practices.

The Board recognises that the environment in which we operate and regulate is changing rapidly, and places continued attention on:

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- Changing consumer expectations, especially providing consumers increased ability and choice to control and participate in energy markets
- Increased focus on wellbeing, energy affordability and reinforcing consumer-centricity in energy system development and decision-making
- Improving the settings for greater use of innovation and uptake of new technology, by focusing on increased deployment of distributed energy resources, use of smart digital technology to harness these resources and engage with consumers in new ways.
- Increasing disruption to traditional electricity business models, and industry structure, with competition furthering greater choice and efficient prices for consumers
- Securing the potential of the electricity sector to reduce emissions and improve the performance of the economy, including efficiency, uptake of renewable energy, and securing opportunities in process heat and transport sectors.

Emphasise on the performance of wholesale markets

The Authority acknowledges the particular priority you assign to improving the performance of the wholesale electricity market. As you are aware, the Board recently decided to bolster the robustness and resilience of the current voluntary market-making arrangements by placing a dormant mandatory scheme within the Code. The Authority did this to manage the short-term risks driven by planned outages of the HVDC link and at the Pohukura gas fields, and to increase confidence for all participants to help protect consumers.

In parallel the Authority is working towards enhancements to the hedge market for implementation in 2020/21. A review is underway seeking information from non-integrated retailers and generator-retailers so that enhancements are informed by real-world evidence. The subsequent consultation will respond to the concerns raised about the efficiency of prices, the ease with which deals can be struck, and overall transparency, to enable the Authority to implement decisions that deliver benefit to consumers.

In 2020/21 we will also respond to the Market Design Advisory Group advice on high standard of trading conduct. We anticipate that this work will emphasise the role of compliance in incentivising better practice by industry to protect consumers. We have also progressed our understanding about potential transparency improvements that could be made to gas and coal market information, with a view to consulting midway through 2020 on issues and options for improving thermal fuel disclosure. This deliverable is part of the collaborative work programme across the Gas Industry Company, Transpower, and MBIE.

The Government's response to the EPR, supporting greater information gathering powers to strengthen our compliance framework aligns with the Authority's strategic approach to evidenced based regulatory activity. Better and more complete information will strengthen the Authority's monitoring and compliance activities.

The Authority will continue to be active in providing public commentary about how the market is performing to develop trust in an authoritative and accurate source of electricity information. We expect that this will reassure that the market is actively monitored at all times by the Authority, that all participants are held to the same standard of conduct, and to reaffirm the role of high performing markets in delivering long term benefits to consumers.

Supporting the Government Response to the Electricity Pricing Review

The Authority is committed to providing regular updates on our contribution to the Government response to the Electricity Pricing Review. By June 2020, the Authority will have achieved or

made significant progress against the recommendations for which we are responsible and will continue to support to other agencies to help them achieve their EPR objectives. In January 2020 we reset our targets to ensure our work programme is consistent with short term priorities, and that the problems and findings outlined in the review are still current.

The reset reflects the Authority's contribution to the Government response and broader electricity sector outcomes. Note that we are working with other agencies to determine priorities, dependencies, milestones, and intend to engage with participants and consumers prior to publishing the specific commitments in July 2020.

S 9(2)(f)(iv)

A high-level summary of EPR initiatives is provided in Appendix 1.

Organisational Capability

The strategy reset will signal the future capabilities the Authority intends to maintain in order to successfully deliver on our statutory objectives. This will include the 'shifts' in how we work with consumers, stakeholders, industry, and other regulators. In the past year we have improved our workforce capability in terms of diversity of experience, culture, and perspective and expect the strategy to reinforce this and place emphasis on te ao Maori perspectives.

Any potential changes to capability will also be considered in the context of the signalled review of energy sector institutional settings, and the impacts resulting from the upcoming legislative change programme. The Authority has engaged with officials in the development of legislative amendments for 2020/21 to give the Electricity Authority more powers to regulate network access, provide for explicit customer protection function, update the compliance framework, and strengthen information-gathering powers. In parallel to these changes, we will develop a business case to the Treasury to support resourcing decisions and inform our future approach to levy setting.

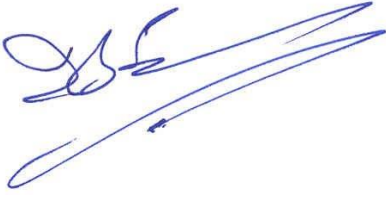
General Expectations and Good Governance

The Board is focused on maintaining an effective and delivery-focused organisation that strives to be recognised as consistently high-performing. We encourage opportunities to build more strategic relationships with stakeholders and collaborative approaches with other agencies.

The Board has committed to regular self-assessments to improve performance and will report these through to you. We have provided input into the succession planning considerations for the Board and informed the appointment process for upcoming Board member and Chair appointments. Our recent involvements continue to build on our constructive engagement with MBIE as our monitoring agency.

We will continue to operate on a "no surprises" policy with your office that meets the requirements of the General expectations set out in annex 1 of your letter, and we will notify your office when we receive substantive media queries.

Yours sincerely,

A handwritten signature in blue ink, consisting of stylized initials and a long horizontal flourish.

Brent Layton
Chair

Appendix 1: Electricity Price Review recommendations relating to the Electricity Authority

The Authority is leading or contributing to a comprehensive response to the EPR recommendations.

We expect to complete implementation of the following EPR recommendations in 2020/21:

- (C1) Merging the Electricity Authority and Consumer NZ price comparison websites. Note: we have currently addressed this recommendation at a tactical level, to address the complete set of requirements outlined in the EPR will require us to work with Consumer NZ on an appropriate tender process.
- (C2) Improving awareness of Powerswitch and Utilities Disputes services
- (C3) Streamlined processes for customer requests for consumption data
- (C4 & E3) Introducing default distribution terms for network access and addressing access to smart meter data on reasonable terms
- (C5) Rules covering the marketing practices of 'Saves and Win-backs' in place and actively enforced.
- (D2) Introduce enduring hedge market/market making settings (actual implementation dates will be influenced by the complexity and financial implications of any decisions)

We expect to have further developed our thinking on responses to the remaining EPR recommendations we are responsible for, with some projects extending into the following financial year:*

- (C6) Developing and implementing a pilot scheme targeting non-switching consumers to find better deals.
- (D1) Improving the availability of wholesale market information.¹
- (D3) Information about the profitability of retailing activities.
- (D4) Monitoring contract prices and new generation costs more closely.
- (G2) Examine the security and resilience of the electricity sector*.

As part of our current review of organisational strategy and capability, we will respond to how the recommendations of 'ensuring regulators listen to consumers' (A2), and our contribution to encouraging more innovation in the energy sector (G1) and the emerging Renewable Energy Strategy.

We are actively engaged with officials on the required legislative programme to enable Cabinet decisions, specifically consumer protection, ensuring the Authority has the flexibility to operate, and an update to the compliance framework.

¹ Our review of information disclosure relating to thermal fuels will be completed in 2020/21.