

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 Nicki Crauford
Chair
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6 APR 2021

Dear Nicki

ANNUAL LETTER OF EXPECTATIONS FOR 2021/22

I write to convey the Government's priorities, and my expectations for your role in achieving these, along with my strategic and performance expectations for the Electricity Authority (the Authority) in relation to the 2021/22 financial year and beyond.

We want every New Zealander to have access to world-class education and healthcare, to live in a home that is healthy and in a community that is safe, and to realise their potential. The economic recovery from COVID-19 represents a once in a generation opportunity to reshape the energy system to be more renewable, affordable and secure, while creating new jobs and developing the high-skill workforce our future economy needs to thrive.

The energy sector has a key role in meeting the government's priorities to shift to a carbon neutral economy and to 100 per cent renewable electricity by 2030. New Zealand needs strong energy resilience and secure, affordable and sustainable energy, as well as effective management of energy infrastructure that supports the wellbeing of all New Zealanders over the long-term.

The past year has been challenging and demanding in ways that we could not have predicted. The events surrounding COVID-19 have highlighted the important role that the Authority has to support government objectives and critical functions around the country. I appreciate the hard work and contributions of the Board, management team and staff during these difficult times. It was pleasing to hear of the positive assessment by the Martin Jenkins report on your organisational response to COVID-19 during 2020.

The Authority has a strong record in delivering its objectives while maintaining high standards of good governance and robust operating systems, which puts it in a good position to meet my priorities and specific expectations as outlined below.

Specific priorities and expectations for the Electricity Authority

During the 2021/22 financial year, I expect the Authority to continue to develop and execute its programmes in line with the government's energy goals, and prioritise and collaborate with policy agencies where its technical expertise is called for.

As kaitiaki of the electricity sector, ensuring your delivery is effective and efficient while keeping a strategic lens over your aspirations for the sector is an expected organisational tension to navigate and manage. I request you keep me regularly updated on all aspects of your work, including the status of projects that address relevant recommendations from the Electricity Price Review (EPR).

My specific expectations for the Authority during 2021/22 are set out below.

Engaging with stakeholders and consumers

It was pleasing to see the customer-centred consultation approach on your strategic framework released in July 2020. This was a good example of alignment with your Statement of Intent 2020-2024 (SOI) to listen, and demonstrate you have heard, consumers and stakeholders. I expect you to continue to actively consult across all your regulatory work and programmes.

Effective communication on how the Authority's decisions benefit customers over the long-term, or affect them adversely, is critical so that purposeful connection will continue - even when others view some decisions as controversial.

In this complex and dynamic sector, government priorities in 2021/22 of energy transition, reduction of carbon emissions and alleviating energy hardship will require the Authority to exercise its transformative mind-set and respond in clear and transparent way. In the wider context, purposeful engagement with consumers, industry participants and stakeholders (such as the Commerce Commission, Gas Industry Company, the Council of Energy Regulators and the Consumer Advocacy Council) will become increasingly important as the pace of change escalates.

Building trust and confidence

At the sector level, I expect you to keep me informed of any issues that threaten confidence in the electricity market and the progress of any efforts by the Authority, if relevant, to resolve or manage them.

Timeliness of compliance investigations, settlements and enforcement actions by the Authority is a key signal to the market of an efficient and effective regulator, and supports your strategic ambition for the sector of building trust and confidence in the industry for all stakeholders. Active monitoring of market activities and outcomes remains important to build trust and confidence in the sector.

I encourage investigations to be closed off as soon as possible, with customers and stakeholders informed or responded to swiftly. The Authority should maintain efforts to promote a good compliance culture among industry participants and strengthen their focus on better outcomes for consumers.

Adapting to the dynamic electricity market

The Authority has a role, together with MBIE, to focus on removing regulatory roadblocks to put New Zealand at the leading edge of energy transition. The energy trilemma of affordability and access, energy security, and environmental sustainability, requires a sophisticated response across the electricity sector, and the Authority must continue to adapt as new trends swiftly emerge, markets react, and consumers are impacted.

As kaitiaki, your role to examine the security and resilience of the electricity sector will become increasingly important as this pace of change and complexity escalates. I expect you to continue to monitor the energy market in times of stress and assemble this evidence so I can better understand how the market is responding to immediate and future challenges (and opportunities) as they arise.

Electricity Price Review

The EPR final report had a number of findings and recommendations for improving the electricity sector, with a focus on outcomes for consumers, especially those in energy hardship. I appreciate the prioritisation which the Authority has given to these initiatives which were detailed in my previous Letter of Expectations for 2020/21.

While all of the EPR recommendations are important, those relating to market-making, wholesale market information, wholesale prices and new generation costs, and retail profitability, remain particularly relevant and continue to warrant priority attention.

Electricity networks (transmission and distribution) have an important role in supporting New Zealand's transition to a low carbon economy. I expect the Authority to help networks be as ready as possible for that transition, including by enabling efficient investment and operation of distributed resources like batteries and electric vehicles.

The Authority's work on transmission and distribution pricing reform and open networks are well-aligned with this objective and I encourage the Authority to engage actively with the Ministry of Business, Innovation & Employment (MBIE), Energy Efficiency and Conservation Authority and the Commerce Commission to ensure the regulatory system as a whole supports service innovation and consumer choice, more renewable electricity generation, low costs and high reliability.

As you know, MBIE is tasked with investigating the feasibility of investments in large-scale pumped hydro storage and other options to ensure New Zealand can maintain high levels of supply reliability in a fully renewable electricity system – the NZ Battery Project. I am aware of the potential cross-over between this project and aspects of the Authority's planned response to the EPR recommendation to investigate electricity reliability (G2), particularly dry-year reliability. To avoid unnecessary duplication of analysis and engagement effort by stakeholders, I expect the Authority to sequence the relevant parts of its G2 response - relating to dry-year risk – after the first stage of the NZ Battery Project has been completed by early 2022.

I also encourage the Authority, with its deep expertise and understanding of the electricity industry, to assist MBIE with the NZ Battery Project where requested. In the same way, I request the Authority to continue assisting MBIE and other agencies in their efforts responding to EPR recommendations to reduce energy hardship, including by monitoring electricity retailers' practices regarding prompt-payment discounts and late payment fees.

Back-stop powers to amend the Code on specified matters

As you will be aware, Cabinet agreed in December 2019 to amend the Electricity Industry Act 2010 to give the Minister of Energy and Resources a time-limited power to amend the Code to address specified matters recommended by the EPR. I am aware the Authority has made good progress addressing those matters and it is possible many or all will have been addressed before enactment of the legislation.

I consider it would be undesirable to enact the backstop Code-making powers for matters that have been satisfactorily addressed, and I am open to proposing those provisions be removed from the legislation when I am satisfied those matters have been adequately addressed. I therefore request that you provide me a written report, before the legislation completes its passage through the House, explaining which of the specified matters you consider have been addressed, through Code amendments or other means, and what impact those measures have had or are expected to have.

I remain very interested in the Authority's actual and planned utilisation of all the initiatives, mechanisms and levers (such as market facilitation) which can be effective to deliver the required impacts without a code change, not just those subject to the backstop Code-making powers.

Future-proofing organisational capability

Your aspiration to be a nimble and intelligent organisation requires the maintenance of an optimal balance of institutional capability. Attracting and retaining the right expertise and experience is important to support flourishing innovation and thriving competition in the electricity sector. This balance further builds the trust and confidence of customers and industry stakeholders.

As is the case with all regulatory authorities, it is critical the Authority maintains effective succession planning to capture and harness institutional knowledge and minimise any resourcing or capability risks in the increasingly complex, dynamic electricity sector.

General expectations

I expect the Authority to work constructively with the government to keep my officials updated with progress towards my expectations and priorities. I also expect the Authority and MBIE to work closely together with regular communication and strong alignment of respective, and overlapping, work programmes.

In addition, I expect the Authority to follow governance and monitoring expectations contained in the recently published *Monitoring arrangements for MBIE-monitored Crown entities*.

Response

Your advice by 25 March 2021 on how you propose to respond to the expectations set out in this letter would be appreciated.

I look forward to continuing our working relationship over the coming year.

Yours sincerely



Hon Dr Megan Woods

Minister of Energy and Resources

Copy to: Mr James Stevenson-Wallace, Chief Executive, james.stevenson-wallace@ea.govt.nz