

17 May 2021

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

Dear Minister

## **ANNUAL LETTER OF EXPECTATIONS FOR 2021-22**

Thank you for your letter of 6 April 2021 conveying the Government's expectations for the Electricity Authority (Authority) for 2021-22.

The Authority plays a critical role for all New Zealanders. We oversee the operation of the electricity system and markets, developing, setting and enforcing the rules the market must follow and holding industry to account by actively monitoring the market's behaviour and performance.

The Authority's purpose is to enhance New Zealanders' lives, prosperity and environment through electricity. The breadth of our purpose reflects the broader social and economic framework in which we operate. As kaitiaki of electricity, we steward the electricity system on behalf of all New Zealanders.

Stewardship of the sector is even more critical as we steer through the next few years. Mass electrification, retirement of thermal generation, a volatile climate and a pandemic puts an unprecedented level of pressure on the system. The Authority has a core role to ensure the system adapts and the lights stay on.

### ***Navigating dry year risk while transitioning towards a low-emissions economy***

While the New Zealand electricity system has successfully navigated periods of supply-side stress over the past decade, there is increasing uncertainty over the future of gas supply and the impact this may have on the electricity system.

This year we are experiencing the impact of a La Niña weather pattern, highlighting our system's reliance on hydro generation. Low hydro inflows have resulted in lower than average hydro storage levels leading into winter and while the system is set up to respond, a combination of factors is putting extra pressure on the system. Constrained gas deliverability, higher carbon prices and lower than normal wind generation will continue to be reflected in wholesale prices as the market responds to underlying supply conditions by using more expensive fuel options, and demand response, to manage security of supply.

Careful management of supply will continue to dominate the attention of electricity participants and regulators for the remainder of 2021. The Authority is working with officials from the Ministry

of Business, Innovation and Employment (MBIE) and Transpower to support a coordinated and comprehensive response to managing security of supply including, if need be, deployment of an Official Conservation Campaign.

In addition, the Authority has various activities underway to support the system, including an urgent Code amendment to ensure continued disclosure of market sensitive information, a permanent Code amendment implementing a mandatory market-making backstop to ensure that financial risk management products remain available, and an additional stress test to encourage active engagement on financial risk management. The Authority is also working on a market review to look at the structure, performance and conduct of the spot market since 2018 to determine if prices are competitively determined.

The Authority is acutely aware that a stable regulatory regime is essential to steady the sector through uncertainty and pave the way for future investment in New Zealand's renewable future. A key focus for us over the coming years will be ensuring that New Zealand maintains a supportive and stable investment environment, with robust rules and clear price signals. We will also continue working to ensure that new technologies can play a key role in the sector's future. This will ensure the transition is as efficient as possible while maintaining energy security, system adaptability and affordability for consumers.

The Authority is commissioning work to review the ongoing security, reliability and resilience of the system. This piece of work will complement work underway on the NZ Battery Project as parties seek certainty for investment and retirement decisions over the medium to long term. We will provide regular updates to officials to manage any potential overlaps and maximise opportunities to share information.

We have offered to assist MBIE with the NZ Battery Project and look forward to participating with industry in this critical work.

### ***Energy sector capability and capacity to support New Zealand's energy transition***

We agree that electricity networks (transmission and distribution) have a critical role in supporting New Zealand's transition to a low-emissions energy system. With the transport and heat sectors electrifying, loads on the networks will increase materially, and it is critical that the long-lived investments made in response are efficient. Efficient infrastructure investment is a core component of our low-emissions energy strategy. In response, we are currently investigating how best to increase the pace of distribution network pricing reform, and continuing implementation of the new transmission pricing methodology.

Distributed energy resources will have a significant role in providing alternatives to traditional network investment, and the rate at which these resources (and enabling technology) are invested in by consumers and other investors is set to increase rapidly over the coming decade. We want to ensure that competition for investment in and operation of these resources is able to thrive, and that the full benefits of these resources are able to be realised – not just for those consumers who own them, but also for those who do not.

We will engage with MBIE, the Energy Efficiency & Conservation Authority (EECA) and the Commerce Commission as we shape and begin to execute this workstream.

### ***Building trust and confidence in the sector***

As kaitiaki of the electricity system, the Authority wants to drive a good compliance culture in the industry. To do so, we need the right rules, the right monitoring and the right consequences.

The Authority is focused on an uplift in monitoring capability and capacity, as well as an increased focus on education to support industry compliance. We are increasing resources in these areas and reviewing our strategy, processes and tools.

We have implemented new trading conduct rules which will be supported by an increase in active monitoring and reporting of wholesale market behaviour. In addition, the Authority is working with MBIE towards higher penalties to ensure the right consequences are in place when there is breach of the rules.

***Delivery against EPR objectives***

Addressing the recommendations of the Electricity Price Review (EPR) has been our primary focus over the past 18 months, and these projects will continue to be prioritised until they are completed. We will continue to update you as each workstream progresses. Policy decisions have been made for key workstreams of interest – introducing mandatory market making, and wholesale market information disclosure – and these are now being implemented. We are advancing disclosure regimes for internal transfer prices and retail profitability this quarter.

We agree that it would not be desirable to enact backstop powers for matters that have been successfully addressed and will ensure that we provide a written report on the status of each of these matters prior to the legislation completing its passage through the House.

A dashboard of the current status of all EPR projects that were assigned to the Authority is appended to this letter.

***Engaging with stakeholders and consumers***

The Authority has focused on improved stakeholder engagement over the past year including an explicit commitment to engaging with different consumer groups. Our Statement of Intent 2020-24 articulates our commitment to consumer centricity and identifies key capabilities required to deliver against our strategic ambitions including listening and empathy, purposeful connection, and impactful delivery.

The Authority has worked closely with consumer groups and industry on the development of the new consumer care guidelines, during which we adopted a customer-centred design approach. The Authority has implemented a stakeholder engagement strategy to reinforce the importance of active engagement in regulatory design and to support staff to employ more deliberate and inclusive engagement practices. The Authority will also review its consultation charter in 2021.

***Organisational development***

The Authority agrees that ensuring the right mix of capabilities is critical to our role and our contribution to the sector. The Authority has identified the strategic capabilities essential to the organisation and is developing a people and capability strategy to manage resource risk and to ensure we continue to attract and retain the right mix of skills.

We will continue to operate a “no surprises” policy with your office that meets your requirements, and to notify your office when we receive substantive media enquiries.

Yours sincerely



Dr Nicki Crauford  
**Chair**

**Appendix: Progress of Electricity Price Review recommendations relating to the Electricity Authority**

## Electricity Authority (EA) – Electricity Price Review (EPR) Response Dashboard – 14 May 2021

Project	EPR Rec	EPR recommendation / suggestion	Project stage				Completion Deadline	Status (Red, Amber, Green)	Comment
			Options analysis	Preferred option identified	Consultation / approval	Implementation			
<b>Electricity Authority led EPR responses</b>									
<b>Increase retail competition</b>									
Merge the EA and Consumer NZ price comparison website	C1	“The Electricity Authority and Consumer NZ should merge their price comparison websites, respectively Whatsmynumber and powerswitch, to create a new and improved website that makes it easier for electricity consumers to shop around...A single website with more functions and features will improve consumers’ ability to hunt out the best deals”	Completed				December 2019		The Authority and Consumer NZ electricity price comparison websites merged in December 2019. Further development to the website is now business as usual and will be conducted by Consumer NZ under the oversight and approval of the Authority.
Simplifying billing information	C1 (sub-rec)	“the Electricity Authority should look at what can be done to make bills clearer, drawing particularly on advice from the consumer advocacy council.”		Dependent on other work streams			TBC		The Authority has completed initial analysis for this project and will work with the Consumer Advocacy Council when it is established by MBIE. Research conducted in 2020 indicates the problem is not extensive – only 11% of respondents found their bills difficult or very difficult to understand.
Direct billing by distributors	C1 (sub-rec)	“The Electricity Authority should consider whether to ban distributors from directly billing their residential and small business consumers.... We think it better for distributors to bill retailers, which then package those charges into their retail tariffs.”					TBC		Initial analysis completed. Only one distributor (The Lines Company) uses direct billing and they will stop doing that by end of 2021.
Annual plan reviews	C1 (sub-rec)	If the low fixed charge regulations are phased out “we recommend the Electricity Authority consider whether to retain the yearly review provision (coupled with more rigorous enforcement) as a prompt to customers to look more carefully at their plans.”		Dependent on other work streams			TBC		We will look into this issue later this year once Cabinet has made a decision on whether to phase out the low fixed charge regulations.
Improve consumer awareness of Powerswitch and Utilities Dispute	C2	“The Electricity Authority should amend the Electricity Industry Participation Code to require retailers to provide clear and prominent information on their websites and all customer communications about Powerswitch and the disputes resolution service Utilities Disputes.”	Completed				April 2021		Code changes requiring retailers and distributors to provide clear and prominent information about Powerswitch and Utilities Dispute services came into effect from 1 April 2021. Guidelines to support implementation were released on 12 January 2021. There is continued industry interest in this change. Ongoing engagement with stakeholders will continue as part of supporting the operation of the market.
Additional consumer choice of electricity services (ACCES) quick wins	C3	“The Electricity Authority should give retailers six months to agree on a quick, simple procedure for processing consumers’ requests for their consumption data, whether for their own use or for sharing with other retailers, and failing that, it should amend the Electricity Industry Participation Code to impose such a procedure”	Completed				March 2020		Code changes were made on 1 March 2020 to make it easier for consumers to access and share their electricity consumption data. Further enhancements are underway as part of project C3A.
Streamlining access to electricity consumption data	C3A						End 2021		Consultation on further changes to enhance and streamline consumer access to their consumption data, and how they share this data, is planned for the second half of 2021.
Make distributors offer retailers standard terms for network services	C4	“The Electricity Authority should require distributors to offer retailers standard default terms for use of their network, and these terms should apply automatically unless a distributor and retailer agree otherwise. We regard this measure as necessary because the current lack of standard terms raises retailers’ costs and impedes competition.”	Completed				Early 2021		By 17 December 2020 the largest five distributors were required to publish and use a Default Distributor Agreement (DDA). All five distributors met this deadline. The remaining distributors were required to publish and use their DDA by 15 February 2021. All remaining distributors met this deadline.

<sup>1</sup> A project is completed when a Code change has come into effect (or a similar milestone has been achieved), and the work has become part of the Authority’s business-as-usual.

Project	EPR Rec	EPR recommendation / suggestion	Project stage					Completion Deadline	Status (Red, Amber, Green)	Comment
			Options analysis	Preferred option identified	Consultation / approval	Implementation	Completed <sup>1</sup>			
Prohibit saves and win-backs	C5	"The Electricity Authority should amend the Electricity Industry Participation Code to prevent retailers from acting on notice that a customer intends switching or has switched to a competitor in order to win back that business. This means the ban should include both saves (enticing a customer to cancel a switch before it happens) and win-backs (enticing back a customer after a switch happens)."	Completed					March 2020		The Code was changed on 31 March 2020 to prohibit saves and win-backs for 180 days after a consumer switches. We have developed a monitoring process to ensure enforcement of this Code change as part of our business-as-usual compliance approach. There are two alleged breaches under formal investigation (where the breach had been heard by the Committee and an investigator formally appointed to investigate the matter) and there are three alleged breaches in the fact-finding stage (where the breach is yet to be heard by the Compliance Committee, which is where a recommendation will be made to either decline to pursue the matter or appoint an investigator).
Establish a pilot scheme to help non-switching consumers find better deals	C6	"The Electricity Authority should begin a pilot scheme to help consumers who find it hardest to shop around, especially those who are vulnerable. The Electricity Authority should negotiate a bulk deal for such consumers, enabling them to be on better plans than otherwise possible. Tenders should focus on a limited number of distribution network areas to reduce complexity and help maximise competition among potential suppliers."						Late 2021		This is one of the "longer-term recommendation" made by the EPR. We have engaged Consumer NZ and are investigating the use of behavioural insights, as done in the UK via the use of letters, to help consumers switch and find better deals.
<b>Reinforcing wholesale market competition</b>										
Improve availability of wholesale market information	D1	"The Electricity Authority should review the wholesale electricity market information disclosure rules and close any gaps. Simultaneously, the Gas Industry Company should finish developing gas disclosure arrangements. The two are related because gas supply shortages affect electricity generation. If needed, the Government should amend the law to strengthen the powers of these bodies to regulate information disclosure."	Completed					Mid 2021		The Authority decided on a suite of reforms targeting thermal fuel disclosure in December 2020. Implementing these reforms is largely complete.
Enduring market making arrangements	D2	"The Electricity Authority should impose a mandatory market-making obligation on vertically integrated companies within 12 months unless the industry can develop an incentive-based scheme by then that is effective, funded largely by those companies and acceptable to the Authority."						Early 2022		Full implementation will take 18+ months. The Board decided in March 2021 to implement a permanent market making backstop in the Code. This will come into force in April 2021. The Authority has begun the procurement process for commercial market making services. Introducing a commercial market making scheme requires changes to appropriations and is contingent on decisions that will be taken for Budget 2022.
Make generator-retailers release information about the profitability of their retailing activities	D3	"The Electricity Authority should require vertically integrated companies to report separately on the financial performance of their retailing and generation/wholesale operations using a common (regulated) set of reporting rules. This is a longer-term initiative, to be completed within 12 to 18 months."						Early 2021		The Authority is currently consulting on proposed reporting obligations. The proposals seek to enhance reporting of internal transfer pricing, and retail profitability, for generator-retailers.
Monitoring contract prices and new generation costs more closely	D4	"The Electricity Authority should expand its monitoring of the wholesale market to include periodic comparisons of wholesale contract prices with new-generation costs. The first comparison should be completed within 12 months."						Mid 2021		The Authority is currently developing a monitoring methodology for contract prices as compared to new-generation costs. We intend to publish the result of this comparison at the end of June 2021 – Given other work priorities, completion of the D4 project has slipped from the intended March completion. Staff are assessing options to address this.
<b>Improving Transmission and Distribution</b>										
Ensure access to smart meter data on reasonable terms	E3	"The Electricity Authority should require retailers and metering companies to give distributors or their agents metering data on reasonable terms if the parties concerned cannot agree on terms within three months."	Completed					July 2020		The Code was amended (and came into effect) in July 2020 to introduce the Data Template to provide distributors with access to smart meter consumption data on reasonable term.

Project	EPR Rec	EPR recommendation / suggestion	Project stage			Completion Deadline	Status (Red, Amber, Green)	Comment		
			Options analysis	Preferred option identified	Consultation / approval				Implementation	Completed <sup>1</sup>
<b>Low carbon future</b>										
Examine the security and resilience of electricity supply	G2	"An examination of the potential impact of technological advances and other changes on the long-term security and resilience of the country's electricity supply should be conducted. It would identify the risks posed by technological advances towards security of supply and other adverse outcomes, and allow for greater preparedness and planning." (2019 Cabinet Paper)			Dependent on other work streams			Mid 2022		In line with the letter of expectations from the Minister, this project has been rescoped to align with the NZ Battery Project led by MBIE.
<b>Electricity Authority supported EPR responses</b>										
<b>Strengthen Consumer Voice</b>										
Update the Consultation Charter	A2	"The Government should encourage the Electricity Authority and Commerce Commission to review, document and publish their consultation and stakeholder engagement processes. Both regulators should ensure they understand and take into account consumers' views and needs when making policy decisions or when making or amending market rules that could affect electricity prices."						Late 2021		Scope for the review of the Charter has been discussed by SLT. A paper covering the scope of the review, key considerations and timeline will be submitted for discussion at the June Board meeting.
<b>Reducing Energy Hardship</b>										
Set mandatory minimum standards to protect vulnerable and medically dependant consumers	B6	"The Government should set mandatory minimum standards that distributors, retailers and others must meet when providing electricity or electricity-related services to vulnerable and medically dependent consumers. The Electricity Authority should monitor and enforce the standards".						Mid 2021		While this was a recommendation directed at MBIE, the EA has undertaken responsibility for completing the policy analysis, consulting with stakeholders, and updating the Guidelines. Final updated guidelines have been published with an effective date of 1 July 2021. All retailers are expected to align with the guidelines by no later than 31 December 2021. The Authority is currently working through the implementation process with stakeholders, and developing supporting consumer and participant facing information. Implementation also includes liaison with the MOH to align the MDC emergency response plan, and health practitioners' notice.